Consolidated Annual Report 2021

Komerční banka, a.s.

THE FUTURE IS YOU KB

This document is a transcription of the 2021 Consolidated Annual Report of Komerční banka, a.s., except it does not include tags in XBRL language.
The official 2021 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 738.9 billion +6.9%

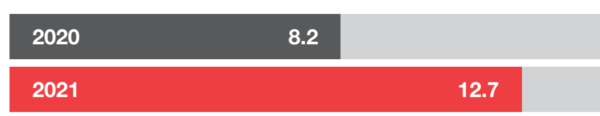
* Excluding Other amounts due from customers and repo operation with clients, but including debt securities issued by KB corporate clients.

Client deposits
(KB Group, CZK billion)*

CZK 948.6 billion +6.2%

* Excluding repo operations with clients.

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



CZK 12.7 billion +56.0%

Number of standalone Bank clients

1,625,000 clients (1.0%)

ANNUAL REPORT 2021

Komerční banka, a.s.

Survey of Results 2017–2021

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2021	2020	2019	2018 restated[1]	2017 restated[2]
Financial results					
Net operating income	31,346	29,664	32,573	32,203	31,060
of which Net interest income	21,795	21,360	23,591	22,704	20,985
of which Net fees and commissions	5,711	5,210	5,983	6,025	6,284
of which Net profit on financial operations	3,630	2,884	2,804	3,209	3,576
Total operating expenses	(15,099)	(14,995)	(14,932)	(14,635)	(14,510)
Profit attributable to the Group's equity holders	12,727	8,156	14,901	14,846	14,930
Earnings per share (CZK)	67.39	43.19	78.90	78.61	79.05
Balance sheet					
Total assets	1,244,353	1,167,131	1,077,334	1,059,932	1,001,652
Loans and advances to customers, net	724,587	679,956	647,259	624,954	593,639
Amounts due to customers	956,929	906,217	821,507	812,451	762,043
Total shareholders' equity[3]	123,509	113,816	105,540	99,931	94,450
Ratios (%)[4]					
Return on average equity (ROAE)[5]	10.73	7.44	14.50	15.28	15.07
Return on average assets (ROAA)[5]	1.06	0.73	1.39	1.44	1.55
Net interest margin[5]	1.93	2.03	2.03	2.33	2.33
Cost/income ratio	48.17	50.55	45.84	45.45	46.72
Capital[6]					
Capital adequacy (%)	21.31	22.34	19.72	18.48	18.63
Tier 1 ratio (%)	20.87	21.73	19.14	17.91	18.02
Tier 1	101,072	97,906	84,062	80,788	76,525
Tier 2	2,136	2,784	2,546	2,578	2,560
Total regulatory capital	103,209	100,690	86,608	83,366	79,084
Total risk-weighted assets	484,372	450,628	439,237	451,052	424,566
Other data					
Number of employees, average	7,687	8,061	8,167	8,413	8,492

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) Excluding Non-controlling interest.
4) According to the Komerční banka methodology.
5) Ratios for 2018–2020 based on figures according to IFRS 9; ratios for 2017 based on figures according to IAS 39.
6) 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 end of February 2022)[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)	2021	2020	2019	2018 restated[1]	2017 restated[2]
Financial results					
Net operating income	28,996	26,288	30,599	30,707	29,216
of which Net interest income	19,100	18,611	20,550	19,694	17,756
of which Net fees and commissions	4,924	4,536	5,313	5,390	5,702
of which Net profit on financial operations	3,629	2,878	2,802	3,181	3,570
Total operating expenses	(13,581)	(13,573)	(13,428)	(13,155)	(13,058)
Net profit	12,353	6,929	14,816	15,238	14,914
Balance sheet					
Total assets	1,169,147	1,093,508	1,011,519	1,001,504	944,230
Loans and advances to customers, net	622,178	589,741	567,805	553,888	531,085
Amounts due to customers	899,654	849,029	762,157	755,039	702,053
Total shareholders' equity	115,418	105,196	98,218	92,721	87,004
Ratios (%)[3]					
Return on average equity (ROAE)[4]	11.20	6.81	15.52	16.96	16.42
Return on average assets (ROAA)[4]	1.09	0.66	1.47	1.57	1.64
Net interest margin[4]	1.83	1.91	2.20	2.17	2.13
Cost/income ratio	46.84	51.63	43.88	42.84	44.69
Capital[5]					
Capital adequacy (%)	23.02	23.82	21.10	19.60	19.41
Tier 1 ratio (%)	22.50	23.13	20.46	18.97	18.75
Tier 1	97,182	93,360	80,982	77,769	72,622
Tier 2	2,236	2,775	2,546	2,578	2,560
Total regulatory capital	99,419	96,135	83,528	80,347	75,181
Total risk-weighted assets	431,973	403,622	395,828	409,958	387,330
Other data					
Number of employees, average	6,736	7,104	7,210	7,458	7,551
Number of points of sale[6]	243	243	343	365	387
Number of clients (thousands)	1,625	1,641	1,664	1,668	1,664
Number of ATMs	860	809	796	776	764

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) According to the Komerční banka methodology.
4) Ratios for 2018–2021 based on figures according to IFRS 9; ratios for 2017 based on figures according to IAS 39.
5) According to Basel III.
6) 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 'About KB' 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 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 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, 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 BBB 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 133,000 staff members in 61 countries and supports on a daily basis 30 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), Bloomberg Gender-Equality Index, Refinitiv Diversity and Inclusion index, Euronext Vigeo (Europe and Eurozone), STOXX Global ESG Leaders indices, and MSCI Low Carbon Leaders Index (World and Europe).

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 2021	31 December 2020	31 December 2021	31 December 2020
KB Group	**738.9**	**691.4**	**948.6**	**893.0**
KB (including KB Slovakia)	635.4	599.6	890.2	835.1
- Individuals	289.2	271.7	354.9	322.0
- Businesses and other	346.2	327.9	535.3	513.2
- Small businesses	41.3	39.8	234.9	218.9
- Medium corporates and municipalities	116.8	110.2	196.1	190.9
- Top corporates and other (including KB Slovakia)	188.1	178.0	104.3	103.3
Modrá pyramida	76.0	63.9	60.9	60.8
ESSOX (including PSA FINANCE)	17.3	17.7	0.2	0.2
Factoring KB	11.4	8.3	0.7	0.8
SGEF	30.7	30.3	n.a.	n.a.
BASTION	2.2	2.5	n.a.	n.a.
Consolidation and other adjustments	(34.2)	(31.0)	(3.3)	(3.9)

* IFRS numbers entering into consolidation, excluding Other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.
** IFRS numbers entering into consolidation, excluding repo operations with clients.

The Bank's identification details as of 31 December 2021

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 of Komerční banka

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

Principles of activity

The principles of Komerční banka's activities constitute a part of KB's governance. KB shall respect legal regulations, inclusive of international conventions to which it adheres. In its operations, KB shall respect, among others, the following general principles:

- KB's activities shall be conducted with respect for fundamental human rights and the rights of workers. No discrimination of any kind with regard to employees, job seekers, customers, business partners, or suppliers shall be permitted.
- KB shall respect intellectual property rights, and special emphasis shall be placed upon the honouring of software product licences.
- KB shall respect the rules of economic competition in its activities and, especially, in its contacts with the representatives and employees of other banks and financial institutions.
- KB shall comply with the rules for disclosure of information to the shareholders, investors in financial markets, and the general public. KB shall publish the information regarding its current situation and expected development in a timely manner, in an accessible form, sufficiently, and proportionally.
- KB shall be active in performing its duties with respect to fighting corruption, money laundering, and the financing of terrorism.
- KB shall respect the privacy of its customers, business partners, and employees. Therefore, it shall request and use only such information about its customers, business partners, and employees as is needed to serve these, to enhance the quality of KB's services, to manage KB's human resources, and to comply with the obligations specified by legal regulations.
- KB applies recognised and proven principles and procedures of corporate governance that it has chosen as well as policies that the controlling company, Société Générale, requires to be applied in its subsidiaries. On a standalone basis, KB applies the Code of Corporate Governance that is based upon principles of the Organisation for Economic Co-operation and Development (OECD)[1] and the Guidelines on internal governance of credit institutions issued by the European Banking Authority (EBA Guidelines).
- KB shall co-operate with the Czech National Bank and other regulatory bodies responsible for supervising KB's activities. It shall provide correct, complete, current, and transparent information about its activities.
- KB supports the principle of social responsibility. It shall seek to minimise the impact of its activities on the environment and use natural resources and energy in a conservative manner. KB is governed by international conventions to which it has acceded or which were acceded to by the SG group.
- KB shall maintain political neutrality. It shall not back any political party or political movement through donations or any other kind of support.
- KB continuously strives for long-term creation of value for its shareholders.

Moreover, KB respects a range of principles relating to specific areas, including principles regarding business conduct, dealing with clients, the management and control system, and remuneration.

Environmental, social, and governance (ESG) principles

Komerční banka and its subsidiaries act responsibly in their relationships with clients, employees, shareholders, and other stakeholders and partners. KB perceives that such behaviour is in accordance with the interests and expectations of the main stakeholders, as well as with applicable regulations. Responsibility is the basis of every partnership, and it is also a precondition for long-term successful business.

[1] https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812

KB Group's environmental, social, and governance (ESG) strategy is based on a materiality assessment that identifies the ESG factors most important to the Group's stakeholders, as well as for the Group's growth and risk outlook. KB's ESG strategy is fully aligned with the purpose, mission, and overall strategy of KB as formulated in the KB Change 2025 plan. The ESG strategy is under review at the time of publishing this annual report and an updated document will be released during 2022.

KB Group is prepared to apply in future a holistic approach to ESG regulations and to further embed ESG impacts into its core operations and policies. KB Group is gradually increasing its ability to collect, measure, and disclose ESG data.

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 Group has very little to no appetite to develop business with the following sectors: political parties, economic sectors that are prohibited under the CSR policy, or any activities likely to create compliance or reputational risks.

Detailed non-financial information on Komerční banka's environmental, social, and governance activities and results is provided in KB's 2021 Sustainability Report, which will be issued along with this annual financial report. In accordance with Sec. 32g (7) of the Act 563/1991 Coll., on accounting, KB is not disclosing certain non-financial information provided by Société Générale as a consolidating entity[1]. 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 on KB Group Clients and Their Service within this annual report. Information about fighting against corruption and bribery is presented in the Risk Management chapter of this annual report.

Sustainable development

KB's strategic ambition is to be a leader in sustainable banking on the Czech financial market and within the SG Group, as well as to be perceived as a green bank in the Czech Republic.

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.

Corporate culture

KB's strategic vision in managing human resources is to build professional relationships with employees based upon 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 among employees is then based upon 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.

Corporate governance

Komerční banka acceded to and upholds all the principal standards of the Code of Corporate Governance of the Czech Republic (2018)[2] issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance, in particular the G20/OECD Principles of Corporate Governance from 2015. 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.

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.

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 while guarding its good reputation. KB adheres to the SG Group Tax Code of Conduct,[3] 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.

[1] https://www.societegenerale.com/en/publications-documents

[2] https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812

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

Major events of 2021

January
From January 2021, ESSOX became the exclusive partner for financing of Hyundai and Kia cars. Alongside its partnership with PSA Group (Peugeot, Citroen), existing already since 2016, this significantly reinforces ESSOX's position on the market for financing new cars.

Komerční banka successfully sold the inaugural issue of mortgage bonds in the amount of EUR 500,000,000 issued under its newly established EUR 5 billion mortgage bonds programme. The bonds are rated AAA (Fitch), have a maturity of 5 years with the possibility for extension by 1 year (so-called soft bullet), and are traded on the Luxembourg Stock Exchange.

KB selected Transact, an innovative core banking platform, 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.

In co-operation with Direct Fidoo a.s., KB offered its corporate clients a modern application for digitising the processing and billing of all corporate outlays, including to use Fidoo prepaid cards to simplify accounting for cash advances, card payments, and travel orders.

Komerční banka launched a new generation of its digital Open Banking platform, which makes KB's and its partners' products available in the 'Bank-as-a-Platform' and 'Bank-as-a-Service' modes. This additionally expanded services using banking identities.

The Bank started providing complete assistance in processing subsidies from the EU Modernisation Fund, which helps national energy companies in transitioning to clean resources.

February
It became possible to arrange a personal loan in a fully digital manner via mobile banking (Mobilní banka) or internet banking. This means clients can have money in their accounts within just minutes. This product was awarded 1st place in the unsecured consumer loan category of the Financial Product of the Year awards organised by the specialised web portal Finparada.cz.

ESSOX offered a new cash loan, the closing of which takes place completely online at www.CashShop.cz.

KB's MojeBanka internet banking was enabled with full-text search capabilities.

To owners of G2 student accounts, the Bank began issuing ecological payment cards produced from 85% recycled materials.

Komerční banka Group received a number of other awards, including 1st place recognition in the banking and investment category in the "Best Employer" survey of university students, organised by the Association of Students and Alumni and conducted by the public opinion research agency GfK. KB Mobilní banka ranked 1st in the TOP APP Award's independent evaluation of mobile applications on the Czech and Slovak banking market.

Harvard Business School published a case study entitled Enterprise Agility at Komerční banka.[1)]

March
Building upon the KB Key tool, the Bank launched electronic authentication based upon banking identity for clients to access public services.

KB inaugurated a new Sustainably Together (Společně udržitelně) web portal that provides examples of good practice and advice on transition to more sustainable business models.

With a focus on developing the circular economy, KB Jistota Foundation started new long-term co-operation with INCIEN (Institute for the Circular Economy). The Foundation also launched a campaign of support for single parents in difficult life and health situations.

A new service, 'Investment Specialist via Skype for the Living Room', was launched. It will help the clients with investments while at the same time saving them the trip to the branch.

KB SmartSolutions established Finbricks, s.r.o., a wholly owned subsidiary with registered capital of CZK 1.5 million. Finbricks operates an aggregation platform for financial services offered under the PSD 2 directive.

April
The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its assets for the year 2020, as well as the individual and consolidated financial statements for 2020. It also decided to transfer the entire profit to the account of retained earnings of previous years. On the proposal of the Nomination Committee, the General Meeting elected Mr Petr Dvořák, Mr Alvaro Huete Gomez, Mr Giovanni Luc Somo, and Mrs Jarmila Špůrová as members of the Supervisory Board. Mr Somo was also elected a member of the Audit Committee. The General Meeting furthermore approved an amendment to the Articles of Association and the Remuneration Report.

Komerční banka became the first bank in the Czech Republic to join the Covered Bond Label, an international designation emphasising the security, transparency, and quality of covered bond programmes.

In accordance with its initial strategy, Komerční banka reduced its ownership stake in Bankovní identita, a.s. to 17%, thus enabling other banks to enter this national platform for the provision of digital identification services.

May
Komerční banka started accepting applications for new Covid Invest investment loans with guarantee of the Bohemian–Moravian Guarantee and Development Bank (ČMZRB) from companies with up to 500 employees.

1) https://www.hbs.edu/faculty/Pages/item.aspx?num=59771

In addition to its strategic steps with a view to reaching carbon neutrality in its own operations by 2026, Komerční banka has committed to progressively reduce to zero by 2030 its exposure to projects actively associated with the coal sector.

June
Within the Société Générale Group, KB committed itself to an action plan contributing to gender diversity. The Group strives to achieve the fundamental goal of having at least a 30% share of women in the Group's governing bodies by 2023.

KB SmartSolutions s.r.o. increased its stake in upvest s.r.o. from the previous 18.9% to 31.06%.

With respect to the discontinuation of LIBOR and EONIA, KB implemented successor risk-free rates for relevant currencies and introduced interest rate hedging products linked to these rates.

July
KB deployed a new OLEG omnichannel lead generation technology that supports consistent and clear communication with clients across channels, improved reactivity to client demands, and more effective targeting of the Bank's offer.

For its inaugural issue in January of euro-denominated mortgage bonds, Komerční banka received a prestigious international award in the Pioneer category of The Covered Bond Report Awards for Excellence 2021.

August
Michael Pupala became the new Chairman of the Board and CEO of Modrá pyramida from the beginning of August.

KB established via its KB Smart Solutions platform a partnership with the iÚčto cloud-based system, which makes accounting, tax and management reporting, invoicing, and inventories record-keeping easier for small businesses.

September
The Bank began offering authentication services via banking identity for commercial service providers.

Komerční banka became the main partner for both the ice hockey Extraliga and the national hockey team.

The Expert Jury Prize for Reporting in the SDG Awards of the Czech Social Responsibility Association was awarded to KB for its Sustainability Report in 2020.

October
The first 500 clients from among KB employees began testing services of the new digital bank, a key project of the KB Change 2025 strategic plan.

KB launched pilot operation of the Remote Service Centre, whereby clients meet with their bankers online or by telephone.

Modrá pyramida opened the possibility for arranging a Quick Loan (Rychloúvěr) for housing via the MP Home mobile application.

KB concluded with ČEZ a strategic partnership supporting sustainability. They will co-operate in reducing their own carbon footprints as well as the emissions produced by clients. A first step was to offer photovoltaic rooftop installations as a service and Komerční banka's purchase of renewable energy from ČEZ ESCO.

November
Komerční banka introduced the BankID Sign service for guaranteed signing of documents using banking identity.

ESSOX launched an online deferred payment service for e-shop customers.

KB, together with Visa, Heureka, and the Association of Social Responsibility, presented the "Sustainable e-shop" project to support and motivate sustainable e-shop business.

ESSOX selected Unicorn and SAP for its transition to a new-generation enterprise IT system (SAP S / 4HANA).

Among the MasterCard Bank of the Year awards for 2021, Komerční banka won first place in the Corporate Bank of the Year and Sustainable Bank of the Year categories.

Komerční pojišťovna was named Best Life Insurance Company in Hospodářské noviny's Best Insurance Company of the Year 2021 competition.

The Best Performing Private Bank in Central and Eastern Europe award went to Komerční banka's private banking. The recognition was among the Global Private Banking Awards from the Financial Times media group's magazines The Banker and Professional Wealth Management.

Jan Juchelka, CEO and Chairman of the Board of Directors, was named Best Manager in the Czech Republic by the National Evaluation Committee of the Czech Management Association. He also was recognised by the Business for Society alliance as Top Responsible Leader of the Year in the sustainability category.

Komerční banka and its subsidiaries Modrá pyramida and ESSOX voluntarily joined the legislative initiative called Merciful Summer, which aims to help people in distraint as a result of non-payment of their loans. Thus, by the end of January 2022, their clients could repay their defaulted obligations without additional penalty and execution costs.

December
The prestigious magazine The Banker named Komerční banka Bank of the Year 2021 in the Czech Republic. The jury had focused upon how banks had helped their customers and the economy in the past year, their ability to innovate continuously, and also the sustainability of their approaches to business.

Economic and monetary environment in 2021

The development of the Czech economy in 2021 was very volatile. The first months of the year were marked by another pandemic wave, accompanied by strong limitations on economic life. The second quarter, by contrast, brought significant improvement in the pandemic situation, and thus, contrary to expectations, a rapid easing of restrictive measures. This led to a reversal in the development of the real economy, and the resumption of economic activity began to yield very good economic data. In addition, it was technically supported by the base effect, which was extremely low due to anti-pandemic measures in 2020. The optimism did not last long, however, and in the second half of the year the Czech economy was hit hard by a shortage of production components, especially microchips, which made it impossible to complete the production of cars, in particular. Even with the beginning of 2021's final quarter the situation did not improve – quite the opposite. Outages in the automotive industry continued in mid-October. A lack of chips was only part of the problem, however, as raw materials were in short supply for most industries and in construction. Labour shortages were also a problem. Indications that these problems might subside did not begin to appear until the end of last year.

According to a preliminary estimate by the Czech Statistical Office, the Czech economy grew by 3.3% in 2021. Growth was supported by final consumption spending and change in inventories, while net exports played a negative role. The growth of gross value added was most significantly influenced by developments in industry, in the segment including trade, transport, accommodation, and hospitality, and in the group of general government, education, and health and social work.[1)]

The situation of Czech industry in 2021 was not the most rosy. Although plant closures were no longer being applied due to the pandemic situation, companies reduced production due to a lack of production components. While industrial production still grew decently during March, in April and May there was significant deterioration in its performance. For the rest of the year, the results were variable, depending upon the current sufficiency or shortage of components. For the whole of last year, industrial production increased by 6.4%. Revenues from industrial activity at current prices were 20% higher year on year in 2021, and new orders rose by 14.9%.[2)]

Household consumption grew rapidly after the easing of anti-pandemic measures in the spring of 2021. Its quarter-on-quarter real growth was 7.4% in the second quarter and 4.0% in the third quarter. However, a drop in consumer confidence in the autumn of last year in connection with a sharp rise in energy prices and, in part, increased pandemic risks cause consumption to slow. Retail sales (excluding motor vehicles) adjusted for calendar effects for the whole of 2021 increased by 4.5% year on year at constant prices, and without adjustment for these effects by 4.4%.[3)] Sales grew across all categories of non-food goods, with sales via the internet or by mail order growing the most.

[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-2021

[3)] https://www.czso.cz/csu/czso/ari/retail-trade-december-2021

The economic recovery led to a further reduction in the unemployment rate last year. Seasonally adjusted unemployment rate reached its peak in April (at 4.2%) and has been gradually declining since then. The seasonally adjusted unemployment rate in the MLSA methodology was 3.5% in December. In a year-on-year comparison, it was a half percentage point lower. This was due to recovery of the domestic economy and strong workforce demand. The number of job vacancies reached a local low in October 2020 and thereafter rose to a record 360,000 in September 2021. Its subsequent decline was due only to the onset of winter and the associated end of seasonal work. On the contrary, after seasonal adjustment, the number of vacancies increased slightly.[4)]

However, the slowdown in economic activity and stronger demand stemming from savings stimulated when households could not spend met with crippled supply, magnified by the shortage of raw materials. A special category was energy and gas prices, which joined the factors negatively affecting supply (unfavourable weather in Germany, lower gas supplies from Russia) with structural changes caused by the transition to greener energy. The result was a sharp rise in inflation, which reached 6.6% at the end of last year.[5)] The average inflation rate reached 3.8% in 2021, which was 0.6 percentage points more than in 2020. Throughout the year, the annual inflation growth rate gradually increased in individual quarters (from 2.2% in Q1 to 6.2% in Q4). The development of inflation was mainly influenced by rising prices in the categories of transport, housing, alcoholic beverages, and tobacco, but prices grew in most categories of the consumer basket.[6)] Prices in the primary sector of the economy also jumped upwards. Those at industrial producers rose by an average 7.1% in 2021, which was the most since 1995. Agricultural producer prices were on average 6.9% higher. Prices of construction work also rose (5.1% year on year), while prices of materials and products used in construction increased on average by 10.9% for the whole of 2021.[7)]

The Czech National Bank did not take long to react. It first tightened monetary conditions in June of last year, raising its base repo rate from 0.25% to 0.5%. It continued to tighten monetary policy in a series of five steps at each monetary policy meeting. At its last meeting of the year, in December, it raised the base repo rate by a full percentage point to a final 3.75%. At the same time, it decided to increase by the same amount the discount rate (to 2.75%) and the Lombard rate (to 4.75%). Last year, interest rates thus rose by a total of 350 basis points.[8)]

Like the development of the Czech economy, that of the crown's exchange rate was quite turbulent. The first quarter in the regional financial markets was marked by the peak of the pandemic, and this was reflected also in the development of exchange rates. In March, the crown weakened to 26.4 CZK per euro. The second quarter brought a post-pandemic calm, with the Czech National Bank raising interest rates for the first time. This helped the domestic currency to strengthen to a CZK 1 stronger level (25.4

[4)] https://www.mpsv.cz/web/cz/mesicni

[5)] https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2021

[6)] https://www.czso.cz/csu/czso/ari/analysis-consumer-price-indices-4th-quarter-of-2020

[7)] https://www.czso.cz/csu/czso/ari/producer-price-indices-december-2021

[8)] https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1640188080000/

CZK/EUR). The beginning of summer holidays broke this trend, however, and the combination of traditionally low liquidity, global concerns about further coronavirus mutations, and strengthening of the US dollar prevented the crown from making further gains. The rest of the year was marked by surprisingly rapidly rising inflation accompanied by an unexpectedly aggressive tightening of domestic monetary policy on the one hand and a weakening euro against the US dollar on the other. Nonetheless, the record-breaking interest rate differential still prevailed and the crown thus fought its way below the level of 25.00 CZK / EUR at the close of 2021[1)]

The pandemic situation was also reflected in the government's budget, which ended last year with a deficit of CZK 419.7 billion (6.9% of GDP). Total revenues increased by 0.8% year on year, but outlays by 3.5%. On the revenue side, the collection of corporate and VAT taxes improved, but this was largely offset by lower personal income taxes due to abolition of the super-gross wage and an increase in the taxpayer's rebate. Growth on the expenditure side was mainly due to social benefits. Transfers to health insurance companies also grew significantly, and the impact of support programs related to the pandemic was also significant.[2)]

[1)] Bloomberg

[2)] https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2022/pokladni-plneni-sr-44160

KB Change 2025 strategic plan

Komerční banka had presented on 5 November 2020 its KB Change 2025 plan updating strategic directions and addressing the emerging challenges and opportunities for creating a strong, client-focused bank.[3)] Komerční banka aims to build together with its clients a better and sustainable future through responsible and innovative financial solutions. KB aspires to be a leader in a new era of banking for 2 million active clients.

The strategy builds upon the pillars of helpfulness, growth, and responsibility, with specific objectives established in ten 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 (develop–operate) 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. The overall productivity increase, centralisation of support functions, services and premises across KB Group, as well as branch network and sourcing optimisation will enable the Group to reaffirm its leading position in operational efficiency within the CEE region. Komerční banka will furthermore position itself as a green bank and a sustainability leader in the Czech financial market and within Société Générale Group.

The strategy's financial targets have been set on a KB Group basis, and the management is confident about at least reaching these targets. Based upon organic growth, and after bottoming out due to the pandemic in 2021, the Group's revenues should record a dynamic average growth rate up to the 2025 horizon. Revenue growth will be driven mainly by rising business volumes, digital sales, the advisory model supported by data analytics, and new sources of revenues. The normalisation of interest rates – faster than initially assumed – should contribute positively towards fulfilment of the revenue target. Operating expenses will grow at a much slower pace than that for revenues, and also slower than inflation. These positive operating jaws will be powered by savings from simplification and decommissioning of old technologies and 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

[3)] Komerční banka's Consolidated Annual Report 2020, pages 10 and following.

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 cost-to-income ratio below 40% 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 above 15% for 2025.

Progress in implementing the KB Change 2025 strategic plan during 2021

By the end of 2021, the Bank had already delivered tangible progress in the ten areas covered by KB Change 2025.

The building of a new digital bank with the Temenos Transact system at its core has already achieved a Drop 1 phase, wherein a functional bank with basic features is being tested by 500 clients from among KB employees. KB and Modrá pyramida together are also building a new joint infrastructure and front-end system for housing finance. Because the branch remains an important building block of KB's omnichannel strategy, a new design concept was created that is appropriate for advisory and effectively serving clients' various financial needs. The first new outlet was opened in July 2021 in Prague–Dejvice. Moreover, clients can newly obtain several additional products in their mobile banking application, such as a consumer loan, property insurance, savings account, overdraft, or wallet insurance. The share of consumer loans sales made completely through digital channels rose to 29% in 2021 compared to 11% in 2019. Moreover, 19% of MůjÚčet accounts were opened digitally, up from 4% in 2019, and some 15% of frameworks for investments in mutual funds were agreed fully online during 2021.

In order to procure new revenue sources, KB has been building an ecosystem of complementary financial services by a combination of internal development, co-operation with start-up as well as established providers, and even acquiring participations in fintech companies via its fully owned platform KB Smart Solutions. Among many examples, these include establishment of Finbricks, s.r.o., an aggregation platform for financial services under the PSD 2 Directive; increasing KB's stake in Upvest s.r.o., a crowdfunding platform for real estate projects; launch of digital identification services for government services by Bankovní identita, a.s.; and a joint offering with ČEZ ESCO for installation of photovoltaic plants on the roofs of residential houses as well as industrial factories.

KB is striving to reinforce its market leadership position in services for corporate clients. It has introduced spolecne-udrzitelne.cz (Sustainably Together), an advisory portal for sustainable development and transformation of businesses. Business clients have also appreciated a new Trade & Finance Online platform for administration of documentary payments, guarantees, and other services. In a year-over-year comparison, KB's market share in lending to businesses improved by some 0.5 percentage points to 17.6% as of December 2021.

Komerční banka intends to do its part to protect the climate by supporting a fair, environmentally friendly, and inclusive energy transition, even as it acknowledges that not all sources of energy are equivalent in their costs to consumers and that the energy sector represents thousands of jobs. The Bank is committed to limiting global warming and to reducing its direct emissions (scopes 1 and 2) in accordance with a 1.5°C scenario from the Paris Agreement. KB will contribute to carbon removal projects with a view to reaching carbon neutrality by 2026. In 2020, total emissions decreased by 35% year on year to 25,050 tonnes of CO_2 equivalent, 15.2 kilograms per client. Measurement is audited on a yearly basis by the non-profit Preferred by Nature. The audited volume of greenhouse gases emitted during 2021 will be disclosed in April 2022. During 2021, the Bank contracted CZK 21.9 billion in financing of projects with sustainable positive impact, and it has unveiled new products compatible with environmental and social targets, such as mutual funds investing in companies compliant with environmental, social, and governance (ESG) standards; advisory and financing of projects for energy savings and renewable energy sources; and payment cards made of recycled plastics. Furthermore, Komerční banka has committed to progressively reducing to zero by 2030 its exposure to projects actively associated with the coal sector. On this basis, the Bank is no longer providing new financial products to clients having more than 50% of their revenues linked to coal. For current clients who have more than 25% of their revenues linked to the thermal coal sector, KB refrains from providing new products or services unless there is a public, time-bound transition plan to exit this sector.

As part of its risk management framework, KB has completed a review and update of its client data in order to ensure compliance with the latest regulations. KB has also further enhanced its capabilities in the areas of cyber security and fraud prevention. In the credit risk area, tools utilising machine learning algorithms have been implemented for identifying and assessing early warning signals regarding corporate exposures, thereby allowing analysts to save time on routine monitoring and to focus on more complicated cases. Deployment of new risk modules supports automation and digitisation of loan granting activities.

The capacity to introduce product innovations and responsiveness to client requirements or alerts was supported by increase in the average frequency of software releases to 11 per year per product. Agile and effective collaboration and consistent target-setting were reinforced by implementation across the Bank of the Objectives and Key Results (OKR) methodology. In order to improve efficiency and strengthen its internal know-how, KB has also created several dozen new job positions for tasks that previously had been procured from external suppliers.

Along with centralisation of main support functions across KB Group, the head offices of all remaining subsidiaries were moved to the Group's headquarters in Prague-Stodůlky, with the exception of ESSOX, which remains managed from České Budějovice. The average number of employees in 2021 decreased by 4.6% compared to a year earlier.

The plan's operational targets, which are formulated for the standalone bank, have been affirmed. KB 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. The measurements in retail segments during 2021 showed a gain in NPS among individual clients to 39 points from 32 in 2019, among small businesses to 41 from 32, and among the clients of corporate and investment banking to 45 points. Based upon organic growth, the clients' seamless omnichannel experience should help the Bank to achieve its target of 1,850,000 clients by 2025. As of 31 December 2021, KB was serving 1,625,000 clients and the whole KB Group had 2,251,000 clients. The development in the past year was influenced by cancellation of several tens of thousands of client accounts when clients did not provide sufficient information to meet upgraded know-your-customer requirements.

The branch will remain an important contact point for clients, but, as the trend in providing services increasingly involves migration to digital channels, the Bank aims to have just 200 branches by the strategy's horizon. KB accelerated planned reduction of branch network to reflect the shift of client traffic from branches to digital channels during the pandemic. As of 31 December 2021, the number of branches stood at 242, down from 342 as of 31 December 2019. Optimisation of operations through digitalisation, 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. This compares to 7,210 employees in the Bank in 2019, and 6,736 employees in 2021.[1)] 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 has introduced the Smart Office concept of hybrid work from office and home, launched the Mojevitalita programme promoting and supporting healthy life style, is offering legal and life counselling for all colleagues, and has implemented support measures for those populations most vulnerable to the pandemic threat. The employee engagement index's 2021 measurement stood at 77 points.

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. Its target will be to exceed the level of 4 points. In June, KB's membership in the FTSE4Good index was affirmed, with a score of 3.3, the same level as a year earlier. Moreover, in November 2021, KB ranked in the 73rd percentile (among the 27% best-ranked banks) in the S&P Global ESG Score – Corporate Sustainability Assessment.

[1)] Average recalculated number of employees.

Perceived by Komerční banka as attesting to the right direction of its strategy, the prestigious magazine The Banker has named KB the best bank in the Czech Republic for 2021. The jury focused on the Bank's help to customers and the economy in the past year, its ability to innovate continuously, and also its sustainability approach. The Banker's award was the crown among those recognitions received by KB Group companies in 2021, which included, among others, the titles MasterCard Corporate Bank of the Year and Sustainable Bank of the Year for Komerční banka, and The Best Life Insurer for Komerční pojišťovna in a contest held by Hospodářské noviny daily.

Fulfilment of business and financial targets set for 2021

The development of the economic environment in the Czech Republic during 2021 differed somewhat from the initial assumptions for KB's business conditions as discussed in the presentation of the outlook for 2021 on 10 February 2021. The main differences were due to repeating waves of the Covid-19 pandemic, which have exacerbated disruptions in global supply chains and been reflected in shortages of various input materials and components even as demand was being supported by governmental anti-crisis programmes. Producer price as well as consumer price inflation thus rose much faster than the financial markets had expected. Consequently, the CNB began normalising its monetary policy rates sooner than expected.

KB Group achieved good business results
Growth in KB Group's loan portfolio reached the level assumed in the published outlook. In comparison with expectations, housing loans grew faster (across the whole market) but this was offset by a slower-than-expected increase in the portfolio of consumer loans. Retail lending by KB Group expanded slightly more slowly than did the Czech retail loans market. Lending to corporate clients matched the ambition set for 2021, despite the still cautious sentiment of businesses towards new investment projects and the negative effect of Czech crown appreciation on the CZK value of the portfolio of business loans, often denominated in EUR. KB grew its market share year on year in lending to businesses.

Deposit volumes grew even slightly above expectations, particularly in the individual clients segment, where KB even gained further market share in 2021. The Group also managed to accelerate growth in clients' non-banking assets (mutual funds, pension funds, life insurance), and expansion in mutual funds volumes was accompanied by a gradual shift to equity-linked products, in accordance with KB's strategy.

Financial performance significantly better than planned
The consolidated revenues improved more than planned for the year 2021, essentially on all lines. Net interest income was up slightly, driven by volume growth and the earlier beginning of interest rates normalisation. Net fees and commissions benefitted from the successful development of mutual funds sales and assistance provided to corporate clients on the very active debt capital markets. Ability to offer relevant and thus highly demanded hedging solutions in an uncertain environment and KB's helping clients with several large DCM transactions were additional reasons for the outperformance in net profit from financial operations.

The Group reported total operating expenditures in line with the initial guidance, as higher-than-expected regulatory contribution to the Resolution Fund was offset mainly by savings in general administrative expenses, even despite high inflation.

Cost of risk guidance was progressively lowered during the year, as the Group recorded satisfactory performance of its assets, including of portfolios previously in credit moratoria and exposures in sectors sensitive to the Covid-19 pandemic.

KB achieved in 2021 a healthy level of profitability and maintained its robust capital adequacy and strong liquidity.

Expected development and main risks to that development in 2022

Note: This outlook was first presented on 10 February 2022 upon release of Komerční banka's results for the full year 2021. On 24 February 2022, the risk of military escalation in Eastern Europe materialised as the Russian Federation invaded Ukraine. The Group is aware that the sharply deteriorating geopolitical situation will have a significant impact on the economies of European countries. Nevertheless, due to heightened global uncertainty and the turbulent development, it is impossible to fully assess and quantify the impacts at the current stage. The Group is continuously monitoring and evaluating potential influences of the current crisis on its activities and on its clients. Although the Group's direct exposure to Russia and Ukraine is limited, the Group is also evaluating indirect impacts (e.g. dependency on raw materials, supply chain disruption). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possible adjustments to provisions and reserves in accordance with the IFRS 9 standard.

The following outlook is based on assumptions valid at the time of its first publication on 10 February 2022. As of the date of this annual report's release, KB Group has not elaborated another outlook fully factoring in consequences of the war in Ukraine on the economic situation in Europe and the Czech Republic. In comparison to the expectations described below, growth of the Czech economy may be slower and inflation faster. Societal changes triggered by the conflict may also influence demand for some financial products and services, as well as the levels of certain parameters in financial markets. The geopolitical developments were very dynamic in the days preceding release of this report, and this situation did not allow for reliable and comprehensive review of the assumptions and expectations for the rest of 2022. Nevertheless, the management still believes that the outlook described below provides the best available estimate as to the main trends in development of the Group's business and financial performance, including, in particular, faster growth of revenues compared to operating expenses and a maintaining of cost of risk under control.

Given the high level of uncertainty surrounding the conflict in Ukraine and the pandemic situation that are 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.

In its baseline macroeconomic scenario for 2022, KB expects that the Czech economy should accelerate its growth to 4.9% in anticipation of an easing of supply chain disruptions as well as of pandemic restrictions and self-restraint affecting mainly parts of the service sector. The growth should be driven by recovery in net exports and fixed investments; household consumption, too, should continue to contribute positively. The lack of free labour in the economy will remain a factor limiting the growth potential.

The average inflation rate in 2022 is expected to reach almost 9%, with year-on-year inflation rates probably peaking in the first half of the year in double-digit territory. The growth in prices is being driven by a combination of global as well as domestic factors, mostly related at least indirectly to the pandemic situation. Unemployment will remain very low, also fuelling inflation via wage demands.

In order to fight these inflation pressures, the Czech National Bank will probably continue in sharply raising monetary policy rates, as it had commenced to do in the middle of 2021. The two-week repo rate will likely peak visibly above 4% during 2022, and a reversal of this rate course (i.e. a first cut) could come as soon as the turn of 2022 and 2023. Short-term CZK interest rates, such as 3-month PRIBOR, will mirror closely the CNB's policy rate while long-term rates will rise more modestly, thereby resulting in an inverted yield curve.

The regulatory environment will see the effects of a reversal of some measures adopted in reaction to the coronavirus crisis. The CNB has returned to stricter regulation of mortgage lending, reinstating with effect from 1 April 2022 the limits on the ratios of debt-to-income and debt service-to-income as well as lowering the maximum loan-to-value ratio.[1)] It decided, too, on increasing the counter-cyclical capital buffer rate in two steps during 2022 and an additional step as of 1 January 2023, which will take this rate to 2.0%. The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board.[2)] KB aims to 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) once the situation of surplus capital accumulated during pandemic dividend restrictions is resolved. Banks will also be subject to some new reporting requirements, particularly in the field of sustainability.

The banking market will be positively influenced by the recovering economy. Total lending on the market should rise at a mid-single-digit percentage rate. The production of new housing loans will diminish in comparison with 2021 due to higher costs and regulatory limitations, but the outstanding volume of these loans should nevertheless expand modestly. Consumer credit expansion should accelerate to a mid-single-digit pace as the pandemic subsides. Loans to corporations should rise once companies gain more confidence and visibility into the future. Clients' bank deposits should grow still faster than lending, in both retail and corporate segments, supported by higher nominal incomes.

1) https://www.cnb.cz/en/cnb-news/press-releases/CNB-to-reintroduce-LTV-DTI-and-DSTI-limits-on-mortgage-loans-and-increase-countercyclical-capital-buffer-rate-to-2/

2) https://www.cnb.cz/en/cnb-news/press-releases/CNB-comments-on-banks-dividend-payout-plans/

Komerční banka will continue implementing the changes in accordance with its KB Change 2025 programme that had been announced in November 2020. The new digital bank will be developed in order to reach a marketable level of maturity in 2023.

In this context, KB management expects that the Group's loan portfolio will record an upper-to-mid-single-digit growth rate for 2022 in both retail and corporate lending. Outstanding volume of housing loans should continue to record gains, even though the new sales of these loans are expected to diminish in comparison with the record level achieved in 2021. Growth in total deposit balances should reach a mid-single-digit pace, except that there will be slower development at Modrá pyramida. Clients are expected to be shifting their deposits to term accounts.

KB Group's total net operating income for 2022 should expand at a double-digit pace in comparison with 2021. Net interest income will grow at a double-digit pace, reflecting increase in market rates and business volumes. Net fees and commissions should improve by low-single digits, driven again by cross-selling. The net profit from financial operations will probably decrease somewhat after having reached an extraordinary level in the past year.

In spite of the elevated inflation and expectation for another significant increase in regulatory charges for the Resolution Fund, operating expenses will remain under tight control and will rise by less than the rate of inflation. The Group will continue its transformation, which consists in investing into building the new digital infrastructure, overall simplification, and decreasing the numbers of employees and premises in use. Average salary growth will not exceed 3%. KB management also has decided on further steps in optimising the branch network during 2022. As of 1 April 2022, 25 branches will be closed and at another 19 branches cash services will be provided only via ATMs. As of 1 July 2022, KB will simplify the management structure of the branch network, including to replace regional retail divisions with joint segment and line management of all distribution channels at headquarters level. The selection of branches for closing was based upon a long-term analysis of branch traffic, coverage and potential of locations, and changing clients behaviour with growing preference for remote sales and assisted services in the digital environment.

Cost of risk will be influenced by a mix of factors, including the economic recovery, higher interest rates, appreciation of the Czech crown, and the beginning of fiscal consolidation. In KB's central scenario, the cost of risk in 2022 should remain visibly below the estimated normalised level of 30–40 basis points across the whole business cycle.

The key risks to the expectations described above consist in further prolongation of the pandemic situation, with recurring lockdowns and shortages of key input materials for Czech industry, a sudden and sharp shift from the government's previously expansionary fiscal policy, and a military escalation of the conflict in Eastern Europe. Generally, the open Czech economy would be sensitive to a worsening external economic environment, such as, in particular, further recession in the euro zone.

Management expects that KB's operations will generate sufficient profit in 2022 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay out dividends.

KB Group clients and their service

Business model

KB is a universal bank with a multi-channel distribution model. Its 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 differentiates 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, proximity to clients via the branch network and advanced, secure direct banking, and its ability to provide services efficiently in accordance with clients' needs and preferences.

Digital banking is an integral part of the multi-channel distribution model, and the Bank aims to reinforce its leadership position on the Czech market in mobile banking.

The service model in KB's retail banking is focused on assisting clients by providing them professional advisory, preferably at appointments agreed with the client in advance. In creating their recommendations to clients, the relationship managers refer to an analysis of each client's needs based upon the Bank's data about that client. This enables the relationship managers to propose a solution most convenient for each client's circumstances. Rapid service spots have been 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 by themselves in their mobile banking application or internet banking.

The service approach in corporate banking reflects clients' potential as well as their actual needs for financial services in order to create optimum value for clients and allocate KB's resources effectively. The relationships with economically interconnected clients are usually managed by the Bank at the level of the whole group.

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 digital channels, and potentially through the business partners.

KB is organised into arms, tribes, and separate independent departments. The arms are managed directly by 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, wherein employees in charge of operations for specific IT applications are also included into the tribes alongside their selling 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 in relation 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 between CZK 60 million and CZK 1.5 billion), and
- Global Banking (covering clients with annual turnover greater than CZK 1.5 billion).

A set of additional thresholds and sub-segments within these segments is elaborated.

New Digital Bank

KB's New Digital Bank (NDB) is a programme for building a new banking infrastructure and complete overhaul of banking processes. It was started in 2020 as a part of the KB Change 2025 transformation strategy.

The NDB comprises building of a flexible modular infrastructure including the core banking platform, card management system, payment hub, and customer management. On this basis, KB will introduce new simple digital products and customer relationship management around a single source of information across all channels and systems and supported by elements of artificial intelligence. The uniform sources of operational, business, and financial data will enable highly efficient reporting and analytics. At the same time, KB is building a new omnichannel front-end system for clients and relationship managers, employing a mobile-first approach. The personal contact with clients and the branch network remain pillars of the service model focused on providing professional advisory to the customers.

The New Digital Bank will allow for continuous 24/7 real-time processing of transactions, analytics, and lead generation. The innovation cycle will be shortened considerably by an ability for daily releases of software updates. The NDB will serve more effectively the needs of the clients as well as of the Bank, including regulatory duties, reporting, and customer relationship management. The subsequent decommissioning of certain parts of the original banking infrastructure will lead to material savings in operating expenses.

With launch of the NDB, the Bank aims for increase in client satisfaction as measured by the Net Promotor Score along with rising customer numbers and average revenues per user. The share of sales via digital channels should exceed 50%. The communication with clients will be completely paperless and productivity of relationship managers will improve.

At the beginning of 2021, Komerční banka selected Temenos Transacta as its future core banking platform. Syncordis will deliver and implement the system. In accordance with the agile development method, the NDB is being built in pre-defined increments. In the initial phase, which began in October 2021, the basic features of the NDB are available to some 500 clients from among the Bank's employees. This should provide relevant feedback for developing useful characteristics into the system and assuring an excellent future user experience. In 2023, the NDB will reach a maturity level to allow introducing the New Digital Bank onto the Czech market, onboarding of new clients, and the start of a gradual migration of clients from the old system. The migration will commence in the Individuals segment, to be followed by small businesses and completed with corporate clients. This schedule is in accordance, too, with the development of new products and services for the NDB. Completion of the migration is planned for 2026, which will enable decommissioning components of the existing KB infrastructure.

Client satisfaction

Development and growth of Komerční banka's customers (private and business), helpfulness towards the clients, and responsibility are the three value pillars of the KB brand. These express how the Bank wants to be perceived on the market and what values it professes. The pillars of the KB brand are its essence. Komerční banka wants to be perceived by its clients as a Bank which, with its helpfulness, responsibility, and emphasis on sustainability, makes a significant contribution to their personal and business development. Client satisfaction is thus one of KB's main priorities.

KB's customers are regularly interviewed, the individual phases of the customer journey are also monitored, and, based upon the feedback, the Bank adjusts and sets its offers so that they are as user-friendly as possible. Interviews with clients (so-called user testing) are part of the development of new products and services. The Bank asks customers about their satisfaction after purchasing a product with regard to whether the client got everything he or she wanted at the right time, understands everything, or needs any help with setup. KB also monitors the evaluation of individual service channels, such as branch, contact centre, and mobile or internet banking. All these measurements take place continuously throughout the year. In addition to these individual interactions with Komerční banka, the Net Promoter Score (NPS) value also is measured, determining whether the client would recommend KB to friends or family. Over time, this indicator shows the affinity of clients for the Komerční banka brand.

In this way, more than 200,000 pieces of feedback are collected annually. In addition to time series and individual indices, satisfaction surveys generate a huge number of very valuable comments on what clients value or what is not set up optimally for them. This feedback is processed in two ways. First, clients who have expressed dissatisfaction are contacted by branches or the contact centre and KB employees deal with the situation directly within 48 hours of completing the questionnaire. The solution to this situation usually involves reconfiguring the product, explaining its use, or recommending another, more advantageous service. If the situation cannot be resolved immediately and requires a comprehensive adjustment of services, the customer experience team gathers these suggestions and requests improvements across the Bank. As a result of such suggestions, almost 100 specific adjustments to the existing offers were prepared last year. Based upon feedback from clients, in 2021, for example, KB unified and expanded the opening hours of branches.

It is key for the Bank to bring added value to clients and alleviate their daily worries. KB's key competitive advantages exist across many areas: from everyday banking, through financing to investing. For example, clients can use a student account with KB for as long as 30 years and with no administration fee. Instant payments are offered to all clients at no extra charge. Security is extremely important, so the Bank monitors clients' payments for suspicious or unusual transactions. In case a suspicious activity in an account or by card occurs, a Bank employee immediately calls the client and resolves the situation. KB wants to help its clients reduce costs, so the credit card for entrepreneurs returns 1% of each payment to their current accounts. There exist a number of such benefits that clients appreciate and consider attractive.

KB's efforts to measure, analyse, and follow up on its client offerings are reflecting in continuous growth of the NPS index. A main driver of this improvement is the high satisfaction with staff at branches and contact points. Clients value the Bank's employees for their professionalism, helpfulness, and efforts to find appropriate solutions. Very important aspects of why clients recommend KB are a sense of security and the quality of digital channels, especially of mobile banking.

Customer satisfaction is significantly influenced, too, by perception as to the value of Komerční banka's services. KB has long strived to ensure that clients get the best value for the price they pay for the service. Prices are fair, transparent, and very competitive compared to those of other banks on the market.

Pricing at KB gives consideration also to sustainability. In setting price levels for services, KB motivates clients to use electronic and digital services, which are more environmentally friendly and at the same time more affordable for clients. If, despite all efforts, a client is not satisfied with any Komerční banka service, the client can request that the service fees be refunded through the Satisfaction Guarantee offer.

Komerční banka has established a complaints resolution mechanism that is in line with regulatory requirements and industry standards. Complaints resolution is conducted in line with the Claim Settlement Rules of KB, which are available to clients both in branches and online via KB's web page.[1)]

There are three levels of complaints resolution in KB: at the branch, by the customer experience team, and via the Group Ombudsman.

An independent ombudsman resolves claims of KB Group's clients in Czechia and Slovakia. The ombudsman's activities are governed and defined by the Ombudsman's Charter. Clients can contact the ombudsman in case of dissatisfaction with the resolution of their complaints or complaints in the second instance (in the case of KB clients, the Customer Experience Department). Although the ombudsman's decision is not legally binding on either party, within the conciliation procedure, the companies of the Komerční banka Group undertake to respect it.

Since 5 January 2022, the post of KB Group's ombudsman has been held by Prof. JUDr. Marie Karfíková, CSc. She is an expert in financial, tax, and insurance law, a long-time attorney, and a lecturer and head of the Department of Financial Law and Financial Science at the Faculty of Law of the Charles University in Prague. Professor Karfíková replaced in this position Mr Joseph Franciscus Vedlich, LLM, who had been KB's ombudsman since December 2009.

Internal policy sets forth the obligation of the complaints resolution administrator to inform compliance, operational risk, or data protection officers in case a complaint is related to their respective areas. An annual report on complaints resolution is provided to the Board of Directors and the Supervisory Board.

1) https://www.kb.cz/en/faq-and-support/relationships-with-customers/complaints-and-claims

Selected business indicators

Distribution network	31 December 2021	31 December 2020
KB branches (CZ)	242	242
Modrá pyramida points of sale	202	201
SGEF branches	9	9
ESSOX group – points of sale[1)]	1,943	1,843
ATMs	860	809
of which: deposit taking	502	429
contactless	604	304

1) Number of partners with a valid contract

Number of clients	31 December 2021	31 December 2020
KB Group's clients[1)]	2,251,000	2,293,000
Komerční banka	1,625,000	1,641,000
– individual clients	1,383,000	1,389,000
– internet banking clients	1,465,000	1,443,000
– mobile banking clients	1,034,000	932,000
Modrá pyramida	485,000	485,000
KB Penzijní společnost	520,000	525,000
ESSOX (incl. PSA FINANCE)[2)]	137,000	151,000

1) Year-on-year decline affected by termination of accounts as a result of know-your-client remediation process.
2) Year-on-year decline influenced by termination of non-active credit card relationships.

Cards and wallets	31 December 2021	31 December 2020
KB Payment cards – active	1,604,000	1,588,000
– debit cards	1,420,000	1,407,000
– credit cards	184,000	181,000
ESSOX credit cards – active	55,000	61,000
Number of cards virtualised into payment apps	390,000	283,000
KB Key – number of clients with active authentication app	963,000	812,000

Loans to clients – gross loans (CZK billion)[1]	31 December 2021	31 December 2020
KB Group	**738.9**	**691.4**
KB – total loan portfolio	635.4	599.6
– Loans to individuals	289.2	271.7
– Volume of KB's mortgages	262.7	245.5
– Volume of KB's consumer and other loans	26.6	26.2
– Loans to small businesses	41.3	39.8
– Loans to medium corporates and municipalities	116.8	110.2
– Loans to top corporates and other loans[2]	188.1	178.0
Modrá pyramida – total loan portfolio	76.0	63.9
ESSOX – total loan portfolio (including PSA FINANCE)	17.3	17.7
Factoring KB – total loan portfolio	11.4	8.3
SGEF – total loan portfolio	30.7	30.3
BASTION – total loan portfolio	2.2	2.5
Consolidation and other adjustments	(34.2)	(31.0)

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 2021	31 December 2020
KB Group deposits[1]	**948.6**	**893.0**
KB deposits	890.2	835.1
– individuals	354.9	322.0
– small business	234.9	218.9
– MEM corporates	196.1	190.9
– top corporates and other deposits[2]	104.3	103.3
Modrá pyramida – building savings	60.9	60.8
ESSOX	0.2	0.2
Factoring KB	0.7	0.8
Consolidation and other adjustments	(3.3)	(3.9)
Non-bank assets under management	**204.3**	**191.8**
Assets under management in mutual funds[3]	83.0	73.4
Clients'assets managed by KB Penzijní společnost	72.1	68.6
KP life insurance technical reserves[4]	49.2	49.8

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

January 2021	In co-operation with Direct Fidoo a.s. – modern applications for digitising the processing and billing of all corporate outlays, including a pre-paid Fidoo card to simplify administration of cash advances, card payments, and travel orders.
	KB – a new generation of its digital Open Banking platform, which makes products of the Bank and its partners available in 'Bank-as-a-Platform' and 'Bank-as-a-Service' modes. This additionally expanded services using banking identities.
	KB – Savings Account Bonus Invest. This savings account motivates clients to protect their savings from inflation by investing. Clients invest half of the funds and the other half earns an attractive rate of interest (in 2021 it was 3%).
February 2021	ESSOX – a new cash loan, the closing of which takes place completely online at www.CashShop.cz.
	KB – MojeBanka Internet Banking enabled full-text search.
	KB – a fully digital process for granting consumer loans to existing clients in mobile banking. Funds appear in the client's current account within 5 minutes from signing the credit contract.
March 2021	KB – an electronic authentication based on banking identity for access to public services.
	KB Factoring and Roger – a new supply chain financing (SCF) product. Reverse factoring helps customers optimise working capital without the need to modify their internal processes and limit external financing. Using the SCF platform that is connected to existing ERP systems, the customers can help strengthen the financial stability of their suppliers by shortening the maturity of their receivables and ensuring immediate payment through factoring financing.
	KB in co-operation with partners (Innogy, ČEZ, and others) – a consumer loan for investments in sustainable technologies, with benefits for individual solutions provided by their suppliers, who are KB partners. In line with KB's Green retail strategy.
April 2021	KB – a new network of insurance specialists. They offer free insurance optimisation and arranging of new insurance protections in the areas of life and non-life insurance, both physically at KB branches and remotely.
May 2021	Modrá pyramida – drawing a Quick Loan (Rychloúvěr) and Hypo Loan (Hypúvěr) for housing via the MP Home mobile application.
	KB and the National Development Bank – COVID Invest investment loans with support of the Czech–Moravian Guarantee and Development Bank (now the National Development Bank) for companies with up to 500 employees.
	KB – Online portfolio, an application newly enabling trading on Prague Stock Exchange (PSE).
June 2021	KB – New Risk-Free Rates for individual currencies and interest rate hedging products linked to these rates, replacing the discontinuing LIBOR and EONIA rates.
	KB – Investiční portál, a new branch front-end application for the offer of investment funds and investment advice.

	KB – Financial guide (Finanční průvodce), a form of financial advice based on detailed diagnosis of the client's financial situation. It simplifies bankers' preparation for sales meetings and helps to conduct advisory session in a structured way while assisting the client to better orient oneself in his or her finances.
August 2021	KB and iÚčto – a tool for entrepreneur clients for online accounting and invoicing, as well as processing of tax records, payments, reporting, and inventory records.
September 2021	KB – authentication services for commercial service providers through banking identity.
October 2021	Modrá pyramida – online arrangement of the Quick Loan (Rychloúvěr) product.
	KB – a new interest rate hedging product wherein one component of the price is based upon fulfillment of objectives in the area of environmental, social, and corporate responsibility.
	SGEF, KB, and ČEZ ESCO – Fotovoltaika za korunu (Photovoltaics for 1 crown), makes it significantly easier for companies and municipalities to acquire rooftop photovoltaic power plants. SGEF finances a solution that ČEZ ESCO designs exactly according to the needs of the individual client.
November 2021	KB together with other banks – BankID Sign, guaranteed signature of a contract or document in PDF format based on the bank identity.
	ESSOX – Rozložená platba (Divided payment), allows e-shop customers to spread the payment of a purchase price across as many as four instalments. Arrangement of the transaction takes place online.
December 2021	ESSOX – Carolina, a new version of the popular motoring application. In addition to other improvements, it creates the possibility for arranging an online cash loan of up to CZK 500,000 or insurance directly in the application.

Selected awards

January 2021	Magazine Global Banking & Finance: – Factoring KB named best factoring company in the Czech Republic in 2020 – Komerční banka, among World's Best Treasury & Cash Management Banks and Providers 2021 in the Czech Republic
February 2021	Finparada.cz – Financial Product of the Year awards: – Komerční banka awarded 1st place for KB's Personal Loan in the unsecured consumer loan category – Modrá pyramida recognised with 3rd place for Wise Savings (Moudré spoření) product in the building savings category
	Top Employer survey among university students organised by the Students and Graduates Association and conducted by GfK: – Komerční banka ranked in 1st place as an employer in the banking and investments category
	TOP APP Award – an independent award for the best mobile applications in the Czech Republic and Slovakia given by Byzkids company: – Komerční banka awarded 1st place for KB Mobilní banka in the banking category within the Czech Republic
April 2021	MasterCard Awards 2020 for the Czech Republic: – Komerční banka's 4U credit card named The Fastest Growing Card – Worldline and KB SmartPay recognised with Special Mention for the 'Czechia pays by card' project during the pandemic
May 2021	FocusEconomics: – Komerční banka awarded 2nd place in category Best Overall Forecaster – Czech Republic – Komerční banka awarded 2nd place in category Exchange Rate Forecaster – Czech Republic – Komerční banka awarded 3rd place in category Fiscal Balance Forecaster – Slovakia
July 2021	The Covered Bond Report, a publication dedicated to the covered bond market: – Komerční banka recognised with a prestigious international award in the Pioneer category of The Covered Bond Report Awards for Excellence 2021 for its inaugural issue in January of euro-denominated mortgage bonds
September 2021	Association of Social Responsibility: – Komerční banka, for its Sustainability Report 2020, honoured with Expert Jury Award for Reporting
November 2021	Sodexo Employer of the Year: – Komerční banka awarded 3rd place in the category of companies employing more than 5,000 employees
	Global Private Banking Awards of The Banker and Professional Wealth Management magazines: – KB Private Banking named Best Performing Private Bank in CEE
	National Evaluation Committee of the Czech Management Association: – CEO and Chairman of the Board of Directors of KB Jan Juchelka recognised as Best Manager in the Czech Republic
	Business for Society: – CEO and Chairman of the Board of Directors of KB, Jan Juchelka named Top Responsible Leader of the Year for Sustainability

	Hospodářské noviny Best Insurer award: – Komerční pojišťovna ranked in 1st place in the Best Life Insurance Company category – Komerční pojišťovna ranked in 2nd place in the category Client-friendly life insurance company
	Hospodářské noviny Competition – Banking Innovator 2021: – Komerční banka awarded 2nd place for Dashboard Security in Mobilní banka
	MasterCard Bank of the Year 2021: – Komerční banka awarded 1st place in the Corporate Bank of the Year category – Komerční banka awarded 1st place in the Sustainable Bank of the Year category – Komerční banka awarded 3rd place in the Mortgage of the Year and Private Bank of the Year categories
	Results of annual Responsible Lending Index announced by the non-profit organization People in Need: – ESSOX recognised as repetitive leader in the area of credit costs and cash loan
	Euromoney magazine: – Komerční banka named 1st among banks in the field of cash management within the Czech Republic, receiving the title of Euromoney Market Leader
	Flema Media Awards – media campaigns competition on the Czech and Slovak market: – Komerční banka and its advertising agencies PHD and PUSE recognised with award for the show Cesty z dluhů (Journey from Indebtedness) in the Best Use of television category
December 2021	The Banker magazine – Bank of the Year: – Komerční banka named Bank of the Year in the Czech Republic
	Top Innovations – research by the agency IPSOS: – Komerční banka ranked in 1st place for the eco card made of recycled plastic

Indicators of business performance

Loans to customers

Total **gross volume of lending to clients** rose by 6.9% year on year to CZK 738.9 billion.[1)]

In lending to individuals, the overall volume of housing loans grew by 9.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.0% to CZK 262.7 billion. Modrá pyramida's loan portfolio grew by a strong 18.9% to CZK 76.0 billion. Sales of housing loans moderated at the end of the year as mortgage pricing was on the rise and reflected sharp growth in market interest rates. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.9%, at CZK 33.3 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was higher by 5.0% year on year, at CZK 366.9 billion. Lending to small businesses increased by 4.3% to CZK 47.9 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2)] improved by 5.6% year on year to CZK 288.3 billion. At CZK 30.7 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.1% year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 6.2% year on year to CZK 948.6 billion.[3)] Deposits at Komerční banka from individual clients grew by 10.2% from the year earlier to CZK 354.9 billion. The deposit book at Modrá pyramida expanded by 0.2% to CZK 60.9 billion. Total deposits from businesses and other corporations climbed by 4.3% to CZK 535.3 billion.

Client assets managed by KB Penzijní společnost were 5.1% greater, at CZK 72.1 billion. Technical reserves in life insurance at Komerční pojišťovna were down by (1.3%) year on year, at CZK 49.2 billion. The volumes in mutual funds held by KB Group clients grew by 13.0% to CZK 83.0 billion, and this growth predominantly occurred in equity and balanced funds.

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 76.4%. The Group's liquidity coverage ratio was 148%, well above the regulatory limit of 100%.

[1)] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Because the volume of reverse repo operations was nil as of both 31 December 2020 and 31 December 2021, the figures remain unchanged inclusive of reverse repo operations.

[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' rose by 5.6% to CZK 956.9 billion.

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

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

KB strives to reduce direct environmental impacts of its activities. It wants to support and positively motivate its clients on the way to a sustainable future. The Bank aims to be a partner to clients who helps them to orient themselves even better in sustainability areas, including to minimise environmental impact; in matters of economic rates of return and savings; and, as appropriate, in the potential for public support in this area. KB Group's product offering includes sustainable investment opportunities as well as financing of sustainable technologies.

In the area of day-to-day banking, KB strives towards maximising digitisation of its services. The Bank wants to save clients' time and money, but also the environment. Clients can also use KB's banking identity free of charge for easier communication with government agencies and companies.

Disclosure of sustainability information in the advisory and distribution of financial products

Komerční banka has also implemented Regulation of the European Parliament and of the Council of the EU on Disclosure of Sustainability-Related Information in the Financial Services Sector (SFDR) and publishes specific information on its approach to integrating sustainability risks and taking into account adverse sustainability impacts in its financial advisory activities, portfolio management, and distribution of financial products.[1] A link to these statements is included in the pre-contractual product information documents. Sustainability risks are also taken into account in the Bank's remuneration policy. The Bank will update this information in accordance with regulatory developments.

Responsible investing

Clients can contribute to a sustainable future by investing with a view to the environmental and social impacts of specific companies. Clients can choose from several ESG funds and invest in selected areas, such as water resources, nutrition for future generations, or climate protection. In 2021, KB's retail clients invested almost CZK 2.5 billion in sustainable funds, which were included into the autumn offer with zero entry fees and represent more than 16% of total new investments into mutual funds. The offer of ESG sustainable funds will be constantly expanded.

Sustainable Technology Loan

Households can benefit from an advantageous financing offer for sustainable technologies, such as photovoltaic power plants, heat pumps, heat recovery units, grey water recycling and rainwater harvesting units, constructed wetlands, as well as green roofs and facades.

Together with proven partners, KB has prepared turnkey projects for clients planning to purchase new technologies for more economical living and greater self-sufficiency. The partners will ensure full implementation, from project design to installation, including settlement of the subsidy, and KB will provide advantageous financing for these projects. This means the Bank's clients are able not only to reduce their dependence on external water and energy supplies, but also significantly to reduce energy costs. In 2021, KB co-operated with ČEZ and Innogy in assisting clients to acquire photovoltaic power plants, as well as with ASIO and Kořenovky in the area of sustainable water and wastewater management. From March 2021, KB began offering an advantageous loan for sustainable technologies. It was used by 147 clients in a total volume of more than CZK 35.5 million. The average loan amount was approximately CZK 240,000.

Individuals

Komerční banka ranks among the three largest banks in the Czech Republic by number of individual clients.[2] KB newly acquired nearly 72,000 clients in this segment last year, an increase by 44% from the previous year. That brought the total number of individual clients to 1,383,000. The Bank also maintains a leading position in the segment for children and young people, with more than 352,000 child and student accounts plus scores more of young people with standard accounts.

During 2021, KB concluded 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-performing receivables were sold.

In lending to individuals, the overall volume of housing loans grew by 9.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.0% to CZK 262.7 billion. Modrá pyramida's loan portfolio grew by a strong 18.9% to CZK 76.0 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.9%, at CZK 33.3 billion.

Deposits at Komerční banka from individual clients grew by 10.2% from the year earlier to CZK 354.9 billion. The deposit book at Modrá pyramida increased by 0.2% to CZK 60.9 billion. Total deposits from businesses and other corporations climbed by 4.4% to CZK 527.1 billion.

[1] https://www.kb.cz/en/about-the-bank/everything-about-kb/we-do-business-br-sustainably/economic-br-sustainability#sfdr

[2] Source: Statements of individual Czech banks.

Client assets managed by KB Penzijní společnost were 5.1% greater, at CZK 72.1 billion. Technical reserves in life insurance at Komerční pojišťovna were down by 3.9% year on year, at CZK 49.2 billion. The volumes in mutual funds held by KB Group clients increased by 13.0% to CZK 83.0 billion, as sales of mutual funds recovered in 2021 from the pandemic drop.

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 improved in 2021 to 39 points. Clients continue to appreciate the quality of service provided by relationship managers in branches and from the contact centres. Clients also reported better satisfaction with stability of the digital banking channels.

Unfortunately, the year 2021 was again affected by the pandemic situation. The Bank further developed its remote servicing tools and it focused upon continuous improvements in the quality of service provided by relationship managers in branches or remotely. KB implemented a new service model leading to a better customer experience and at the same time increased utilisation of digital channels. During meetings, the bankers review with clients their financial circumstances while assisted by a new tool, Financial Guide, which helps to find the most effective solutions to the clients' needs.

During 2021, Komerční banka succeeded in increasing the number of clients communicating with their bank through online channels. By the end of 2021, some 963,000 individual clients had acquired KB Klíč, which facilitates secure access to the Bank, confirming 3DSecure payments on the internet, but also identity authentication in relation to government institutions and business service providers.

Entrepreneurs and small businesses

Many entrepreneurs and small businesses were hit in 2021 by impacts of the Covid-19 pandemic, shortages of materials and other inputs for their production, constraints upon their customers and business partners, and, during the year, also by growing costs and rising inflation, both locally as well as on foreign markets. As a consequence, many business owners have terminated or suspended their operations, and that reflected negatively in development of the client portfolio. Even though more than 12,000 small businesses newly opened accounts with KB (up by 11% year on year), their total number declined by (4%) to 230,000.

Client account balances of entrepreneurs and small businesses grew by 7.3% to CZK 234.9 billion. The total volume of financing provided by KB to small businesses increased by 3.8% year on year to CZK 41.3 billion.

KB continued in developing and improving its online services, which led to an improvement in the NPS for the segment to 41 points despite decreasing the number of branches. Contributing particularly to the higher score were reliability of the banking systems, KB's ability to provide relevant advisory, and improved responsiveness. The clients appreciated continuous access to financing options for working capital as well as investment needs, including credit limits through credit cards for entrepreneurs just starting up, authorised overdrafts to cover extraordinary expenditures, as well as standard business loans. Through the whole year, KB assisted clients in utilising guarantee programmes of the National Development Bank (NDB, formerly the CMZRB Bohemian–Moravian Guarantee and Development Bank) or European Investment Fund (EIF). KB granted 39% of the total volume of loans in NDB's largest, COVID III, guarantee programme.

In addition to the Bank's offer, clients actively took advantage of financing possibilities at other KB Group companies, such as loans and leasing from SGEF and ESSOX or receivables factoring from Factoring KB. Over CZK 200 million was financed by the new Roger Platba factoring service. For e-shop operators, a simple and fast online financing offer from Lemonero was introduced.

More than 3,000 companies benefitted from the preferential offer in the Czechia Pay by Card campaign and began accepting card payments from their customers. Businesses can optimise and digitise expenses management with an advantageous solution from the partner company Fidoo that includes integration with the current account and payment cards from KB. A solution for online accounting and related needs of KB's clients is available at preferential conditions from iÚčto.

Along with using KB's dedicated services, companies just starting up could join the Nastartujte se! (Start up!) grant programme, already in its ninth year. During 2021, projects from 43 companies in various sectors were enrolled.

In 2022, the Bank will focus on improving accessibility of its services and advisory at the branches, in Business Centres, as well as online. Expanded options to use the banking digital identity will bring greater convenience and efficiency to the clients' enterprises. With a new campaign system, KB will be able to better identify the individual needs of clients and communicate proactively. Preparation will continue for switching to simpler digital services by small businesses in the New Digital Bank. Already at the beginning of 2022, KB introduced a new service called PayPhone, a payment terminal in a mobile device, which will facilitate acceptance of card payments by artisans and smaller providers of various services.

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.

The services provided include mainly portfolio management under mandates, a wide range of investment instruments, complete banking services, real estate and lombard loans to finance the private needs of clients, investments in funds for qualified investors (real estate funds and private equity), investments in corporate bonds, assistance in selling companies, trust fund services, and other instruments for intergenerational transfer of assets.

Investment products and underlying assets taking into account environmental, social, and governance (ESG) criteria are gaining in importance in the Private Banking offer. In 2021, KB adopted the so-called ESG Universe, which is being prepared by SG Private Banking, for the managed portfolios. It narrows the list of eligible equity investments only to companies that meet defined

ESG criteria. Direct equity investments already are made only in listed companies having a minimum required ESG rating and no serious negative controversy. Sustainability factors in the managed portfolios are also taken into account in the evaluation itself and setting of target share prices by SG Cross Asset Research. KB Private banking clients can thus benefit even more from the extensive analytical apparatus and expertise of the SG Group, which significantly supports sustainable investment. In 2021, partnerships were deepened with renowned global asset managers and a number of sustainable funds classified according to Article 9 SFDR (Sustainable Finance Disclosure Regulation) were included into KB Private Banking's offer.

For the first time in its history, Komerční banka's Private Banking received the award for the Best Performing Private bank in Central and Eastern Europe, given as part of the Global Private Banking Awards. The international jury awarding this price was appointed by representatives of the renowned financial magazines The Banker and Professional Wealth Management, which belong to the Financial Times media group. The Bank puts great on value on these awards, which confirm Komerční banka's strong position and the quality of its private banking services. Already in the past 4 years, KB has been at the forefront as a leading private bank in the Czech Republic, and this year the jury selected KB as the winner also in the regional context.

Among the priorities for 2022 will continue to be further development of portfolio management services, investment advice in open architecture, and the continued development of digital services. In addition, private banking will focus on the development of private services for large and medium-sized business owners in connection with the sale of a company, intergenerational asset structuring, trust fund manager services, building a portfolio of financial assets and deposits, and structured financing of private projects. A key topic the aspects of which will continue to be developed in KB's private banking concerns sustainability and responsible investment and strengthening the importance of ESG criteria within the investment process. At the same time, the forthcoming initiatives will significantly exceed the new EU regulatory requirements.

Corporate and investment banking

Corporate banking is an organisational part of Komerční banka that includes the provision to corporate customers (with turnover exceeding CZK 60 million), various types of public institutions, the non-profit sector, and public institutions of such products and services 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.

Support to business clients affected by the Covid-19 pandemic

Since March 2020, Komerční banka has been supporting entrepreneurs and small businesses affected by the Covid-19 pandemic. The first two government support programmes, COVID II and COVID Prague, were dedicated to financing of operational expenditures, such as wages, rents, and energy costs. These programmes were later extended to investments, and thus companies could finance their purchases of machines, technologies, licences, and other needs.

KB provided the largest support, however, within the COVID III programme, running from 2 June 2020 until 31 December 2021. Through this programme, KB granted financing to 2,619 companies amounting to CZK 17.8 billion. That was the largest volume among all participating banks. By the end of 2021, KB had granted under five COVID programmes credit to 3,636 clients in total volume of CZK 25.5 billion.

Overview of loans provided by KB between April 2020 and December 2021 in COVID programmes with guarantees of the National Development Bank or EGAP state insurance company.

Programme	Number of contracts	Loan volume
Covid II	920	CZK 4.0 bil.
Covid Prague	64	CZK 0.4 bil.
Covid Plus	20	CZK 3.1 bil.
Covid Invest	13	CZK 0.2 bil.
Covid III	2,619	CZK 17.8 bil.

KB also intermediated other sources of support. Through its long-time co-operation with European Investment Fund it granted new financing under the EIF COSME programme (3,002 loans in total amount of CZK 4.1 billion) and, specifically for the culture sector, within the EIF Eurocreative programme (28 loans totalling CZK 123 million).

Sustainable corporate banking

A framework for sustainable strategy defines the main areas upon which KB will give priority focus within corporate banking:

- 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.
- projects with positive social consequences (modernisation of health care facilities, health care, social care, supporting employment).

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 establishing companies' ESG strategies;
- carbon footprint determination;
- 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 projects' economic and technical specifics;
- preparation and implementation of tenders for private and public entities (including so-called sustainable and circular public procurement).

Komerční banky supports financing of environmentally and socially beneficial project. Since April 2021, investment loans provided by the Bank are described in terms of whether they have value added in terms of ESG. This ESG description is based upon EU taxonomy and categorisation used by Société Générale. If a loan is described as ESG, the Bank uses support in the form of a preferential interest rate subsidised from a special ESG envelope.

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. 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 contributes to meeting ESG goals of the Société Générale Group in the area of environmental and social risks linked with the clients' projects that KB finances. At the beginning of 2020, KB implemented in its corporate banking a system for management of environmental and social risks (ESRM) that also takes into account requirements of the Equator Principles, which consist of a set of voluntary regulations for evaluation of larger industrial and infrastructure projects, and it ensures compliance with the sectoral policies of SG Group. 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, 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. ESG risk categorisation is performed for all clients in corporate, municipal, and global banking. For clients with annual turnover exceeding a certain limit, who operate in sensitive sectors, and who are categorised as clients with increased E&S risk, KB's E&S experts perform detailed ESG reviews. The results of an ESG check indicating a client to have high risk or requiring corrective action from the client are validated by staff of the Compliance Department or they are escalated to the headquarters of Société Générale. In cases where ESG risk poses both potential and credit risk, the ESG review is always validated.

In 2021, 24% of actively financed clients in the Global Banking segment were subjects of detailed ESG risk assessment.

During implementation of the ESRM system in 2020, all bank advisors and credit analysts in the Corporate and Municipality segments were given mandatory training in the ESRM system and such training will take place at least every 2 years. In addition, employees of the Corporate and Municipal banking and Global banking divisions were required during 2021 to complete an online course in environmental and social risk management prepared by Société Générale.

In 2021, KB provided financing to two projects subject to assessment according to the Equator Principles rules. Both projects were category C – logistics centre projects.

KB has been actively involved in financing projects closely related to climate change mitigation. In 2021, the Bank provided financing to ten renewable energy projects and a project to modernise municipal heating plants and their transition from coal fuels to biomass and gas.

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.

With the aim of supporting sustainable growth among clients and Czech industry, KB has launched a new website, Společně udržitelně (Sustainable together; spolecne-udrzitelne.cz). This website includes information from fields encompassing the environment, circular economy, the broader economy, and the social domain. Articles and real-life examples offer ESG inspiration, particularly for corporates. Once per two weeks a newsletter is sent out with selections of the most interesting news. The web content is provided in joint co-operation between the Bank and experts from CIRA Advisory.

Komerční banka, Visa, Heureka, and the Association of Social Responsibility together introduced the project of Sustainable e-shop. Its goal is to identify and label e-shops aiming to achieve sustainable operations and are attentive about the impacts of their operations. This enables clients for whom the sustainable criterion is important to make easier choices while shopping. This project should motivate and support sellers in transition towards sustainable business models.

Digital corporate banking
New products or services are prepared by KB in co-operation with fintech companies on the platform of its KB Smart Solutions subsidiary. In 2021, KB Smart Solutions also established a start-up project called Finbricks, which is being further tested on the market. It is an open banking service that helps clients obtain access to basic banking operations at all their banking institutions through a single and simple interface. In the past 12 months, the company has grown significantly and currently covers the services of 11 key Czech banks. It is working to cover Slovakia, where it already has connected 5 banks.

The fintech Roger, into which KB entered at the end of 2020 and began providing services to companies in 2021, started preparations for expanding digital tools for corporate clients (supply chain financing).

Last year, the connection between KB and Direct Fidoo, which brings clients digitisation and subsequent automation of internal processes through the Fidoo application, was further improved by KB in 2021. KB is the only bank in the Czech Republic offering the connection of corporate bank cards directly to this application, which further simplifies internal accounting processes in companies.

During 2021, the Bank continued along the trend of digitised exchange of documents between the Bank and clients. Using not only KB methods but also a qualified signature, almost 44,000 documents were exchanged in the field of corporate banking between the Bank and its clients. In January, KB expanded the possibilities for clients to send a Bank Report for audit purposes, as the electronic Application for a Bank Report was modified, newly made available in electronic banking, and included electronic signatures of the Bank. In April, after a year in development, the Bank launched a new FINSTA application into pilot and subsequently into live operation. In future, this will become the only entry point for the management of financial statements. The application has implemented robotic processing of delivered documents, which allows most reports to be processed without the need for manual typing.

A turning point not only within KB but in the entire banking market was launch of BankID, a unified platform for electronic identity. From March 2021, KB made it possible to use BankID for its individual clients, who have the opportunity to log into the Citizen's Portal (includes various public services or information) via the KB key. Last year, BankID could be used for tax returns and the national population census. At the end of September 2021, KB also launched BankID services for its corporate clients. That means BankID can now be used for the services of commercial entities.

Economic environment for Czech corporations
The whole of 2021 was marked by the pandemic situation, which was exacerbated by the disruption of global production and supply chains. The rapid spring easing of anti-pandemic measures boosted the economy for a while, but the first complications in the form of raw materials and other input shortages (especially of chips) came already in summer for most industries. Additionally, rapid rise in prices, driven mainly by energy, appeared at the end of the year. Uncertainty and constraints stemming from the conflict in Ukraine, growing inflation, and rising CNB interest rates are factors that will affect the corporate economic environment in 2022. These factors combine with volatility in financial markets may continue to dampen investment activity, which has been affected since the pandemic began in 2020.

Corporates and Municipalities
Competition in corporate banking remained very intense in 2021. KB nevertheless maintained its leading position in this segment, with approximately 45% of small and medium-sized enterprises using its services.[1] Komerční banka remains one of the two largest banks in public sector financing and is on a growth trend. KB now serves 52% of clients in this sector.[2] The number of clients increased by 6% year on year to 10,900, which was due also to growth of companies that were previously served within the network for small businesses and entrepreneurs.

In 2021, deposits strengthened further, with their volume expanding by 2.7% year on year to CZK 196.1 billion. Despite the pandemic situation, the market for loans to companies and corporations grew and KB also benefited from this thanks to its initiative and support in distributing state aid in the form of guaranteed loans. The volume of financing provided by the Bank increased by 6% compared to the previous year to CZK 116.8 billion. Public sector funding is also growing, with EU national structural funds contributing to infrastructure investment.

Client satisfaction in the segment as expressed by the Net Promoter Score rose to 44. The situation was similar in municipalities, where it achieved 43 on a scale from –100 to 100. Clients appreciated, in particular, the Bank's transparency, honouring of its commitments, its ability to respond to their needs, and the offer of suitable products and services. Finally, the relationship with bank advisors was also highly valued.

A product through which the Bank responded to the growing interest of companies in commercial installations of photovoltaic power plants within their business operations was the launch of "Photovoltaics for 1 crown". This was prepared jointly by KB, SGEF, and ČEZ ESCO and was launched in October 2021. Through this product, companies can install PV panels, on the roofs of their industrial or warehouse facilities, for example, with no initial investment and no worries about operation of the power plant inclusive of related administrative and technical matters. The company then repays the investment costs in the revenues from electricity taken from their photovoltaic power plants, which become their property after 15 years for a price of CZK 1.

Global banking[3]
Komerční banka maintains a strong position in servicing and financing large companies with turnover exceeding CZK 1.5 billion. The portfolio and number of clients in the large corporate segment is relatively stable. KB's clients include about 56% of large companies in the Czech Republic with turnover exceeding CZK 1.5 billion.[4]

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

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

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

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

The Bank provides to clients in this segment the full range of banking products and services, including highly specialised ones, and especially in the areas of investment banking, as well as export, structured, and syndicated financing. At the same time, it brings solutions for unique transactions on the banking market, including in the areas of primary issue of bonds, M&A consulting, and real estate services. The offer is complemented by the services of subsidiaries and sister companies providing leasing or factoring services. Clients can rely on the professional approach and knowledge of KB's stable team of bank advisors as well as experience and contacts in the Société Générale Group's international network, especially in the areas of foreign trade financing, 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 access to the services of all major global financial centres through SG.

Satisfaction of large corporate clients with KB remains high. The NPS indicator in this segment increased in 2021, reaching the value of 60. That represents a gain of 8 points compared to 2020. Services and the breadth of their offer, as well as the advice of bank advisors continue to be rated highest.

Deposits increased by 0.5% year over year in 2021, reaching CZK 94.5 billion. The total volume of loans (excluding reverse repo operations) in the Top Corporations segment rose by 8.1% year over year to CZK 158.0 billion.

Komerční banka, a.s., pobočka zahraničnej 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 2021 continued to pose challenges associated with impacts of the ongoing Covid-19 pandemic, but the economy had recovered in 2021 in comparison to 2020. GDP growth turned positive for 2021 and further improvement is expected for 2022. Nevertheless, economic confidence remains shaken in Slovakia and investors hesitant, and such sentiments probably will be only strengthened by the ongoing war in Ukraine.

The performance of KB SK in 2021 reflects the situation on the Slovak market, and shaken investors' confidence translated into lower total loan volumes provided to clients in comparison with previous years. A gradual shift of KB SK's focus towards more structured client transactions has been ongoing already for a couple of years. This has helped to mitigate the impact of narrowing margins on standard corporate financing in Slovakia and allowed KB SK to report a year-over-year increase in net interest income generated. Disciplined management of operating outlays remained essential and reconfirmed a leading cost-to-income ratio relative to other banks operating in Slovakia. The cost of risk during 2021 remained affected by the pandemic and its impact on the overall economy, as well as by cyclicality of certain sectors and surging energy prices that were impacting businesses of the Bank's clients. Their year-over-year decrease nevertheless confirms the better state of the economy and brighter outlook for coming months and years. Even though KB SK clients went through another 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 delivered improved net profitability with notable contribution of fee revenues from one-off transactions.

Being at the forefront in financing green transformation, KB SK is proud to have extended together with another four local and international banks its co-operation with U.S. Steel Košice via an unsecured sustainability-linked revolving credit facility in 2021.

KB SK's team remained stable, and its professionals delivered services to clients at a high quality standard. Client satisfaction was reconfirmed on very high level, as 78% of business clients would promote the Bank to their counterparts or colleagues. KB SK regularly collects feedback from clients using objective external channels, then evaluates and prioritises that data while implementing it into its tailor-made client solutions. For 2021, KB SK further strengthened its image as a bank that keeps its promises and values partnership. It was praised for the strong involvement of its advisors in the business success of clients. The Bank achieved excellent promoters score results across the board (keeps promises, transparency, support, and solutions). Clients' satisfaction and the effort to exceed their expectations remain central to KB SK's efforts.

KB SK's investments into its systems and processes during 2021 addressed regulatory requirements and group internal standards in order to remain a secure financial partner to its clients. At the same time, the Bank's spending plans prioritised solutions increasing comfort for clients in remote communication with KB SK. Staff safety also remained a priority, and thus the Bank operated in a hybrid mode during the whole year while focusing on uninterrupted service for clients without posing health risks to its employees.

Investment banking
Developments on financial markets in 2021 were strongly affected by the recurring waves of the Covid-19 pandemic. These waves were consequently reflected in an alternation between optimism and pessimism on financial markets, and especially in emerging markets. These include the Czech crown market, which thus recorded unusually high volatility in 2021. It was the weakest in March, when the economy felt the strongest level of restrictions relating to the pandemic, and at one point the crown traded at EUR/CZK 26.40. After that, however, the currency gradually strengthened, albeit with short breaks, to below EUR/CZK 25 at the end of 2021. Appreciation to stronger levels was supported by economic recovery, as Czech GDP grew at a decent quarter-on-quarter rate of around 1% from 2Q through 4Q. The strengthening of the crown against the euro, however, was mostly due to a significant increase in Czech interest rates and the related widening of the interest rate differential against the euro. The Czech National Bank raised its key interest rate by 3.5 percentage points from the end of June to reach 3.75% at the end of 2021. The unprecedented speed and size of rate hikes had been prompted by an unexpectedly strong rise in inflation, which already had been reflected in rising inflation expectations. According to the data for December 2021, consumer prices grew 6.6% year on year.

All stocks traded on the Prague Stock Exchange saw price growth last year, and the main PX Index knew practically no other direction but up. For the year as a whole, it corrected slightly in only two months (January and June). In total, it strengthened 38.8% (if dividends are included, by 45.3%) after a loss of 7.9% in 2020). The markets in Europe and America performed very well, repeatedly surpassing all-time highs. The STOXX Europe 600 index rose by 22.2% last year (total return was 25.8%) and the world's most watched stock indicator, the S&P 500, closed the year 26.9% stronger (total return was 28.7%), marking its third annual gain in a row. The best stock on the PSE in the last year was a relative newcomer, Ceska zbrojovka. In the first complete year of trading, its share price increased by 72.8%. The reasons for this growth relate to its acquisition of the legendary company Colt and massive demand for its products, especially on the overseas market, which is crucial for the company. CEZ finished in second place, as high electricity prices pulled its share price up by 60.6%. The financial sector also performed very well, gaining more than 50% in 2021. A significant corporate action among the banks was the approval of a merger between Moneta and the Air Bank Group, which will take place this year. The total volume of trade on the Prague Stock Exchange increased by 12.1% to CZK 140.5 billion last year. Unfortunately, in the past year the shares of PF Nonwovens (formerly Pegas, +7.5% in 2021) and also Stock Spirits (+42.3% in 2021) were delisted from the PSE. This year will see O2 CR meet a similar fate, as the majority owner, the PPF group, will squeeze out minority shareholders. Moreover, shares of Avast, which will merge with NortonLifeLock, also will cease to be traded.

In the context of volatile fixed income and currency markets, gradual reopening of the economy, and economic recovery, clients' activity on financial markets recovered strongly, and especially in the second half of the year. These opportunities allowed KB Investment Banking to achieve extraordinary results for 2021 in both trading and sales activities.

The trading performance came from establishing portfolios in anticipation of tightening monetary policy and thereby benefiting from the strengthening currency and appreciating stocks in the context of rising interest rates as well as execution of increased client flow and market making on Czech government bonds.

In the large corporate segment, the performance came mainly from extraordinary Czech rates hedging activity linked to capital markets transactions of KB's clients and renewed business flow.

In the SME segment, use of digital platforms for foreign exchange transactions and term deposits in combination with a focus on value-added products led to an outstanding performance in this client segment.

As for the Financial Institutions Sales Desk, despite lower market activities in comparison to 2020 and intensified competition from large international banking groups entering the Czech market, the desk managed to deliver a better performance in 2021, thanks mainly to several significant debt capital markets transactions. In addition to these business results, diminished tensions observed in the credit markets resulted in release of reserves for counterparty risk (Credit Value Adjustment).

The year 2021 confirmed that the trend of customers' growing appetite for digital channels was not a one-off event boosted by the COVID situations. Rather, this trend is here to stay.

Again in 2021, a rising number of clients were actively using KB's eTrading platform for foreign exchange transactions and term deposits. That translated into a significant increase of revenue generated through this channel.

In addition, in May 2021, KB launched its new digital platform, Online Portfolio, enabling clients to place orders online for securities listed on the Prague Stock Exchange. After half a year of operations, this digital platform already has become the main channel through which KB's clients use the Bank's securities brokerage services on the Prague Stock Exchange. KB will continue in the years to come to promote and invest in expanding the offering and functionalities of digital platforms for market activities.

KB Investment Banking has embarked on a multi-year journey of modernising and digitising its technological platform to improve the customer experience, expand its product offering, and boost the quality of its services. As such, a major project for replacement of its core trading and risk management system was launched in 2021. From 2022, KB Investment Banking will work on integrating its products and services into KB's New Digital Bank.

Transaction and payment services

Cash payment operations

Compared to the previous year, cash payments were slightly less affected by the ongoing pandemic situation, as there was a certain easing and recovery of the economy in the business sector, especially in the middle of the year. The most critical period from the viewpoint of securing money circulation was during March, which was in the lockdown period when the population was restricted from moving between districts.

Due to the leap upward in the inflation rate, and especially in comparison to the Czech National Bank's 2% target rate, the volume of currency in circulation continued to grow (by CZK 19.2 billion in 2021 to more than CZK 731 billion as of 31 December 2021), yet KB's total cash operations did not yet reach 2019 levels.

In the course of 2021, the KB Change 2025 strategic plan began to be fulfilled in the area of increasing the automation of cash payments. In the middle of the year, a newly reconstructed branch in Prague–Dejvická was opened with a newly designed service concept for clients, the so-called "New Digital Bank". It includes a self-service client cash zone accessible 24 hours a day, 7 days a week. In pilot mode, the zone was newly equipped not only with two recycling ATMs but also with three new types of devices for automated client service – the coin deposit terminal for coin deposits, payboxes enabling cash withdrawals via closed packages, and fully automated machine processing for exchanging banknotes for coins.

Within the Czech Republic, KB operated a total of 242 branches (as in the previous year), of which 139 were branches with cash and currency exchange services and 63 were non-cash branches (from a total 202 branches) authorised to accept cash deposits via closed packages.

KB continued to strengthen its ATM network, increasing its number to 860 in 2021, in comparison with 809 in the previous year. The number of deposit ATMs has already exceeded 500, and KB has confirmed its role as a leader within the entire Czech Republic in this area. Compared to in 2020, there are 73 more devices enabling the deposit of Czech currency banknotes, and, out of the total number of deposit ATMs at the end of 2021, 32 devices were equipped with so-called banknote recycling functions, which allow KB to ensure even higher efficiency of ATM operations.

KB operates ATMs from two suppliers. In 2021, KB began migrating some of its devices so that the entire ATM network was managed by a single company. In 2022, the migration will be completed. The benefit of this step is greater efficiency in implementing changes applied to the entire network, as well as better services for clients.

The average deposit made via KB's ATM network increased year on year and was at the level of CZK 28,000. Compared to 2020, that marks an increase by CZK 3,000. The number of deposit transactions at the end of 2021 exceeded 3 million. By comparison with 2020, the number of deposit transactions increased by almost 170,000.

KB has already realised 56% of the volume and 93% of the number of all client cash transactions (withdrawals + deposits) from 2021 through its ATMs.

The importance of cash in case of an unprecedented natural disaster was proven in the affected area of South Moravia at the end of June, especially in the regions Břeclav and Hodonín. Within a matter of moments, a tornado devastated several thousand residents, who lost not only shelter but in many cases also their personal property, documents, and means of payment. Komerční banka fulfilled here its role as part of the state's critical infrastructure, when, based upon a requirement by government authorities to provide cash subsidies for the payment of material assistance to citizens affected by the tornado, it ensured extraordinary cash transport to the affected region, specifically for the KB Hodonín branch and the relevant regional labour office.

In the area of foreign exchange services, KB continued as a traditional and trustworthy institution providing this service to our citizens and was thus able to provide, for example, Croatian kunas on holiday to a popular Adriatic destination. Although total numbers and volumes were not at the level from before the pandemic (e.g. as in 2019), the service remained profitable for KB.

Non-cash payment operations

The Bank recorded a significant 6.3% year-on-year increase in the number of domestic payments, an even greater 10% gain in the number of foreign payments (12.8% increase in outgoing foreign payments), and a rapid 17% rise in the number of SEPA payments (outgoing SEPA payments by 20.3%). The share of SEPA payments in euro within the total number of foreign payments remained slightly greater than 87% last year. The number of clients sending SEPA or foreign payments also grew significantly.

In 2021, the share of domestic interbank payments, which are processed in real time as an immediate payment, further increased. For incoming payments, more than every fifth payment is credited to KB's clients' accounts as an immediate payment. Similarly, in Mobilní banka, almost every fifth outgoing payment is made from KB clients' accounts as an immediate payment, although the client still has to choose to process the payment in the form of an immediate payment. During the first half of 2022, KB plans to process automatically outgoing payments to other domestic banks that support the receipt of immediate payments without the client having to choose this type himself.

Since the autumn of 2021, Komerční banka has been enabling clients to use the "Pay me" function, which generates a QR code that simplifies initiation of an immediate payment order by downloading it onto a mobile phone, where the order is filled out. At the same time, KB can read and process these QR codes containing the flag of immediate payment not only in mobile phones but also via internet banking, as required.

The share of SEPA and foreign payments in euro, US dollars, Czech crowns, British pounds, Swiss francs, Danish, Norwegian and Swedish crowns and Canadian dollars, which KB will credit to the beneficiary's bank account on the same day the client enters the payment, has increased. Komerční banka thus processed 39.1% of SEPA payments and 30.4% of foreign payments in selected currencies in the faster mode during 2021.

In addition to displaying the amount of fees for making domestic conversion, foreign currency, foreign, or SEPA payments, KB also displays to our payers information on how much they will pay for the exchange rate margin when entering an online payment via mobile and internet banking.

KB clients can now import batches in XML format not only for SEPA, but also for foreign and domestic payments in MojeBanka Business and Profibanka internet banking.

As part of the transformation and digitisation, we have switched the processing of all outgoing and incoming interbank payments handled via the CERTIS payment system of the Czech National Bank from our original accounting system to a new central payment processing (i.e. in the internal Payment Hub application, which provides centralised payment processing in KB).

Through Payment Hub, we also were able to connect payment processing to the MultiCore solution application, which ensures the correct posting of payments to one of the Bank's two existing core accounting systems within which the client's account is maintained.

In 2021, the Payment Hub application began processing outgoing and incoming domestic payments for the New Digital Bank. We also laid the foundations for processing standing orders there. In 2022, KB plans to integrate all client standing orders into the Payment Hub application, as well as processing of card transactions.

In the area of payments and open banking, Komerční banka continued in 2021 to further develop the platform under the EU Payment Services Directive (PSD2) and to prepare other Open Banking API payment services, specifically Batch Payment

Initiation Service via API, which was launched as a nonpublic pilot. KB also provided PSD2 services for the NDB (the New Digital Bank) and underwent a professional external audit of PSD2 security methods based on strong (2-factor) authentication. In 2021, Komerční banka actively provided PSD2 services through a total of 27 licensed entities, of which 14 were payment institutions (fintech companies) and 13 banks. In 2021, KB processed more than 28 million requests sent via the PSD2 API interface from KB's client payment accounts and it processed payments with a total value exceeding CZK 50.6 million.

By the end of 2022, the Czech banks and Czech National Bank will implement the "Mobile Payment" project, which will make it easier for clients to enter payments using the beneficiary's mobile phone number instead of having to know the beneficiary's account number directly.

Payment cards

Even in 2021, there was a significant rise in the number and volume of card transactions – by almost 20%. The largest increase is again seen in online purchases, where the volume expanded by 39% and the number by 33%. This time, there is significant growth in card transactions also at brick-and-mortar shops, where the volume increased by 15% and the number by 16%. Contactless payments were made in 92% of these transactions. The share of mobile payments via smartphones and watches continued to grow, their number reaching 26% last year and volume reaching 22%. Most mobile payments are still made through Apple Pay, followed by Google Pay. Even in 2021, the Bank ensured the smooth processing of all card transactions, despite their extreme increase.

KB in 2021 launched an exclusive League of Legend edition of designer payment cards associated with a unique event of searching for statues of heroes from this most popular e-sports game. The Bank received an award from the Dobrý den Pelhřimov Agency for creating Greatest Encryption Game and Greatest Encryption Online game. Within this edition, KB is the only bank on the Czech market to offer card designs featuring five selected heroes: Senna, Aatrox, Orianna, Aphelios, and Nidalee. The Bank continues also to offer other unique payment card designs, including with such of its partners as Prague Zoo, Ostrava Zoo, National Gallery in Prague, and PKF - Prague Philharmonia. The Bank also offers totally new card designs aiming to support Czech hockey.

In August 2021, the Bank began issuing a card for the ECO student account made with 85% recycled material. This trend will continue in 2022.

In the credit cards area, the 4U card with a revolutionary low interest rate and a specific proposition remains completely unique in the Czech Republic.

Under the KB SmartPay brand, KB continues to successfully develop a business alliance with Worldline in the payment cards area. In the Czechia Pays by Card project, KB SmartPay's offers are among the most successful in terms of acquisition; in 2021, over 5,000 new merchants were contracted. Thanks to the development in the field of e-commerce, this alliance achieved a 32% year-on-year increase in the number of processed card transactions. At the end of 2021, the PayPhone service was launched, enabling the acceptance of cards by a certified mobile application (i.e. without the need to use a payment terminal).

Trade finance and cash management

The Bank confirmed its traditionally strong position in providing financing services to corporate clients. Trade finance sales volumes increased by more than half. The Bank recorded gains across all segments, the highest growth being in the segment of large corporates. Despite continuing unfavourable external economic conditions, the Bank returned to the growth trend in terms of net banking income from trade finance transactions, which increased by almost 10%.

Investments in further digitisation of processes, both within the Bank and in relation to clients, contributed to the excellent results. A brand new modern application for online communication with the Bank brings clients a complete digital solution, especially in the area of bank guarantees. Simultaneously, with the new client trade finance portal, KB replaced the internal system, thus enabling the optimisation of processes, and, since the second half of the year, the process of issuing bank guarantees has been almost paperless.

Komerční banka's cash management services and products maintain a high standard in comparison to the competition on the domestic market. This was confirmed by the Cash Management Market Leader 2021 Award from Euromoney Magazine for the third time already. On an international scale, KB gained additional valuable experience in servicing international groups, where the Bank had a major organisational and communication role within the Société Générale Group in the case of Czech multinational clients.

Selected indicators on payment services

Komerční banka (Bank only)	31 December 2021	31 December 2020	Year-on-year change (%)
Number of payment cards in circulation	**1,604,000**	**1,588,000**	**1.0%**
– debit cards	1,420,000	1,407,000	0.9%
– credit cards	184,000	181,000	1.7%
Volume of payments using KB cards (CZKm)	163,000	136,000	19.9%
Number of payments using KB cards	229,606,000	193,682,000	18.5%
Volume of cash withdrawals (CZKm)	**196,000**	**199,000**	**(1.5%)**
– via ATM	132,000	126,000	4.8%
– via non-ATM	64,000	72,000	(11.1%)
Volume of cash deposits (CZKm)	**201,000**	**204,000**	**(1.5%)**
– via ATM	89,000	75,000	18.7%
– via non-ATM	112,000	129,000	(13.2%)
Number of cash withdrawals	**19,892,000**	**20,584,000**	**(3.4%)**
– via ATM	19,345,000	19,907,000	(2.8%)
– via non-ATM	547,000	677,000	(19.2%)
Number of cash deposits	**4,399,000**	**4,697,000**	**(6.3%)**
– via ATM	3,100,000	2,934,000	5.7%
– via non-ATM	1,299,000	1,763,000	(26.3%)

Komerční banka Group

As of 31 December 2021, Komerční banka had 11 subsidiaries, where KB had majority shareholdings, and 1 associate where it held minority interest: (i) Komerční pojišťovna (49% share). In addition to these ownership interests, KB held strategic interests of 20% or less in the following companies: (i) Czech Banking Credit Bureau, a.s. (20%), (ii) Worldline Czech Republic, s.r.o. (1%), and (iii) Bankovní identita, a.s. (17%).

Again in 2021, the Group continued in deepening co-operation among individual companies in both business and operational areas. Since the end of 2021, for example, the Prague headquarters of KB and other Group companies in Prague share common office spaces owned by the Group. The Bank further strengthened business co-operation with start-up and fintech companies, specifically through its subsidiary KB SmartSolutions, s.r.o. and that company's own subsidiaries.

In March 2021, KB SmartSolutions established Finbricks, s.r.o., funding it with CZK 1.5 million of equity. Finbricks develops payment solutions based on PSD2.

In April, the Bank sold 490 shares of Bankovní identita, a.s. to seven other banks (Air Bank a.s., Equa bank a.s., Fio banka, a.s., mBank S.A., MONETA Money Bank, a.s., Raiffeisenbank a.s., and UniCredit Bank Czech Republic and Slovakia, a.s.). The Bank currently holds a 17% share in Bankovní identita.

In June, KB SmartSolutions increased shareholder's equity of upvest s.r.o. by CZK 14 million and grew its ownership share from the previous 18.9% to the current 31.06%.

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
		2021	2020	2021	2020	2021	2020	
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100.00	96,412	89,284	6,182	6,228	466	327	Full
Komerční pojišťovna, a.s.	49.00	54,656	56,667	1,362	3,048	453	510	Equity
KB Penzijní společnost, a.s.	100.00	3,344	2,865	2,648	2,343	305	249	Full
SG Equipment Finance Czech Republic s.r.o.	50.10	32,648	32,518	3,228	2,919	308	91	Full
ESSOX s.r.o.	50.93	16,786	16,745	3,379	3,638	206	186	Full
Factoring KB, a.s.	100.00	12,271	9,206	1,650	1,671	45	70	Full
Protos, uzavřený investiční fond, a.s.	100.00	6,333	6,270	6,327	6,269	72	90	Full
KB Real Estate, s.r.o.	100.00	865	896	529	530	18	15	Full
VN 42, s.r.o.	100.00	1,862	1,867	1,804	1,828	(7)	19	Full
STD2, s.r.o.	100.00	536	561	219	217	18	16	Full
KB SmartSolutions, s.r.o.	100.00	168	129	165	125	(7)	(48)	Full
My Smart Living, s.r.o.**	100.00	2	2	2	26	0	(24)	-***
KB Advisory, s.r.o.**	100.00	1	1	2	2	(1)	(1)	-***
upvest s.r.o.**	31.06	23	n.a.	22	n.a.	(2)	n.a.	-***
Platební instituce Roger, a.s.**	24.83	53	66	27	27	0	-	-***
Finbricks, s. r. o.**	100.00	10	n.a.	12	n.a.	(2)	n.a.	-***
Foreign participations								
BASTION EUROPEAN INVESTMENT S.A.	99.98	2,797	3,130	559	626	0	-	Full
ESSOX FINANCE, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	1,529	2,245	268	261	21	13	Full

Note: The data on consolidated entities are after consolidation adjustments.
* KB direct and indirect holding.
** Figures for the year 2020 were corrected according to the final audited financial statements. Amounts for the years 2021 represents unaudited amounts.
*** My Smart Living, s.r.o., KB Advisory, s.r.o., Platební instituce Roger, a.s., upvest, s.r.o., a Finbricks, s.r.o. 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 2021	31 Dec 2020
Total assets	30,716,289	30,163,621
Shareholder's equity	194,785	151,315
Loans to clients (gross)	19,734,560	22,594,756
Volume of deposits	4,719,284	4,180,152
Net operating income	507,104	451,455
Tax	(82,072)	(69,254)
Net profit	221,291	145,828
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 23% 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 2021	31 Dec 2020
Total assets	96,436,904	89,311,435
Shareholder's equity	6,206,829	6,256,374
Loans to clients (gross)	76,982,213	64,371,840
Volume of deposits	60,843,861	60,718,392
Net operating income	1,149,714	1,161,474
Tax	(73,522)	(13,235)
Net profit	463,388	323,238
Average number of FTEs	323	327
Number of points of sale	202	201
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 2021	31 Dec 2020***
Assets under management**	72,053,247	68,551,091
of which		
in Transformed Fund	59,567,307	58,856,537
Shareholder's equity	2,542,121	2,128,243
Net operating income	517,193	436,660
Tax	(74,509)	(58,391)
Net profit	311,709	249,545
Average number of FTEs	49	47
State support	0	0

* CAS: Czech Accounting Standards, not audited.
** Total volume on client accounts.
*** Based on the amendment to Decree No. 501/2002 Coll. the company has been complying with international financial reporting standards since 1 January 2021 for the purpose of reporting financial instruments

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[2] Source: Association of Pension Funds of the Czech Republic, data as of 31 December 2021, https://www.apscr.cz/ctvrtletni-vysledky-2021/

SOCIETE GENERALE Equipment Finance

ESSOX

ESSOX 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 a 12% 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 2021	31 Dec 2020
Total assets	34,825,744	33,459,590
Shareholders' equity	3,547,217	2,879,221
Volume of new financing	14,937,400	12,413,392
Net operating income	1,221,428	144,798
Tax	(159,297)	(19,660)
Net profit	668,059	15,960
Average number of FTEs	142	142
State support	0	0

* CAS: Czech Accounting Standards, not audited.

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[1] Source: Czech Leasing and Finance Association, data as of 31 December 2021, https://www.clfa.cz/data/dokumenty/1451-rok2021produktykomodityfix.xls

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 20% 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 2021	31 Dec 2020
Total assets	16,635,935	16,580,213
Shareholders' equity	3,238,350	3,497,535
Amounts due from clients (gross)	15,798,990	15,476,280
Net operating income	837,912	885,311
Tax	(41,874)	(53,107)
Net profit	205,761	185,545
Average number of FTEs	356	359
State support	0	0

* CAS: Czech Accounting Standards, not audited.

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[2] Source: Czech Leasing and Finance Association, data as of 31 December 2021, https://www.clfa.cz/data/dokumenty/1451-rok2021produktykomodityfix.xls

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 2021	31 Dec 2020
Total assets	61,541	85,280
Shareholder's equity	10,457	9,757
Amounts due from clients (gross)	60,757	84,234
Net operating income	3,294	3,349
Tax	(43)	(69)
Net profit	701	312
Average number of FTEs	34	32
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 2021	31 Dec 2020
Total assets	19,874,006	15,022,150
Shareholder's equity	1,650,368	1,671,510
Factoring turnover	63,276,526	49,849,164
Amounts due from clients (gross)	19,010,120	14,141,255
Net operating income	162,720	153,064
Tax	(12,695)	(17,819)
Net profit	45,319	70,623
Average number of FTEs	42	42
State support	0	932

* 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 2021, https://www.clfa.cz/statistiky/informace-o-trhu/statistiky-asociace-factoringovych-spolecnosti-cr

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 the 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 2021	31 Dec 2020
Total assets	51,964,002	53,867,941
Shareholders' equity	1,297,999	3,279,419
Technical reserves (gross)	50,246,951	51,065,226
Gross premium written	7,343,262	7,500,425
Tax	(154,980)	(90,030)
Net profit	654,114	392,693
Average number of FTEs	234	232
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
Komerční pojišťovna a.s.
náměstí Junkových 2772/1, Stodůlky,
155 00 Prague 5
ID: 63998017
Phone: +420 222 095 999
E-mail: servis@komercpoj.cz
Internet: www.kb-pojistovna.cz/

2) Source: Czech Insurance Association, data as of 31 December 2021, https://www.cap.cz/en/statistics/insurance-market-development

BASTION EUROPEAN INVESTMENTS S.A.

The ownership share of Komerční banka a.s. in BASTION was 99.98% as of 31 December 2021. 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 2021	31 Dec 2020
Total assets	112,517	119,273
Shareholders' equity	22,487	23,887
Loans to clients (gross)	90,028	95,385
Volume of deposits	0	0
Net operating income	31	34
Tax	0	(4)
Net profit	0	13
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 2021.

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 2021	31 Dec 2020
Total assets	1,862,470	1,867,068
Shareholder's equity	1,804,241	1,828,239
Net operating income	160,873	185,046
Tax	(16,320)	(22,794)
Net profit	(7,222)	19,081
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 2021.

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 2021	31 Dec 2020
Total assets	864,709	896,400
Shareholder's equity	529,167	530,370
Net operating income	68,709	67,662
Tax	(4,335)	(3,476)
Net profit	18,472	14,817
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 2021.

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 2021	31 Dec 2020
Total assets	535,968	561,397
Shareholder's equity	218,870	216,866
Net operating income	45,694	43,444
Tax	(4,234)	(3,752)
Net profit	17,999	15,996
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 2021 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 consistent dividend that accords with the 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 2021	31. Dec 2020**
Total assets	6,333,369	6,303,972
Shareholder's equity	6,326,858	6,301,405
Net operating income	76,839	95,456
Tax	(3,774)	(4,736)
Net profit	71,699	89,987
Average number of FTEs	0	0
State suport	0	0

* CAS: Czech Accounting Standards, not audited.
** Based on the amendment to Decree No. 501/2002 Coll. the company has been complying with international financial reporting standards since 1 January 2021 for the purpose of reporting financial instruments.

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 2021, Komerční banka fully owned KB SmartSolutions, s.r.o. (KBSS).

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 2021	31 Dec 2020
Total assets	171,184	131,540
Shareholder's equity	167,399	127,447
Net operating income	11,926	9,580
Tax	0	0
Net profit	(6,548)	(45,727)
Average number of FTEs	8	6
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 2021.

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 2021.

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 a 31.06% share in upvest s.r.o. as of 31 December 2021.

KB SmartSolutions first 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 five subsidiaries: (i) upvest equity s.r.o., (ii) upvest equity I s.r.o., (iii) upvest equity II s.r.o., (iv) upvest equity III s.r.o., and (v) (v) upvest equity IV s.r.o

Contact:
upvest s.r.o.
Italská 2581/67, Vinohrady,
120 00 Prague 2
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 2021.

KB SmartSolutions invested in MonkeyData s.r.o. in October 2020. MonkeyData 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 2021.

KB SmartSolutions invested in Platební instituce Roger a.s. in December 2020. Platební instituce Roger fully owns two subsidiaries: (i) Invoice Financing s.r.o., and (ii) Roger Finance s.r.o. Platební instituce Roger 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 17% share in Bankovní identita, a.s. as of 31 December 2021.

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

The Bank, as an issuer of shares admitted to trading on a European regulated market, is obliged pursuant to Act No. 256/2004 Coll., on Capital Market Undertakings, as amended, to prepare an annual report. A separate part of the annual report pursuant to § 118 (4) (c), (d), (e), (j), (l) and (5) (a)–(k) and (6) of this Act contains information on the 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 (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. Shareholders are able to vote on motions for resolutions before the general meeting is held via the electronic platform for remote communication and to take decisions outside the General Meeting in the form of a per rollam. 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, as amended. 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 (Petr Dvořák and Petra Wendelová) and three are employee representatives. Both independent members of the Supervisory Board meet the independence criteria according to the General Guidelines for Assessment of Suitability EBA/ GL / 2021/06. 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 Nomination Committee has recently expanded its scope to include ethical matters and should provide its independent view of compliance with ethical principles and rules within the Bank.

The Bank applies a policy of diversity. As a signatory to the Diversity Charter, it is committed to the principles of diversity, flexibility, and inclusion. 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 / 2021/06. According to the accepted principles of suitability, the composition of the Supervisory Board should take into account experience, education, nationality, cultural environment and age. By 2024, the Supervisory Board should consist of at least 40% women, with preference given to the under-represented gender in the case of an equal profile of candidates. Currently, three out of nine members of the Supervisory Board are women. In 2021, Petra Wendelová, an independent member, was elected Vice-Chairwoman of the Supervisory Board, thus representing the Chairman of the Supervisory Board in his responsibility for the overall effective functioning of the Supervisory Board. Since 2020, a woman (Jitka Haubová) has been 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 trustworthiness, 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 individually are suitably professional, have sufficient time, and meet 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 meeting the requirements of the EBA Guidelines.

Based upon the Act on Business Corporations, one-third of the Supervisory Board's members consist 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, Petr Dvořák and Petra Wendelová, are independent. Independent members sign an affidavit 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 Nomination Committee ensures that all members of the Supervisory Board are able to make their own objective and independent judgements and decisions when selecting and regularly evaluating candidates.

The Board of Directors and Supervisory Board co-ordinate with one another 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 2021 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 2021
(per the extract from the issuers register taken from the Central Securities Depository)

Shareholder	Proportion of share capital
Société Générale S.A.	60.353%
CHASE NOMINEES LIMITED	4.234%
NORTRUST NOMINEES LIMITED	3.737%
CLEARSTREAM BANKING S.A.	2.358%
Other shareholders	29.318%

Shareholder structure of Komerční banka as of 31 December 2021

(per the extract from the issuers register taken from the Central Securities Depository)

		Number of sharehold-ers	Proportion in number of shareholders	Proportion of share capital
Number of shareholders		**58,444**	**100%**	**100%**
of which:	legal entities	737	1.26%	91.34%
	private individuals	57,707	98.74%	8.66%
Legal entities		**737**	**1.26%**	**91.34%**
of which:	from the Czech Republic	292	0.50%	2.15%
	from other countries	445	0.76%	89.19%
Private individuals		**57,707**	**98.74%**	**8.66%**
of which:	from the Czech Republic	52,823	90.38%	8.28%
	from other countries	4,884	8.36%	0.38%

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 4 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 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 and the possibility of deciding the General Meeting per rollam.

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) 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;
e) decide upon a change in the class or type of the shares, on the change of shares with a nominal value into ordinary shares or on the change of ordinary shares into shares with a nominal value or on the division of shares or the merging of several shares into one share;
f) decide to issue convertible or priority bonds of the Bank;
g) decide to modify the rights attached to individual classes of the shares;
h) approve the regular financial statements, extraordinary financial statements, consolidated financial statements, and, as established by law, interim financial statements;
i) decide upon distribution of profit or other funds of the Bank or coverage of a loss;
j) approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
k) 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;
l) decide to wind up the Bank with the prior consent of the Czech National Bank;
m) approve the final report on progress of liquidation and proposal for use of the liquidation balance of the Bank's assets;
n) 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;
o) approve the transfer or pledging of a facility or such part of property entailing a substantial change to the real business activities of the Bank;

p) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified by law;
q) decide to acquire the Bank's shares into treasury in accordance with the applicable provisions of the Act on Business Corporations;
r) 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;
s) approve the acquisition or disposal of assets, when the law so requires;
t) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
u) 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);
v) 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;
w) decide upon suspending the performance of the function of a member of the Bank's elected body in the event of a conflict of interests pursuant to the Act on Business Corporations, or prohibit a member of the Bank's body from entering into a contract not in the interest of the Bank or with a person or entity who is influential or controlling and/or with a person or entity who is controlled by the same controlling person or entity that is not in the interest of the Bank. This does not apply if the relevant person or entity with whom the Bank should conclude a contract is a person managing the Bank or another person or entity forming a group with the Bank;
x) 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;
y) approve the remuneration policy and report on remuneration of the members of the Board of Directors and the Supervisory Board;
z) approve significant transactions with related parties in cases where required by Act No. 256/2004 Coll. on Capital Market Undertakings, as amended; and
za) decide on other issues which according to the generally binding legal regulation or the Articles of Association are entrusted to the competence of the General Meeting.

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

Principle resolutions of Komerční banka's Annual General Meetings held in 2021

The General Meeting, held on 21 April 2021, approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2020 as well as the annual financial statements and consolidated financial statements of Komerční banka for the year 2020, and decided on the profit distribution by keeping the entire profit in the total amount of CZK 6,928,610,374.90 in retained earnings from previous years. The Annual General Meeting also:

- decided to amend the Articles of Association
- approved the Remuneration Report
- elected Mr Petr Dvořák as an independent member of the Supervisory Board, and further Mr Alvaro Huete Gomez, Mr Giovania Luca Soma, and Ms Jarmila Špůrová as members of the Supervisory Board. Ms Jarmila Špůrová replaced Ms Maylis Coupet. The General Meeting also elected Mr Giovania Luca Soma as a member of the Audit Committee.
- appointed the company Deloitte Audit s.r.o., having its registered office at Italská 2581/67, Vinohrady, 120 00 Praque 2, Company ID No. 49620592, as the external auditor of Komerční banka for 2021 and the company Deloitte Audit s.r.o. having its registered office at Digital Park II, Einsteinova 23, Bratislava 851 01, Company ID No. 31343414, as the auditor of KB's foreign branch in Slovakia.

On 2 November 2021, the General Meeting held per rollam approved the distribution of retained earnings of Komerční banka, a. s., in the amount of CZK 4,534,575,343.60 such that the amount of retained earnings converted to one share is CZK 23.86 before tax.

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 either provided in the invitation to the General Meeting or the invitation contains a brief and concise description and justification. The complete draft amendment to the Articles of Association is published together with the invitation on the Bank's website. 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. During the year, the Board of Directors completes various educational programmes and trainings, for example in the area of risk management and sustainability.

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 4-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 2021

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, re-elected on 4 August 2021)

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, re-elected on 2 October 2021)

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

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) and is also a member of CCEF (Conseiller du Commerce Exterieur de la France). KB's Board of Directors elected Mr Juchelka as Chairman of the Board of Directors and Chief Executive Officer of Komerční banka with effect from 3 August 2017.

Didier 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. He also holds the position of Chief Compliance Officer.

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, responsible for corporate and investment banking.

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 4 years. Today, she is responsible for operations of the Bank, support services, and the payment system and is also responsible for the sustainability agenda and its co-ordination within KB, innovation in the payment system and management of client accounts, and is the chairwoman of the Supervisory Board of the charity Nadace Jistota. She was ranked among the TOP 25 women according to Economy and among the most influential women according to Forbes. She also was named a Manager of the Year finalist by the Czech Management Association. Since June 2020, she has been a member of the Board of Directors of Komerční banka, a.s.

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, then 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, responsible for retail banking.

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 Digitalisation 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 with responsibility for information technology.

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 (Slovakia)
	Chairman of the Supervisory Board	KB SmartSolutions (until 7 April 2021)
	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 (until 31 December 2021)
	Member of the Supervisory Board	SG Equipment Finance Czech Republic (until 31 December 2021)
	1st Vice-President	Česká bankovní asociace
	Member	CCEF (Conseiller du Commerce Exterieur de la France)
	Member	National Economic Council of the Government (NERV)
Didier COLIN	Member of the Supervisory Board	ESSOX
	Member of the Supervisory Board	SG Equipment Finance Czech Republic (until 31 December 2021)
David FORMÁNEK	Member of the Supervisory Board	Modrá pyramida stavební spořitelna
Jitka HAUBOVÁ	Member of the Supervisory Board	Factoring KB (until 7 April 2021)
Miroslav HIRŠL	Chairman of the Supervisory Board	KB Penzijní společnost
	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 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 2021, the Board of Directors met at 23 regular and 2 extraordinary meetings. The average attendance at board meetings was 92.1%. The Board of Directors is able to pass a resolution if an absolute majority of the members of the Board of Directors attend the meeting. Resolutions of the Board of Directors shall be adopted by an absolute majority of those members of the Board of Directors present, with the exception that election of the Chairman of the Board of Directors must be by an absolute majority of all members of the Board of Directors.

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
Jitka HAUBOVÁ	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Margus SIMSON	Member of the Board, Senior Executive Director and Chief Digital Officer
Hana KOVÁŘOVÁ	Executive Director, Brand Strategy and Communication
Ctirad LOLEK	Executive Director, Human Resources
Jiří ŠPERL	Executive Director, Strategy and Finance
Michal VYTISKA	Strategic Business Development Manager
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 0 hour (was not held in 2021)	

Members - LEVEL 2	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
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
Dana HNOJSKÁ	Head of Loan Portfolio Management – Retail
Secretary of the Committee: Svatava PELNÁŘOVÁ	
Average meeting length 1 hour	

Members - LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Ilona JARŮŠKOVÁ	Head of Loan Portfolio Management - Retail
Petr LUKÁŠEK	Head of Loan Portfolio Management - Corporate
Miroslav SKLENÁŘ	Head of Loan Portfolio Management – Corporate
Secretary of the Committee: Tomasz NIEDOBA	
Average meeting length 1 hour	

Members - LEVEL 1 Prague	Position
Petr PLAŠIL	Regional Credit Risk Assessment Manager
Vladislav BAREŠ	Head of Loan Portfolio Management - Corporate
Stanislav CHALUPA	Head of Loan Portfolio Management – Corporate
Lenka KALINOVÁ	Head of Loan Portfolio Management - Retail
Vlastimil DVOŘÁK	Head of Loan Portfolio Management – Retail
Secretary of the Committee: Pavel FIKAR	
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
Milan ZIARAN	COO Risk Management
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
Petr TROJEK	Supervision and Measurement Manager
Secretary of the Committee: Barbora RIEGELOVÁ	
Average meeting length 1 hour	

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
Alan Johan COQ	Chief Operating Officer – Investment Banking / Chapter Lead of Product Owners – Markets Technology Tribe
Ida BALUSKOVÁ	Manager of Accounting and Reporting
Jiří ČABRADA	Manager of Credit Risk Assessment
Jakub DOSTÁLEK	Manager of Tax
Marek DOTLAČIL	Manager of ALM
Tomáš FUCHS	Manager of Treasury
Tomáš HORA	Head of Legal – Investment Products
Tomáš DOLEŽAL	Manager of Compliance
Tomáš KROUTIL	Manager of Markets and Structural Risks
Dušan PAMĚTICKÝ	Operational Risk Manager
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
Thomas JARSAILLON	Management Accounting Manager
Dušan PAMĚTICKÝ	Operational Risk Manager
Jan SEIFERT	Fraud Prevention and Detection Manager
Petr TROJEK	Supervision and Measurement Manager
Tomáš CHOUTKA	Head of Regulatory Compliance
Ivana OPOVÁ	Head of Steering and Quality
Pavel POLÁK	Head of Security Center of Expertise, CISO
Jiří OBRUČA	Enterprise Architect
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
Alan Johan COQ	Chief Operating Officer – Investment Banking / Chapter Lead of Product Owners – Markets Technology Tribe
Martin BERDYCH	Manager of Legal Services
Roman DOLANSKÝ	Manager of Support Services and Facility Management
Tomáš DOLEŽAL	Manager of Compliance
Thomas JARSAILLON	Management Accounting Manager
Dušan PAMĚTICKÝ	Operational Risk Manager
Petr TROJEK	Supervision and Measurement Manager
Pavel POLÁK	Head of Security Center of Expertise, CISO
Jan KRATOCHVÍL	Head Auditor
Secretary of the Committee: Jan KOFROŇ	
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 4 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.

A member of the Board of Directors may be removed at any time during the 4-year term without giving a reason. The Supervisory Board decides 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 or the interim financial statements if the law requires its approval by the highest body, as well as 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) and other own resources, including 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 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 and other own resources 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;
za) 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;
zb) discuss the audit report with the auditor;
zc) 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
zd) 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 2021)

- **Chairman of the Board and Chief Executive Officer** – Jan Juchelka
  - **Human Resources**
  - **Internal Audit**
  - **Strategy and Finance**
    - **Finance Services Tribe**
  - **Brand Strategy and Communication**
  - **Strategic Business Development**

- **Board Member and Senior Executive Director, Chief Digital Officer (CDO)** – Margus Simson
  - Development Center of Expertise
  - Operations Center of Expertise
  - Security Center of Expertise
  - Enterprise & Solution Architecture Center of Expertise
  - Infrastructure Services Tribe
  - Enterprise Services Tribe
  - Platform Services Tribe
  - Data Platforms Tribe
  - Current Channels Tribe
  - Testing Center of Expertise
  - Simplification Center of Expertise
  - Agile Center of Expertise
  - Data Center of Expertise

- **Board Member and Senior Executive Director, Chief Operations Officer (COO)** – Jitka Haubová
  - Transaction and Payment Services
  - Payment Methods Tribe
  - Customer Tribe
  - Support Services & Facility Management
  - Legal Department

- **Board Member and Senior Executive Director, Retail Banking** – Miroslav Hiršl
  - Retail Banking
  - Retail Segment Tribe
  - Omnichannel Sales Tribe
  - Consumer Financing Tribe
  - Housing Tribe
  - Securing Life Projects Tribe
  - Credit Portfolio Management

- **Board Member and Senior Executive Director, Corporate and Investment Banking (CIB)** – David Formánek
  - Investment Banking
  - Global Banking
  - Corporate and Municipal Banking
  - Corporate Segment Tribe
  - Business Financing Tribe
  - Markets Technology Tribe
  - Branch of Foreign Bank
  - Global Transaction Banking

- **Board Member, Senior Executive Director, Chief Risk Officer (CRO) & Chief Compliance Officer** – Didier Colin
  - Risk Management
  - Risk Services Tribe
  - Compliance
  - Fraud Detection and Prevention

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. A member of the Supervisory Board may be removed by the General Meeting at any time during the 4-year term of office.

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

Giovanni Luca Soma
Chairman of the Supervisory Board since 3 May 2021 (member since 1 May 2013 and re-elected from 2 May 2017 and from 3 May 2021)

Petra Wendelová
Vice-Chairman of the Supervisory Board since 3 May 2021
Independent member of the Supervisory Board (elected from 25 April 2019)

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

Petr Dvořák
Independent member of the Supervisory Board (since 2 June 2017, re-elected by the General Meeting from 3 June 2021)

Alvaro Huete Gomez
Member of the Supervisory Board (elected from 3 May 2021)

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

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

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

Jarmila Špůrová
(elected from 21 April 2021)

Jean-Luc André Joseph Parer
(Chairman and member of the Supervisory Board until 2 May 2021)

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.

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. (securities dealer, member of the Prague Stock Exchange). From 1995 to 2000, she served as Vice President of the multinational investment bank 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 Depository). 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 of the expert institute and a leading partner in the area of mergers and acquisitions. She is currently a member of the Supervisory Board of the multinational company LINET Group SE.

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.

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 was Vice Rector for Academic Affairs. On 8 November 2021, the Academic Senate elected Mr Dvořák Rector of the VŠE with effect from 1 April 2022. He is a member of several scientific and editorial boards and an author of numerous publications.

Alvaro Huete Gomez
A graduate of the Colegio Universitario de Estudios Financieros with a bachelor's degree in economics and a focus on finance and graduate of the Instituto de Estudios Superiores de la Empresa with a master's degree in business administration. From 1987 to 1994, he worked for the Banco de Progreso - Banco Urquijo, Grupo March. From 1994 to 1996, he held the position of Director of Investment Banking for the Iberian Peninsula at Nomura Espana Sociedad de Valores in Madrid. Subsequently, in 1996 and 1997, he served as Director of the Corporate Finance Group within Nomura International plc. in London. In 1997, he joined Société Générale. From 1997 to 2006, he worked for Société Générale Corporate and Investment Banking in Madrid, first as Director and Team Leader of one of the two structured finance groups, then as Director of Corporate Banking for Spain and Portugal and one of the Heads of Debt Capital Markets, as Director of Corporate Clients and Institutions for Spain and Portugal, and one of the Heads of Debt Financing. During 2007–2019, he worked for Société Générale Corporate and Investment Banking in London, first as Deputy Global Director for Debt Syndications (Bonds and Loans), next as one of the Global Syndicate Directors, then as Global Debt Syndicate Director, and finally as Deputy Global Funding. In 2016, he was appointed a member of the SG Group's Steering Committee.

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 to be 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, currently the Enterprise Service Tribe. 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. Since February 2019, she has been a member of the Supervisory Board of the Branch Health Insurance Company for employees of banks, insurance companies, and the construction industry.

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.

Jarmila Špůrová
A graduate of the University of Economics in Prague , with a CEMS Master from the Community of European Management Schools and a Master in Public Administration from the Ecole Nationale d'Administration in France. During 2002–2004, she worked as Director of the Office of the CEO and Secretary of the Board of Directors of Komerční banka within the Société Générale Group in Prague. From 2004 to 2008, she worked as a project manager for business development at the Société Générale Group's international banking headquarters in Paris. During 2008, she worked as director of the integration project within the Human Resources Department of Société Générale (Paris, Moscow). In 2009, she was Deputy Director of Corporate Banking and Director of Retail Banking at Société Générale France, Business Distribution Networks, Paris-Bercy. During 2010–2012, she worked as the Corporate Banking Director of Société Générale Cameroon (Douala, Cameroon) and from 2013 to 2017 as Deputy General Manager and Corporate Banking Director of Société Générale French Antilles / Guyana. In 2017, she became CEO of SG Equipment Finance Iberia, EFC, S.A., in Spain. In 2020, she was named Executive Director for Western Europe Hub and a member of the SGEF Executive Committee.

Membership of members of the Supervisory Board in bodies

Members		Company
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 CGL, Italy
	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 S.R.L., Italy
Petra WENDELOVÁ	Member of the Supervisory Board	LINET Group SE, the Netherlands
	Member of the Supervisory Board	Nadace Národní galerie v Praze
	Member of the Board Directors	Spolek historie Suchdola, z.s.
Petr DVOŘÁK	Chairman of the Supervisory Board	Unie studentů Vysoké školy ekonomické v Praze, z.s
	Chairman of the Audit Committee	Modrá pyramida stavební spořitelna
	Member of the Nomination and Remuneration committee	Modrá pyramida stavební spořitelna
Sylva KYNYCHOVÁ	Member of the Supervisory Board	Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví
Jean-Luc PARER[1)]	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

[1)] Termination of the Chairman of the KB Supervisory Board's function on 2 May 2021.

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 2021, 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 95.7%.

The Supervisory Board's committees

The has 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 4 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
Vice-Chairman of the Audit Committee (since 3 May 2016), Member of the Audit Committee (since 25 April 2013, re-elected on 26 April 2017 and 27 April 2021)

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 Chairperson or Vice-Chairperson of the Audit Committee.

The Audit Committee held seven regular meetings in 2021 and twice took remote votes. The committee performs its monitoring activities and works closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, and also with the external auditor, who keeps it informed about the ongoing audit of the Bank.

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)

Alvaro Huete Gomez
Member of the Risk Committee (since 3 May 2021)

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

Jean-Luc Parer
Member of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018, membership terminated as of 2 May 2021)

The committee held two regular meetings in 2021. The committee discusses all issues of the Bank's risk management system and its efficiency (including the Bank's credit risk profile and remuneration principles). It considers 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
Chairman of the Remuneration Committee (since 24 april 2019) Independent Member (from 15 March 2019, re-elected from 3 June 2021)

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

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

Alvaro Huete Gomez
Member of the Remuneration Committee (since 3 May 2021)

Jean-Luc Parer
Member of the Remuneration Committee (until 2 May 2021)

The committee held two regular meetings in 2021.

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 (since 24 April 2019), independent Member (Member from 15 March 2019, re-elected from 3 June 2021)

Alvaro Huete Gomez
Member of the Nominations Committee (since 3 May 2021)

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 and from 3 May 2021)

Jean-Luc Parer
Member of the Nominations Committee (until 2 May 2021)

In 2021, the Committee held two regular meetings and one remote meeting per rollam.

Employee relationships

Number of employees

Average recalculated number of employees	2021	2020	2019
KB Group	7,687	8,061	8,167
Komerční banka	6,736	7,104	7,210
– of which in Slovakia	42	42	42
– of which in Czech Republic	6,694	7,062	7,168
– of which at headquarters	4,044	4,173*	4,050
– of which in distribution network	2,650	2,889	3,118

* The increase in the number of employees at headquarters in 2020 was due, among other reasons, to organisational change in Retail Banking. Some of the specialists previously included in the sales network were separated into a separate department that now is included under headquarters.

Key data on KB Group employees

	2021
Age structure of employees (KB, Czechia, year end (%))	
≤30	16
31–40	24
41–50	35
51+	25
Employees by type of employment (%)	
– Full–time	93
– Part–time	7
Employees by contract type (%)	
– Permanent employment	84
– Other employment	16
Employees' qualifications (%)	
– University	50
– Secondary school	48
– Other education	2
Proportions of men and women (%)	
– Men	38
– Women	62
Number of employees on maternal and parental leave	**789**
Number of employees with disabilities	**163**

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

Key data on KB employees

	2021	2020	2019
Age structure of employees (KB, Czechia, year end (%))			
≤30	16	18	17
31–40	24	24	26
41–50	34	33	33
51+	26	25	25
Employees by type of employment (%)			
– Full–time	93	94	94
– Part–time	7	6	6
Employees by contract type (%)			
– Permanent employment	84	81	81
– Other employment	16	19	19
Employees' qualifications (%)			
– University	50	45	45
– Secondary school	48	52	52
– Other education	2	3	3
Proportions of men and women (%)			
– Men	38	36	36
– Women	62	64	64
Share of women in management positions (%)			
– In all management positions	44	46	48
– In top management positions (maximum two levels below Board)	27	26	26
Number of employees on maternal and parental leave	**676**	**706**	**733**
Number of employees with disabilities	**147**	**135**	**146**
Illness rate (%)	**3.0**	**3.4**	**2.9**
Employee turnover rate (%)			
– total	16.7	15.0	15.8
– voluntary[1)]	8.8	6.4	7.8
– involuntary[2)]	3.9	5.1	4.6
– directed[3)]	2.6	2.0	1.9
– natural[4)]	1.4	1.6	1.5

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 due, among other things, to the organizational change in Retail Banking. Some of the specialists who were previously included in the sales network have been separated into a separate department, which we are now registering as 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 among 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.

<u>Team spirit</u>

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.

<u>Innovation</u>

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.

<u>Commitment</u>

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 clients' projects and their own. They care about relationships based on trust and mutual respect, both inside and outside the Bank.

<u>Responsibility</u>

Our bankers contribute to the economic, social, and environmentally sustainable development of the two countries and economies where Komerční banka operates. We want to help clients fulfil 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 or to express one's opinions unambiguously. The Bank shall devote equal attention to its results and to the manner in 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 Group 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 on 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.

Individual KB Group subsidiaries provide work-related medical services through a supplier company. They also provide regular employee training in safety, health, and fire protection standards and regularly organise checks and employee training in these areas while documenting and recording the results. All subsidiaries have identified the health risks associated with each job position and have assigned employees to the first or second category of work conditions classification. Moreover, duly contracted supplier companies regularly review all the work spaces to ensure that they comply with health and hygiene standards.

In addition, selected workplaces are inspected by an independent body in the Bank, 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 5 years the trade union has found no major shortcomings that could not be remedied within a short time.

While modernising the environment in its workplaces, KB Group respects both safety and health requirements. It aims also to improve the social environment and effectively introduce state-of-the-art technologies.

KB subsidiaries stipulate working hours, breaks for food and rest, overtime work, and other mandatory requirements in the Collective Agreement and the Rules of Procedure, and, where the trade union operates, also in the Collective Bargaining Agreement. All parameters are in accordance with Czech law. Compliance with all duties is supervised by 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. In companies with trade union representation, regular or flexible working hours are properly discussed. Furthermore, if operating conditions allow, employees can voluntarily take advantage of the opportunity 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 if properly documented. KB Group's management receives a regular report on overtime work and the entire process is duly inspected.

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.

Right to information and to social negotiation

The right of KB Group employees to social bargaining is fully enabled. In KB and MPSS, it is exercised by a trade union. Managements of KB and MPSS are in regular contact with representatives of the trade union, and collective bargaining takes place every year.

In accordance with the Labour Code and the Collective Agreement, KB allows all employees to be unionised. In 2021, there were 29 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 of all respective KB Group companies, including those not organised into unions. In companies where there are no unions, similar advantages and benefits are addressed by internal regulations.

Information designated for employees is shared openly by the Group in numerous and various ways. For each employee, the main source of information is his or her superior. Another source of information consists in the intranet pages of individual companies. KB has a separate Employee section on its intranet site dedicated to providing relevant employment-related information. Furthermore, employees can call the 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 care is one of the highest priorities of human resources management and KB's top management. The Bank regularly reviews the opinions, satisfaction, and engagement of employees and takes follow-up action. KB monitors employee engagement in the form of an Employee Barometer, which is announced throughout the Société Générale Group and is carried out by an independent research agency. The barometer examines 10 categories of indicators covering the area of satisfaction, motivation, recommendations, trust and strategy, including the overall direction of the SG group. Komerční banka's own Puls survey seeks opinions in the areas of effective team co-operation, sense of importance, motivation, recognition, and leadership.

In 2021, the Employee Barometer was conducted at the level of the entire SG group, and a KB Puls survey was conducted in three waves at the level of the Bank. Employees had opportunity to comment on all the above topics and generally evaluated their current mood and atmosphere in the company. They also had the opportunity to comment on the Bank's responsible and sustainable approach and diversity issues.

The engagement score within the group-wide SG Barometer survey rose by 1 percentage point from the previous year to 73%. Employees commented positively on activities in the area of diversity and inclusion, and satisfaction with the atmosphere in the company and co-operation with superiors (93%) and colleagues (97%) also increased. Engagement within KB Pulse reached 77%. Compared to last year, this meant a slight decrease due to the pandemic situation. On the contrary, there was an improvement in teamwork, where the rating rose from 72% to 74%. For 43% of employees, their opinion on distance working improved and a high score was achieved in terms of responsible behaviour of the Bank. As many as 82% of employees consider the Bank to be a sustainable, as well as environmentally and socially responsible company.

Employee health and well-being

Komerční banka has been systematically attentive to the health of its employees, but in 2021 the implementation of related activities was also affected by the pandemic.

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 organised a sports day for all employees. KB has also continued to operate a counselling programme providing 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 continuing Covid-19 pandemic, KB Group took measures to protect the health of its employees to the maximum extent possible, and especially those most vulnerable, such as the chronically ill, pregnant women, single parents, or employees over the age of 60.

The individual KB Group companies supported its employees with the following measures:

- distribution of face masks and respirators within the entire Group, and especially in the branch network;
- regular refilling of disinfectants at all workplaces;
- regular and thorough disinfection of the premises where an infected employee and/or client had been present;
- safety measures in canteens, meeting rooms, and lifts (rotation system, spacing, limiting number of people);
- regular and transparent communication between the Board of Directors and the Executive Director for Human Resources;
- operating of an employee information phone line providing conselling on topics related to Covid-19,
- continuation of the Counselling Programme, which includes a specialised counselling centre focused directly on Covid-19-related issues;
- introduction of rotations in workplaces in times of high pandemic waves;
- permanent provision of work from home wherever operating conditions allow, including the provision of related technical equipment for employees
- continuation of the online portal Studovna (Study room) 24/7, which offers webinars and online training focused on working from home;
- continuation of training courses in an online environment in times of stricter anti-epidemic measures;
- antigen testing for employees directly at the Group's workplaces; and
- providing the possibility for vaccination directly on the Bank's premises.

Diversity and inclusion
Diversity and inclusion are integral to KB's corporate culture and among the strategic priorities of the entire Société Générale Group. The Bank perceives diversity and individuality as sources of strength, whether these are differences in age, ethnic origin, nationality, gender, sexual orientation, political opinion, religion, or other minorities.

The Bank promotes diversity especially in its teams. KB employs experts from various fields, expatriate colleagues from countries of the SG Group, students who are just starting their careers at KB, as well as experienced employees who have been working in the Bank for many years.

For a year now, the Bank has been a gold signatory to European CharterDiversity – a project under auspices of the European Commission since 2010. In signing the Diversity Charter, it became a member of a strong group of companies that actively open up and contribute to solving societal issues. As part of this initiative, the Bank is committed to creating a non-discriminatory, supportive and inspiring environment in which employees can best develop and implement.

KB's overall strategy as a responsible employer is based on four pillars: gender balance, equal pay, support for social inclusion, and raising awareness of diversity and inclusion among both employees and the general public. Within the framework of gender balance, the Bank strives for a more balanced representation of men and women in senior management positions, including at the level of the Board of Directors. One of the most significant actions in this direction was the appointment of Jitka Haubová to the position of Chief Operations Officer and the appointment of four women to executive directorate positions, which almost brought to equal the shares of men and women at this managerial level.

Another pillar is equal pay for men and women, which the Bank has been working on for a long time. Relative to the market, that gap is small and KB continues to narrow it. In 2021 it was 4.2%.

In the area of inclusion, the Bank focuses on supporting people from socially disadvantaged groups, such as single mothers or gifted Roma university students. As part of this support, it also co-operates with relevant foundations. The Bank then openly reports on all topics, publishes its activities and results, and also shares its experience, either internally or externally, in the form of mentoring and networking or other sharing platforms.

KB pays special attention to employees on maternity and parental leave. In case of mutual interest and need, co-operation is set during that leave. Employees regularly receive the internal KB Journal to keep abreast of what's new at KB. After returning from maternity or parental leave, KB assists these employees with reintegration into the work process, for example through shorter and/or flexible working hours, the possibility of working from home and/or their combinations, if the type of operation and nature of the work so permit. Parents who return 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 2021, the Bank employed 147 people with disabilities. The most common positions held at KB include Transaction Processing Specialist, Banking Advisor, Mortgage Loan Advisor, or Cash Processing Specialist.

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 whistleblowers with protection against sanctions of any nature, termination of employment, or discrimination. It also ensures the anonymity of whistleblowers. 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 and more experienced talent and is adapting all its recruitment activities accordingly. These are also based on the strategy of the New Digital Bank (NDB) and their requirements for new competencies and knowledge, which will be absolutely essential for the Bank in future. As in 2020 and the previous year, it was necessary to adapt recruitment activities to the current health situation and to implement a combination of full-time and online activities, always according to the valid anti-epidemic measures.

The Bank has traditionally co-operated with universities and student organisations throughout the Czech Republic, including follow-up sponsorship activities. During the spring season virtual meetings took place, with the Bank participating in the online trade fairs Cofit at Czech Technical University (CTU), Chances at the University of Economics, iCareers and the Czechitas trade fair. In the autumn, the Bank personally met with students as well as senior talents at Webexp fair in Lucerna, Datafestival and Chance at the University of Economics, Cofit at CTU and again the Czechitas trade fair. One online trade fair took place in the autumn, namely Business Day Zlín. For the IT community, the Bank implemented three Meetups on technological topics. KB also presented itself at the TechnicDays organised by the Association of Students and Alumni (ASA) on the topic of “How we are testing a new digital bank in Komerčka”. Digital Bank of the Future podcast also continued with another seven episodes.

KB launched the second year of the trainee programme for university students in 2021. A total of 50 students found employment in the agile part of the bank, both in Tribes and in expert teams, as well as in teams at headquarters and in the sales division. For the first time, the Bank also involved four Roma students in the trainee programme through the Albatros Foundation and their scholarship programmes for gifted Roma university students.

The Bank also regularly participates in employee competitions. In the TOP Employer of the Year competition, where students and graduates vote, KB defended its first place in the Banking and Investments category. In the Sodexo Employer of the Year competition, which assesses the company’s overall approach to its employees, it placed second in the Prague region and third on the national level.

Employee education and career development
The Bank prepares a wide range of trainings and programmes for KB employees and the entire Group, thus providing space for their education while emphasising people’s own responsibility for career growth.

In 2021, the Bank further deepened the knowledge and skills of its employees in the field of digitisation and teleworking in all parts of the Bank, including the branch network. Furthermore, the development of employees in direct contact with clients continued (including to obtain mandatory certifications and continuing education), and it focused on the development of specifically identified competencies. A goal was also to develop leadership skills, human resources development, accountability, innovation, and a pro-client approach. The form of educational activities always corresponded to the current pandemic situation, and often these events took place online or in hybrid form.

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 63,830 h
- attendance training 154,434 h
- mandatory digital + attendance training 71,663.5 h
- voluntary digital + attendance training 146,600.5 h

<u>Average time of studies per employee in hours</u>
- digital 8.43 h
- attendance 28.23 h
- mandatory digital + attendance training 9.55 h
- voluntary digital + attendance training 23.65 h

Compared to 2020, there was an increase of SG training in MyLearning and an increase in full-time training, which had not been implemented in 2020 due to Covid-19.

In order to better identify training needs and target development, the Bank began to implement a competency model and continued to prepare thematic modules, through which, in co-operation with internal professional guarantors, it offered specific content for various positions or roles within the Bank. KB has launched an online training platform for the technological part of the Bank, where professional topics in specific areas are shared on a regular basis among experts.

In the retail part of the Bank, the education followed the newly introduced Financial Guide, deepening the knowledge of advice and client care. Another important area was remote client service, including training in remote and digital processes and dealing with clients over the phone or via video calls. Regarding professional topics, bank advisers were educated most in the field of insurance. The training in the retail part of the Bank was based on strong internal know-how and took place mainly in a hybrid form combining self-study and online training with a coach.

A long-term development programme focused on acquisitions and other identified competencies was launched for employees in the corporate part of the Bank. The continuing change in corporate culture in education during 2021 was supported by gradual implementation of the principles of learning organisation, which were the main topics of the KB Sense programme for senior talented employees and supported by other tools for individual and team development (e.g. co-development, peer learning, internal/external coaching and mentoring). The SPIRIT talent programme for young talents was completed by handing over the outputs of 6 projects focused on corporate culture. Other topics that resonated at the Bank in 2021 were sustainability, diversity, and inclusion, for which we offered employees e-learning and webinars.

Performance evaluation and feedback
Annual performance evaluation and feedback comprise a regular part of communication with employees. Thanks to agile transformation, this process now better supports a 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
The remuneration in KB is based on four principles:

- ***Principle of Internal justice*** ensures 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. ***Equal pay*** is a basic pillar of KB's diversity strategy. Its goal is a zero gender wage gap in 2025, down from 4.2% in 2021.

- ***Principle of 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.

- ***Principle of 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. It is described below in part of Shareholding programmes.

- ***Principle of risk-taking*** ensures that 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. KB also takes sustainability risks into account in its remuneration policy.

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.

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.

Objectives following the variable component of remuneration
The remuneration principles take into account the interest of shareholders in the value of KB by linking the amount of the variable component for employees with the economic results of KB and the fulfilment of strategic priorities, including sustainable growth. In 2020, a new strategic programme was launched. Its priorities, described in the Strategy and Results chapter of this annual report, have been implemented in the employee motivation system for 2021 through the Company Objectives and Key Results (COKR) measurement system. The area of sustainable development is also a part of the Strategic Priorities which also includes climate change reduction targets. For 2021, the goals related to sustainable development measured through COKR accounted for 10% of the goals of the board member responsible for sustainable development, 5% of the CEO goals, 5% of the goals of another board member, and 5–40% of the goals of another 16 employees in the Bank's top management.

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.

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 2021, 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 employees within the category of people with disabilities 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;
e) Premium conditions for retail banking products and services provided by Komerční banka to employees;
f) Financial support during long-term illness;
g) 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;
h) 1 birthday day off;
i) Risk life insurance;
j) Extraordinary social assistance;
k) Career sabbatical;
l) 1 day off with wage compensation for corporate volunteering in areas supported by KB and the Jistota Foundation;
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 distraint or personal bankruptcy, as well as advice related to the Covid-19 pandemic; and
n) Allowance for parents returning earlier from parental/maternity leave;

Share programmes for employees
All KB employees can participate in the Global Employee Share Ownership Programme (GESOP). The plan aims, among other things, to strengthen long-term loyalty to the employer and motivate employees to participate as shareholders in the Group's success. Under this programme, SG Group employees can subscribe for Société Générale shares at a discounted price with an employer's contribution to the purchase of shares.

SG shares have been blocked for 5 years and by subscribing them, the employee acquires the right to vote at the Ordinary General Meeting of SG and to receive dividends if it is decided that these will be paid.

The Board of Directors of SG decides on the date and frequency of the increase of SG's capital in the form of subscription of employee shares. In 2021, the GESOP programme did not materialise.

To increase loyalty and motivation to contribute to long-term value growth, the Société Générale Group provides some of its key employees with free shares of SG under the Long Term Incentives programme. The rights to the shares in the programme are subject to blocking for a period of 3 years and subject to positive results of the Société Générale Group. In 2021, the programme included 11% of KB Group employees.

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, data protection, and, since 2021, also fraud detection and prevention activities, are managed within a dedicated organisational structure under ultimate responsibility of the KB Chief Risk and Compliance Officer and ensure also supervision of these activities in KB's subsidiaries.

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 KB 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 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 semi-annually or, according to need, more frequently.

The 2021 revisions of the KB Group Risk Appetite Statement included assessment of Covid-19 impacts, newly introduced assessment as to consistency of credit risk appetite with long-term risk and financial targets, incorporation of main principles from EBA guideline on origination and monitoring, and updating of quantitative thresholds and limits and their alignment with semi-annual ICAAP (Internal Capital Adequacy Assessment Process) results.

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 2021, KB Group performed several stress-testing activities: (i) semi-annual Internal Capital Adequacy Assessment Process (ICAAP), (ii) annual Internal Liquidity Adequacy Assessment Process (ILAAP), and (iii) stress testing required by CNB. KB Group, as part of the SG Group, also participated in the EU-wide stress test conducted by EBA. The aim of such tests is to assess the resilience of financial institutions to adverse market developments. The Covid-19 impacts were assessed within both runs of the ICAAP.

In all stress tests, KB Group 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 even under conditions of a severe stress test scenario.

Covid impacts and risks

The Group is continuously monitoring and evaluating the lasting impacts and risks of the Covid pandemic crisis. In current circumstances, as the most severe restrictions associated with successive waves of the Covid-19 pandemic are being eased and the world is adapting to a new post-Covid "normal", the following challenges to risk management stand out:

- **Credit risk:** Among the main challenges are (i) steep increase in inflation and interest rates, (ii) supply chain disruptions, and (iii) delayed risks (e.g. "zombie companies") due to massive state support within 2020 and 2021. Nevertheless, KB assesses all these risks as limited and has created provisions in accordance with IFRS 9.
- **Market risk:** Due to improving liquidity during 2021 after the crisis in early 2020, the outlook for market risks in 2022 is in the territory of business as usual.
- **Operational risks:** New challenges have arisen in relation to managing the post-pandemic environment from an operational point of view and in terms of ensuring business continuity of operations (heightened risks of cyberattacks, and particularly linked with ransomware, cybersecurity risks related to remote work from home offices, etc.)
- **Financial risks:** No material adverse impacts of Covid-19 have been observed:
  - Liquidity and funding risk – No stress behaviour was identified within the client deposits and loans portfolios. Loan repayment moratoria had negligible effect. KB does not rely on wholesale funding.
  - Interest rate risk in the banking book – KB has only a limited open interest rate position. Net interest margin was affected by the usual cyclical effects associated with a low interest rate environment.
  - FX risk in the banking book – Because KB keeps only an immaterial open FX position, it is not materially affected by currency fluctuations.

  In the post-Covid environment, the behaviour of clients altered by Covid-19 is being monitored closely, as it is unclear to what extent they will revert to their pre-Covid patterns. The main focus is on deposit balances held in current accounts and prepayment rates of mortgage loans.
- No material impact in the post-Covid environment has been identified on other types of risks (compliance, reputation, etc.).

Specifically, business risk in the post-Covid environment is being evaluated by the Strategy and Finance arm and taken into account as a part of financial planning.

War in Ukraine

The Group is aware that the sharply deteriorating geopolitical situation will have a significant impact on the economies of European countries. Nevertheless, due to the heightened global uncertainty and turbulent development, it is impossible to fully assess and quantify the impacts at the current stage. The Group is continuously monitoring and evaluating the potential impacts of the current crisis on its activities and on its clients. The Group's direct exposure to Russia and Ukraine is limited, but the Group is also evaluating indirect impacts (dependency on raw materials, supply chain disruption, etc.). As necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (risk, operational, accounting, etc.), including possible adjustments to its provisioning methodology in accordance with the IFRS9 standard.

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. Monitoring of non-retail clients has been enhanced via advanced models based on AI (artificial intelligence) algorithms.

All KB scoring, rating, and Basel (e.g., Loss Given Default, Probability of Default, or 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. In 2021, KB implemented the automated antifraud system for non-retail clients and it has been working to enhance an automated antifraud solution for private individuals that relies upon an advanced statistical model.

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 constitute 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 dependence on models, Komerční Banka established in 2018 an expert team (Model Risk Management). The team is focused on risks originating from the models usage. This MRM team provides initial review of a model's design, checks its correct usage and implementation, controls appropriate lifecycle governance, and provides annual model re-validation). KB's MRM team is covering all credit risk, ALM, and compliance models. Models shared within the SG group are reviewed in co-operation with a central SG MRM team. Moreover, the team ensures regulatory compliance for regulated models (IRB, IFRS 9, ALM) for KB Group. With ongoing digitalisation of bank services the team will gradually extend its scope to control other KB Group model families (e.g. stress testing models, marketing, and others).

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.

Since 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

In 2021, the Bank continued to adapt its collection processes to the Covid-19 pandemic environment in order to be able to respond progressively to the deteriorating situation of clients affected by this pandemic. Increased inflow of clients, which was noticed in the second half of 2020, proved to be only a temporary impact consequent to the end of the state moratorium (loan repayments postponement). In 2021, KB observed a gradual return to pre-Covid-19 client inflow values.

The Bank continues to increase the efficiency of processes by digitising and automating activities in out-of-court collection so that it is able to absorb increased inflow of clients caused by a possibly deteriorating economic situation in the Czech Republic due to rising prices (especially for energy) and the CNB's base repo rate. These activities also involve the use of external recovery capacities, both in out-of-court and court recovery, which were further extended in 2021.

During 2021, the Bank continued in regular sales of uncollateralised and collateralised retail non-performing loans and receivables to selected qualified investors so that the maximum achievable recovery rate is obtained. The Bank has not realised any mass sales of non-performing loans secured by real estate collateral.

The Group continuously responded to the changing legal environment and its impact on the recovery of loans and receivables. The Group was increasingly attentive to utilising the Insolvency Act in the collection process for loans and receivables 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 Bank depending on a given debtor's circumstances and the attitudes of other creditors.

In 2021, the Group joined the "Merciful Summer" initiative to offer its support to clients who had found themselves in difficulty with repaying their debts and were no longer able to resolve their debt in the execution phase, thereby demonstrating the Bank's responsibility in relation to society.

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 (IFRS 9 statistical models are based on the IRBA regulatory models) 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). In 2021, the Group updated its IFRS 9 models for the performing portfolio (Stage 1 and Stage 2) and for the retail non-performing portfolio (Stage 3). This is further detailed in the next chapter.

Credit risk development in 2021

Granting policy
After the Covid-19 outbreak, KB decided not to dramatically change its credit risk appetite in order to continue providing high-quality service to the clients and supporting them as well as the economy as a whole. Instead, KB decided to apply a series of targeted measures, including private and public payment moratoria, participation in proactive governmental measures (under the umbrella of the state institutions ČMZRB and EGAP), and limitation of credit risk appetite for clients from sensitive sectors vulnerable to Covid-19 impact.

After almost 2 years, this approach has been confirmed as an appropriate one. The portfolio quality remains at very good level (as measured via CoR level or default intensity). Because the epidemiological situation improved significantly in spring and summer 2021 and the state support programmes have been gradually closed, KB returned almost fully to pre-Covid granting rules. Nevertheless, the approach for financing of clients and sectors hit by such negative (post)-Covid impacts as supply chain issues, steep increase in prices of construction materials prices, and rising inflation or interest rates remains cautious.

2021 Cost of risk

The Group's cost of risk decreased to 10 basis points (net allowances creation) in 2021, which was significantly lower compared to 68 basis points (net creation) in 2020. The total volume of allowances created for amounts due from customers came to CZK 14.4 billion as of 31 December 2021, which compares to CZK 14.3 billion as of 31 December 2020. Overall, 2.5% of loans (on-balance) were classified in Stage 3 (non-performing) as of 31 December 2021, which compares to 2.6% in 2020. The NPL share was gradually decreasing after the 2.9% peak recorded in the first quarter 2021 thanks to gradually diminishing default intensity of the terminated moratoria portfolio.

In 2021, KB Group updated its IFRS 9 models for the performing portfolio (Stage 1 and Stage 2) and for the retail non-performing portfolio (Stage 3) while considering (i) new macroeconomic forecasts in accordance with the IFRS 9 forward-looking approach, (ii) the new definition of default in accordance with the EBA Regulation (EBA / GL / 2016/07 to apply the definition of default under Article 178 of Regulation (EU) No 575/2013), (iii) the new data history covering defaults and recoveries since the last model update, and (iv) other aspects, mainly future expected development of the real estate market and legal standards and their impacts on recovery performance. This update of IFRS 9 models led to release of allowances for the performing portfolio in the amount of CZK 135 million and release of allowances for the non-performing portfolio totalling CZK 201 million. In accordance with the IFRS 9 methodology, the update was based on the multi-scenario approach, which, as of the end of 2021, was founded upon four scenarios: a baseline scenario with probability of 51%, a scenario of prolonged negative development with probability of 10%, a scenario of severe negative development with probability of 29%, and an optimistic scenario with probability of 10%. The baseline scenario anticipates increase in GDP of 3.5% in 2022 and GDP growth of 3% in 2023 and unemployment at 2.87% in 2022 and at 2.69% in 2023. The scenario of severe negative development expects a 2.3% decrease in GDP in 2022 and GDP growth of 0.3% in 2023 and unemployment at 4.44% in 2022 and 6.39% in 2023. The Group takes into account in IFRS 9 models the fact that credit risk is affected by government programmes that delay materialisation of that risk.

Furthermore, in accordance with the forward-looking approach, the Group applied a specific approach as of 31 December 2021 for the following portfolios with deteriorating credit profile:

(i) Exposures in retail segments of Individuals and Small Business that the Group identified as negatively hit by the combination of accelerating inflation and interest rates. For this portfolio, the Group decided to create specific allowances in the fourth quarter of 2021, whose amount as of 31 December 2021 was CZK 358 million. As of 31 December 2021, the exposure of this portfolio totalled CZK 69 billion.
(ii) Exposures within the office and retail sub-segments (belonging to the real estate developers and investors segments), which the Group considers to be highly sensitive in connection with effects of the Covid-19 crisis, mainly due to (i) growing office vacancy connected with the increasing use of home offices, and (ii) growing transition to electronic commerce at the expense of traditional retail. On this portfolio, the Group decided to create specific allowances in the second quarter of 2021, which totalled as of 31 December 2021 to CZK 209 million. As of 31 December 2021, the exposure of this portfolio amounted to CZK 22.3 billion.
(iii) Exposures of clients in the hotels, restaurants, and catering sectors (i.e., sectors with significantly negative impact of the Covid-19 crisis, mainly due to state-imposed closures and ongoing restrictions). The exposures of these sectors in Stage 1 were moved to Stage 2 in the second quarter of 2021 and specific allowances were created, which amounted to CZK 17 million as of 31 December 2021. As of 31 December 2021, this portfolio's exposure totalled CZK 1.6 billion.

The Group also adjusted its approach to the following portfolio originally identified with deteriorated credit profile:

As of 30 November 2021, the Group released all additional allowances of CZK 362 million for retail exposures that were in the payment moratorium at the end of September 2020 and that the Bank had originally identified on the basis of an expert approach or model approach as exposures with potentially deteriorating credit profile after the end of the moratorium and to which the Bank had allocated additional allowances since third quarter 2020. The remaining allowances have been released as riskiness of this portfolio is gradually approaching that of the retail portfolio generally and therefore a specific approach for this portfolio in accordance with the forward-looking approach is no longer necessary.

In accordance with the SG Group methodology, a new relative criterion was introduced in the fourth quarter of 2021 to determine classification of the exposure into the relevant staging grades. The rule is applied that in cases where the current 1-year PD (probability of default) deteriorates three times compared to the PD at the time the exposure was granted, the exposure is transferred from Stage 1 to Stage 2. Due to implementation of this rule, exposures totalling CZK 9.9 billion were transferred from Stage 1 to Stage 2 in the fourth quarter of 2021 with impact on creation of allowances in the amount of CZK 95 million.

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

Principal activities in 2021

KB Group concentrated during 2021 especially on the following activities in the credit risk area:

(i) Appropriate reaction to the Covid-19 pandemic, as described above.
(ii) Delivering on regulatory requirements (ongoing complete upgrade of regulatory IRBA models reflecting EBA Guidelines and the new default definition), several stress test exercises as described above, extension of AnaCredit reporting to the segment of entrepreneurs (to be launched in fourth quarter of 2022), preparation for its contribution (as a part of SG Group) to an environmental stress-testing exercise launched in ECB for 2022, and incorporation of ESG principles and EBA guidelines on loan origination and monitoring in its activities).
(iii) Implementing the Bank's digital risk strategy (e.g. ongoing implementation of upgraded KB Group risk engine, redesign of origination processes for all segments, strengthening digital fraud prevention, strengthening monitoring capacity for the non-retail segment, adjustment of collection strategies).
(iv) 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 2021, the VaR amounted to CZK -84 million. 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, and credit spread risks).

Market risk limits are approved by two members of KB's Board of Directors (the Member of the Board in charge of Risk Management and the Member 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's exposure to the risk of change in volatility on its market book is limited to asymmetry effect stemming from the different collateral arrangements between client transactions and their hedges.

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 2021, the KB Group was exposed to a credit exposure of CZK 221,910 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 2021 for all outstanding agreements. The netting agreements and parameters of collateral agreements are taken into account where applicable.

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 executes 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. 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 portfolios (by the 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 considers 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 2021 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 2021, the concept of "second-level controls" based on SG Group principles was further developed, aiming at an independent review of control setup and appropriate performance of formalised and operational controls. The Bank continuously enhances the effectiveness of individual operational risk management processes, including the collection of information about internal events. In 2021, Komerční banka Group recorded 274 operational risk events in a final amount of CZK 51.8 million. In a year-on-year comparison, this represents a 31% decrease in the number of losses and a 75% decrease of total loss volumes. Regarding net loss volumes, fraud and other criminal acts constitute the most significant long-term risk category.

KB participated 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 updated to even further promote a "process" approach to risk assessment. To reflect recent regulatory challenges on the SG Group level and in order to mitigate the most significant risks of the Group, new formalised controls were implemented and several controls were updated in order to strengthen the unified approach to controls execution within the 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, a member of KB's Board of Directors. 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. In order to strengthen the Bank's ability to detect and prevent fraudulent behaviour in the current environment, fraud prevention units in charge of prevention and detection of payment, credit and internal frauds were joined into a unified department that is being supervised directly by the Chief Risk Officer. In relation to the growth in cashless transactions, KB noticed an increase in fraudulent attempts, especially in the payments area. 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, 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 assessed, updated, and tested. The system is subject to regular reviews by 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 brought numerous changes across the whole organisation, and 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.

The Bank significantly transformed its working capacity towards remote working and remote client servicing.

To maximise protection of employees, the Bank's staff was at times of pandemic waves' culminations split into four groups with weekly rotations. In the exposed times, the Bank as well performed regular weekly antigen testing of employees and offered employees the possibility of being vaccinated directly in the Bank's premises.

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

In response to 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 across 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.

Security aspects of KB's running services and new development work have to be addressed in a fundamentally proper way so that execution of workflow and its outcomes well protects the Bank's business, including interactions with the clients, against foreseeable threats originating from the continually evolving digital environment. Security aspects are considered as fundamental features within all new developments. 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 preventative 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.

Following the change in working practice with adoption of remote working during the Covid-19 situation, the Bank continued to support secure work of KB's employees and partners from their homes. This 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). The Bank faced a usual small number of phishing attempts in 2021. 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 threats were quickly investigated and mitigated by applying incident response plans or implementing recommended fixes or patches. Strict attention was specifically given to risk mitigations associated with critical Log4shell vulnerability that was announced shortly before Christmas. Komerční banka responded instantly in line with best practice recommendations and established monitoring has not revealed any penetration into the internal environment. KB continued to monitor its external perimeter security posture on an ongoing basis through an external service provided by BitSight company, and KB managed to sustain the high rankings achieved in 2020.

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. For improved transparency, they are organised in line with ISO 2700x chapters. Security policies and standards requirements are embedded into agile@scale development methodology and practice. Adherence to them is validated by dedicated security resources allocated to individual development Tribes via security assessments. Findings and gaps are consistently recorded within IT risk management and prioritised for mitigations with the help of IT risk dashboards and embedded strong management attention. KB's digital environment is constantly monitored from a security perspective by SOC (security operations centre). Consistent execution of key secure practices is controlled by a set of automated controls or periodical manual first-level controls. Organisation of the overall security setup of KB's internal information environment is regularly assessed by Gartner. Its findings are utilised in further development and adjustments. In 2021, KB continued to pursue the wing-to-wing security improvement programme driven by Société Générale with focus on processes and a setup of preventative and detection measures. KB also launched its Cyber Security Improvement initiative aimed at improved security of the internal environment against vectors of intrusion and lateral movements inside KB's internal environment. Dozens of adjustments to preventative and detection solutions were implemented. The focus also turned to the Bank's ability to recover after potential loss of key applications production data. Security as a part of the applications development cycle remained another key area of focus in 2021. More than 30 senior developers went through dedicated cyber security training. Developers' outcomes started to be checked through mandatory security gates on new digital developments, thus making mandatory secure development techniques that had been adopted earlier. Penetration testing practice was gradually adjusted so it is effectively utilised as part of continuous integration and of applications deployment. Moreover, additional applications were integrated into centralised access management and security monitoring systems. KB continued to address data leakage prevention and reduced risks originating from opened connections with co-operating partners and suppliers.

The secure behaviour of employees was promoted via continual delivery of KB's information security awareness programme, including annual information security training complemented by internal communication on actual security topics. The employees were also kept alerted via simulated phishing attacks (at least three times per year) and via a piloted phishing campaign.

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 dominant authentication method used by clients. The Bank completed withdrawal from use of a solution based on client certificates. The number of clients with active KB Key has already risen to around 950,000. As an early adopter, the Bank has employed BANK_ID as an additional identification and authentication means. For bank-to-client communication, KB started to adopt higher standards of data protection in e-mail communication. Komerční banka supports clients in addressing security aspects of digital banking through its continually updated dedicated security website (https://www.kb.cz/en/security). The site communicates key secure behaviour practices and features that should help clients to stay safe in cyberspace. 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 2021. The Bank neither recorded nor reported during 2021 any cybersecurity incident as defined by the Cyber Security 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.

Compliance incidents are governed according to a formalised process adopted on the basis of SG Group rules. All employees are encouraged to avoid such incidents. In case of any compliance failure, however, the resolution process is in accordance with the regulatory duties and also serves as a basis for continuous improvement. The process of compliance incidents management comprises six key steps:

1. Incident detection
2. Incident qualification
3. Incident investigation
4. Analysis and assessment of the compliance incident
5. Incident reporting
6. Governance framework of the compliance incidents

All compliance incidents are registered and archived.

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. From 2022, oversight and assessment of issues related to ethical conduct, including identified compliance incidents, is conducted on a regular basis by the Appointment Committee of the Supervisory Board.

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.[1)]

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.[2)]

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[3)]. 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[4)].

All employees, including those who work part-time, receive training on the rules of conduct at the beginning of their work relationship, after which they are trained every 2 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.

Efficiency of the conduct rules is continuously assessed by the system of internal controls (First Level Controls, Second Level Controls), regular evaluation of key risk indicators, promotion and assessment of the whistleblowing system, regular risk mapping of the most exposed risk areas (including anti-bribery and corruption, conflict of interest), and training programmes followed by tests.

The compliance system is verified on a regular basis by internal 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 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 in the area of rules of conduct occurred in 2021.

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.

KB has implemented rules for how to indicate bribery and corruption risks related to a client. The assessment includes geographical indicators (based on the level of corruption in a country involved), features of the transaction, and relevant news flow. An increased level of risk may trigger a need for an enhanced due diligence (EDD) process.

To comply with the rules on combating corruption, suppliers and others of 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 (with separate ratings for bribery and corruption and for money-laundering risks), industry, reputation (negative news, corruption, bribery, fraud), sanctions, and politically exposed persons (PEP) screening data. Business partners with red flags on such factors

1) Further information is available at https://www.kb.cz/en/about-the-bank/everything-about-kb/we-do-business-br-sustainably

2) https://www.societegenerale.com/en/societe-generale-group/ethics-and-compliance/code-of-conduct

3) https://www.societegenerale.com/en/societe-generale-group/ethics-and-compliance/code-of-conduct

4) 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

are rated as high risk. High-risk business partners must 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, including the requirement for two-level approvals. 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). A 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 2021 to industry or trade associations (such as the Czech Banking Association) in the amount of CZK 9.5 million.

Proactive identification and reporting of potential risks, whistleblowing

A system for proactive identification and effective reporting of potential risks (whistleblowing) is regarded as one of the main tools for managing compliance risks within KB.

Rules for the right to blow the whistle and rules for investigation of received alerts were completely updated in KB during 2021, and this area is newly defined in separate internal instructions reflecting Société Générale Group requirements and requirements of the EU Directive on protection of whistleblowers.

The right to blow the whistle provides an opportunity for everyone to notify ('speak up') without fear of retaliation or sanctions when they believe there has been a breach of internal policy, laws, or regulations that a received instruction, a transaction under consideration, or more generally a particular situation of which they become aware does not comply with the rules governing the conduct of the Group's activities or the ethical standards expected or that they believe may be in breach of laws and regulations.

A whistleblower can be any employee, external and temporary staff, and, as part of the duty of care, any service provider with whom an established commercial relationship is maintained (suppliers or subcontractors). Whistleblowers may exercise their whistleblowing right through their supervisors or the Compliance Department in any possible way. It is also possible to use a dedicated e-mail box (whistleblowing@kb.cz). A whistleblowing alert also may be submitted to Société Générale via a secured anonymous whistleblowing web tool.[1)]

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

[1)] https://report.whistleb.com/en/societegenerale managers and team leaders. Workers participating in sales of selected products, such as consumer loans, insurance policies, pension policies, or investment instruments, must achieve professional qualifications as prescribed by the regulation.

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 employees and their managers are automatically notified by the system on a monthly basis. The administrator of the training is notified on a quarterly basis.

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.

All new products and significant changes of current products must be evaluated by a dedicated New Product Committee which assesses also all risks relevant to the product or its change, including potential risks for the clients.

Product sales and advertisement

Sales of all products comply with the applicable regulations.

Remuneration of staff in retail as well as corporate banking always takes into consideration also qualitative compliance criteria, which are based on the regulatory requirements, such as the EBA guidelines on remuneration. The distribution network is bound by the rules of responsible banking and obligation to act in the best interest of the customer when offering a product (with additional requirements stipulated for selected products, such as insurance policies and investment instruments). KB's motivational system ensures that customer satisfaction is taken into account as part of performance assessment and when assessing the variable remuneration payout, and infringement of a compliance rule may result in its decrease by 10% to 100%.

All advertisements and communication with the clients are approved in advance by the Compliance Department with regard to consumer protection rules and the other rules concerning financial products.

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.

Jitka Haubová, member of the Board of Directors, is in charge of overseeing the processes of ESG risks management and the whole sustainability approach in KB. Within KB Group, besides at KB, the ESRM rulebooks are fully applicable at Factoring KB and SGEF. The ESRM system will be implemented at ESSOX in 2022. In each subsidiary, there is an environmental and social risk co-ordinator in charge of ESRM implementation and supervision over compliance with the Group's ESRM regulations. Their approaches are co-ordinated with ESRM experts of the Bank.

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 the 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 areas of mining and utilisation of steam coal, heating, armaments and defence industry, nuclear power and plants, dams and water plants, agriculture, food industry, forestry, oil, gas and petrochemicals, mining of raw materials, processing of palm oil, shipping. The sector policies are available on KB's website[1] (as well as that of SG[2]).

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.

In co-operation with the SG Group, KB commenced in 2021 implementation of EBA guidelines on loan origination and on EBA standards on Pillar 3 for physical and transition climate risks. The climate transition risks already have been considered during assessment of credit risks of transactions in four sensitive sectors (metallurgy, mining, transport, and automotive) according to a specifically defined Climate Vulnerability Indicator of the client. This tool evaluates financial capacities of the clients for transition of their business activities potentially induced by the changing regulations, market demand, externalities, and new technologies.

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 renewal of a credit line. Besides when accepting a new client or during a regular review, need for assessment may be also triggered by the client's application for a new product or a service, 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 2021, the policies for mining, oil and gas extraction and processing, agriculture and forestry, as well as for protection of biodiversity were amended. From 2022, evaluation of E&S aspects will also involve corporate clients' approach to ESG strategy, reduction of greenhouse gases emissions, energy savings and circular economy. At the same time, KB will incentivise and support activities of clients addressing these issues.

[1] https://www.kb.cz/en/about-the-bank/everything-about-kb/we-do-business-br-sustainably/economic-br-sustainability

[2] https://www.societegenerale.com/en/publications-documents?search=&theme=rse&category=politiques-sectorielles&year=&op=Filter

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. In the area of preventing money laundering and financing of terrorism, the Compliance Department focused during 2021 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 (AML Act) and Decree of the Czech National Bank No. 67/2018 Coll. on Selected Requirements for the System of Internal Rules, Procedures and Control Measures Against Legitimisation of Proceeds of Crime and Financing of Terrorism and Act No. 37/2021 Coll. on the Registration of Beneficial Owners. It also created conditions for updating internal processes and rules in accordance with programmes of Société Générale 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 know-your-customer standards, such as customer identification, due diligence, terrorist financing, and politically exposed persons.[3]

KB has publicly available procedures in place to ensure the effective establishment and implementation of a company culture opposing money laundering and terrorism financing.[4]

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 regulations, KB conducts 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 screening against the lists of sanctions, PEP, and exclusions (black list). In the case of PEP, each client is requested during an onboarding process to provide a declaration as to source of wealth, which is then recorded in a special database. Subsequently, clients are screened on a regular basis. The power to approve PEP is delegated to the head of the Anti-Money Laundering Unit (or his or her deputy) and the head of the relevant business unit.

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

[4] 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 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 according to client types, including natural person, professional, and legal entity (and specifically corporations, banks, asset managers, retail and limited member funds, other financial institutions, non-profit organisations, and governments). Based on the client type and existence of defined riskiness criteria updated as per the new AML Act, including country-based risk, identification risk, reputational risk, and dynamic product and transaction data (e.g. date of the entity’s establishment, date of its onboarding, identification of the ultimate beneficial owner, legal form of the entity, non-face-to-face onboarding, entity size, negative news, corruption risk, sanctions incident or sanction hit, PEP identification, suspicious activity report, transactions with high-risk or medium high-risk countries, 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 statement of activities and business licence and to complete a sanctions questionnaire. Legal entities must always submit documents proving their existence, the identity of the executive directors, copy of identity card for management/control structures and ownership, including an extract from the evidence of ultimate beneficial owners, as well as documents showing the income and business activity of the client, tax return or annual report, sanction questionnaire, and a 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 (i.e. AML policy or similar document, license, status of the company). A new onboarding process, developed in co-operation with Société Générale, was stipulated for banks.

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.

In 2021, KB concluded successfully a dedicated KYC project that had begun in 2019, its principal goal being to improve efficiency of the whole KYC process. Further development and automatisation of KYC processes comprised, for example, digital onboarding of clients, periodic reviews, and monitoring of trigger events. Development in digitalisation is ongoing via the development of an application for AML client risk rating categorisation (kAMiLa) in line with SG rules and the AML Act. 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 2021, a total 8,791 business cases or applications to establish business relationships were further analysed by the Compliance Department. Consequently, 728 client relationships were recommended for termination and 426 clients were refused for onboarding.

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 on an annual basis to complete training courses and/or e-learning with final tests in the areas of anti-money laundering and countering the financing of terrorism, know-your-customer, anti-bribery, and anti-corruption. 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, 37 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.).

In 2021, the AML unit:

- investigated 60,577 cases received from different KB units (in 2020: 48,439; in 2019: 775; in 2018: 815; the year-on-year increase in the number was caused by adopting of new rules for acceptance of clients and transactions and setting up of seven new risk scenarios);
- notified 593 suspicious transactions to the Financial Analysis Unit by the Czech Ministry of Finance (FAU) (in 2020: 444; in 2019: 248; in 2018: 212);
- processed 1,288 inquiries from the FAU (in 2020: 1,135; in 2019: 1,469; in 2018: 1,503);
- in 225 cases followed orders (of which 150 requested by a bank and 75 cases requested by the FAU) for execution deferrals or account/client blocking (in 2020: 687; in 2019: 165; in 2018: 293); and
- in 337 cases initiated termination of existing contractual relationships (in 2020: 351; in 2019: 532; in 2018: 559).

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, 1,393 cases received were investigated (in 2020: 1,373), 59 of which were subject to enhanced due diligence (in 2020: 46). KB reported to the FAU 14 transactions to which KB acted as a correspondent bank.

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 2021, KB evaluated 14,743 hits (2020: 59,094) 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 2021, KB performed a deeper analysis of 7,511 foreign transactions (2020: 5,980) in order to eliminate the risk of breach of international sanctions (EU and USD-related sanctions in particular). Of these transactions, 7,149 were held by SG Paris and 362 transactions were held by a correspondent bank of SG New York. In total, 347 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 documents that is available on KB's website[1], including the document Information on 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. A set of documents with related information relevant for data protection (consents, debt registers, etc.) is also available there.

There is also information provided on processing personal data of employees, job candidates, contractors ,and employees of external partners.[2]

[1] https://www.kb.cz/en/protection-of-personal-data

[2] https://www.kb.cz/en/protection-of-personal-data#informationforemployees

The suppliers (data processors) must also meet all standards for protection of clients' personal data and data covered by banking secrecy. These requirements are defined in GDPR clauses included in the contract and in other requirements assigned to suppliers. These requirements are transparently communicated on KB's website.[3]

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. The privacy policy is a part of the regular internal audit plan. No issues related to data protection were raised during 2021.

During 2021, KB Group companies received in total 60 inquiries or complaints from outside parties concerning customer privacy, 4 of which were received via the regulator. No penalty or corrective action was incurred.

Supplier relationships

In relationships with its suppliers, Komerční banka is committed to honouring all legal regulations as well as to protection of the environment, social and human rights, and the principles of sustainable development. KB has implemented the common sourcing principles of Société Générale, which it perceives also as a prudent risk management approach.

The sourcing rules include, among others, rules for assessing risks and obtaining adequate information before making a decision on concluding or maintaining a business relationship with a supplier – so-called know-your-supplier (KYS) rules.

These rules enable the Group to identify those suppliers exposed to a risk of bribery or corruption and to manage such risks, to prevent co-operation with suppliers in breach of applicable regulations in the areas of taxes, anti-money laundering and financing of terrorism, and corruption or who might be involved in an illegal activity. The Bank verifies, in accordance with applicable conditions, statutory representatives of the suppliers, their beneficial owners, and politically exposed persons linked to the suppliers.

The KYS principles are included in KB's internal rulebook. The KYS policy also stipulates limits for the value of purchases. The rules apply to the suppliers of non-financial services as well as for the suppliers of goods and other products. Several units within KB and Group are involved in KYS activities.

Before concluding a new business relationship with a supplier, KB checks that the supplier's consideration does not generate a risk of corruption. It conducts identification of the supplier and its statutory representatives and verifies that these persons are not recorded in the lists of information held in order to prevent money laundering and financing of terrorism. The suppliers are also checked against registers such as the EU Sanctions List, sanctions and embargoes of the USA, and lists of the United Nations Security Council. The KYS rules include also processes

[3] https://www.kb.cz/en/suppliers

for establishing relationships with suppliers from sectors sensitive from the perspective of sustainability (e.g. the energy sector). KB Group will not enter into a business relationship unless all required information is provided and all conditions are met.

More stringent requirements are applied to a supplier with higher level of risk, identified according to pre-determined indicators (e.g. PEP, link to a high-risk country). These stringent requirements must be satisfied before entering into the business relationship as well as during the regular review of suppliers and daily screening of the list of suppliers.

According to the risk assessment of suppliers, KB determines frequency of the reviews and it may require to conduct an enhanced due diligence. Enhanced due diligence must be conducted in particular when riskiness of the supplier has been assessed as medium-high or high, or if the supplier has a representation agreement and a connection to government, or if there is a PEP. In enhanced due diligence, KB researches via public sources the ethical framework of the supplier (measures against corruption, code of conduct, etc.), possibly to include screening of the supplier's reputation, its statutory representatives and other executives, identification of beneficial owners and their records on the lists of sanctions, PEPs or negative information.

In case that the KB Group's employee notices a risk indicator during the due diligence process or at any time when pursuing the business relationship, he or she must inform the Compliance Department. A non-exhaustive list of risk indicators is a part of KB's internal instruction. The signature authorisation for conclusion of a business relationship as well as escalation procedures are based on results of the supplier's risk assessment.

Every contract with a supplier must include clauses on international sanctions and against corruption and it may include also clauses related to corporate social responsibility or other clauses required by law or KB's rules. Old contracts which do not include relevant clauses must be adapted upon the next renewal. KB informs all suppliers before signing a contract on applicability of the SG Code of Conduct and SG Code governing the fight against corruption and influence peddling. All contracts with a link to information and information technologies contain IT security clauses.

No payment to a supplier may be executed without relevant substantiation and the consideration provided to any supplier must be commensurate with market prices. KYS documentation is archived for at least 5 years from the date of the business relationship's termination.

Efficacy of the KYS process is measured against a set of Key Performance Indicators, including specific indicators for purchases with more stringent KYS requirements. First Level Controls (FLC) are set for making sure that the KYS process is always correctly followed. The FLCs are independently reviewed by Second Level Controls. Remedial steps must be implemented each time a shortcoming or an deficiency is identified in the KYS process.

In 2021, KB reviewed fulfilment of KYS requirements on the portfolio of suppliers selected upon pre-determined criteria. This KYS remediation involved detailed reviews at 64 suppliers. No need for termination of a business relationship was identified at any of the suppliers, but some clauses, typically anti-corruption, were updated or added to several contracts.

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 Selected Measures against the Legitimisation of Proceeds from Criminal Activity and the Financing of Terrorism (AML Act);
- 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. 37/2021 Coll., on the Registration of Beneficial Owners;
- 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

KB Group companies did not incur any financial or non-financial penalties or regulatory sanctions, except that Modrá pyramida was fined by the Czech National Bank in the amount of CZK 500,000 on 31 November 2021 for shortcomings in its internal control system and in communication with clients during provision of consumer loans, insurance policies, and investment instruments. Modrá pyramida has adopted corrective measures in response to these findings and informed the CNB about those measures. Furthermore, the CNB conducted legal proceedings with KB and with Modrá pyramida regarding alleged violation of Art. 117(1) of the Consumer Credit Act stipulating the right of a consumer to repay early its consumer loans and conditions for such early repayment.

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 2021 involved support of KB's main strategic goals, including preparation of the new digital bank, support of banking identity services, co-operation in preparing the National Development Fund, and continuous digitisation of meetings of statutory bodies of KB and other KB Group companies. KB lawyers also supported implementation of the legislation adopted in connection with the pandemic situation in the Czech Republic.

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 2021, KB Group was a party to 9 significant legal proceedings as a plaintiff. The principal that was the subject of these legal proceedings totalled CZK 425 million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 17 bankruptcy proceedings. The total of claims filed in relation to these proceedings was CZK 2.7 billion. As of 31 December 2021, KB Group was a party to a total of 4 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 493 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 internal audit function in KB Group is organisationally supervised by the Chief Executive Officer of KB and regularly reports about its activities to the Audit Committee of the Bank.

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 2021, 51 audit missions were carried out, of which 15 were performed in KB Group subsidiaries and 1 was conducted across the KB Group, including the Bank itself. Thirty-five audits performed within the Bank covered both the distribution network and head office units. In total, 171 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2021. Out of these, 29 were given significant priority. The Bank maintained a low number of long-term unresolved recommendations. As of 31 December 2021, 9 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 carried out. 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 2022 draws upon outcomes from a risk assessment, the 5-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.

Statutory audit

As a public-interest entity, the Bank is obliged and committed to comply with European and local regulation governing the selection process and mandatory rotation of statutory auditors. The initial engagement period for a statutory auditor should not exceed 10 years. Re-appointment for a maximum of another 10 years is possible only based on a tendering process with close involvement of the entity's audit committee, Moreover, the key audit partner has to be rotated after 7 years.

As the Bank is consolidated by Société Générale Group, itself a public-interest entity, the tendering process for statutory auditors is held on the level of the Société Générale holding. Two audit firms are appointed at the same time and rotate as statutory auditors of the individual entities of the holding during their mandates.

The Bank has been audited by its current statutory auditor for 7 years, 2023 being the last year of its mandate. The key audit partner has been managing the engagement since 2018.

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, continuously amended, 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, or "CRD").

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 2021. This brought the required TSCR (i.e. total SREP) capital ratio to 10.2%. 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 capital buffer of 0.5% for exposures in the Czech Republic. The required overall capital ratio (OCR) thus reached approximately 16.2% as from 1 January 2021.

During the year 2021, the required overall capital ratio decreased due to implementation of the amendment to the Capital Requirement Directive (CRD V) when the CNB imposed a capital buffer for other systemically important institutions (O-SII) for banks instead of the systemic risk buffer in order to limit the risks related to the systemic importance. Thus, the combined capital buffer of 5.0% was applied on top of the TSCR capital ratio from October 2021. That consisted of the capital conservation buffer of 2.5%, capital buffer for O-SII of 2.0% applied for the first time (the systemic risk buffer of 3.0% was withdrawn at the same time), and a required countercyclical capital buffer of 0.5% for exposures in the Czech Republic. The required overall capital ratio thus reached approximately 15.2% from October 2021 and it was also valid at this level as of December 31, 2021 (lower by 1.0 percentage point compared to the previous year).

Komerčni banka's overall capital requirements remained unchanged at approximately 15.2% on 1 January 2022. However, the Bank expects that the required overall capital ratio will increase to approximately 16.6% in 2022 due to a rise in the countercyclical capital buffer (the CNB has already announced a gradual increase of the countercyclical capital buffer for exposures in the Czech Republic to the rate of 1.0% from 1 July 2022 and 1.5% from 1 October 2022, which is an increase of 1.0 percentage point for the year 2022) and increase of additional Pillar 2 buffer to the level of 2.6% (higher by 0.4 percentage point).

The Bank and Group meet the overall capital ratio requirement with significant reserve, because their respective capital ratios stand well above the minimum required level.

In addition to the aforementioned capital requirements, the Bank is also required to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 20.4% of the consolidated total risk exposure and 5.91% of the consolidated total exposure effective as of 31 December 2023 and 14.4% of the consolidated total risk exposure and 4.46% of the consolidated total exposure effective as of 1 January 2022. The MREL requirement is defined as a sum of the amount of loss absorption and recapitalisation. In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer in accordance with the CNB's general approach. The Group fulfils the interim target level valid from the beginning of 2022 because of its large capital surplus, but, in future, the Bank expects to satisfy the recapitalisation requirement also with senior non-preferred instruments provided by the parent company (i.e. in accordance with the Group resolution plan).

Capital and risk-weighted assets

Total shareholders' equity comprises the following main items: share capital, reserve funds, and retained earnings. As of 31 December 2021, total equity grew year over year by 8.3% to CZK 126.8 billion. The growth reflected mainly the creation of net profit while payment of dividends was made in amount of CZK 4.5 billion according to the limit set by the CNB due to the CNB's counter-crisis measures. The value of non-controlling interests reached CZK 3.3 billion. As of 31 December 2021, 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 2021. 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 2021, Komerční banka held a Tier 2 subordinated loan in the amount of EUR 100 million (CZK 2.5 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 and CNB decision, may cover up to 2.65 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 103.2 billion as of 31 December 2021, which is 2.5% higher compared to 31 December 2020.

As of 31 December 2021, total capital adequacy stood at 21.3%. Tier 1 capital stood at CZK 101.1 billion (increased by 3.2% since the end of 2020 after regulatory adjustment for the foreseeable dividend) and the Tier 1 ratio reached 20.9%. Tier 2 capital came to CZK 2.1 billion, or 0.4% 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 the STA approach for calculating the requirement for credit risk.

The volume of the Group's risk-weighted assets (RWA) stood at CZK 484.4 billion as of 31 December 2021, compared to CZK 450.6 billion as of 31 December 2020. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 9%, and market risk 7% of the total RWA. The increase in RWA during 2021 was driven by the growth in the exposure for both corporate and retail portfolios, further strengthened by regulatory adjustments (mainly by the new SA-CCR methodology for the calculation of counterparty credit risk for market deals) and increase of market risks RWA (with general interest rate risk as the main contributor).

During 2021, in the post-Covid environment, abrupt changes in macroeconomic environment happened, namely sharp increase of inflation and interest rates or continuing supply chain distrubtions. However, these changes did not have a significant impact on RWA development in 2021.

Subsequently the average risk weight for credit risk stood at 28.8% as of 31 December 2021, only negligibly down by 20 bps from the 29.0% as of 31 December 2020. Risk weights for main portfolios remained stable and the negligible decrease by 20 bps was driven by growing exposure and slightly improved risk weight of the residential mortgages portfolio (for this portfolio, the risk weight declined slightly to 18.5% as of 31 December 2021 from 19.3% as of 31 December 2020, reflecting the prudent granting policy along with a positive effect of stable unemployment levels on retail credit risk). Other impacts on risk weights were minor and concentrated on regulatory impacts (mainly new SA-CCR methodology).

Information on consolidated capital, risk-weighted assets for calculation of capital adequacy, and capital requirements (in CZK million)

Reconciliation of accounting and regulatory capital (consolidated)

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Items from Statement of Financial Position – Total shareholders' equity	**126,782**	**117,058**	**108,635**
Share capital	19,005	19,005	19,005
Share premium	149	149	149
Other equity	546	526	506
Accumulated Other comprehensive income	2,387	447	682
Retained earnings from previous periods	84,210	81,047	65,812
Reserve funds	5,211	5,211	5,211
Own shares	(726)	(726)	(726)
Net profit for the period	12,727	8,157	14,901
Minority interests	3,273	3,242	3,095
Total adjustments to CET1	**(25,710)**	**(19,152)**	**(24,573)**
Gains/(losses) on hedging instruments (cash flow hedging)	(1,248)	90	82
Additional value adjustment	(140)	(149)	(354)
Goodwill	(3,752)	(3,752)	(3,752)
Other intangible assets, net of tax	(4,562)	(3,942)	(5,681)
Insufficient coverage of expected credit losses (lack of provisions)	0	0	(746)
Unusable profit	(12,727)	(8,157)	(11,027)
Minority interests	(3,273)	(3,242)	(3,095)
Insufficient coverage for non-performing exposures	(8)	N/A	N/A
Other transitional adjustments to CET 1	0	0	0
Tier 2 capital	**2,137**	**2,784**	**2,546**
Subordinated debt received	2,490	2,629	2,546
Provided subordinated debt	(446)	(446)	0
Surplus coverage of expected credit losses (Excess of provisions)	93	601	0
Total capital	**103,209**	**100,690**	**86,608**
Tier 1 capital	**101,072**	**97,906**	**84,062**
Core Tier 1 (CET1) capital	**101,072**	**97,906**	**84,062**

Consolidated risk-weighted assets

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Total risk-weighted assets	**484,372**	**450,628**	**439,237**
for credit risk	**400,209**	**375,851**	**367,550**
for credit risk pursuant to the Standardised Approach in IRB	69,788	69,839	69,030
for credit risk pursuant to the IRB Approach	330,421	306,012	298,520
for settlement risk	**-**	**16**	**15**
for position, foreign exchange, and commodity risks	**34,680**	**26,378**	**23,630**
for operational risk	**43,988**	**45,551**	**45,142**
for credit valuation adjustment	**5,495**	**2,832**	**2,900**

Capital requirements (consolidated)

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Total capital requirements	**38,750**	**36,050**	**35,139**
for credit risk pursuant to the Standardised Approach in IRB	**5,583**	**5,587**	**5,522**
Exposures to central governments or central banks	1	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	2	3	15
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	22	13	26
Exposures to corporates	4,101	4,082	4,019
Retail exposures	1,035	948	1,047
Exposures secured by real estate	0	0	0
Exposures in default	149	145	80
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	149	306	247
Other items	124	90	88
for credit risk pursuant to the IRB Approach	**26,434**	**24,481**	**23,882**
Exposures to central governments or central banks	118	128	255
Exposures to institutions	1,510	1,247	1,284
Exposures to corporates	15,666	14,486	14,101
Retail exposures	7,708	7,025	6,867
Equity exposure	25	66	120
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligation	1,407	1,529	1,255
for position risk	**2,774**	**2,110**	**1,812**
for large exposures exceeding the limits	**0**	**0**	**0**
to currency risk	**0**	**0**	**0**
to settlement risk	**0**	**1**	**1**
to commodity risk	**0**	**0**	**78**
to operation risk	**3,519**	**3,644**	**3,612**
for credit valuation adjustment	**440**	**227**	**232**

Information in accordance with Decree 163/2014 Coll. on an individual basis

Reconciliation of accounting and regulatory capital (on an individual basis)

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Items from Statement of Financial Position – Total shareholders' equity	**115,418**	**105,194**	**98,217**
Share capital	19,005	19,005	19,005
Share premium	134	134	134
Other equity	491	473	454
Accumulated Other comprehensive income	2,494	501	781
Reserve funds	4,189	4,189	4,189
Retained earnings from previous periods	77,478	74,689	59,564
Own shares	(726)	(726)	(726)
Net profit for the period	12,353	6,929	14,816
Total adjustments to CET1	**(18,235)**	**(11,834)**	**(17,235)**
Gains/(losses) on hedging instruments (cash flow hedging)	(1,264)	85	45
Additional value adjustment	(140)	(149)	(354)
Other intangible assets, net of tax	(4,100)	(3,614)	(5,187)
Insufficient coverage of expected credit losses (lack of provisions)	0	0	(712)
Unusable profit	(12,726)	(8,156)	(11,027)
Insufficient coverage for non-performing exposures	(5)	N/A	N/A
Other transitional adjustments to CET 1	0	0	0
Tier 2 capital	**2,236**	**2,775**	**2,546**
Subordinated debt	2,490	2,629	2,546
Provided subordinated debt	(446)	(446)	0
Surplus coverage of expected credit losses (Excess of provisions)	192	592	0
Total capital	**99,419**	**96,135**	**83,528**
Tier 1 capital	**97,182**	**93,360**	**80,982**
Core Tier 1 (CET1) capital	**97,182**	**93,360**	**80,982**

Risk-weighted assets (on an individual basis)

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Total risk-weighted assets	**431,973**	**403,622**	**395,828**
for credit risk	**353,143**	**334,330**	**329,787**
for credit risk pursuant to the Standardised Approach in IRB	37,889	39,449	39,531
for credit risk pursuant to the IRB Approach	315,254	294,881	290,256
for settlement risk	**-**	**16**	**15**
for position, foreign exchange, and commodity risks	**34,679**	**26,378**	**23,630**
for operational risk	**38,655**	**40,066**	**39,495**
for credit valuation adjustment	**5,496**	**2,832**	**2,901**

Capital requirements (individual)

(CZK million)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Total capital requirements	**34,558**	**32,290**	**31,666**
for credit risk pursuant to the Standardised Approach in IRB	**3,031**	**3,156**	**3,162**
Exposures to central governments or central banks	1	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	2	3	15
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	15	5	15
Exposures to corporates	1,860	2,022	2,014
Retail exposures	0	0	0
Exposures secured by real estate	0	0	0
Exposures in default	26	0	0
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	1,127	1,126	1,118
Other items	0	0	0
for credit risk pursuant to the IRB Approach	**25,221**	**23,590**	**23,221**
Exposures to central governments or central banks	118	128	255
Exposures to institutions	1,882	1,483	1,449
Exposures to corporates	16,103	14,873	14,459
Retail exposures	6,027	5,897	6,030
Equity exposure	9	65	119
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligation	1,082	1,144	909
for position risk	**2,774**	**2,110**	**1,812**
for large exposures exceeding the limits	**0**	**0**	**0**
to currency risk	**0**	**0**	**0**
to settlement risk	**0**	**1**	**1**
to commodity risk	**0**	**0**	**78**
to operation risk	**3,092**	**3,205**	**3,160**
for credit valuation adjustment	**440**	**227**	**232**

Capital ratios and ratios in % (on an individual basis)

(%)	31 Dec 2021	31 Dec 2020	31 Dec 2019
Capital ratio for common equity tier 1	22.50	23.13	20.46
Capital ratio of Tier 1 capital	22.50	23.13	20.46
Capital ratio for total capital	23.02	23.82	21.10
Return on average assets (ROAA)	1.03	0.61	1.38
Return on average equity Tier 1 (ROAE)	12.73	7.74	18.42
Assets per employee in CZK thousand	172,212	154,145	137,809
Administrative costs per employee in CZK thousand	1,466	1,414	1,521
Profit or loss after tax per employee in CZK thousand	1,820	977	2,019

Note: The calculation methodology according to the Decree 163/2014 Coll. differs from the methodology specified in the section *Definitions of the mentioned Alternative Performance Measures.*

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, ICAAP). To determine the required economic capital, the Bank has substantially 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 2021, the Bank met all regulatory requirements. On a regular basis, KB also compiles and reports to the CNB mandatory information regarding its ICAAP.

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 2021, 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 2021 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 2021, it had an excellent net loan-to-deposit ratio of 76%.[1)] KB also meets by a large margin the 3% required minimum level of leverage ratio that has been binding since mid-2021. 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 949 billion[2)] comprise a crucial part (approximately 76%) of the Group's total liabilities and shareholders' equity. Current accounts made up the largest proportion of client deposits within the Group (76%). 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. 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 12,430 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. Except for this inaugural issue of mortgage covered bonds Komerční banka did not increase in 2021 the volume of issued debt securities. As of the end of 2021, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK equivalent 13.6 billion.

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 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 2021 from its internal sources without any problems, and the use of additional secondary funding remained limited. As of 31 December 2021, 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%.

1) Excluding repo operations with clients.

2) Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' reached CZK 957 billion.

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 12,727 million for 2021 under International Financial Reporting Standards (IFRS). This represents a 56.0% increase in comparison with 2020.

Statement of Income

Komerční banka Group's revenues (net operating income) for the year 2021 increased by 5.7% year on year to reach CZK 31,346 million. Net profit from financial operations contributed the most to this growth, while net fees and commissions and net interest income contributed positively, too.

Net interest income for the full year was higher by 2.0%, at CZK 21,795 million, thus rising less than the volumes of loans and deposits, although the trend in interest income did take a pretty sharp turn during the year. It had been declining in the first half of the year as a consequence of the extremely low interest rate environment, but interest income turned dynamically upward in the second half, supported both by growth in volumes and quickly rising market interest rates that underpinned yields from reinvesting deposits and the Bank's own funds. The net interest margin for the full year 2021, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 1.9%. That compares to 2.0% a year earlier.

Net fee and commission income rose by 9.6% to CZK 5,711 million, supported by a broad combination of contributing factors. The clients stepped up their investments into mutual funds and were switching from fixed income to equity-linked and balanced products. The clients were also embracing account packages comprising a wider selection of services, in particular the MůjÚčet Plus bundle. The number of transactions executed by cards and by digital channels climbed strongly, partly offset by continuing drop in cash and in-branch transactions. The higher income for specialised financial services to corporate clients was mainly due to strong activity in issuance of debt instruments for clients, loan syndications, and advisory activities, as well as issuing of bank guarantees. The net fee income for loan services decreased due to lower fees from credit cards and loans to small businesses.

Net profit from financial operations improved by 25.9% to CZK 3,630 million. Demand for hedging of FX risks was strong throughout 2021, while already in the last months of 2021 interest rate risk hedging activity was affected by the sharp rate increases, which made the available options less attractive. Mainly during the first three quarters, the Bank also played leading roles in several important capital market deals of its corporate clients and often provided financial hedging to such transactions. Clients even from among small and medium-sized businesses increasingly were using the eTrading online platform as well as value-added hedging solutions based on financial derivatives. A partial recovery in travel and related currency conversions supported FX gains from payments compared to 2020's low base.

Dividend and other income remained stable (0.0%) at CZK 210 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by a slight 0.7% to CZK 15,099 million. Personnel expenses declined by (1.5%) to CZK 7,539 million, reflecting decrease in the number of employees by (4.6%) to 7,687. KB had also agreed with the trade unions on maintaining stable base salaries in 2021. General and administrative expenses (not including contributions to the regulatory funds) were up by 1.1%, at CZK 3,716 million, as lower real estate and telecommunications costs were offset by higher expenses related to IT and marketing. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,041 million, up 10.6% year on year. The CNB had adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks by 15.1% year on year. Depreciation, amortisation, and impairment of operating assets grew by 2.7% to CZK 2,803 million, driven mainly by new and upgraded software and IT equipment acquired in pursuit of KB's digitalisation strategy, partly offset by lower depreciation and rights-of-use of buildings.

The profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (operating profit) increased by 10.8% to CZK 16,247 million.

Cost of risk reached CZK 731 million, lower by (84.0%) in comparison with the full year 2020[1]. It was influenced by update of staging rules. The provisions creation related to corporate portfolios, where it was concentrated in a small number of client situations, and it also reflected updates to certain provisioning models and adjustments of buffers for certain credit exposures, such as terminated moratorium portfolios and loans provided under Covid guarantee schemes or for selected Covid-sensitive sectors. The Group was able to slightly reduce the volume of provisions related to the retail portfolio. That was in accord with the good repayment discipline of clients and successful recovery performance. The Group recorded limited net releases of reserves reflecting statutory recalibration of models in accordance with IFRS 9. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2021 came to 10 basis points. That compares with 68 basis points for the previous year.

[1] Detailed information is mainly in Notes 13 and 43 to the Consolidated Financial Statements as of 31 December 2021

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (10.9%) year on year, at CZK 221 million, influenced by the development of yields.

Profit attributable to exclusion of companies from consolidation totalled CZK 25 million, and it included KB's decreased participation in Bankovní identita, a.s.

Net profits on other assets reached CZK 258 million, which result was mainly due to a release of provisions for buildings in the held-for-sale portfolio and sales of buildings and finished leases of premises. In the previous year, this result had been CZK (15) million.

Income tax was higher by 52.5%, at CZK 3,028 million.

Current tax per country

(CZK million)	Czechia	Slovakia	Belgium
		(branch of KB and SGEF, ESSOX FINANCE)	(BASTION)
Net operating income	30,688	657	1.037
Profit before income tax	15,651	369	0.010
Current tax	3,014	95	0.003
State support	0	0	0

KB Group's consolidated net profit for 2021 reached CZK 12,992 million, up by 56.5% in comparison with the year earlier. Of this total, CZK 265 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (versus CZK 143 million a year earlier).

Reported net profit attributable to the Group's equity holders totalled CZK 12,727 million, which is 56.0% more year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 1,078 million, driven by effects of changed interest rates on revaluation of cash flow hedging instruments and on the value of securities held by an associated company. Consolidated comprehensive income for 2021 totalled CZK 14,070 million, of which CZK 259 million was attributable to owners of non-controlling stakes.

Statement of financial position

Assets

As of 31 December 2021, KB Group's total assets had grown by 6.6% year on year to CZK 1,244.4 billion.

Cash and current balances with central banks were up 27.2%, at CZK 29.9 billion. This line item is volatile because it is influenced by liquidity management and fulfilment of the mandatory minimum reserves requirement. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 60.7% to CZK 41.1 billion. The fair value of hedging financial derivatives gained 7.5% to reach CZK 14.3 billion.

Year on year, there was an (11.5%) decline in financial assets at fair value through other comprehensive income totalling CZK 35.6 billion. This item consisted mainly of public debt securities.

Financial assets at amortised cost grew by 5.8% to CZK 1,095.9 billion. The largest portion of this item consisted of (net) loans and advances to customers, which grew year on year by 6.6% to CZK 724.6 billion. A 97.5% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.5% of the loans were classified in Stage 3 (non-performing). The volume of loss allowances created for amounts due from customers came to CZK 13.3 billion. Loans and advances to banks decreased by (2.1%) to CZK 257.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 22.9% and reached CZK 114.1 billion at the end of 2021.

Revaluation differences on portfolio hedge items totalled a negative CZK (0.6) billion. Current and deferred tax assets stood at CZK 0.1 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 13.8% to CZK 5.8 billion. Assets held for sale rose by 375.3% to CZK 0.7 billion, due to a transfer of buildings from operating assets and mainly due to a release of allowances for certain buildings.

Investments in subsidiaries and associates declined by (50.5%) to CZK 0.8 billion, reflecting decreased equity of Komerční pojišťovna due to revaluation of the bond portfolio and deferred taxes.

The net book value of tangible assets fell by (7.9%) to CZK 9.0 billion. Due to software development and acquisition, intangible assets grew by 14.2% to reach CZK 7.9 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 6.4% higher in comparison to the end of 2020 and stood at CZK 1,117.6 billion.

Financial liabilities at amortised cost went up by 6.0% to CZK 1,056.5 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 5.6% to CZK 956.9 billion. This sum included CZK 8.3 billion of liabilities from repo operations with clients and CZK 6.2 billion of other payables to customers. Amounts due to banks decreased year on year by (3.7%) to CZK 83.4 billion.

The volume of outstanding securities issued expanded significantly to CZK 13.7 billion. That reflected the successful EUR 500 million placement of a first tranche of euro-denominated mortgage covered bonds under the EUR covered bond programme newly opened in the first quarter of 2021.

Revaluation differences on portfolios hedge items were negative CZK (31.7) billion. Current and deferred tax liabilities rose to CZK 1.6 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 9.6% to CZK 12.5 billion.

The provisions balance was lower by (33.8%), at CZK 1.3 billion. 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 2.5 billion, was down (5.3%) year on year. Because that debt is issued in euro, the change reflects appreciation of the Czech crown over the same period.

Equity

Total equity grew year on year by 8.3% to CZK 126.8 billion due to profit generated and because the volume of dividends paid was limited by CNB restrictions. The value of non-controlling interests reached CZK 3.3 billion. As of 31 December 2021, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Expenses on research and development

In 2021, Komerční banka had outlays through operating expenses of CZK 145 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 Dec 2021	31 Dec 2020
Bonds and treasury bills	158,283	136,332
Shares	59	47
Emissions allowances	0	0
Equity investments in subsidiary and associated undertakings*	786	1,587
Total	**159,128**	**137,966**

* 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 Dec 2021	31 Dec 2020
Tangible fixed assets*	8,983	9,758
Intangible fixed assets*	7,878	6,898
Total tangible and intangible fixed assets	**16,861**	**16,656**

* 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.

Main ongoing investments – excluding financial investments

In 2021, the Bank made non-financial investments totalling CZK 2.8 billion. Most of this amount was invested in the area of information technologies (almost CZK 2.6 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

Komerční banka plans investments for 2022 at the level of CZK 3.3 billion. The Bank will increase its investment in digitisation in relation to the strategic plan KB Change 2025 based upon 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 to conduct its business activities. The operation of owned or leased buildings by KB Group does not generate an excessive burden on the environment. More information regarding environmental impact is provided in the 2021 Sustainability Report.

Summary of real estate managed by the Group:

As of 31 December 2021	Number	Of which owned by KB	Of which subleased by KB
Buildings in Czechia	472	73	399
Buildings in Slovakia	2	0	2
Total	**474**	**73**	**401**

Note: The decrease in the number of buildings reflects a reduction in the number of branches during 2020 and the resolution of property rights relating to these buildings in 2021.

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	1,698	7,637
Pilsen	Goethova	2,704	11,421
Prague 1	Václavské náměstí	796	50,811
Prague 2	Bělehradská	222	7,924
Prague 5	Štefánikova	267	7,568
Prague 5	náměstí Junkových	2,772	27,529
Prague 5	náměstí Junkových	2,921	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 sub-licences

In 2021, 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 185 trademarks. In the cases of 3 more trademarks, a registration process had been initiated in 2021. In the case of 1 trademark, a registration process had been initiated in 2019. The processes have not yet been completed in these four instances. In the Slovak Republic, 6 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within 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

This annual report uses the following alternative performance measures in order to reflect the underlying financial or business performance and to enhance the comparability of information between reporting periods.

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);

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');

[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.

Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated):

(source: Profit and Loss Statement)	2021	Restated 2020*	
Net interest income income, year-to-date	**21,795**	**21,360**	
Of which:			
Loans and advances at amortised cost	20,713	19,501	
Debt securities at amortised cost	2,065	1,706	
Other debt securities	681	683	
Financial liabilities at amortised cost	(2,288)	(2,276)	
Hedging financial derivatives – income	11,698	14,241	
Hedging financial derivatives – expense	(11,074)	(12,495)	
(source: Balance Sheet)	**31. 12. 2021**	**31. 12. 2020**	**31. 12. 2019**
Cash and current balances with central banks/ Current balances with central banks	21,455	15,050	7,737
Loans and advances to banks	257,196	262,606	244,561
Loans and advances to customers	724,587	679,956	647,259
Financial assets held for trading at fair value through profit or loss/ Debt securities	8,696	3,342	4,112
Non-trading financial assets at fair value through profit or loss/ Debt securities	135	279	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	35,509	40,151	35,682
Debt securities	114,078	92,839	71,581
Interest-bearing assets (end of period)	**1,161,656**	**1,094,223**	**1,010,932**
Average interest-bearing assets, year-to-date	**1,127,939**	**1,052,578**	
NIM year-to-date, annualised	**1.93%**	**2.03%**	

* Figures for 2020 have been recalculated due to a change in the manner of displaying negative interest. Net interest income from 'Loans and advances at amortised cost' was decreased by CZK 354 million and net interest income from 'Financial liabilities at amortised cost' were increased by CZK 354 million.

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 2021

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

Consolidated Statement of Income for the year ended 31 December 2021

(CZKm)	Note	2021	2020
Interest income	5	35,558	36,485
Interest expense	5	(13,763)	(15,125)
Net interest income		**21,795**	**21,360**
Net fee and commission income	6	5,711	5,210
Net profit/(loss) on financial operations	7	3,630	2,884
Dividend income	8	2	6
Other income	9	208	204
Net operating income		**31,346**	**29,664**
Personnel expenses	10	(7,539)	(7,650)
General and administrative expenses	11	(4,757)	(4,615)
Depreciation, amortisation, and impairment of operating assets	12	(2,803)	(2,730)
Total operating expenses		**(15,099)**	**(14,995)**
Operating profit		**16,247**	**14,669**
Impairment losses	13	(775)	(4,701)
Net gain from loans and advances transferred and written off	13	44	123
Cost of risk		**(731)**	**(4,578)**
Income from share in associated undertakings		221	248
Profit/(loss) attributable to exclusion of companies from consolidation		25	(40)
Gain on a bargain purchase		0	0
Net profits on other assets	14	258	(15)
Profit before income tax		**16,020**	**10,284**
Income tax	15	(3,028)	(1,985)
Net profit for the period	16	**12,992**	**8,299**
Profit attributable to the Non-controlling owners		265	143
Profit attributable to the Group's equity holders		12,727	8,156
Earnings per share/diluted earnings per share (in CZK)	16	**67.39**	**43.19**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

(CZKm)	Note	2021	2020
Net profit for the period	16	**12,992**	**8,299**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	39	6	(15)
Revaluation of equity securities at FVOCI option*, net of tax	40	0	(284)
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	41	900	247
– Transfer to net profit/(loss), net of tax	41	438	(255)
Hedge of a foreign net investment		36	(24)
Foreign exchange difference on translation of a foreign net investment		(45)	26
Revaluation of debt securities at FVOCI**, net of tax	42	598	73
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax	24	(855)	24
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		**1,078**	**(208)**
Total comprehensive income for the period, net of tax		**14,070**	**8,091**
Comprehensive income attributable to the Non-controlling owners		259	146
Comprehensive income attributable to the Group's equity holders		13,811	7,945

* 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 2021

(CZKm)	Note	31 Dec 2021	31 Dec 2020
ASSETS			
Cash and current balances with central banks	18	29,947	23,547
Financial assets held for trading at fair value through profit or loss	19	41,142	25,600
Other assets held for trading at fair value through profit or loss	19	0	0
Non-trading financial assets at fair value through profit or loss	20	135	279
Positive fair value of hedging financial derivatives	43	14,315	13,317
Financial assets at fair value through other comprehensive income	21	35,568	40,198
Financial assets at amortised cost	22	1,095,861	1,035,401
Revaluation differences on portfolios hedge items		(629)	283
Current tax assets		18	1,183
Deferred tax assets	33	91	78
Prepayments, accrued income, and other assets	23	5,806	5,103
Investments in associates	24	786	1,587
Intangible assets	25	7,878	6,898
Tangible assets	26	8,983	9,758
Goodwill	27	3,752	3,752
Assets held for sale	28	700	147
Total assets		**1,244,353**	**1,167,131**

(CZKm)	Note	31 Dec 2021	31 Dec 2020
LIABILITIES AND EQUITY			
Amounts due to central banks		0	0
Financial liabilities held for trading at fair value through profit or loss	29	39,933	25,170
Negative fair value of hedging financial derivatives	43	34,957	8,760
Financial liabilities at amortised cost	30	1,056,483	996,594
Revaluation differences on portfolios hedge items		(31,716)	2,721
Current tax liabilities		395	50
Deferred tax liabilities	33	1,175	708
Accruals and other liabilities	31	12,513	11,415
Provisions	32	1,341	2,026
Subordinated debt	34	2,490	2,629
Total liabilities		**1,117,571**	**1,050,073**
Share capital	35	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		104,504	94,811
Non-controlling interest		3,273	3,242
Total equity		**126,782**	**117,058**
Total liabilities and equity		**1,244,353**	**1,167,131**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

(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 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**
Changes in accounting policies (refer to Note 3.6.3)	0	0	328	0	0	0	0	0	0	328	0	328
Balance as of 1 January 2021	**19,005**	**(577)**	**94,742**	**526**	**(230)**	**4**	**(90)**	**(9)**	**773**	**114,144**	**3,242**	**117,386**
Treasury shares, other	0	0	69	20	0	0	0	0	0	89	1	90
Payment of dividends	0	0	(4,535)	0	0	0	0	0	0	(4,535)	(229)	(4,764)
Transactions with owners	**0**	**0**	**(4,466)**	**20**	**0**	**0**	**0**	**0**	**0**	**(4,446)**	**(228)**	**(4,674)**
Profit for the period	0	0	12,727	0	0	0	0	0	0	12,727	265	12,992
Other comprehensive income for the period, net of tax**	0	0	(855)	0	6	0	1,338	(3)	598	1,084	(6)	1,078
Comprehensive income for the period	**0**	**0**	**11,872**	**0**	**6**	**0**	**1,338**	**(3)**	**598**	**13,811**	**259**	**14,070**
Balance as of 31 Dec 2021	**19,005**	**(577)**	**102,148**	**546**	**(224)**	**4**	**1,248**	**(12)**	**1,371**	**123,509**	**3,273**	**126,782**

* 'Capital funds and retained earnings' consist of other funds created from profit in the amount of CZK 5,211 million (2020: CZK 5,211 million), net profit from the period in the amount of CZK 12,727 million (2020: CZK 8,156 million), and retained earnings in the amount of CZK 84,210 million (2020: CZK 81,047 million).

** Amounts in the column 'Capital funds and retained earnings' represent gain from the revaluation of debt securities due to 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 2021

(CZKm)	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	16,020	10,284
Non-cash and other adjustments		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	670	4,624
Depreciation and amortisation expense on tangible and intangible fixed assets	2,833	2,706
Net profits on other assets	(258)	15
Revaluation of derivatives	4,863	(2,130)
Accrued interest, amortisation of discount and premium	(349)	1,515
Profit/(loss) on subsidiaries and associates	(248)	(214)
Foreign exchange differences	(159)	(361)
Other changes	(976)	119
Operating profit before change in operating assets and liabilities	**22,396**	**16,558**
Changes in assets and liabilities from operating activities after non-cash adjustments		
Amounts due from banks (received/paid)	1,464	(15,871)
Loans and advances to customers	(47,277)	(37,010)
Debt securities at amortised cost	(26,111)	(17,683)
Financial assets at fair value through other comprehensive income	(86)	(4,974)
Financial assets held for trading at fair value through profit or loss	(5,202)	773
Other assets held for trading at fair value through profit or loss	0	494
Non-trading financial assets at fair value through profit or loss	155	312
Other assets	(574)	132
Amounts due to banks (received/paid)	1,268	(8,561)
Amounts due to customers	52,977	83,536
Financial liabilities at fair value through profit or loss	3,078	(411)
Other liabilities	1,532	(1,223)
Net cash flow from operating assets and liabilities	**(18,776)**	**(486)**
Net cash flow from operating activities before tax	**3,620**	**16,072**
Income tax paid	(1,597)	(3,597)
Net cash flow from operating activities	**2,023**	**12,475**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	197	6
Purchase of tangible and intangible assets	(3,085)	(2,834)
Sale of tangible and intangible assets	100	41
Purchase of investments in subsidiaries and associates	(42)	(101)
Sale/decrease of investments in subsidiaries and associates	26	0
Net cash flow from investment activities	**(2,804)**	**(2,888)**

(CZKm)	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to shareholders	(4,488)	0
Dividends paid to non-controlling interest	(229)	0
Securities issued	13,236	105
Securities redeemed	(46)	(2,594)
Lease liabilities	(450)	(474)
Subordinated debt	(140)	83
Net cash flow from financing activities	**7,883**	**(2,880)**
Net increase/(decrease) in cash and cash equivalents	**7,102**	**6,707**
Cash and cash equivalents at the beginning of the year	20,512	13,518
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(265)	287
Cash and cash equivalents at the end of the year (refer to Note 36)	**27,349**	**20,512**
Interest received	35,722	37,258
Interest paid	(14,276)	(14,383)

The accompanying Notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on 28 February 2022.

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.

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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% (2020: 60.35%) of the Bank’s issued share capital, and the ultimate parent company.

The main activities of the Bank’s subsidiary companies as of 31 December 2021:

Company’s name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
KB penzijní společnost, a.s.	100.00	100.00	Retirement pension	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
Finbricks, s. r. o.*	0.00	100.00	Development and implementation of payment solutions	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 to its insignificant impact on the financial statements.

The main activities of the Bank's associated undertakings as of 31 December 2021:

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
upvest s.r.o.**	0.00	31.06	Crowdfunding real estate investments	Brno
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 the profit of 0.1%.
** The company is not consolidated due to its insignificant impact on the financial statements.

2 Events for the year ended 31 December 2021

Dividends declared during 2021

At the General Meeting held on 2 November 2021, the shareholders approved a dividend from retained earnings of CZK 23.86 per share before tax. The dividend was declared in the aggregate amount of CZK 4,535 million. The dividends were paid out in Czech crowns. Moreover, the Group paid out CZK 229 million in dividends to non-controlling owners of ESSOX s.r.o. (2020: CZK 0 million) and CZK 0 million to non-controlling owners of SG Equipment Finance Czech Republic s.r.o. (2020: CZK 0 million).

Changes in the Bank's financial group

In March, the Bank increased shareholder's equity of Bankovní identita, a.s. by CZK 16 million through a financial contribution into other capital funds.

In March 2021, KB SmartSolutions, s.r.o. established the fully owned company Finbricks, s.r.o., funding it with CZK 2 million of equity. The company develops payment solutions based on PSD2. During 2021, KB SmartSolutions, s.r.o. increased shareholder's equity of Finbricks by CZK 10 million through a financial contribution into other capital funds. Finbricks, s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

In April, the Bank sold 490 shares of Bankovní identita, a.s. to seven other banks (Air Bank a.s., Equa bank a.s., Fio banka, a.s., mBank S.A., MONETA Money Bank, a.s., Raiffeisenbank a.s., and UniCredit Bank Czech Republic and Slovakia, a.s.). The Bank currently holds a 17% share in Bankovní identita, a.s.

In June, KB SmartSolutions, s.r.o. increased shareholders' equity of upvest s.r.o. by CZK 14 million and increased its share from the previous 18.9% to the current 31.06%. Upvest s.r.o. is presently not consolidated due to its insignificant impact on the consolidated financial statements.

In July, the Bank decreased shareholders' equity of BASTION EUROPEAN INVESTMENTS S.A. by EUR 750 thousand (equivalent to CZK 21 million).

During 2021, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 46 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

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 maturity date 20 January 2026. The bond's maturity is extendable by 1 year according to the terms and conditions of the bond (a so-called soft bullet) and the bond received an AAA rating from the rating agency Fitch.

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 2021.

The Consolidated Financial Statements presented for the year ended 31 December 2021 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 hedged 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);
- Business model and SPPI assessment of financial assets (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.

Covid-19 Pandemic
The continuation of the Covid-19 pandemic causes the current economic environment to remain subject to increased volatility and uncertainty, thus 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 Note 43(A). The Group uses in particular its own behavioural models to evaluate the impact of Covid-19. Specifically, 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.

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 2021. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
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 effective from 1 January 2020 (Phase 1 pre-replacement issues) 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. See Note 3.6.1 for further information.
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.

Standard	Impact/Comments
Covid-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	In May 2020, the IASB issued amendments to IFRS 16 *Covid-19 Related Rent Concessions* to provide relief to lessees from applying the IFRS 16 requirements on lease modifications for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment was originally intended to apply for payments due on or before 30 June 2021. These second amendments, published by the IASB in March 2021, extend by 1 year the availability of the practical expedient, applicable to rent concessions for which any reduction in lease payments affects only payments due on or before 30 June 2022. In 2021, as in 2020, the Group did not benefit from any Covid-19 related rent reliefs.

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 2021 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.

Standard	Summarised content	Effective for reporting period beginning on or after
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
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
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). The adjustment of the illustrative example to IFRS 16 Leases was not subject to EU endorsement process.	1 January 2022
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 also be applied 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
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)	The amendment is a transitional provision relating to comparative information about financial assets presented on the initial application of IFRS 17. The amendment permits entities that first apply IFRS 17 and IFRS 9 at the same time to disclose comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before.	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
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
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	The amendments clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exemption does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	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 the line '*Share premium, funds, retained earnings, revaluation, and net profit for the period'*.

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 3 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.

Changes in the basis for determining the contractual cash flows of financial assets and liabilities – IBOR reform
In the context of the interest rate benchmark reform (hereinafter the “IBOR reform”), the basis for determining the contractual cash flows of a financial asset or liability may be modified:
- by amending the contractual terms and conditions set during the initial recognition of the financial instrument (example: the contractual terms and conditions are amended to replace the initial reference interest rate by an alternative one);
- by applying external dispositions without requiring a change in contractual terms and conditions (example: the method for determining the reference interest rate is amended without any change in the contractual terms and conditions, e.g. the EONIA has been quoted by reference to the €STR + 8.5 bps since October 2019);
- as a result of the activation of an existing contractual term or condition (example: application of the contractual rate replacement provision, or “Fallback”).

If in the context of the IBOR reform there is a change in the basis for determining the contractual cash flows of a financial asset or liability at amortised cost or of a financial asset at fair value through other comprehensive income, the modification is considered a simple forward-looking update of the interest rate applied to determine the interest income or expense and does not generate a modification gain or loss in the income statement.

This treatment depends on compliance with the following conditions:
- a change in the basis for determining the contractual cash flows is required and results directly from the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the former basis used before the change.

Cases giving rise to a new basis for determining the contractual cash flows considered economically equivalent to the former basis are, for example:
- the replacement of an existing reference interest rate used to determine the contractual cash flows of a financial asset or liability by an alternative reference interest rate (or by changing the method used to determine the reference interest rate), with the addition of a fixed spread necessary to compensate for the difference in the basis between the existing reference interest rate and the alternative one;
- the addition of a “Fallback” provision to the contractual terms and conditions of a financial asset or liability to allow for implementation of the changes described above;
- changes in the determination of the amount of interest resulting from the use of a new reference interest rate (rate revision procedure, number of days between interest payment dates, etc.).

Changes to a financial asset or liability, other than those deriving directly from application of the IBOR reform, are treated as a modification of financial instruments.

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 the evaluation of:
- The Group's business model for managing financial assets; and
- The financial asset's contractual cash flow characteristics.

<u>Description of business models</u>
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" are: (i) all loans and receivables; (ii) all debt securities that are not part of the liquidity buffer and are not determined for trading; (iii) from 1 January 2018 until 25 March 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer with residual maturity up to 10 years and partly up to 12 years at the time of purchase; (iv) from 25 March 2021 until 23 September 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer, with residual maturity up to 15 years at the time of purchase and according to the Group's internal rules; and (v) from 23 September 2021 onwards, all new investments in CZK or EUR-denominated bonds forming part of the liquidity buffer, with residual maturity up to 15 years at the time of purchase and according to the Group's internal rules.

(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" are: (i) from 1 January 2018 until 23 September 2021, all EUR-denominated bonds forming part of the liquidity buffer; (ii) from 1 January 2018 until 25 March 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer and with residual maturity at the time of purchase longer than 12 years or longer than 10 years, according to the Group's internal rules; (iii) from 25 March 2021 until 23 September 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer with residual maturity above 15 years at the time of purchase; and (iv) from 23 September 2021 onwards, all new investments in CZK- or EUR-denominated bonds forming part of the liquidity buffer with residual maturity above 15 years at the time of purchase.

(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".

Contractual cash flows characteristics test
Based on an 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.

Measurement at amortised costs
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'*.

Measurement at fair value through other comprehensive income
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'*.

Measurement at fair value through profit or loss
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 the 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).

<u>Changes in the basis for determining the contractual cash flows of the components of a hedging relationship – IBOR reform</u>
Continuation of the hedging relationships
The documentation of the existing hedging relationships is regularly updated in order to reflect the changes brought about by the IBOR reform in the basis for determining the contractual cash flows of the hedged item/hedging instrument.

These updates resulting from the IBOR reform do not result in discontinuation of the hedging relationship nor designation of a new accounting hedge when they meet the following conditions:
- the change made to the basis for determining the contractual cash flows is required and results directly from the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the former determination basis used before the change.

When these conditions are met, updating the hedging documentation may consist solely in:
- designating the alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
- updating the description of the hedged item, including a description of the hedged portion of cash flows or the fair value;
- updating the description of the hedging instrument; or
- updating the description of the method used to assess the effectiveness of the hedge.

These updates are performed as and when changes are made to the hedged items or the hedging instruments. An accounting hedge may be updated several successive times.

Changes not directly resulting from application of the IBOR reform and impacting the basis used for determining the contractual cash flows of the hedging relationship components or the hedging documentation are analysed beforehand in order to confirm compliance with the criteria for the continued application of hedge accounting.

Specific accounting treatments
Regarding fair value hedges and cash flow hedges, the applicable accounting requirements remain unchanged for the recognition of gains and losses resulting from reassessment of the hedged item and the hedging instrument while taking into account the changes described above.

For the purpose of the retrospective effectiveness assessment, the cumulative fair value changes may be reset to zero on a case-by-case basis for each hedging relationship modified.

The amounts of gains or losses recognised in other comprehensive income for cash flow hedges that have been discontinued prospectively, when the benchmark rate used as a basis for the future cash flows hedged is changed, are kept in other comprehensive income until the hedged cash flows are recorded in the Statement of Income.

An alternative reference interest rate used as a risk component not specified by an agreement may be used, provided it is, as reasonably expected, separately identifiable (i.e. quoted on a sufficiently liquid market) in the 24 months after its first use.

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 the 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 the 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.

Exposures under the Group's private moratorium are also reported as forborne, but without automatic stage deterioration.

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 in applying 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 with the exception of the subsidiary ESSOX, s.r.o., where the new definition of default was implemented during the first quarter of 2021.

<u>Significant increase in credit risk</u>
Being a trigger for the transfer of an exposure into Stage 2, significant increase in credit risk (SICR) is one of the most important drivers for the resulting ECL. It is evaluated by the Group at each reporting date in line with IFRS 9 requirements. In compliance with the SG Group IFRS 9 methodology, SICR is assessed at facility level by comparing the observed increase in the lifetime probability of default since the initial recognition with specific thresholds. The increase is measured in two ways: (i) absolute – by the difference between the probabilities of default (current vs. at origination), or (ii) relative – by the ratio of these. For SICR recognition, the thresholds must be breached in both ways – absolute and relative – for the given facility.

The lifetime probability of default is deduced from the result of the internal credit risk assessment (expressed by client's rating) as well as from the internal IFRS 9 PD curve models reflecting both the history of observed default rates within a given asset class and the forward-looking (macro-) economic development. The lifetime PD is calculated from the corresponding PD curve over the remaining maturity of the deal (annualised). For portfolios with a lack of data for regular statistical modelling (e.g., smaller KB subsidiaries), SICR is expressed by deterioration of the ratings rather than by PD curves. The thresholds (both relative and absolute) have been assessed by the Group to keep the prescribed performance criteria for Stage 2 (default capture rate, default rate in S2, exposure volume).

In addition to the aforementioned criteria, the Group supplements SICR rules with indicators reflecting the current deteriorated situation of the client, such as delay in contractual payments of more than 30 days past due, a worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after loan restructuring. There are no additional probation periods for the transfer back to Stage 1 other than those already established in regular credit risk rules for rating improvement.

The Group also closely monitors sectors most affected by the impacts of (post)-Covid-19 (real estate developers and investors, hospitality and entertainment, transport, etc.). The Group believes that 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 with the exception of those sectors and portfolios mentioned in Note 43(A).

<u>Credit-impaired financial assets</u>
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 has been 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

The Group 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 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 a 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:

	2021	2020
Machinery and equipment	4	4
Information technology – notebooks, servers	4/5	4/5
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
Licences – 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, and remuneration for years of service. 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 the 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 Equity

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 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.

3.6 Changes in accounting policies

3.6.1 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the context of the IBOR reform

Interest rate benchmark reform

The reform of interbank interest rate benchmarks (IBOR: InterBank Offered Rates), initiated by the Financial Stability Board in 2014, aims at replacing these benchmarks with alternative rates, in particular the Risk-Free Rates (RFR). This reform was accelerated on 5 March 2021, when the Financial Conduct Authority, which is in charge of supervising LIBOR, announced its end dates:

- USD LIBOR: The publication of the main settings should cease by the end of June 2023;
- GBP, CHF, JPY and EUR LIBOR: The publication of these benchmarks ceased at the end of 2021.

At the same time, regarding the major benchmarks of the euro area:

- EURIBOR: Although there was uncertainty regarding the prospective use and existence of EURIBOR in the beginning phase of the reform, currently EMMI (the European Money Markets Institute), which administers the interest rate benchmarks, does not contemplate discontinuing its publication. EURIBOR will thus continue to be used in the coming years;
- EONIA: Since 1 October 2019, EONIA has been calculated using a methodology based on €STR plus an adjustment spread of 8.5 bps. Its administrator, EMMI, ceased its publication at the end of 2021. The replacement reference rate recommended by the working group on euro risk-free rates established by the European Central Bank is €STR/ESTER.

The IBOR reform currently does not include the CZK main interest rate benchmark – PRIBOR.

In preparation for the announced LIBOR end dates, the financial authorities and working groups set up by central banks have issued recommendations to the market participants. These recommendations concern:

- on the one hand, the production of new transactions referencing LIBOR and EONIA (ceased on 31 December 2021); and
- on the other hand, the legacy transactions referencing these benchmarks to switch to alternative reference rates by 31 December 2021 at latest (except USD LIBOR: 30 June 2023 at latest).

Reflection of changes

Despite the fact that the main currencies and benchmarks in the Group's financing and interest-rate hedging business remain CZK/PRIBOR and EUR/EURIBOR, the Group has performed an upgrade of its tools and processes to be able to deal in RFR-based products and, thereby, to ensure its post-LIBOR and post-EONIA business continuity.

In the area of Investment Banking:

- RFRs ESTER, SOFR, and SONIA were implemented in trading and risk management tools, relevant valuation curves were set up;
- new RFR-linked products and related processes and methodological guidelines were prepared and approved;
- the production of EONIA and LIBOR referencing products gradually ceased in spring 2021 and KB's Investment Banking has been providing its clients with alternate solutions;
- accession to the ISDA 2020 IBOR Fallbacks Protocol, which covers all ISDA Master Agreement and Credit Support Annex (CSA) transactions;
- all legacy transactions referencing EONIA and LIBOR benchmarks (terminated as of the end of 2021) were renegotiated; the only outstanding LIBOR transactions concern 1M and 3M USD LIBOR (i.e. benchmarks to be terminated on 30 June 2023);
- all concerned CSAs and CMAs, containing collateral management on terminated benchmarks, were either amended or agreed with the counterparty on applying the fallback rates without a need for formal amendment of the contract; these changes were also projected into instruments keeping the evidence of the provided/accepted collateral, so-called Call Accounts.

In the area of Commercial Banking:

- the RFRs needed for the transitions from the ceased benchmarks were implemented in the Bank's central system, namely: ESTER, SOFR, SARON, TONAR, and SONIA;
- the contracts referencing ceased benchmarks were renegotiated for the use of RFRs or linked to RFRs based on the statutory or fallback rules. As a result of this process, 98% of contracts linked to benchmarks in cessation were renegotiated and 2% were treated using the statutory or fallback rules. Consequently, after 31 December 2021 there remained no such contracts using the benchmarks ceased by 31 December 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
In response to the interest rate benchmark reform (hereinafter the "IBOR reform") currently being implemented, the accounting standards applicable have been amended by the IASB in two phases to provide relief to entities impacted by the transition to alternative rates.

The purpose of **Phase 1** of these amendments, applied in advance by the Group since 31 December 2019, has been to enable the continued application of hedge accounting treatments despite uncertainties regarding the timetable and specifics regarding the transition from current interest rate benchmarks to new ones. These amendments will remain applicable until the uncertainties have been resolved.

The notional amounts of hedging instruments to which the IAS 39 amendment is likely to be applied, thus permitting to use exceptions to the hedge accounting requirement in the context of the interest rate benchmark reform, are CZK 1,756 million for instruments identifying USD LIBOR.

Phase 2 of these amendments was adopted by the European Union on 13 January 2021, effective for the reporting periods beginning on or after 1 January 2021. The amendments address treatment of the changes to financial instruments in the context of the IBOR reform. The Phase 2 amendments have provided as a practical expedient in particular for application of the following treatments: (i) when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income and lessee's lease liabilities, the changes brought about by the IBOR reform in the determination of the contractual cash flows, when performed on an economically equivalent basis, are booked as the revision of a variable interest rate (refer to Note 3.5.5.4); and (ii) continuation of the hedging relationship when changes are made, in the context of the IBOR reform, to the hedged item and/or the hedging instrument and lead to the re-documentation of the hedge (refer to Note 3.5.5.4.3).

The table below provides information about the Group's significant exposures to financial instruments referencing to benchmark interest rates subject to the IBOR reform that have yet to transition to risk-free rates and maturing after 31 December 2021 for non-USD LIBOR instruments and after 30 June 2023 for USD LIBOR instruments.

Financial assets, liabilities and derivatives impacted by the reform of interest rate benchmarks:

(CZKm)				Exposure as of 31 December 2021
Benchmark interest rate	Quotation end date	Financial assets impacted by the reform – Residual principal amount	Financial liabilities impacted by the reform – Residual principal amount	Derivatives impacted by the reform – Notional amount
EUR LIBOR	31 December 2021	1,417	0	0
USD LIBOR	30 June 2023*	3,707	0	26,870
Total		**5,124**	**0**	**26,870**

* Except USD LIBOR tenors of 1 week and 2 months that ceased on 31 December 2021.

3.6.2 Classification of financial assets according to risk stages

In accordance with the SG Group methodology, a new relative criterion was introduced in the fourth quarter of 2021 to determine the classification of exposures into relevant staging grade. The rule is applied that in cases where the current 1-year PD (default probability) deteriorates three times compared to the PD at the time the loan was granted, the loan is transferred from Stage 1 to Stage 2. Due to the implementation of this rule, an exposure of CZK 9.9 billion was transferred from Stage 1 to Stage 2 and 2020 comparative figures have been restated. An impact on the creation of allowances in the amount of CZK 95 million was booked in 2021.

Restatement of** Financial assets at amortised cost **in 2020

	Reported 2020		Restatement		Restated 2020	
	Gross carrying value		Gross carrying value		Gross carrying value	
(CZKm)	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
Central banks	216,388	0	0	0	216,388	0
General governments	25,607	18	(35)	35	25,572	53
Credit institutions	45,687	533	(157)	157	45,530	690
Other financial corporations	35,953	26	(413)	413	35,540	439
Non-financial corporations	233,965	26,763	(1,043)	1,043	232,922	27,806
Households	335,197	17,201	(5,491)	5,491	329,706	22,692
Total loans	**892,797**	**44,541**	**(7,139)**	**7,139**	**885,658**	**51,680**

	Reported 2020		Restatement		Restated 2020	
	Allowances		Allowances		Allowances	
(CZKm)	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
Central banks	0	0	0	0	0	0
General governments	(17)	0	0	0	(17)	0
Credit institutions	(2)	0	0	0	(2)	0
Other financial corporations	(80)	(1)	2	(2)	(78)	(3)
Non-financial corporations	(783)	(1,556)	4	(4)	(779)	(1,560)
Households	(317)	(1,074)	7	(7)	(310)	(1,081)
Total loans	**(1,199)**	**(2,631)**	**13**	**(13)**	**(1,186)**	**(2,644)**

	Reported 2020	Restatement	Restated 2020
	Gross carrying value	Gross carrying value	Gross carrying value
(CZKm)	**From Stage 1 to Stage 2**	**From Stage 1 to Stage 2**	**From Stage 1 to Stage 2**
Central banks	0	0	0
General governments	3	35	38
Credit institutions	0	157	157
Other financial corporations	23	413	436
Non-financial corporations	13,134	1,043	14,177
Households	9,835	5,491	15,326
Total loans	**22,995**	**7,139**	**30,134**
Total guarantees and other credit-related commitments	**4,985**	**2,761**	**7,746**

Complete data regarding financial assets at amortised cost as broken down by Staging are disclosed in Note 22.

Restatement of commitments and contingencies in 2020

	Reported 2020		Restatement		Restated 2020	
	Carrying value		Carrying value		Carrying value	
(CZKm)	Stage 1	Stage 2	Stage 1*	Stage 2	Stage 1*	Stage 2
Central banks	0	0	0	0	0	0
General governments*	24,136	5	208	52	24 344	57
Credit institutions	4,734	8	-16	16	4 718	24
Other financial corporations*	11,932	22	-261	1	11 671	23
Non-financial corporations	112,541	7,277	(1,096)	1,096	111,445	8,373
Households	41,319	855	(1,596)	1,596	39,723	2,451
Total commitments and contingencies	**194,662**	**8,167**	**(2,761)**	**2,761**	**191,901**	**10,928**

*This reflects specification as to changes in the categorisation of one counterparty in the amount of CZK 260 million.

	Reported 2020		Restatement		Restated 2020	
	Provisions		Provisions		Provisions	
(CZKm)	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
Central banks	0	0	0	0	0	0
General governments	10	0	0	0	10	0
Credit institutions	2	0	0	0	2	0
Other financial corporations	21	1	0	0	21	1
Non-financial corporations	146	264	(4)	4	142	268
Households	42	35	(3)	3	39	38
Total commitments and contingencies	**221**	**300**	**(7)**	**7**	**214**	**307**

Complete data regarding commitments and contingencies as broken down by Staging are disclosed in Note 37.

3.6.3 Attributing benefit to periods of service

During its April 2021 meeting, the IFRS Interpretations Committee (hereinafter the "IFRS IC") specified the method for determining the vesting period of a defined post-employment benefit plan with the following characteristics: (i) employees are entitled to a lump-sum benefit payment, depending on their length of employee service, when they reach retirement age; and (ii) this length is capped at a specified number of consecutive years of service. The IFRS IC specified that, applying IAS 19, the vesting period should be the period of employee service immediately before the retirement age, capped at the number of consecutive years of service specified in the pension plan. Therefore, it is not possible to use as the vesting period the total length of service when the latter is greater than the cap used to calculate the benefit. The decision not to place the issue on the IFRS IC agenda was validated by the IASB on 24 May 2021.

During the second half of 2021, the Group assessed the retirement benefits plan similar to the ones covered by the IFRS IC decision and whose vesting period applied until now corresponded to the employees' total length of service. In response to the IFRS IC decision, the commitments relating to this plan have been reassessed based on a capped length of service, resulting in a release of the provisions for employee benefits. As this change has no significant impact on the annual profit and loss, the comparative information has not been restated and the change was reflected as an adjustment to the opening balance in 2021 of the provisions for employee benefits in the amount of CZK 405 million and the retained earnings in the amount after tax of CZK 328 million.

4 Segment reporting

(CZKm)	Retail banking 2021	Retail banking 2020	Corporate banking 2021	Corporate banking 2020	Investment banking 2021	Investment banking 2020	Other 2021	Other 2020	Total 2021	Total 2020
Net interest income	13,130	13,364	6,841	6,291	1,049	659	775	1,046	21,795	21,360
Net fee and commission income	4,017	3,701	1,737	1,530	208	49	(251)	(70)	5,711	5,210
Net profit/(loss) on financial operations	1,262	1,051	1,818	1,793	(44)	(215)	594	255	3,630	2,884
Dividend income	0	0	0	0	0	0	2	6	2	6
Other income	130	133	(36)	(47)	347	133	(233)	(15)	208	204
Net operating income	**18,539**	**18,249**	**10,360**	**9,567**	**1,560**	**626**	**887**	**1,222**	**31,346**	**29,664**

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% (2020: more than 98%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2021	Restated 2020
Interest income	35,558	36,485
Interest expense	(13,763)	(15,125)
Net interest income	**21,795**	**21,360**
Of which net interest income from		
– Loans and advances at amortised cost *	20,713	19,501
– Debt securities at amortised cost	2,065	1,706
– Other debt securities	681	683
– Financial liabilities at amortised cost *	(2,288)	(2,276)
– Hedging financial derivatives – income	11,698	14,241
– Hedging financial derivatives – expense	(11,074)	(12,495)

* Figures for 2020 have been recalculated due to a change in the manner of displaying negative interest. Net interest income from 'Loans and advances at amortised cost' was decreased by CZK 354 million and net interest income from 'Financial liabilities at amortised cost' was increased by CZK 354 million.
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 406 million (2020: CZK 329 million).

In both 2021 and 2020, 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 0 million (2020: CZK 0 million). *'Interest expense'* includes interest expense on lease liabilities in the amount of CZK 37 million (2020: CZK 43 million).

In 2021, the Group recorded a modification loss in the amount of CZK 0 million (2020: CZK 177 million) from the postponement of instalment payments under the loan moratorium. This item will be amortised to the Bank's profit or loss in the coming years.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2021	2020
Deposit product fee and commission income	887	872
Loan fee and commission income	681	656
Transaction fee and commission income	2,108	2,134
Cross-selling fee income	1,972	1,623
Specialised financial services fee and commission income	1,170	923
Other fee and commission income	222	154
Total fee and commission income	**7,040**	**6,362**
Deposit product fee and commission expense	(97)	(104)
Loan fee and commission expense	(232)	(190)
Transaction fee and commission expense	(503)	(417)
Cross-selling fee expense	(195)	(147)
Specialised financial services fee and commission expense	(200)	(170)
Other fee and commission expense	(102)	(124)
Total fee and commission expenses	**(1,329)**	**(1,152)**
Total net fee and commission income	**5,711**	**5,210**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 809 million (2020: CZK 706 million) and fee expense for these services in the amount of CZK 118 million (2020: CZK 87 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2021	2020
Net realised gains/(losses) on securities held for trading*	213	438
Net unrealised gains/(losses) on securities held for trading*	(94)	(51)
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	(9)	0
Net realised and unrealised gains/(losses) on security derivatives**	8	(79)
Net realised and unrealised gains/(losses) on interest rate derivatives	(2,455)	1,241
Net realised and unrealised gains/(losses) on trading commodity derivatives	0	0
Net realised and unrealised gains/(losses) on foreign exchange operations	5,120	538
Net realised gains/(losses) on foreign exchange from payments	847	797
Total net profit/(loss) on financial operations	**3,630**	**2,884**

* This line also includes trading in emission allowances.
** This line also includes impacts of derivative trades in emission allowances.

A loss of CZK 21,686 million (2020: gain of CZK 4,835 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 the 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 2 million (2020: CZK 6 million).

9 Other income

The Group reports *'Other income'* in the amount of CZK 208 million (2020: CZK 204 million). In both 2021 and 2020, *'Other income'* was predominantly composed of income from services provided to the Société Générale Group entities as well as income from non-banking activities.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2021	2020
Wages, salaries, and bonuses	5,405	5,471
Social costs	2,134	2,179
Total personnel expenses	**7,539**	**7,650**
Physical number of employees at the end of the period*	7,763	8,077
Average recalculated number of employees during the period*	7,687	8,061
Average cost per employee (CZK)	**980,747**	**948,979**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 111 million (2020: CZK 113 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 31 million (2020: CZK 35 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net income of CZK 40 million (2020: CZK 3 million) related to provisions for restructuring. The change in provisions in relation to the "KB Change" transformation project involves use in the amount of CZK 0 million (2020: CZK 28 million) and release in the amount of CZK 0 million (2020: CZK 56 million). In 2021, the Bank adjusted provisions for restructuring related to planned structural changes based on the Covid-19 experience. These provisions include a charge in the amount of CZK 41 million (2020: CZK 136 million) and release and use in the amount of CZK 81 million (2020: CZK 55 million). Further information is presented in Note 32.

Indexed bonuses

In 2021, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *'Personnel expenses'* was CZK 32 million (2020: CZK 42 million) and the total amount of CZK 93 million (2020: CZK 84 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 31 million (2020: net loss of CZK 9 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 180,404 shares (2020: 152,100 shares).

Changes in the numbers of Komerční banka shares were as follow:

(in shares)	2021	2020
Balance as of 1 January	**152,100**	**137,090**
Paid out during the period	(28,866)	(22,556)
Presumed number of newly guaranteed shares	57,170	37,566
Balance as of 31 December	**180,404**	**152,100**

Free shares and deferred share plans

For 2021, the total amount relating to the free shares programme and deferred share plans recognised in *'Personnel expenses'* was CZK 19 million (2020: CZK 22 million).

Changes in the numbers of Société Générale shares were as follow:

	2021		2020	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**117,623**	**21.51**	**102,146**	**30.79**
Granted during the year	55,775	18.74	42,887	11.26
Forfeited during the year	(1,601)	21.51	(1,197)	30.79
Exercised during the year	(24,854)	21.51	(26,213)	30.79
Balance as of 31 December	**146,943**	**17.49**	**117,623**	**21.51**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2021	2020
Insurance	85	75
Marketing and representation	545	505
Selling and banking products expenses	309	310
Other employees expenses and travelling	85	79
Real estate expenses	598	694
IT support	1,379	1,283
Equipment and supplies	82	100
Telecommunications, postage, and data transfer	184	220
External consultancy and other services	371	333
Resolution and similar funds	1,041	941
Other expenses	78	75
Total general and administrative expenses	**4,757**	**4,615**

'General administrative expenses' in 2020 included net expense of CZK 29 million due to provisions for restructuring created in relation to the "KB Change" transformation project in the amount of CZK 1 million and use and release in the amount of CZK 30 million. In 2021, the Bank did not account for provisions in relation to the "KB Change" project.

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 also variable lease payment expenses which are not included in the lease liabilities.

Lease payment expenses were as follow:

	2021				2020			
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	23	0	6	29	25	0	6	31
Low-value assets	1	20	0	21	1	25	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)	2021	2020
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	2,833	2,706
Impairment of operating assets	(30)	24
Total depreciation, amortisation, and impairment of operating assets	**2,803**	**2,730**

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)	2021	2020
Real estate	386	439
Hardware	0	0
Other	24	24
Total depreciation of right-of-use assets	**410**	**463**

13 Cost of risk

The net loss in *'Cost of risk'* totalling CZK 731 million (2020: CZK 4,578 million) includes a net loss from allowances and provisions in the amount of CZK 775 million (2020: CZK 4,701 million) and a net gain from loans and advances transferred and written off in the amount of CZK 44 million (2020: CZK 123 million).

'Cost of risk' was influenced in 2021 by (i) update of staging rules (for change of methodology refer to Note 3.6.2); (ii) update of IFRS 9 models for allowances; and (iii) adjustments to provisions in allowances for particular portfolios with deteriorating credit risk profile (for points (ii) and (iii) refer to Note 43(A)).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2021 were as follow:

(CZKm)	As of 1 Jan 2021	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 2021
Allowances for financial assets (Stage 1)	(1,215)	(666)	411	(4)	0	0	20	(1,454)
– Debt securities	(16)	0	1	(6)	0	0	0	(21)
– Loans and advances	(1,199)	(666)	410	2	0	0	20	(1,433)
Allowances for financial assets (Stage 2)	(2,631)	(40)	250	0	(69)	1	26	(2,463)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(2,631)	(40)	250	0	(69)	1	26	(2,463)
Allowances for financial assets (Stage 3)	(9,124)	0	805	(1,542)	0	337	115	(9,409)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(9,124)	0	805	(1,542)	0	337	115	(9,409)
Total allowances for financial assets (refer to Notes 22 and 42)	**(12,970)**	**(706)**	**1,466**	**(1,546)**	**(69)**	**338**	**161**	**(13,326)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(221)	(260)	20	167	0	0	6	(288)
Provisions for guarantees and other credit-related commitments (Stage 2)	(300)	(6)	22	103	(25)	0	3	(203)
Provisions for guarantees and other credit-related commitments (Stage 3)	(840)	0	1	199	0	0	14	(626)
Total provisions for guarantees and other credit-related commitments (refer to Note 32)	**(1,361)**	**(266)**	**43**	**469**	**(25)**	**0**	**23**	**(1,117)**

* 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 – only full repayments, partial repayments are presented in item Change of credit risk (net)). 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.

** This item includes mainly changes in allowances as a result of FX translation.

*** This item includes changes in allowances due to a change of methodology as described in Note 3.6.2.

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 derecogni-tion*	Change of credit risk (net)	Change of estima-tion (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 – only full repayments, partial repayments are presented in item Change of credit risk (net)). 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.

** This item includes mainly changes in allowances as a result of FX translation.

14 Net profits on other assets

Net profits on other assets comprise the following:

(CZKm)	2021	2020
Net profits/(losses) from sale of buildings	43	19
Net profits/(losses) from impairment on assets held for sale	244	0
Net profits/(losses) from sale-and-lease-back transactions	(1)	(4)
Net profits/(losses) from sale/disposal of other assets	(28)	(30)
Total net profits on other assets	**258**	**(15)**

15 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2021	2020
Tax payable – current year, reported in profit or loss	(3,125)	(2,085)
Tax from previous years	17	19
Deferred tax (refer to Note 33)	80	81
Total income tax	**(3,028)**	**(1,985)**

The items explaining the difference between the Group's theoretical and effective tax rates are as follow:

(CZKm)	2021	2020
Profit before income tax	**16,020**	**10,284**
Theoretical tax calculated at a tax rate of 19% (2020: 19%)	3,044	1,954
Tax on pre-tax profit adjustments	101	9
Non-taxable income (tax effect)	(1,739)	(1,320)
Expenses not deductible for tax purposes (tax effect)	1,762	1,484
Use of tax losses carried forward	4	5
Tax allowance	(3)	(3)
Tax credit	0	0
Movement in deferred tax	(80)	(81)
Tax losses	1	9
Other	(1)	7
Impact of various tax rates of subsidiary undertakings	(2)	(13)
Tax effect of share of profits of associated undertakings	(42)	(47)
Income tax expense	**3,045**	**2,004**
Tax from previous years	(17)	(19)
Total income tax	**3,028**	**1,985**
Effective tax rate	18.90%	19.30%

Non-taxable income primarily includes tax-free dividends, tax-free government securities, and 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 2021 is 19% (2020: 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.

Further information about deferred tax is presented in Note 33.

16 Distribution of net profit

For the year ended 31 December 2021, the Group generated a net profit of CZK 12,992 million (2020: CZK 8,299 million). Distribution of the net profit for the year ended 31 December 2021 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 for 2021 in the amount of CZK 43.80 per share (2020: CZK 23.86 per share), which means a total amount of CZK 8,324 million (2020: CZK 4,535 million). The proposal is subject to the Supervisory Board's approval and subsequently to approval of the General Shareholders' Meeting.

Net profit for the period ended 31 December 2020 was fully allocated to retained earnings. In accordance with a resolution of the General Shareholders' Meeting held on 2 November 2021, the Group distributed dividends in the amount of CZK 4,535 million of the net profit of CZK 8,299 million for 2020.

Moreover, the Group paid out CZK 229 million in dividends to non-controlling owners of ESSOX s.r.o. (2020: CZK 0 million) and CZK 0 million to non-controlling owners of SG Equipment Finance Czech Republic s.r.o. (2020: CZK 0 million).

17 Earnings per share

Earnings per share of CZK 67.39 (2020: CZK 43.19 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 12,727 million (2020: CZK 8,156 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 (2020: 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 2021	31 Dec 2020
Cash and cash values	8,492	8,497
Current balances with central banks	21,455	15,050
Total cash and current balances with central banks (refer to Note 36)	**29,947**	**23,547**

Obligatory minimum reserves in the amount of CZK 20,493 million (2020: CZK 13,320 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2021, the interest rate was 3.75% (2020: 0.25%) in the Czech Republic and 0.00% (2020: 0.00%) in the Slovak Republic.

19 Financial assets and other 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 2021	31 Dec 2020
Trading equity securities	0	0
Trading debt securities	8,696	3,342
Trading derivatives	32,446	22,258
Total financial assets held for trading at fair value through profit or loss	**41,142**	**25,600**

As of 31 December 2021 and 2020, 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 2021, the portfolio of trading securities included securities at fair value of CZK 8,696 million (2020: CZK 3,228 million) that are publicly traded on stock exchanges and securities at fair value of CZK 0 million (2020: CZK 114 million) that are not publicly traded on stock exchanges (rather are traded on the interbank market).

'Trading debt securities' include securities used as collateral for borrowing securities at fair value of CZK 6,366 million (2020: CZK 3,068 million).

'Trading debt securities' include securities eligible for refinancing with central banks at fair value of CZK 2,260 million (2020: CZK 76 million).

20 Non-trading financial assets at fair value through profit or loss

As of 31 December 2021, the '*Non-trading financial assets at fair value through profit or loss*' portfolio includes financial assets at fair value of CZK 0 million (2020: CZK 279 million) that are issued by foreign financial institutions and financial assets at fair value of CZK 135 million (2020: CZK 0 million) granted to non-financial corporations.

During 2021, the Bank sold 9,924 shares of VISA Series C Preferred Stock to the parent company Société Générale.

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 2021	31 Dec 2020
Equity instruments at FVOCI option	59	47
Debt securities at FVOCI	35,509	40,151
Total financial assets at fair value through other comprehensive income	**35,568**	**40,198**

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included the equity interest in Bankovní identita, a.s. at fair value of CZK 28 million. In 2020, the equity interest in Bankovní identita, a.s. was recognised in *'Investments in associated undertakings'*. During 2021, however, the Bank sold part of its shares and decreased its equity share in the company.

In 2020, the '*Financial assets at fair value through other comprehensive income'* portfolio included the equity interest in upvest, s.r.o. at fair value of CZK 16 million. During 2021, the share was increased and upvest, s.r.o. is reported in '*Investments in associates and non-controlling interests in subsidiaries'.*

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 35,510 million (2020: CZK 40,198 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 35,509 million (2020: CZK 40,151 million).

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 841 million (2020: CZK 915 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 3,816 million (2020: CZK 1,596 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.

22 Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Loans and advances to banks	257,196	262,606
Loans and advances to customers	724,587	679,956
Debt securities	114,078	92,839
Total financial assets at amortised cost	**1,095,861**	**1,035,401**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2021, the *'Financial assets at amortised cost'* portfolio includes debt securities in the amount of CZK 113,631 million (2020: CZK 92,292 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 447 million (2020: CZK 547 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 89,810 million (2020: CZK 89,032 million).

As of 31 December 2021, the 'Financial assets at amortised cost' portfolio includes mortgage loans, which are allocated in the cover pool of Mortgage bonds (refer to Note 30) with the identifier „Komerční_banka_HZL_0000“ in the amount of CZK 17,218 million (2020: CZK 20,923 million) and in the cover pool with the identifier „Komerční_banka_HZL_EUR_0001“ in the amount of CZK 15,339 million (2020: CZK 0 million). The cover pool „Komerční_banka_HZL_EUR_0001“ includes a government bond in nominal value of CZK 200 million (2020: CZK 0 million).

As of 31 December 2021, '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	201,132	0	0	201,132	0	0	0	0	201,132
General governments	28,603	46	148	28,797	(30)	(1)	(14)	(45)	28,752
Credit institutions	55,693	373	0	56,066	(1)	(1)	0	(2)	56,064
Other financial corporations	41,557	496	271	42,324	(131)	(14)	(53)	(198)	42,126
Non-financial corporations	235,296	31,416	10,973	277,685	(998)	(1,829)	(6,128)	(8,955)	268,730
Households*	356,659	25,571	6,854	389,084	(273)	(618)	(3,214)	(4,105)	384,979
Total loans	**918,940**	**57,902**	**18,246**	**995,088**	**(1,433)**	**(2,463)**	**(9,409)**	**(13,305)**	**981,783**
Central banks	0	0	0	0	0	0	0	0	0
General governments	108,507	0	0	108,507	(15)	0	0	(15)	108,492
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	1,054	0	0	1,054	0	0	0	0	1,054
Non-financial corporations	4,533	0	0	4,533	(1)	0	0	(1)	4,532
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**114,094**	**0**	**0**	**114,094**	**(16)**	**0**	**0**	**(16)**	**114,078**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2020, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

									Restated
	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	25,572	53	234	25,859	(17)	0	(23)	(40)	25,819
Credit institutions	45,530	690	0	46,220	(2)	0	0	(2)	46,218
Other financial corporations	35,540	439	303	36,282	(78)	(3)	(49)	(130)	36,152
Non-financial corporations	232,922	27,806	10,767	271,495	(779)	(1,560)	(5,470)	(7,809)	263,686
Households*	329,706	22,692	6,874	359,272	(310)	(1,081)	(3,582)	(4,973)	354,299
Total loans	**885,658**	**51,680**	**18,178**	**955,516**	**(1,186)**	**(2,644)**	**(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.

For the year ended 31 December 2021, 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	30	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	309	21	0	0	0	0
Non-financial corporations	15,665	4,935	1,542	167	772	98
Households*	16,567	7,041	967	341	950	213
Total loans	**32,571**	**11,998**	**2,509**	**508**	**1,722**	**311**
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	**6,903**	**1,695**	**298**	**14**	**263**	**6**

* 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 Stage multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the date of the financial statements.

For the year ended 31 December 2020, the transfers between Stages were as follow:

	Restated					
	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	38	1,200	233	1	0	0
Credit institutions	157	0	0	0	0	0
Other financial corporations	436	116	199	0	0	0
Non-financial corporations	14,177	3,467	1,051	146	1,558	104
Households*	15,326	5,197	732	431	1,734	270
Total loans	**30,134**	**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	**7,746**	**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 Stage multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the date of the financial statements.

For 2020, *'Financial assets at amortised cost'* has been restated between Stage 1 and Stage 2. The detailed data are disclosed in Note 3.6.2.

Set out below is a breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2021	31 Dec 2020
Agriculture, forestry, and fishing	13,006	12,731
Mining and quarrying	3,425	3,193
Manufacturing	68,593	71,631
Electricity, gas, steam, and air conditioning supply	10,797	14,005
Water supply, sewerage, waste management, and remediation activities	2,264	2,199
Construction	14,968	12,163
Wholesale and retail trade, repair of motor vehicles and motorcycles	52,795	43,792
Transportation and storage	20,739	17,815
Accommodation and food service activities	2,254	2,430
Information and communication	7,165	6,331
Real estate activities	52,589	52,807
Professional, scientific, and technical activities	9,715	9,264
Administrative and support service activities	7,985	6,733
Public administration and defence, compulsory social security	348	349
Education	599	565
Human health and social work activities	3,206	3,061
Arts, entertainment, and recreation	2,762	1,984
Other service activities	4,475	10,442
Total loans and advances to non-financial corporations	**277,685**	**271,495**

Exposure to the automotive industry and related suppliers is CZK 20,744 million (2020: CZK 21,259 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' to be of higher risk in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgements and estimates).

The majority of loans – more than 95% (2020: more than 97%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2021, loans and advances to customers included accrued interest of CZK 1,383 million (2020: CZK 1,382 million), of which CZK 339 million (2020: CZK 358 million) relates to interest from overdue advances.

'Financial assets at amortised cost' includes CZK 27,245 million (2020: CZK 11,201 million) provided as cash collateral linked to derivative operations.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 201,132 million (2020: CZK 216,500 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 2021	31 Dec 2020
Treasury bills	197,044	212,322
Debt securities issued by state institutions	0	111
Emission allowances	0	0
Investment certificates	0	0
Total	**197,044**	**212,433**

As of 31 December 2021, loans provided to customers under reverse repurchase transactions in the amount of CZK 0 million (2020: CZK 0 million) are collateralised by securities with a fair value of CZK 0 million (2020: CZK 0 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 2021:

	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 collateral	Financial guarantees received
Loans and advances to customers	**300,907**	**33,584**	**9,871**	**14,234**	**33,638**
of which:					
– Other financial corporations	65	1,152	0	2,722	6,704
– Non-financial corporations	2,869	28,532	2,726	10,863	23,340
– Households**	297,948	3,866	7,141	565	804

* 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 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 collateral	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.

Pledges on industrial real estate represent 8% of total pledges on real estate (2020: 7%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2021

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	210	0	0	210	0	1
Other financial corporations	106	0	0	106	0	0
Non-financial corporations	6,462	12	2,416	8,890	879	2,500
Households*	7,982	119	2,640	10,741	833	8,368
Total	**14,760**	**131**	**5,056**	**19,947**	**1,712**	**10,869**

* This item also includes loans granted to individual entrepreneurs.

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.

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 2021			31 Dec 2020
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
General governments	28,797	210	0.73%	25859	242	0.94%
Other financial corporations	42,324	106	0.25%	36,282	233	0.64%
Non-financial corporations	277,685	8,890	3.20%	271,495	11,312	4.17%
Households*	389,084	10,741	2.76%	359,272	13,228	3.68%
Total	**737,890**	**19,947**	**2.70%**	**692,908**	**25,015**	**3.61%**

* This item also includes loans granted to individual entrepreneurs.

Finance lease

Within the Group, ESSOX, ESSOX FINANCE (Slovakia) and SGEF provide lease services. In 2021, the lease contracts with ESSOX were redeemed and essentially fully repaid. At ESSOX FINANCE (Slovakia), leased assets primarily include passenger and utility vehicles with an average lease instalment period of 43 months (2020: 44 months). At SGEF, leased assets primarily include vehicles, including trucks, tractors, and buses with an average lease instalment period of 70 months (2020: 66 months); agricultural vehicles and machines with an average lease instalment period of 57 months (2020: 58 months); machine technology with an average lease instalment period of 67 months (2020: 67 months); hardware and software technology with an average lease instalment period of 49 months (2020: 48 months); and real estate with an average lease instalment period of 8 years (2020: 8 years).

Loans and advances to customers – leasing:

(CZKm)	31 Dec 2021	31 Dec 2020
Due less than 1 year	5,161	5,615
Due from 1 to 2 years	3,681	3,872
Due from 2 to 3 years	2,743	2,827
Due from 3 to 4 years	1,821	1,853
Due from 4 to 5 years	888	933
Due over 5 years	897	637
Total	**15,191**	**15,737**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2021	31 Dec 2020
Due less than 1 year	448	334
Due from 1 to 2 years	218	213
Due from 2 to 3 years	130	123
Due from 3 to 4 years	69	61
Due from 4 to 5 years	33	25
Due over 5 years	31	9
Total	**929**	**765**

As of 31 December 2021, the provisions recognised against uncollectible lease receivables totalled CZK 443 million (2020: CZK 420 million).

Loans and advances to customers – subleasing of real estate:

(CZKm)	31 Dec 2021	31 Dec 2020
Due less than 1 year	12	15
Due from 1 to 2 years	6	10
Due from 2 to 3 years	6	6
Due from 3 to 4 years	6	6
Due from 4 to 5 years	3	6
Due over 5 years	3	5
Total	**36**	**48**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2021	31 Dec 2020
Due less than 1 year	0	0
Due from 1 to 2 years	0	0
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**	**0**

23 Prepayments, accrued income, and other assets

Prepayments, accrued income, and other assets comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Prepayments and accrued income	1,359	1,012
Settlement balances	172	314
Receivables from securities trading	4	147
Other assets	4,271	3,630
Total prepayments, accrued income, and other assets	**5,806**	**5,103**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 217 million (2020: CZK 222 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 2021	31 Dec 2020
Investments in subsidiary undertakings*	15	3
Investments in associated undertakings	771	1,584
Total investments in associates	**786**	**1,587**

* My Smart Living, s.r.o. (CZK 1.25 million), KB Advisory, s.r.o. (CZK 2.1 million) and Finbricks, s.r.o (CZK 11.5 million). These subsidiaries 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 2021:

(CZKm)		31 Dec 2021			31 Dec 2020	
Associates	(%)	Cost of investment	Share of net assets*	(%)	Cost of investment	Share of net assets
Komerční pojišťovna, a.s.	49.00	837	667	49.00	837	1,493
CBCB - Czech Banking Credit Bureau, a.s.**	20.00	0	3	20.00	0	2
Platební instituce Roger a.s.	24.83	71	71	24.83	71	71
upvest s.r.o.***	31.06	30	30	18.90	n/a	n/a
Bankovní identita, a.s.	17.00	28	0	33.33	21	18
Total investments in associates		**966**	**771**		**929**	**1,584**
Associates classified in held for sale portfolio						
Worldline Czech Republic s.r.o.****	1.00	0	9	1.00	0	9
Total investments in associates*****		**966**	**780**		**929**	**1,593**

* Unaudited amounts.
** The cost of investment for CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.
*** For the year 2020, upvest s.r.o was classified as 'Financial assets at fair value through OCI'.
**** The cost of investment for Worldline Czech Republic s.r.o. is CZK 418 thousand.
***** Including associates classified in the held for sale portfolio.

(CZKm) Associates				31 Dec 2021
	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	54,656	53,294	1,071	453
CBCB - Czech Banking Credit Bureau, a.s.*	52	26	140	14
Platební instituce Roger a.s.*	53	26	27	0
upvest s.r.o.*	23	1	21	(2)
Worldline Czech Republic s.r.o.*	969	666	1,070	(165)

Note: Amounts in this table represents unaudited amounts.
* Companies comply with Czech Accounting Standards.

(CZKm) Associates				31 Dec 2020
	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	56,667	53,619	1,114	510
CBCB - Czech Banking Credit Bureau, a.s.*	34	12	125	10
Bankovní identita, a.s.*	64	11	0	(11)
Platební instituce Roger a.s.*	66	39	17	0
Worldline Czech Republic s.r.o.*	884	416	1,010	(100)

* Figures for the year 2020 were corrected according to the final audited financial statements. Companies comply with Czech Accounting Standards.

Movements in share in associated undertakings:

(CZKm)	Komerční pojišťov-na, a.s.	CBCB - Czech Banking Credit Bureau, a.s.	Worldline Czech Republic s.r.o.	Bankovní identita, a.s.*	Platební instituce Roger a.s.*	upvest s.r.o.*	Total
As of 31 December 2019	1,219	2	9	0	0	0	1,230
Acquisition/Establishing	0	0	0	21	71	0	92
Deconsolidation	0	0	0	0	0	0	0
Transfer from FVOCI	0	0	0	0	0	0	0
Dividend payment	0	(2)	0	0	0	0	(2)
Share of profit	250	2	0	(3)	0	0	249
Sale of shares	0	0	0	0	0	0	0
Revaluation of investment	0	0	0	0	0	0	0
Share of revaluation on debt securities at FVOCI	24	0	0	0	0	0	24
As of 31 December 2020	1,493	2	9	18	71	0	1,593
Acquisition/Establishing	0	0	0	16	0	14	30
Deconsolidation	0	0	0	(21)	0	0	(21)
Transfer from FVOCI	0	0	0	0	0	16	16
Dividend payment	(192)	(2)	0	0	0	0	(194)
Share of profit	222	3	0	(4)	0	0	221
Sale of shares	0	0	0	(26)	0	0	(26)
Revaluation of investment	0	0	0	17	0	0	17
Share of revaluation on debt securities at FVOCI	(856)	0	0	0	0	0	(856)
As of 31 December 2021	**667**	**3**	**9**	**0**	**71**	**30**	**780**

* 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 2021			31 Dec 2020		
(CZKm)	Assets	Liabilities	Profit	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	32,648	29,421	308	32,518	29,600	91
ESSOX s.r.o.**	16,786	13,407	206	16,745	13,107	186
ESSOX FINANCE, s.r.o.***	1,529	1,261	21	2,241	1,981	13

* Non-controlling interest in SG Equipment Finance Czech Republic s.r.o. is 49.9%. Unaudited amounts for 2021. Company complies with Czech Accounting Standards.
** Non-controlling interest in ESSOX s.r.o. is 49.1%. Unaudited amounts for 2021. Company complies with Czech Accounting Standards.
*** Non-controlling interest in ESSOX FINANCE, s.r.o. is 49.1%. Unaudited amounts for 2021. Company complies with Slovak Accounting Standards.

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 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
Dividend payment	0	(229)	0	(229)
Profit / loss	155	101	9	265
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	(6)	(6)
Cash flow hedging	0	0	0	0
As of 31 December 2021	**1,611**	**1,658**	**4**	**3,273**

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 2020	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
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	2,073	297	0	2,630	5,000
Disposals/transfers	(340)	(64)	(13)	(2,376)	(2,793)
Foreign exchange rate difference	0	(4)	0	0	(4)
As of 31 December 2021	**18,892**	**4,053**	**7**	**2,379**	**25,331**
Accumulated depreciation and allowances					
As of 1 January 2020	(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)
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	(1,421)	(232)	0	0	(1,653)
Disposals	315	72	13	0	400
Impairment	28	0	0	0	28
Foreign exchange rate difference	0	2	0	0	2
As of 31 December 2021	**(14,176)**	**(3,271)**	**(6)**	**0**	**(17,453)**
Net book value					
As of 31 December 2020	4,061	711	1	2,125	6,898
As of 31 December 2021	**4,716**	**782**	**1**	**2,379**	**7,878**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2021, the Group spent CZK 145 million (2020: CZK 133 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2021, the Group recognised allowances against intangible assets of CZK 21 million (2020: CZK 49 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 2020	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
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(146)	(949)	(68)	0	0	(1,163)
Additions	0	18	314	486	409	1,227
Disposals/transfers	0	24	(272)	(479)	(197)	(924)
Foreign exchange rate difference	0	(1)	(1)	0	(5)	(7)
As of 31 December 2021	**203**	**11,126**	**5,167**	**260**	**3,645**	**20,401**
Accumulated depreciation and allowances						
As of 1 January 2020	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)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	497	63	0	0	560
Additions	0	(387)	(384)	0	(406)	(1,177)
Disposals	0	110	269	0	80	459
Impairment	0	244	1	0	2	247
Foreign exchange rate difference	0	1	1	0	1	3
As of 31 December 2021	**0**	**(6,187)**	**(4,076)**	**0**	**(1,155)**	**(11,418)**
Net book value						
As of 31 December 2020	349	5,382	1,168	253	2,606	9,758
As of 31 December 2021	**203**	**4,939**	**1,091**	**260**	**2,490**	**8,983**

As of 31 December 2021, the Group recognised allowances against tangible assets of CZK 0 million (2020: CZK 245 million). These allowances primarily included allowances charged in respect of the Nonet building of CZK 0 million (2020: 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 Group's headquarters optimisation strategy). In 2021, the Nonet building was transferred to *'Assets held for sale'* and, with a view to the estimated selling price, the allowances were released.

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).

Net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2021	31 Dec 2020
Real estate	2,383	2,479
Hardware	0	0
Other	107	127
Total net value of right-of-use assets	**2,490**	**2,606**

27 Goodwill

Goodwill by individual companies as of 31 December 2021 was as follows:

(CZKm)	31 Dec 2021	31 Dec 2020
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 2021, the Group reported assets held for sale at a carrying amount of CZK 700 million (2020: CZK 147 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 2021, the Group recognised allowances against assets held for sale of CZK 50 million (2020: CZK 96 million).

As of 31 December 2021, *'Assets held for sale'* also included investments in associates classified as assets held for sale at a carrying amount of CZK 0 million (2020: 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 2021 and 2020, 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 2021	31 Dec 2020
Short sales	6,210	3,132
Derivative financial instruments	33,723	22,038
Total financial liabilities held for trading at fair value through profit or loss	**39,933**	**25,170**

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 2021	31 Dec 2020
Amounts due to banks	83,372	86,572
Amounts due to customers	956,929	906,217
Securities issued	13,666	1,148
Lease liabilities	2,516	2,657
Total financial liabilities at amortised cost	**1,056,483**	**996,594**

'Financial liabilities at amortised cost' includes CZK 4,273 million (2020: CZK 8,226 million) received as cash collateral linked to derivative operations.

The total amount of loans from banks and customers received under repurchase transactions was CZK 9,500 million (2020: CZK 13,883 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2021		31 Dec 2020	
(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	0	0
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	9,326	9,326	13,880	13,880
Total	**9,326**	**9,326**	**13,880**	**13,880**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Central banks	0	0
General governments	102,630	94,983
Credit institutions	83,372	86,572
Other financial corporations	50,053	47,325
Non-financial corporations	323,814	320,186
Households*	480,432	443,723
Total amounts due to banks and customers	**1,040,301**	**992,789**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Mortgage bonds	13,567	1,003
Depository bills of exchange	99	145
Total securities issued	**13,666**	**1,148**

The Group issues mortgage bonds to fund its mortgage activities.

The Group 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 maturity date of 20 January 2026. The bond's maturity is extendable by 1 year according to the terms and conditions of the bond (a so-called soft bullet) and the bond received an AAA rating from the rating agency Fitch.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2020	Cash flow*	Non-cash changes Amortisation and accrued interest	Change of FV hedge of interest rate risk	Foreign exchange difference	31 Dec 2021
Mortgage bonds	1,003	13,211	(7)	0	(640)	13,567
Depository bills of exchange	145	(46)	0	0	0	99
Total securities issued	**1,148**	**13,165**	**(7)**	**0**	**(640)**	**13,666**

* The item includes the cash flow on principal and interest paid.

(CZKm)	31 Dec 2019	Cash flow*	Non-cash changes Amortisation and accrued interest	Change of FV hedge of interest rate risk	Foreign exchange difference	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**	**0**	**1,148**

* 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 2021	31 Dec 2020
In less than one year	1,002	0
In one to five years	12,565	1,003
In five to ten years	0	0
In ten to twenty years	0	0
More than twenty years	0	0
Total mortgage bonds	**13,567**	**1,003**

The securities issued detailed above include the following mortgage bonds issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2021 (CZKm)	31 Dec 2020 (CZKm)
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,002	1,003
HZL Komerční banky, a.s., XS2289128162	0.01%	EUR	20 Jan 2021	20 Jan 2026	12,565	0
Total mortgage bonds					**13,567**	**1,003**

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Accruals and deferred income	246	242
Settlement balances and outstanding items	294	297
Payables from securities trading and issues of securities	3,979	4,064
Payables from payment transactions	1,837	1,681
Other liabilities	6,157	5,131
Total accruals and other liabilities	**12,513**	**11,415**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2020: CZK 18 million).

'Other liabilities' mainly include various estimated items, including, among others, liabilities to employees.

32 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Provisions for contracted commitments (refer to Note 37)	182	584
Provisions for other credit commitments (refer to Notes 13 and 37)	1,118	1,361
Provisions for restructuring	41	81
Total provisions	**1,341**	**2,026**

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 Group adjusted the provisions for restructuring related to the "KB Change" transformation project and recognised the restructuring provisions in connection with planned structural changes based upon experience with Covid-19 pandemic. In 2021, the Bank did not account for provisions in relation to either the "KB Change" project or 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 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
Changes in accounting policies (refer to Note 3.6.3)	(405)	0	0	(405)
Charge	16	32	41	89
Release	(1)	(16)	(18)	(35)
Use	(7)	(10)	(63)	(80)
Accrual	5	(3)	0	2
Remeasurement	(13)	0	0	(13)
Foreign exchange difference	0	0	0	0
Balance as of 31 December 2021	**68**	**114**	**41**	**223**

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. The Group 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 2021	31 Dec 2020
Banking provisions and allowances	8	5
Allowances for assets	0	0
Non-banking provisions	85	85
Difference between accounting and tax net book value of assets	(15)	(10)
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	0
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(65)	0
Other temporary differences	78	(2)
Net deferred tax assets	**91**	**78**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2021	31 Dec 2020
Banking provisions and allowances	118	162
Allowances for assets	12	66
Non-banking provisions	135	145
Difference between accounting and tax net book value of assets	(1,076)	(1,060)
Leases	24	(75)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	52	54
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)	(296)	20
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(256)	(181)
Other temporary differences	112	161
Net deferred tax liabilities	**(1,175)**	**(708)**

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2021	2020
Balance as of the beginning of the period	**(630)**	**(770)**
Changes in accounting policies	(76)	0
Movement in the net deferred tax – profit and loss impact (refer to Note 15)	80	81
Movement in the net deferred tax – equity impact (refer to Notes 39, 40, 41, and 42)	(458)	59
Balance as of the end of the period	**(1,084)**	**(630)**

34 Subordinated debt

As of 31 December 2021, the Bank reports subordinated debt of CZK 2,490 million (2020: CZK 2,629 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, as amended. 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 the share in the Bank's profits and in other its resources as have been approved for distribution by the Annual General Meeting based on the Bank's financial results and the payment of which was decided upon by the Board of Directors subject to compliance with the conditions stipulated by generally binding legal regulations.

The right to payment of the share in the profits and in other of its resources (hereinafter "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 shares in profits and in other own resources 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 shares in profits and in other of its resources 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 2021:

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
CHASE NOMINEES LIMITED	4.23%
NORTRUST NOMINEES LIMITED	3.74%
CLEARSTREAM BANKING S.A.	2.36%

Société Générale S.A., being the only entity with a qualified holding in the Group, and moreover as the ultimate 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 2021, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2020: 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 2021 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 2021. On top of the TSCR capital ratio, a combined capital buffer of 6.0% was applied, consisting of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical capital buffer of 0.5% for exposures in the Czech Republic (the countercyclical capital buffer was decreased by the CNB as part of measures against the impact of the Covid-19 pandemic to 0.5% from 1 July 2020). Thus, the required overall capital ratio (OCR) was approximately 16.20% from 1 January 2021. Subsequently, during 2021 the required overall capital ratio decreased due to implementation of the Capital Requirement Directive (CRD V), at which time the CNB set for banks in place of the systemic risk buffer a capital buffer for other systematically important institutions (J-SVI, or O-SII) for the purpose of limiting risks associated with their systemic importance. Therefore, a combined capital buffer in the final value of 5.0% was applied to the Group from October 2021, consisting of the capital conservation buffer of 2.5%, the capital buffer for other systematically important institutions of 2.0% applied for the first time (the systemic risk buffer of 3.0% was repealed at the same time), and the countercyclical capital buffer of 0.5%. The aforementioned changes resulted in the required overall capital ratio (OCR) of approximately 15.20% from October 2021 (a decrease of 1.0 percentage point in comparison with the previous year). 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 15.20% as of 1 January 2022. Nevertheless, the overall capital ratio will increase in 2022, at least due to an increase in the countercyclical capital buffer (the CNB has already announced a gradual increase in the countercyclical capital buffer for exposures in the Czech Republic to a rate of 1.0% from 1 July 2022, 1.5% from 1 October 2022, and 2.0% from 1 January 2023).

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 a 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 2021, the Group held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2020: 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 will 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 a local resolution authority that defines the most appropriate 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 dated 20 September 2021 setting a minimum MREL requirement. According to this decision, the Bank is required to maintain its own funds and eligible liabilities on a sub-consolidated basis of at least 20.4% of the total risk exposure amount (i.e. risk-weighted exposure amount) and 5.91% of the total exposure amount from 31 December 2023. The interim legally binding target, which the Bank is obliged to meet from 1 January 2022, was set at 14.4% of the total risk exposure amount (i.e. risk-weighted exposure amount) and 4.46% of the total exposure amount.

36 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2021	31 Dec 2020	Change in the year
Cash and current balances with central banks (refer to Note 18)	29,947	23,547	6,400
Loans and advances to banks – current accounts with other banks	309	2,923	(2,614)
Amounts due to central banks	0	0	0
Amounts due to banks – current accounts	(2,907)	(5,958)	3,051
Cash and cash equivalents at the end of the year	**27,349**	**20,512**	**6,837**

The total cash outflow on leases in 2021 totalled CZK 559 million (2020: CZK 589 million).

37 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2021. 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 19 million (2020: CZK 14 million) for these legal disputes (refer to Note 32). The Group has also recorded a provision of CZK 3 million (2020: CZK 5 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2021, 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.

Since 2006, the Bank has been facing a legal dispute with the Austrian company Brijuni GmbH at the Commercial Court of Vienna. Brijuni GmbH is challenging the admission of the Bank's claim in B.C.L. Trading GmbH's bankruptcy proceeding where the Bank, as a creditor, obtained prior to 2015 an amount of approximately EUR 10 million. The judgement in this matter is expected during 2022.

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 2021, the Group had capital commitments of CZK 459 million (2020: CZK 432 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 310 million (2020: CZK 281 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 2021, 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	29,287	23	0	29,310	17	0	0	17
Credit institutions	2,438	124	0	2,562	1	2	0	3
Other financial corporations	12,547	43	0	12,590	22	1	0	23
Non-financial corporations	132,222	8,123	1,241	141,586	206	147	583	936
Households*	67,780	3,466	142	71,388	42	53	43	138
Total commitments and contingencies	**244,274**	**11,779**	**1,383**	**257,436**	**288**	**203**	**626**	**1,117**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2020, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

								Restated
	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	24,344	57	0	24,401	10	0	0	10
Credit institutions	4,718	24	0	4,742	2	0	0	2
Other financial corporations	11,671	23	0	11,694	21	1	0	22
Non-financial corporations	111,445	8,373	1,722	121,540	142	268	816	1,226
Households*	39,723	2,451	91	42,265	39	38	24	101
Total commitments and contingencies	**191,901**	**10,928**	**1,813**	**204,642**	**214**	**307**	**840**	**1,361**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

For 2020, *'Commitments and contingencies'* between Stage 1 and Stage 2 have been restated. Detailed data are disclosed in Note 3.6.2.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Non-payment guarantees including commitments to issued non-payment guarantees	45,829	39,881
Payment guarantees including commitments to issued payment guarantees	19,874	18,876
Committed facilities and unutilised overdrafts	14,189	16,220
Undrawn credit commitments	146,904	102,603
Unutilised overdrafts and approved overdraft loans	19,433	17,022
Unutilised limits under framework agreements to provide financial services	6,974	6,161
Open customer/import letters of credit not covered	430	550
Standby letters of credit not covered	3,040	3,061
Confirmed supplier/export letters of credit	763	268
Total commitments and contingencies	**257,436**	**204,642**

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 2021, the Group recorded provisions for these risks in the amount of CZK 1,118 million (2020: CZK 1,361 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 2021	31 Dec 2020
Agriculture, forestry, and fishing	3,585	3,146
Mining and quarrying	1,114	1,110
Manufacturing	36,520	30,843
Electricity, gas, steam, and air conditioning supply	8,188	6,110
Water supply, sewerage, waste management, and remediation activities	1,553	1,100
Construction	37,335	34,633
Wholesale and retail trade, repair of motor vehicles and motorcycles	21,206	13,460
Transportation and storage	6,005	6,446
Accommodation and food service activities	640	640
Information and communication	2,770	4,343
Real estate activities	9,101	6,488
Professional, scientific, and technical activities	10,186	9,659
Administrative and support service activities	975	1,055
Public administration and defence, compulsory social security	468	253
Education	49	187
Human health and social work activities	568	510
Arts, entertainment, and recreation	1,004	1,356
Other service activities	319	201
Total commitments and contingencies to non-financial corporations	**141,586**	**121,540**

Exposure to the automotive industry and related suppliers is CZK 8,149 million (2020: CZK 4,256 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' to be of higher risk in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgements 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 2021:

	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 collateral	Financial guarantees received
Commitments and contingencies	**11,095**	**4,322**	**2,116**	**9,022**	**9,359**
of which:					
– Other financial corporations	18	47	0	180	2,370
– Non-financial corporations	1,047	4,163	2,072	8,059	4,076
– Households**	10,030	112	44	31	53

* 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 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 collateral	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.

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, KB Penzijní společnost, a.s. contributed in 2018 to the Fund assets to offset the value of liabilities in excess of the value of assets. The excess was caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. This capital injection was gradually repaid during 2020 and 2021 as positive other comprehensive income supported transfer from the Fund to KB Penzijní společnost, a.s. and proved that the negative revaluation differences had been correctly regarded as temporary and were fully offset no later than upon maturity of the bonds.

Based upon an amendment to Decree No. 501/2002 Coll., there was a change in accounting policies in KB Penzijní společnost, a.s. as of 1 January 2021. Consequently IFRS are used for the purpose of presenting the financial instruments, their measurement, and the disclosure of related information in the notes to the financial statements. Therefore, the previous limit for a 35% share of instruments in the Held-to-maturity portfolio among the global investments was revised as inefficient.

Due to a strong monetary policy response to rising inflation, KB Penzijní společnost, a.s. needed to contribute again to the Fund assets as of 31 December 2021, and there exist certain expectations for further limited contribution during 2022. Nevertheless, the capital adequacy is strong and KB Penzijní společnost, a.s. has sufficient capital to cover all stress and adverse scenarios which are regularly projected.

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 2021, 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 2021, the Group had deposits of CZK 1,251 million (2020: CZK 1,011 million) due to the associate Komerční pojišťovna, a.s. and the Bank had provided it with a subordinated loan in the amount of CZK 446 million (2020: CZK 446 million). The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. totalled CZK 734 million (2020: CZK 593 million) and the negative fair value CZK 98 million (2020: CZK 263 million). The book value of mortgage bonds issued by the Bank was CZK 801 million (2020: CZK 802 million) and interest expense from mortgage bonds amounted to CZK 20 million (2020: CZK 20 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group totalled CZK 846 million (2020: CZK 642 million) and interest expense on financial derivatives totalled CZK 737 million (2020: CZK 442 million). Interest expense from deposits amounted to CZK 3 million (2020: CZK 14 million), fee income of the Group arising from intermediation totalled CZK 495 million (2020: CZK 449 million), fee expense amounted to CZK 119 million (2020: CZK 90 million), insurance expenses totalled CZK 7 million (2020: CZK 11 million), and other income totalled CZK 11 million (2020: CZK 23 million).

The Group has provided to Platební instituce Roger a.s. an overdraft in the total limit of CZK 150 million (2020: CZK 150 million) and related interest income amounted to CZK 2 million (2020: CZK 0 million).

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include the following:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,847	0	6,594	0
ALD Automotive Slovakia s. r. o.	83	0	31	0
BRD - Groupe Société Générale SA	11	0	22	0
PJSC Rosbank	159	0	170	0
SG Bruxelles	0	0	1	0
SG Zurich	193	0	219	0
Société Générale International Limited	2	0	2	0
Société Générale New York	0	0	10	0
Société Générale oddzial w Polsce	0	0	179	0
Société Générale Paris	18,866	8,151	18,517	4,317
Total	**26,161**	**8,151**	**25,745**	**4,317**

Principal balances owed to Société Générale Group entities include the following:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	369	0	371	0
BRD - Groupe Société Générale SA	6	0	3	0
Crédit du Nord	124	0	245	0
SG Amsterdam	72	0	8	0
SG Bruxelles	70	0	0	0
SG Frankfurt	73	0	12	0
Société Générale Luxembourg	25	0	11	0
SG Milan	43	0	10	0
SG Option Europe	1	0	1	0
SG Private Banking (Suisse)	45	0	116	0
SG Zurich	73	0	12	0
Société Générale Factoring	60	0	102	0
Société Générale Londres	183	0	47	0
Société Générale New York	3	0	0	0
Société Générale oddzial w Polsce	1	0	3	2
Société Générale Paris	61,888	13,600	47,724	11,295
Société Générale Succursal en Espana	0	0	31	0
SOGEPROM Czech Republic s.r.o.	4	0	4	0
Total	**63,040**	**13,600**	**48,700**	**11,297**

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 2021, 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 533,053 million (2020: CZK 479,253 million) and CZK 495,618 million (2020: CZK 431,811 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 2021 and 2020, 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 2021, the Group generated net operating revenues due to the Société Générale Group of CZK 1,430 million (2020: CZK (2,516) million). The total amount is mainly affected by the volatile revaluation of derivative transactions to fair value. These operations follow on from operations concluded with clients and eliminate the Group's market risk, or they are hedging derivatives of the fair value hedging type. Other sources of revenue include the distribution of SG Group products, providing services in areas of infrastructure, information technology, and business intelligence services. Net interest income of CZK 8 million (2020: CZK (56) million) consisted mainly of interest on hedging derivatives, transactions on the interbank market, and subordinated debt received. Operating expenses realised in relation to the SG Group reached CZK 253 million (2020: CZK 283 million), mostly for the use of services in the area of operation and management of hardware and software and assistance services. The operating result in relation to the SG Group reached CZK 1,177 million (2020: CZK (2,799) million).

In connection with lease contracts the Group records:

	31 Dec 2021				31 Dec 2020			
(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.	99	66	21	1	117	74	22	1
ALD Automotive Slovakia s. r. o.	0	0	1	0	1	1	1	0
Total	**99**	**66**	**22**	**1**	**118**	**75**	**23**	**1**

As of 31 December 2021, the Group reported a loss of CZK 2 million (2020: CZK 3 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)	2021	2020
Remuneration to members of the Board of Directors*	67	74
Remuneration to members of the Supervisory Board**	7	6
Total	**74**	**80**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2021 to current and former directors for the duration of their memberships. It also includes a part of bonuses awarded in 2021. 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 2021 to current and former members of the Supervisory Board for the duration of their memberships. 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 memberships. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2021	31 Dec 2020
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 2021, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 51 million (2020: CZK 47 million). During 2021, draw-downs of CZK 6 million (2020: CZK 30 million) were made under the loans granted. Loan repayments during 2021 amounted to CZK 2 million (2020: CZK 1 million). The increase of loans in 2021 is affected by new members already having loans in the amount of CZK 0 million. Loans to resigning members amounted to CZK 0 million as of 31 December 2020.

39 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2021	2020
Remeasurement of retirement benefits plan as of 1 January	(284)	(266)
Deferred tax asset/(liability) as of 1 January	54	51
Balance as of 1 January	**(230)**	**(215)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	8	(18)
Deferred tax	(2)	3
	6	**(15)**
Remeasurement of retirement benefits plan as of 31 December	(276)	(284)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	52	54
Balance as of 31 December	**(224)**	**(230)**

40 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2021	2020
Revaluation of equity securities at FVOCI option as of 1 January	4	355
Deferred tax asset/(liability) as of 1 January	0	(67)
Balance as of 1 January	**4**	**288**
Movements during the year		
Gains/(losses) from changes in fair value	0	0
Deferred tax	0	0
	0	**0**
Reclassification to Non-trading financial assets at fair value through profit or loss	0	(351)
Deferred tax	0	67
	0	**(284)**
Revaluation of equity securities at FVOCI option as of 31 December	4	4
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	0	0
Balance as of 31 December	**4**	**4**

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)	2021	2020
Cash flow hedge fair value as of 1 January	(110)	(94)
Deferred tax asset/(liability) as of 1 January	20	12
Balance as of 1 January	**(90)**	**(82)**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 43(C))	1,113	301
Deferred tax	(213)	(54)
	900	**247**
Transferred to interest income/expense	(72)	(332)
Deferred tax	14	65
	(58)	**(267)**
Transferred to net profit/loss on financial operations	633	0
Deferred tax	(120)	0
	513	**0**
Transferred to personnel expenses	(18)	11
Deferred tax	3	(2)
	(15)	**9**
Transferred to general and administrative expenses	(2)	4
Deferred tax	0	(1)
	(2)	**3**
Cash flow hedge fair value as of 31 December	1,544	(110)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(296)	20
Balance as of 31 December	**1,248**	**(90)**

Significant movement is due to a new hedging relationship for foreign currency flows arising from the issue of mortgage-backed bonds hedged by cross currency swaps.

42 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2021	2020
Reserve from fair value revaluation as of 1 January	949	860
Deferred tax asset/(liability) as of 1 January	(181)	(162)
Impairment as of 1 January	5	2
Balance as of 1 January	**773**	**700**
Movements during the year		
Gains/(losses) from changes in fair value	738	89
Deferred tax	(140)	(19)
	598	**70**
Impairment	0	3
	0	**3**
Reserve from fair value revaluation as of 31 December	1,687	949
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(321)	(181)
Impairment as of 31 December	5	5
Balance as of 31 December	**1,371**	**773**

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 a 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 collateral 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 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

In the individuals and small business segment, 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 and is regularly updated to reflect current market trends. In 2021, the Group implemented the first version of the credit anti-fraud system for the corporate segment.

(g) Granting process

After the end of the payment moratorium in 2020, the default intensity temporarily increased, but the magnitude of the increase was significantly less than the Group had expected. Because the credit risk quality of the portfolio remained at a high level (as measured by default rates) during 2021, the Group did not materially change its granting policy, but it continued cautiously to assess clients from sectors vulnerable to Covid-19 impacts. Through the year, the Group continued to focus upon simplifying its processes and accelerating credit granting to all client segments (with gradual introduction of digital processes).

(h) Environment, social, and governance

The risks related to climate change (both physical risks and transition risks) are an aggravating factor for credit risk. This risk is therefore taken into consideration in the credit risk assessment process. A climate change vulnerability assessment must be submitted by the Group's business units interacting with clients in potentially exposed sectors (Oil and Gas, Metals and Mining, Power Generation (excluding electricity distribution and supply), Automotive, Shipping and Aviation) for exposures above EUR 20 million. The assessment of climate change vulnerability and a client adaptation's strategy may impact on its internal rating. The Group is progessively increasing its ability to collect, measure, and disclose ESG data. Regulatory risk is increasing due to expanding ESG regulation. Nevertheless, the Group is following regulatory developments in this area (including Sustainable Finance Disclosure Regulation and the ECB Guide on Climate-Related Risks). For the future, the Group is preparing to apply a holistic approach to ESG regulation and to further embed ESG impacts into its core operations and policies (in all relevant areas such as onboarding of clients and transaction/financing validation in line with regulation and Group commitments in the ESG area).

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 the law in respect of concentration risk. Refer to Notes 22 and 37 for quantitative information about this type of risk.

Loan portfolio breakdown by risk class based on an internal rating scale:

	31 Dec 2021 Gross carrying value			31 Dec 2020 Gross carrying value		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Unrated	19,441	1,946	0	24,514	1,463	0
PD 1 (0.0% – 0.1%)	386,686	2,065	0	371,959	2,886	0
PD 2 (0.1% – 0.2%)	122,411	186	0	111,201	58	0
PD 3 (0.2% – 0.4%)	118,829	1,901	0	115,474	204	0
PD 4 (0.4% – 0.8%)	127,653	4,296	0	114,812	936	0
PD 5 (0.8% – 1.6%)	115,424	7,571	0	115,733	2,487	0
PD 6 (1.6% – 3.2%)	79,032	5,961	0	71,970	4,822	0
PD 7 (3.2% – 6.4%)	56,415	10,166	0	53,239	8,721	0
PD 8 (6.4% – 12.8%)	6,980	12,076	0	6,028	14,965	0
PD 9 (>12.8%)	163	11,734	0	719	8,001	0
Stage 3 (default)	0	0	18,246	0	0	18,178
Total	**1,033,034**	**57,902**	**18,246**	**985,647**	**44,541**	**18,178**

The *Group's maximum credit exposure as of 31 December 2021:*

	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	**21,455**	**x**	**21,455**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**41,142**	**x**	**41,142**	**0**	**x**	**0**
Non-trading financial assets at fair value through profit or loss	**135**	**x**	**135**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**14,315**	**x**	**14,315**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**35,568**	**x**	**35,568**	**0**	**x**	**0**
Financial assets at amortised cost	**1,109,182**	**234,463**	**1,343,645**	**392,234**	**34,017**	**426,251**
of which:						
– Other financial corporations	43,378	12,590	55,968	10,643	2,615	13,258
– Non-financial corporations	282,218	141,586	423,804	68,330	19,417	87,747
– Households**	389,084	71,388	460,472	310,324	10,270	320,594
Revaluation differences on portfolios hedge items	**(629)**	**x**	**(629)**	**0**	**0**	**0**
Total	**1,221,168**	**234,463**	**1,455,631**	**392,234**	**34,017**	**426,251**

* 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 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 debt securities, allocated by sector and currency, comprised the following as of 31 December 2021:

	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	8,621	5	8,626	22,993	12,516	35,509	108,492	0	108,492
Credit institutions	61	0	61	0	0	0	0	0	0
Other financial corporations	8	0	8	0	0	0	1,054	0	1,054
Non-financial corporations	1	0	1	0	0	0	4,110	422	4,532
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**8,691**	**5**	**8,696**	**22,993**	**12,516**	**35,509**	**113,656**	**422**	**114,078**

* This item also includes individual entrepreneurs.

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.

Classification of loans and advances
The Group classifies its loans and advances arising from financial activities into three categories: Stage 1, Stage 2, and Stage 3. Performing exposures are classified as Stages 1 or Stage 2 while non-performing or defaulted exposure are classified as Stage 3. The classification reflects both quantitative criteria (e.g. payment discipline, financial data) and qualitative criteria (e.g. in-depth knowledge of the client). In case of retail individual clients, the classification also reflects the default sharing principle for co-debtors and guarantors

The structure of the credit portfolio according to its classification or staging is regularly reported to CNB and to investors.

New definition of default
The Group 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, except for the Bank's subsidiary ESSOX. ESSOX implemented the new definition of default during the first quarter of 2021.

Forbearance (for the definition of forborne loans, refer to Note 3.5.5.8)
1. Forbearance measures resulting in exposure being classified as Stage 3 (non-performing). Designation is discontinued once the following conditions are met:
   (a) Termination of defaulted (Stage 3) status, which is possible 12 months after the approval of forbearance measures.
   (b) Termination of 2-year grace period following the termination of defaulted status, during which the repayment discipline must be properly fulfilled (i.e. the overdue debt exceeding the materiality threshold used for default identification must not exceed 30 days). If the repayment discipline condition during the grace period is breached, the exposure is reclassified back to Stage 3 (non-performing status) and the 2-year grace period starts again (from the time that zero overdue amount is reported).

2. The concept of forbearance measures that do not lead to exposure being classified as Stage 3 (non-performing) is only used by the Group in case of such measures being granted within the private payment moratorium applied prior to state payment moratorium. The designation is discontinued only after 2-years grace.

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:
(a) 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
(b) Using expected credit loss statistical models based on the observed history of defaults and losses and forward-looking information.

During 2021, the Group updated and recalibrated its IFRS 9 models for the performing portfolio (Stage 1 and Stage 2) and for retail non-performing portfolio (Stage 3), considering:
(a) New macroeconomic forecasts;
(b) The new definition of default in accordance with the EBA Regulation (EBA/GL/2016/07 to apply the definition of default under Article 178 of Regulation (EU) No. 575/2013);
(c) The new data history covering defaults and recoveries since the last model update; and
(d) Other aspects, mainly future expected development of the real estate market and legal standards and their impact on recovery performance.

This update of IFRS 9 models led to the release of allowances for the performing portfolio in the amount of CZK 135 million and the release of allowances for the non-performing portfolio in the amount of CZK 201 million. In accordance with the IFRS 9 methodology, the update was based on the multi-scenario approach, which as of the end of 2021 was based on four scenarios:
(a) A baseline scenario with a probability of 51%;
(b) A scenario of prolonged negative development with a probability of 10%;
(c) A scenario of severe negative development with a probability of 29%; and
(d) An optimistic scenario with a probability of 10%.

The baseline scenario anticipates increase in GDP of 3.5% in 2022 and GDP growth of 3% in 2023 and unemployment at 2.87% in 2022 and at 2.69% in 2023. The scenario of severe negative development expects a 2.3% decrease in GDP in 2022 and GDP growth of 0.3% in 2023 and unemployment at 4.44% in 2022 and 6.39% in 2023. However, as per the Group's own assessment, the impact of Covid-19 is still not fully reflected in credit quality of the portfolio due to delayed effect of state support programmes. To include

this effect in forward-looking information, the Group used an adjusted (so-called “smoothed”) version of the scenarios. The smoothed scenarios are derived from the scenarios described above and are as follow:
(a) Smoothed baseline scenario assumes a 3.9% decrease in GDP for 2022 and 3% growth for 2023; and
(b) Smoothed scenario of severe negative development assumes a 9.3% decrease in GDP for 2022 and 0.3% growth for 2023.

Unemployment was not the subject of smoothing. The scenarios were developed internally using the best estimates and following forecasts published by government, regulatory, and other authorities.

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 CNB 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 line with the forward-looking approach, the Group continued with a specific approach using post-model adjustments for the following portfolios with deteriorating credit profile that as of 31 December 2021 is not fully reflected in the individual credit ratings:

1. Exposures within the office and retail store sub-segments (belonging to the real estate developers and investors segments), which the Group considers to be highly sensitive in connection with the Covid-19 crisis, mainly due to:
    (a) Growing office vacancy connected with the increasing use of home offices; and
    (b) The growing transition to electronic commerce at the expense of traditional retail stores.

   The Group decided to create specific allowances for this portfolio in the second quarter of 2021, which totalled CZK 209 million as of 31 December 2021. Total exposure of this portfolio as of 31 December 2021 amounted to CZK 22.3 billion.
2. Exposures of clients in the hotels, restaurants, and catering sectors, which sectors absorbed negative impact of the Covid-19 crisis, mainly due to state-imposed closures and ongoing restrictions. The exposures of these sectors in Stage 1 were moved to Stage 2 in the second quarter of 2021 and specific allowances were created, which totalled CZK 17 million as of 31 December 2021. This portfolio’s total exposure as of 31 December 2021 was CZK 1.6 billion.
3. Exposures in retail segments of individuals and small business, which clients’ ability to repay their liabilities the Group expects to be negatively influenced by accelerating inflation and rising interest rates. The Group decided to create specific allowances for this portfolio during the fourth quarter of 2021. As of 31 December 2021, the exposure of this portfolio amounted to CZK 69 billion. The rating of these clients was downgraded by one notch for the purpose of allowance calculation, and specific allowances were created totalling CZK 358 million as of 31 December 2021.

In addition, the Group reassessed its approach towards following portfolios with originally identified deteriorated credit profile:

- As of 30 November 2021, the Group released all additional allowances of CZK 362 million for retail exposures that were in the payment moratorium at the end of September 2020 and that the Group had originally identified on the basis of an expert approach or model approach as exposures with potentially deteriorating credit profile after the end of the moratorium and to which the Group had allocated additional allowances since third quarter 2020. The remaining allowances have been released, as the credit quality of this portfolio has been gradually approaching that of the retail portfolio not impacted by payment moratorium and therefore a specific approach for this portfolio in accordance with the forward-looking approach is no longer necessary.

The following table breaks out non-performing loans and advances to banks and customers (Stage 3) according to assessment used:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Individually	Statistical model	Individually	Statistical model
Central banks	0	0	0	0
General governments	148	0	234	0
Credit institutions	0	0	0	0
Other financial corporations	268	3	300	3
Non-financial corporations	8,833	2,140	8,568	2,199
Households*	1,339	5,515	1,350	5,524
Total	**10,588**	**7,658**	**10,452**	**7,726**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral management

The Group uses collateralisation as one of its techniques for credit risk mitigation. The risk management related to collaterals is performed by departments within the Risk Management Arm independently of the Bank’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 estate in granting mortgages or other loans secured by real estate 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 estate obtained as collateral for corporate and retail loans and advances are independent of 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. Since 2019, the Group has started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2021, 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 estate depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estate, adjustment is performed regularly.

Recovery of loans and advances from defaulted clients

In 2021, the Group continued to adapt its collection processes to the Covid-19 pandemic environment in order to be able to respond progressively to the deteriorating situation of clients affected by the pandemic. Increased inflow of clients, which was recorded in the second half of 2020, proved to be only a temporary impact consequent to the end of the state moratorium (loan repayments postponement). In 2021, the Group observed a return to pre-Covid-19 client inflow values.

The Group continues to increase the efficiency of processes by digitising and automating certain activities in out-of-court, retail collection so that it is able to absorb any increased inflow of clients due to the possibly deteriorating economic situation in the Czech Republic caused by rising prices (especially of energy) and the CNB's rising base repo rate. These activities also involve the use of external recovery capacities, both in out-of-court and court recovery, which were further extended in 2021.

During 2021, the Group continued in regular sales of uncollateralised and collateralised retail non-performing loans and receivables to selected qualified investors so that the maximum achievable recovery rate is obtained. The Group has not carried out any mass sales of non-performing loans secured by real estate collateral.

The Group continuously responded to the changing legal environment and its impact on the recovery of loans and receivables. It was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and receivables 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 upon a given debtor's circumstances and the attitudes of other creditors.

In 2021, the Group joined the "Merciful Summer" initiative in order to offer support to clients who had found themselves in difficulty with repaying their debts and were no longer able to resolve their debt in the execution phase, thus proving the Group's responsibility to society.

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 2021, the Group was exposed to a credit exposure of CZK 221,910 million (2020: CZK 225,490 million) on financial derivative instruments and repo operations, including those with central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2021 for all outstanding agreements. The netting agreement and parameters of the 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, and bills of exchange programmes.

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) 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 (84) million as of 31 December 2021 (2020: CZK (27) million). The average VaR was CZK (34) million in 2021 (2020: CZK (34) 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. The actual results should not exceed VaR more frequently than on 1% of the days within a given period. There was no P&L vs. VaR breach in 2021. However, the CNB's rate hiking translated into significant increase of VaR levels in December and breach of the VaR limit.

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, and interest rate exposures are used. These are developed either based upon 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 uses Société Générale Group's VaR and stress tests methodology and 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 2021, for the hypothetical assumption of a 0.1% change in market interest rates, the CZK interest rate risk sensitivity was CZK (71) million (2020: CZK (97) million), the EUR sensitivity was CZK 9 million (2020: CZK 7 million), the USD sensitivity was CZK 2 million (2020: CZK 1 million), and for other currencies it was CZK (0.2) million (2020: CZK (0.1) 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 in 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 2021 Nominal value		31 Dec 2020 Nominal value		31 Dec 2021 Fair value		31 Dec 2020 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	1,527,634	1,527,634	1,252,501	1,252,501	15,427	17,935	9,387	8,790
Interest rate forwards and futures*	107,864	107,864	157,249	157,249	2	2	0	0
Interest rate options	72,253	72,253	77,836	77,836	205	205	168	168
Total interest rate instruments	**1,707,751**	**1,707,751**	**1,487,586**	**1,487,586**	**15,634**	**18,142**	**9,555**	**8,958**
Foreign currency instruments								
Currency swaps	467,871	468,657	401,447	401,942	4,526	4,045	3,470	3,752
Cross currency swaps	242,455	241,102	227,354	226,821	10,114	7,976	7,123	6,548
Currency forwards	156,420	162,221	91,626	92,848	1,156	2,544	863	1,534
Purchased options	59,370	60,449	62,846	63,314	1,014	0	1,226	0
Sold options	60,450	59,370	63,314	62,846	0	1,014	0	1,226
Total currency instruments	**986,566**	**991,799**	**846,587**	**847,771**	**16,810**	**15,579**	**12,682**	**13,060**
Other instruments								
Forwards on debt securities	0	0	393	393	0	0	0	0
Commodity swaps	7	7	226	226	2	2	21	20
Total other instruments	**7**	**7**	**619**	**619**	**2**	**2**	**21**	**20**
Total	**2,694,324**	**2,699,557**	**2,334,792**	**2,335,976**	**32,446**	**33,723**	**22,258**	**22,038**

* 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 2021:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	281,282	841,163	405,189	1,527,634
Interest rate forwards and futures*	105,736	2,128	0	107,864
Interest rate options	0	69,105	3,148	72,253
Total interest rate instruments	**387,018**	**912,396**	**408,337**	**1,707,751**
Foreign currency instruments				
Currency swaps	436,612	29,341	1,918	467,871
Cross currency swaps	43,860	145,165	53,430	242,455
Currency forwards	109,865	46,505	50	156,420
Purchased options	32,175	27,195	0	59,370
Sold options	32,864	27,586	0	60,450
Total currency instruments	**655,376**	**275,792**	**55,398**	**986,566**
Other instruments				
Commodity swaps	7	0	0	7
Total other instruments	**7**	**0**	**0**	**7**
Total	**1,042,401**	**1,188,188**	**463,735**	**2,694,324**

* 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 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 hedging are as follow:

	31 Dec 2021 Nominal value		31 Dec 2020 Nominal value		31 Dec 2021 Fair value		31 Dec 2020 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for fair value hedging	1,150,032	1,150,032	967,953	967,953	11,126	33,527	12,412	7,922
Interest rate swaps for portfolio fair value hedging	35,800	35,800	30,550	30,550	563	623	249	471
Cross currency swaps for cash flow hedging	47,307	46,156	38,578	38,024	2,594	72	656	355
Cross currency swaps for fair value hedging	13,080	12,430	0	0	0	735	0	0
Forwards on stocks for cash flow hedging	55	55	51	51	20	0	0	8
Forwards on stocks for fair value hedging	34	34	33	33	12	0	0	4
Total	**1,246,308**	**1,244,507**	**1,037,165**	**1,036,611**	**14,315**	**34,957**	**13,317**	**8,760**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2021:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	260,581	471,377	418,074	1,150,032
Interest rate swaps for portfolio fair value hedging	9,850	21,050	4,900	35,800
Cross currency swaps for cash flow hedging	4,519	38,648	4,140	47,307
Cross currency swaps for fair value hedging	0	13,080	0	13,080
Forwards on stocks for cash flow hedging	0	55	0	55
Forwards on stocks for fair value hedging	22	12	0	34
Total	**274,972**	**544,222**	**427,114**	**1,246,308**

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**

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 2021			31 Dec 2020
(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	785	1,079	92	294	518	15

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 2021, 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 and cross currency swaps.

2. Foreign exchange risk hedging:
   a. 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. receivables from contractual partners). 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;
   b. Foreign currency flows arising from the issue of mortgage-backed bonds are hedged by cross currency swaps.

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 2021, the gain from the ineffectiveness of hedging relationships was in the amount of CZK 9 million (2020: loss of CZK 2 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 contractual maturities or repricing dates 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	29,947	0	0	0	0	29,947
Financial assets and other assets held for trading at fair value through profit or loss	8,695	0	0	0	32,447	41,142
Non-trading financial assets at fair value through profit or loss	142	0	0	0	(7)	135
Positive fair values of hedging financial derivatives	0	0	0	0	14,315	14,315
Financial assets at fair value through other comprehensive income	954	385	9,866	26,430	(2,067)	35,568
Financial assets at amortised cost	522,164	87,276	279,641	179,511	27,269	1,095,861
– Loans and advances to banks	253,214	3,273	566	0	143	257,196
– Loans and advances to customers	266,135	63,966	253,565	110,170	30,751	724,587
– Debt securities	2,815	20,037	25,510	69,341	(3,625)	114,078
Revaluation differences on portfolios hedge items	0	0	0	0	(629)	(629)
Current tax assets	0	0	0	0	18	18
Deferred tax assets	0	0	0	0	91	91
Prepayments, accrued income, and other assets	0	0	0	0	5,806	5,806
Investments in subsidiaries and associates	0	0	0	0	786	786
Intangible assets	0	0	0	0	7,878	7,878
Tangible assets	0	0	0	0	8,983	8,983
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	0	0	0	700	700
Total assets	**561,902**	**87,661**	**289,507**	**205,941**	**99,342**	**1,244,353**
Liabilities						
Amounts due to central banks	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	6,210	0	0	0	33,723	39,933
Negative fair values of hedging financial derivatives	0	0	0	6	34,951	34,957
Financial liabilities at amortised cost	113,008	22,940	46,574	6,982	866,979	1,056,483
– Amounts due to banks	51,941	5,116	4,596	3,059	18,660	83,372
– Amounts due to customers*	60,724	16,541	28,210	3,153	848,301	956,929
– Securities issued	236	1,001	12,429	0	0	13,666
– Lease liabilities	107	282	1,339	770	18	2,516
Revaluation differences on portfolios hedge items	0	0	0	0	(31,716)	(31,716)
Current tax liabilities	0	15	0	0	380	395
Deferred tax liabilities	0	0	0	0	1,175	1,175
Accruals and other liabilities	0	0	0	0	12,513	12,513
Provisions	0	0	0	0	1,341	1,341
Subordinated debt	2,490	0	0	0	0	2,490
Total liabilities	**121,708**	**22,955**	**46,574**	**6,988**	**919,346**	**1,117,571**
Statement of Financial Position interest rate gap as of 31 December 2021	**440,194**	**64,706**	**242,933**	**198,953**	**(820,004)**	**126,782**
Nominal value of derivatives**	1,321,101	595,784	769,895	509,645	0	3,196,425
Total off-balance sheet assets	**1,321,101**	**595,784**	**769,895**	**509,645**	**0**	**3,196,425**
Nominal value of derivatives**	1,498,058	556,089	769,366	369,758	0	3,193,271
Undrawn portion of loans***	(21,226)	(18,179)	13,697	25,708	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,476,832**	**537,910**	**783,063**	**395,466**	**0**	**3,193,271**
Net off-balance sheet interest rate gap as of 31 December 2021	**(155,731)**	**57,874**	**(13,168)**	**114,179**	**0**	**3,154**
Cumulative interest rate gap as of 31 December 2021	**284,463**	**407,043**	**636,808**	**949,940**	**129,936**	**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 Group reports both the expected drawings and repayments within one line). This line does not reflect commitments for which no interest rate has been set.

**** The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unde-fined****	Restated 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	1,219	1,694	10,288	24,879	2,118	40,198
Financial assets at amortised cost	514,928	86,953	278,166	124,101	31,253	1,035,401
– Loans and advances to banks	260,451	1,013	898	37	207	262,606
– Loans and advances to customers	252,332	66,431	251,621	79,202	30,370	679,956
– Debt securities	2,145	19,509	25,647	44,862	676	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	**543,036**	**88,662**	**288,454**	**148,980**	**97,999**	**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	**431,972**	**72,516**	**249,406**	**140,553**	**(777,389)**	**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	**288,058**	**359,581**	**602,072**	**895,534**	**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 for which no interest rate has been set.
**** The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

The Group has changed the method of disclosure for the revaluation to fair value of financial assets and financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

Average interest rates as of 31 December 2021 and 2020 were as follow:

	31 Dec 2021			31 Dec 2020		
	CZK	**USD**	**EUR**	**CZK**	**USD**	**EUR**
Assets						
Cash and current balances with central banks	2.96%	x	x	0.04%	x	x
Financial assets at fair value through other comprehensive income	1.79%	x	1.52%	1.77%	x	2.24%
Financial assets at amortised cost	2.90%	1.17%	0.75%	1.80%	0.88%	0.90%
– Loans and advances to banks	3.37%	0.46%	(0.37%)	0.37%	0.75%	(0.12%)
– Loans and advances to customers	2.85%	2.21%	1.56%	2.41%	1.34%	1.59%
– Debt securities	2.07%	0.00%	4.05%	2.03%	3.49%	3.99%
Total assets	**2.81%**	**1.04%**	**0.75%**	**1.68%**	**0.77%**	**0.98%**
Total interest-earning assets	**2.85%**	**1.14%**	**0.76%**	**1.79%**	**0.82%**	**1.00%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.17%	0.22%	(0.02%)	0.18%	0.41%	0.04%
– Amounts due to banks	(5.83%)	0.31%	0.05%	(0.12%)	0.54%	0.12%
– Amounts due to customers	0.20%	0.04%	(0.01%)	0.12%	0.17%	0.01%
– Securities issued	2.28%	x	x	2.48%	x	x
– Lease liabilities	1.55%	x	0.68%	1.60%	x	0.67%
Subordinated debt	x	x	0.71%	x	x	0.75%
Total liabilities	**0.36%**	**0.22%**	**(0.01%)**	**0.19%**	**0.40%**	**0.06%**
Total interest-bearing liabilities	**0.23%**	**0.22%**	**(0.01%)**	**0.21%**	**0.41%**	**0.06%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.90%	2.23%	0.32%	0.82%	2.81%	0.42%
Undrawn portion of loans	2.68%	x	0.73%	1.76%	x	1.41%
Undrawn portion of revolving loans	6.06%	1.17%	0.29%	4.04%	1.04%	0.43%
Total off-balance sheet assets	**1.04%**	**2.22%**	**0.32%**	**0.91%**	**2.80%**	**0.42%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.79%	1.92%	0.19%	0.67%	2.45%	0.28%
Undrawn portion of loans	2.68%	x	0.73%	1.76%	x	1.41%
Undrawn portion of revolving loans	6.06%	1.17%	0.29%	4.04%	1.04%	0.43%
Total off-balance sheet liabilities	**0.93%**	**1.92%**	**0.19%**	**0.78%**	**2.44%**	**0.29%**

Note: The table above sets out the average interest rates for December 2021 and 2020 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2021 from 0.25% to 3.75%. Czech crown money market rates (PRIBOR) increased by as much as 3.56% (1M) to 3.96% (12M). Interest rate swaps increased by as much as 1.62% (10Y) to 3.83% (2Y).

Euro money market rates decreased during 2021 by 0.00–0.03% (1–12M), and interest rate swaps increased by as much as 0.22% (2Y) to 0.56% (10Y).

Dollar money market rates changed during 2021 from –0.04% (1M) to 0.24% (12M), and interest rate swaps increased by as much as 0.63% (10Y) to 0.72% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2021 Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2020 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	20,493	9,454	29,947	0	13,320	10,227	23,547
Financial assets and other assets held for trading at fair value through profit or loss	5,491	3,205	32,446	41,142	2,281	1,061	22,258	25,600
Non-trading financial assets at fair value through profit or loss	0	135	0	135	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	14,315	14,315	0	0	13,317	13,317
Financial assets at fair value through other comprehensive income	35,509	0	59	35,568	39,915	236	47	40,198
Financial assets at amortised cost	626,018	464,967	4,876	1,095,861	575,977	455,295	4,129	1,035,401
– Loans and advances to banks	4,265	252,294	637	257,196	1,702	260,709	195	262,606
– Loans and advances to customers	522,770	197,578	4,239	724,587	481,436	194,586	3,934	679,956
– Debt securities	98,983	15,095	0	114,078	92,839	0	0	92,839
Revaluation differences on portfolios hedge items	0	0	(629)	(629)	0	0	283	283
Liabilities								
Amounts due to central banks	0	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	0	0	39,933	39,933	0	0	25,170	25,170
Negative fair values of hedging financial derivatives	6	0	34,951	34,957	0	0	8,760	8,760
Financial liabilities at amortised cost	98,903	956,317	1,263	1,056,483	94,019	902,348	227	996,594
– Amounts due to banks	26,314	56,791	267	83,372	33,242	53,308	22	86,572
– Amounts due to customers*	56,619	899,314	996	956,929	57,117	848,895	205	906,217
– Securities issued	13,454	212	0	13,666	1,003	145	0	1,148
– Lease liabilities	2,516	0	0	2,516	2,657	0	0	2,657
Revaluation differences on portfolios hedge items	0	0	(31,716)	(31,716)	0	0	2,721	2,721
Subordinated debt	0	2,490	0	2,490	0	2,629	0	2,629

* 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	21,455	0	0	0	0	8,492	29,947
Financial assets and other assets held for trading at fair value through profit or loss	0	(87)	2,922	1,187	4,673	32,447	41,142
Non-trading financial assets at fair value through profit or loss	0	142	0	0	0	(7)	135
Positive fair values of hedging financial derivatives	0	0	0	0	0	14,315	14,315
Financial assets at fair value through other comprehensive income	1,339	0	251	9,666	26,430	(2,118)	35,568
Financial assets at amortised cost	143,719	182,010	110,664	274,829	386,738	(2,099)	1,095,861
– Loans and advances to banks	131,214	120,164	3,111	1,939	768	0	257,196
– Loans and advances to customers	11,551	61,003	100,259	243,916	306,332	1,526	724,587
– Debt securities	954	843	7,294	28,974	79,638	(3,625)	114,078
Revaluation differences on portfolios hedge items	0	0	0	0	0	(629)	(629)
Current tax assets	0	2	0	0	0	16	18
Deferred tax assets	28	1	0	0	0	62	91
Prepayments, accrued income, and other assets	41	585	1,231	0	0	3,949	5,806
Investments in subsidiaries and associates	0	0	0	0	0	786	786
Intangible assets	0	0	0	0	0	7,878	7,878
Tangible assets	0	0	0	0	0	8,983	8,983
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	700	0	0	0	700
Total assets	**166,582**	**182,653**	**115,768**	**285,682**	**417,841**	**75,827**	**1,244,353**
Liabilities and equity							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	6,210	0	0	0	0	33,723	39,933
Negative fair values of hedging financial derivatives	0	0	0	0	6	34,951	34,957
Financial liabilities at amortised cost	878,209	80,031	28,797	61,069	8,214	163	1,056,483
– Amounts due to banks	19,633	29,239	9,875	19,577	5,048	0	83,372
– Amounts due to customers	858,406	50,355	16,635	28,217	3,153	163	956,929
– Securities issued	137	99	1,000	12,430	0	0	13,666
– Lease liabilities	33	338	1,287	845	13	0	2,516
Revaluation differences on portfolios hedge items	0	0	0	0	0	(31,716)	(31,716)
Current tax liabilities	0	276	77	0	0	42	395
Deferred tax liabilities	750	30	89	237	0	69	1,175
Accruals and other liabilities	10,080	530	900	0	0	1,003	12,513
Provisions	868	103	177	0	0	193	1,341
Subordinated debt	0	0	0	0	2,490	0	2,490
Equity	0	0	0	0	0	126,782	126,782
Total liabilities and equity	**896,117**	**80,970**	**30,040**	**61,306**	**10,710**	**165,210**	**1,244,353**
Statement of Financial Position liquidity gap as of 31 December 2021	**(729,535)**	**101,683**	**85,728**	**224,376**	**407,131**	**(89,383)**	**0**
Off-balance sheet assets*	244,589	345,259	132,969	271,895	57,352	0	1,052,064
Off-balance sheet liabilities*	501,591	348,347	134,883	270,836	57,273	0	1,312,930
Net off-balance sheet liquidity gap as of 31 December 2021	**(257,002)**	**(3,088)**	**(1,914)**	**1,059**	**79**	**0**	**(260,866)**

* 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 column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

(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**	Restated 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	1,049	271	1,746	10,136	24,879	2,117	40,198
Financial assets at amortised cost	116,427	208,380	111,043	269,219	327,685	2,647	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	13,029	52,500	96,275	234,861	281,320	1,971	679,956
– Debt securities	331	419	14,064	32,197	45,152	676	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	**133,878**	**209,032**	**114,029**	**280,858**	**354,059**	**75,275**	**1,167,131**
Liabilities and equity							
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 and equity	**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	**(718,953)**	**140,498**	**92,614**	**223,599**	**339,666**	**(77,424)**	**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, fixed-term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

** The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

The Group has changed the method of disclosure for the revaluation to fair value of financial assets and financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

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 2021:

(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)	6,210	0	0	0	0	0	6,210
Financial liabilities at amortised cost	878,219	80,197	29,116	62,220	8,445	1,902	1,060,099
– Amounts due to banks	19,638	29,265	9,964	19,858	5,083	406	84,214
– Amounts due to customers	858,411	50,484	16,814	29,007	3,324	385	958,425
– Securities issued	137	101	1,028	12,434	0	1,111	14,811
– Lease liabilities	33	347	1,310	921	38	0	2,649
Current tax liabilities	0	276	77	0	0	42	395
Deferred tax liabilities	750	30	89	237	0	69	1,175
Accruals and other liabilities	10,080	530	900	0	0	1,003	12,513
Provisions	868	103	177	0	0	193	1,341
Subordinated debt	0	0	0	0	2,490	0	2,490
Total non-derivative financial liabilities	**896,127**	**81,136**	**30,359**	**62,457**	**10,935**	**3,209**	**1,084,223**
Other loans commitment granted	190,970	0	0	0	0	0	190,970
Guarantee commitments granted	66,466	0	0	0	0	0	66,466
Total contingent liabilities	**257,436**	**0**	**0**	**0**	**0**	**0**	**257,436**

* The column Maturity undefined also contains a revaluation to fair value of financial liabilities.

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:

							Restated
(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 column Maturity undefined also contains a revaluation to fair value of financial liabilities.

The Group has changed the method of disclosure for the revaluation to fair value of financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

(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	28,679	650	311	307	29,947
Financial assets and other assets held for trading at fair value through profit or loss	38,312	2,788	42	0	41,142
Non-trading financial assets at fair value through profit or loss	0	135	0	0	135
Positive fair values of hedging financial derivatives	13,235	939	141	0	14,315
Financial assets at fair value through other comprehensive income	23,051	12,517	0	0	35,568
Financial assets at amortised cost	900,323	185,940	8,527	1,071	1,095,861
– Loans and advances to banks	204,076	47,866	4,876	378	257,196
– Loans and advances to customers	582,591	137,652	3,651	693	724,587
– Debt securities	113,656	422	0	0	114,078
Revaluation differences on portfolios hedge items	(629)	0	0	0	(629)
Current tax assets	18	0	0	0	18
Deferred tax assets	61	30	0	0	91
Prepayments, accrued income, and other assets	4,498	1,300	6	2	5,806
Investments in subsidiaries and associates	786	0	0	0	786
Intangible assets	7,838	40	0	0	7,878
Tangible assets	8,918	65	0	0	8,983
Goodwill	3,752	0	0	0	3,752
Assets held for sale	700	0	0	0	700
Total assets	**1,029,542**	**204,404**	**9,027**	**1,380**	**1,244,353**
Liabilities and equity					
Amounts due to central banks	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	37,119	2,731	81	2	39,933
Negative fair values of hedging financial derivatives	33,836	1,121	0	0	34,957
Financial liabilities at amortised cost	849,374	167,874	35,635	3,600	1,056,483
– Amounts due to banks	11,053	48,677	23,628	14	83,372
– Amounts due to customers	835,207	106,129	12,007	3,586	956,929
– Securities issued	1,002	12,664	0	0	13,666
– Lease liabilities	2,112	404	0	0	2,516
Revaluation differences on portfolios hedge items	(31,560)	(47)	(109)	0	(31,716)
Current tax liabilities	380	15	0	0	395
Deferred tax liabilities	1,175	0	0	0	1,175
Accruals and other liabilities	10,317	1,494	463	239	12,513
Provisions	730	525	45	41	1,341
Subordinated debt	0	2,490	0	0	2,490
Equity	126,680	102	0	0	126,782
Total liabilities and equity	**1,028,051**	**176,305**	**36,115**	**3,882**	**1,244,353**
Net FX position as of 31 December 2021	**1,491**	**28,099**	**(27,088)**	**(2,502)**	**0**
Off-balance sheet assets*	2,612,176	1,110,531	178,307	44,248	3,945,262
Off-balance sheet liabilities*	2,616,586	1,138,792	151,517	41,798	3,948,693
Net off-balance sheet FX position as of 31 December 2021	**(4,410)**	**(28,261)**	**26,790**	**2,450**	**(3,431)**
Total net FX position as of 31 December 2021	**(2,919)**	**(162)**	**(298)**	**(52)**	**(3,431)**

* 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	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 and equity					
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 and equity	**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.

(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 upon 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 2021		31 Dec 2020
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	29,947	29,947	23,547	23,547
Financial assets at amortised cost	1,095,861	1,082,270	1,035,401	1,060,300
– Loans and advances to banks	257,196	257,043	262,606	262,649
– Loans and advances to customers	724,587	714,831	679,956	702,874
– Debt securities	114,078	110,396	92,839	94,777
Financial liabilities				
Amounts due to central banks	0	0	0	0
Financial liabilities at amortised cost	1,056,483	1,053,330	996,594	996,426
– Amounts due to banks	83,372	83,384	86,572	86,568
– Amounts due to customers	956,929	953,925	906,217	906,217
– Securities issued	13,666	13,505	1,148	984
– Lease liabilities	2,516	2,516	2,657	2,657
Subordinated debt	2,490	2,490	2,629	2,629

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 2021				31 Dec 2020
(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	29,947	8,492	0	21,455	23,547	8,497	0	15,050
Financial assets at amortised cost	1,082,270	104,502	0	977,768	1,060,300	91,073	0	969,227
– Loans and advances to banks	257,043	0	0	257,043	262,649	0	0	262,649
– Loans and advances to customers	714,831	0	0	714,831	702,874	0	0	702,874
– Debt securities*	110,396	104,502	0	5,894	94,777	91,073	0	3,704
Financial liabilities								
Amounts due to central banks	0	0	0	0	0	0	0	0
Financial liabilities at amortised cost	1,053,330	0	0	1,053,330	996,426	0	0	996,426
– Amounts due to banks	83,384	0	0	83,384	86,568	0	0	86,568
– Amounts due to customers	953,925	0	0	953,925	906,217	0	0	906,217
– Securities issued	13,505	0	0	13,505	984	0	0	984
– Lease liabilities	2,516	0	0	2,516	2,657	0	0	2,657
Subordinated debt	2,490	0	0	2,490	2,629	0	0	2,629

(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 2021	Level 1	Level 2	Level 3	31 Dec 2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets held for trading at fair value through profit or loss	**41,142**	**8,626**	**32,516**	**0**	**25,600**	**3,144**	**22,456**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	8,696	8,626	70	0	3,342	3,144	198	0
– Derivatives	32,446	0	32,446	0	22,258	0	22,258	0
Other assets held for trading at fair value through profit or loss	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Non-trading financial assets at fair value through profit or loss	**135**	**0**	**0**	**135**	**279**	**0**	**0**	**279**
Positive fair value of hedging financial derivatives	**14,315**	**0**	**14,315**	**0**	**13,317**	**0**	**13,317**	**0**
Financial assets at fair value through other comprehensive income	**35,568**	**35,509**	**0**	**59**	**40,198**	**40,151**	**0**	**47**
Revaluation differences on portfolios hedge items	**(629)**	**0**	**(629)**		**283**	**0**	**283**	**0**
Financial assets at fair value	**90,531**	**44,135**	**46,202**	**194**	**79,677**	**43,295**	**36,056**	**326**
FINANCIAL LIABILITIES								
Financial liabilities held for trading at fair value through profit or loss	**39,933**	**6,210**	**33,723**	**0**	**25,170**	**3,132**	**22,038**	**0**
of which:								
– Sold securities	6,210	6,210	0	0	3,132	3,132	0	0
– Derivatives	33,723	0	33,723	0	22,038	0	22,038	0
Negative fair value of hedging financial derivatives	**34,957**	**0**	**34,957**	**0**	**8,760**	**0**	**8,760**	**0**
Revaluation differences on portfolios hedge items	**(31,716)**	**0**	**(31,716)**	**0**	**2,721**	**0**	**2,721**	**0**
Financial liabilities at fair value	**43,174**	**6,210**	**36,964**	**0**	**36,651**	**3,132**	**33,519**	**0**

Financial assets at fair value – Level 3:

			2021			2020
(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	**47**	**279**	**326**	**522**	**0**	**522**
Reclassification between portfolios (refer to Note 21)	12	0	12	(513)	513	0
Comprehensive income/(loss)						0
– In the Statement of Income	0	(3)	(3)	0	91	91
– In Other Comprehensive Income	0	0	0	0	0	0
Purchases	0	142	142	38	0	38
Sales	0	(285)	(285)	0	(309)	(309)
Settlement	0	0	0	0	0	0
Transfer from Level 1	0	0	0	0	0	0
Foreign exchange rate difference	0	2	2	0	(16)	(16)
Balance as of 31 December	**59**	**135**	**194**	**47**	**279**	**326**

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 2021:

	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	49,903	3,142	46,761	40,227	4,273	2,261
Negative fair value of derivatives	71,822	3,142	68,680	40,227	27,245	1,208

* 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 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.

45 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,979	601,038	3,957	542,388
Assets in custody of KB Penzijní společnost, a.s.	0	72,053	0	68,551
Assets under management	0	6,582	0	4,195

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.

Optimisation of branch network

The Bank decided during 2022 on further steps in optimising of its branch network. As of 1 April 2022, 25 branches will be closed and at an additional 19 branches cash services will be provided only via ATMs. As of 1 July 2022, the Bank will simplify the management structure of the branch network, including to replace regional retail divisions by a joint segment and line management of all distribution channels at the headquarters level. The selection of branches for closing was based upon a long-term analysis of branch customer traffic, coverage and potential of locations, and changes in clients behaviour that reflect increasing preference for remote sales and assisted services in the digital environment. The estimated costs incurred in 2022 are expected to be in the tens of millions of crowns.

Geopolitical situation

The Group is aware that the sharply deteriorating geopolitical situation will have a significant impact on the economies of European countries. Nevertheless, due to the heightened global uncertainty and turbulent development, it is impossible to fully assess and quantify the impacts at the current stage. The Group is continuously monitoring and evaluating potential impacts of the current crisis on its activities and on its clients. The Group's direct exposure to Russia and Ukraine is limited, but the Group is also evaluating secondary and indirect impacts (supply chains, dependence on raw materials, etc.). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies and accounting estimates, including to adjust its provisioning models in accordance with IFRS9.

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2021

Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2021

Separate Statement of Income for the year ended 31 December 2021

(CZKm)	Note	2021	2020
Interest income	5	32,264	32,977
Interest expense	5	(13,164)	(14,366)
Net interest income		**19,100**	**18,611**
Net fee and commission income	6	4,924	4,536
Net profit/(loss) on financial operations	7	3,629	2,878
Dividend income	8	1,087	6
Other income	9	256	257
Net operating income		**28,996**	**26,288**
Personnel expenses	10	(6,603)	(6,738)
General and administrative expenses	11	(4,393)	(4,331)
Depreciation, amortisation, and impairment of operating assets	12	(2,585)	(2,504)
Total operating expenses		**(13,581)**	**(13,573)**
Operating profit		**15,415**	**12,715**
Impairment losses	13	(665)	(4,083)
Net gain from loans and advances transferred and written off	13	50	130
Cost of risk		**(615)**	**(3,953)**
Profit/(loss) on subsidiaries and associates	14	17	(40)
Net profits on other assets	15	257	(15)
Profit before income tax		**15,074**	**8,707**
Income tax	16	(2,721)	(1,778)
Net profit for the period	17	**12,353**	**6,929**

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 2021

(CZKm)	Note	2021	2020
Net profit for the period	17	**12,353**	**6,929**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	38	6	(15)
Revaluation of equity securities at FVOCI option*, net of tax	39	0	(284)
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	40	910	228
– Transfer to net profit/(loss), net of tax	40	439	(268)
Hedge of a foreign net investment	40	37	(24)
Foreign exchange difference on translation of a foreign net investment		(2)	0
Revaluation of debt securities at FVOCI**, net of tax	41	602	84
Other comprehensive income for the period, net of tax		**1,992**	**(279)**
Total comprehensive income for the period, net of tax		**14,345**	**6,650**

* 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 2021

(CZKm)	Note	31 Dec 2021	31 Dec 2020
ASSETS			
Cash and current balances with central banks	18	28,960	20,980
Financial assets held for trading at fair value through profit or loss	19	42,333	26,321
Other assets held for trading at fair value through profit or loss	19	0	0
Non-trading financial assets at fair value through profit or loss	20	135	279
Positive fair value of hedging financial derivatives	42	13,752	13,068
Financial assets at fair value through other comprehensive income	21	35,451	40,055
Financial assets at amortised cost	22	1,013,039	957,014
Current tax assets		0	1,147
Deferred tax assets	32	28	21
Prepayments, accrued income, and other assets	23	3,523	3,399
Investments in subsidiaries and associates	24	17,861	17,857
Intangible assets	25	7,197	6,347
Tangible assets	26	6,428	6,897
Assets held for sale	27	440	123
Total assets		**1,169,147**	**1,093,508**

(CZKm)	Note	31 Dec 2021	31 Dec 2020
LIABILITIES AND EQUITY			
Amounts due to central banks		0	0
Financial liabilities held for trading at fair value through profit or loss	28	41,125	25,890
Negative fair value of hedging financial derivatives	42	34,328	8,288
Financial liabilities at amortised cost	29	993,868	937,139
Revaluation differences on portfolios hedge items		(30,690)	2,548
Current tax liabilities		276	0
Deferred tax liabilities	32	822	215
Accruals and other liabilities	30	10,248	9,641
Provisions	31	1,262	1,962
Subordinated debt	33	2,490	2,629
Total liabilities		**1,053,729**	**988,312**
Share capital	34	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		96,413	86,191
Total equity		**115,418**	**105,196**
Total liabilities and equity		**1,169,147**	**1,093,508**

The accompanying Notes form an integral part of these Separate Financial Statements.

Separate Statement of Changes in Equity for the year ended 31 December 2021

(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	Translation of a foreign net investment	Revaluation of debt securities at FVOCI	Total equity
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**
Changes in accounting policies (refer to Note 3.6.3)	0	0	326	0	0	0	0	0	0	0	326
Balance as of 1 Jan 2021	**19,005**	**(592)**	**86,134**	**473**	**(230)**	**0**	**(85)**	**53**	**(7)**	**771**	**105,522**
Treasury shares, other	0	0	68	18	0	0	0	0	0	0	86
Payment of dividends	0	0	(4,535)	0	0	0	0	0	0	0	(4,535)
Transactions with owners	**0**	**0**	**(4,467)**	**18**	**0**	**0**	**0**	**0**	**0**	**0**	**(4,449)**
Profit for the period	0	0	12,353	0	0	0	0	0	0	0	12,353
Other comprehensive income for the period, net of tax	0	0	0	0	6	0	1,349	37	(2)	602	1,992
Comprehensive income for the period	**0**	**0**	**12,353**	**0**	**6**	**0**	**1,349**	**37**	**(2)**	**602**	**14,345**
Balance as of 31 Dec 2021	**19,005**	**(592)**	**94,020**	**491**	**(224)**	**0**	**1,264**	**90**	**(9)**	**1,373**	**115,418**

* 'Capital funds and retained earnings' consist of other funds created from profit in the amount of CZK 4,189 million (2020: CZK 4,189 million), net profit from the period in the amount of CZK 12,353 million (2020: CZK 6,929 million), and retained earnings in the amount of CZK 77,478 million (2020: CZK 74,690 million).

The accompanying Notes form an integral part of these Separate Financial Statements.

Separate Statement of Cash Flows for the year ended 31 December 2021

(CZKm)	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	15,074	8,707
Non-cash and other adjustments		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	548	4,115
Depreciation and amortisation expense on tangible and intangible fixed assets	2,615	2,480
Net profits on other assets	(257)	15
Revaluation of debt securities and derivatives	4,893	(2,176)
Accrued interest, amortisation of discount and premium	(778)	916
Profit/(loss) on subsidiaries and associates (including dividends)	(1,104)	34
Foreign exchange differences	(159)	(361)
Other changes	(248)	485
Operating profit before change in operating assets and liabilities	**20,584**	**14,215**
Changes in assets and liabilities from operating activities after non-cash adjustments		
Amounts due from banks (received/paid)	(6,303)	(21,504)
Loans and advances to customers	(35,277)	(24,320)
Debt securities at amortised cost	(26,111)	(19,188)
Financial assets at fair value through other comprehensive income	(86)	(4,936)
Financial assets held for trading at fair value through profit or loss	(5,202)	773
Other assets held for trading at fair value through profit or loss	0	494
Non-trading financial assets at fair value through profit or loss	155	312
Other assets	(262)	199
Amounts due to banks (received/paid)	2,228	(11,686)
Amounts due to customers	52,971	85,761
Financial liabilities held for trading at fair value through profit or loss	3,078	(411)
Other liabilities	1,301	(981)
Net cash flow from operating assets and liabilities	**(13,508)**	**4,513**
Net cash flow from operating activities before tax	**7,076**	**18,728**
Income tax paid	(1,231)	(3,169)
Net cash flow from operating activities	**5,845**	**15,559**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	1,087	6
Purchase of tangible and intangible assets	(2,812)	(2,631)
Sale of tangible and intangible assets	99	40
Purchase of investments in subsidiaries and associates	(63)	(149)
Sale/decrease of investments in subsidiaries and associates	47	0
Net cash flow from investment activities	**(1,642)**	**(2,734)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,488)	0
Securities issued	13,236	0
Securities redeemed	(3,641)	(7,395)
Lease liabilities	(513)	(527)
Subordinated debt	(140)	83
Net cash flow from financing activities	**4,454**	**(7,839)**
Net increase/(decrease) in cash and cash equivalents	**8,657**	**4,986**

(CZKm)	2021	2020
Cash and cash equivalents at the beginning of the year	17,841	12,566
Net increase/(decrease) in cash and cash equivalents	8,657	4,986
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(264)	289
Cash and cash equivalents at the end of the year (refer to Note 35)	**26,234**	**17,841**
Interest received	32,266	33,387
Interest paid	(13,944)	(13,860)

The accompanying Notes form an integral part of these Separate Financial Statements.

These Separate Financial Statements were approved by the Board of Directors on 28 February 2022.

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.

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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% (2020: 60.35%) of the Bank's issued share capital, and it is the ultimate parent company.

2 Events for the year ended 31 December 2021

Dividends declared during 2021
At the General Meeting held on 2 November 2021, the shareholders approved a dividend from retained earnings of CZK 23.86 per share before tax. The dividend was declared in the aggregate amount of CZK 4,535 million. The dividends were paid out in Czech crowns.

Changes in the Bank's financial group
In March, the Bank increased shareholders' equity of Bankovní identita, a.s. by CZK 16 million through a financial contribution into other capital funds.

In March 2021, KB SmartSolutions, s.r.o. established the fully owned company Finbricks, s.r.o., funding it with CZK 2 million of equity. The company develops payment solutions based on PSD2. During 2021, KB SmartSolutions, s.r.o. increased shareholder's equity of Finbricks by CZK 10 million through a financial contribution into other capital funds. Finbricks, s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

In April, the Bank sold 490 shares of Bankovní identita, a.s. to seven other banks (Air Bank a.s., Equa bank a.s., Fio banka, a.s., mBank S.A., MONETA Money Bank, a.s., Raiffeisenbank a.s., and UniCredit Bank Czech Republic and Slovakia, a.s.). The Bank currently holds a 17% share in Bankovní identita, a.s.

In June, KB SmartSolutions, s.r.o. increased shareholders' equity of upvest s.r.o. by CZK 14 million and increased its share from the previous 18.9% to the current 31.06%. Upvest s.r.o. is presently not consolidated due to its insignificant impact on the consolidated financial statements.

In July, the Bank decreased shareholders' equity of BASTION EUROPEAN INVESTMENTS S.A. by EUR 750 thousand (equivalent to CZK 21 million).

During 2021, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 46 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

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 maturity date 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 the bond received an AAA rating from the rating agency Fitch.

3 Principal accounting policies

These are Separate Financial Statements. The Consolidated Financial Statements are issued as of the same date. As of 31 December 2021, the total consolidated equity was CZK 126,782 million (2020: CZK 117,058 million), and for the year ended 31 December 2021, the total consolidated profit was CZK 12,992 million (2020: CZK 8,299 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 2021.

The Separate Financial Statements presented for the year ended 31 December 2021 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 hedged 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);
- Business model and SPPI assessment of financial assets (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.

Covid-19 Pandemic

The continuation of the Covid-19 pandemic causes the current economic environment to remain subject to increased volatility and uncertainty, thus 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 Note 42(A). The Bank uses in particular its own behavioural models to evaluate the impact of Covid-19. Specifically, 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.

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 2021. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
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 effective from 1 January 2020 (Phase 1 pre-replacement issues) 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. See Note 3.6.1 for further information.

Standard	Impact/Comments
Covid-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	In May 2020, the IASB issued amendments to IFRS 16 *Covid-19 Related Rent Concessions* to provide relief to lessees from applying the IFRS 16 requirements on lease modifications for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment was originally intended to apply for payments due on or before 30 June 2021. These second amendments, published by the IASB in March 2021, extend by 1 year the availability of the practical expedient, applicable to rent concessions for which any reduction in lease payments affects only payments due on or before 30 June 2022. In 2021, as in 2020, the Bank did not benefit from any Covid-19 related rent reliefs.

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 2021 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.

Standard	Summarised content	Effective for reporting period beginning on or after
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
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
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). The adjustment of the illustrative example to IFRS 16 Leases was not subject to EU endorsement process.	1 January 2022
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
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
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
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	The amendments clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exemption does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	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 3 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.

Changes in the basis for determining the contractual cash flows of financial assets and liabilities – IBOR reform
In the context of the interest rate benchmark reform (hereinafter the "IBOR reform"), the basis for determining the contractual cash flows of a financial asset or liability may be modified:

- by amending the contractual terms and conditions set during the initial recognition of the financial instrument (example: the contractual terms and conditions are amended to replace the initial reference interest rate by an alternative one);
- by applying external dispositions without requiring a change in contractual terms and conditions (example: the method for determining the reference interest rate is amended without any change in the contractual terms and conditions, e.g. the EONIA has been quoted by reference to the €STR + 8.5 bps since October 2019);
- as a result of the activation of an existing contractual term or condition (example: application of the contractual rate replacement provision, or "Fallback").

If in the context of the IBOR reform there is a change in the basis for determining the contractual cash flows of a financial asset or liability at amortised cost or of a financial asset at fair value through other comprehensive income, the modification is considered a simple forward-looking update of the interest rate applied to determine the interest income or expense and does not generate a modification gain or loss in the income statement.

This treatment depends on compliance with the following conditions:

- a change in the basis for determining the contractual cash flows is required and results directly from the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the former basis used before the change.

Cases giving rise to a new basis for determining the contractual cash flows considered economically equivalent to the former basis are, for example:

- the replacement of an existing reference interest rate used to determine the contractual cash flows of a financial asset or liability by an alternative reference interest rate (or by changing the method used to determine the reference interest rate), with the addition of a fixed spread necessary to compensate for the difference in the basis between the existing reference interest rate and the alternative one;
- the addition of a "Fallback" provision to the contractual terms and conditions of a financial asset or liability to allow for implementation of the changes described above;
- changes in the determination of the amount of interest resulting from the use of a new reference interest rate (rate revision procedure, number of days between interest payment dates, etc.).

Changes to a financial asset or liability, other than those deriving directly from application of the IBOR reform, are treated as a modification of financial instruments.

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 the 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" are: (i) all loans and receivables; (ii) all debt securities that are not part of the liquidity buffer and are not determined for trading; (iii) from 1 January 2018 until 25 March 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer with residual maturity up to 10 years and partly up to 12 years at the time of purchase; (iv) from 25 March 2021 until 23 September 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer, with residual maturity up to 15 years at the time of purchase and according to the Bank's internal rules; and (v) from 23 September 2021 onwards, all new investments in CZK or EUR-denominated bonds forming part of the liquidity buffer, with residual maturity up to 15 years at the time of purchase and according to the Bank's internal rules.

(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" are: (i) from 1 January 2018 until 23 September 2021, all EUR-denominated bonds forming part of the liquidity buffer; (ii) from 1 January 2018 until 25 March 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer and with residual maturity at the time of purchase longer than 12 years or longer than 10 years, according to the Bank's internal rules; (iii) from 25 March 2021 until 23 September 2021, all new investments in CZK-denominated bonds forming part of the liquidity buffer with residual maturity above 15 years at the time of purchase; and (iv) from 23 September 2021 onwards, all new investments in CZK- or EUR-denominated bonds forming part of the liquidity buffer with residual maturity above 15 years at the time of purchase.

(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 an 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'*.

Measurement at fair value through other comprehensive income
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'*.

Measurement at fair value through profit or loss
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 the 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).

<u>Changes in the basis for determining the contractual cash flows of the components of a hedging relationship – IBOR reform</u>

Continuation of the hedging relationships

The documentation of the existing hedging relationships is regularly updated in order to reflect the changes brought about by the IBOR reform in the basis for determining the contractual cash flows of the hedged item/hedging instrument.

These updates resulting from the IBOR reform do not result in discontinuation of the hedging relationship nor designation of a new accounting hedge when they meet the following conditions:

- the change made to the basis for determining the contractual cash flows is required and results directly from the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the former determination basis used before the change.

When these conditions are met, updating the hedging documentation may consist solely in:

- designating the alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
- updating the description of the hedged item, including a description of the hedged portion of cash flows or the fair value;
- updating the description of the hedging instrument; or
- updating the description of the method used to assess the effectiveness of the hedge.

These updates are performed as and when changes are made to the hedged items or the hedging instruments. An accounting hedge may be updated several successive times.

Changes not directly resulting from application of the IBOR reform and impacting the basis used for determining the contractual cash flows of the hedging relationship components or the hedging documentation are analysed beforehand in order to confirm compliance with the criteria for the continued application of hedge accounting.

Specific accounting treatments

Regarding fair value hedges and cash flow hedges, the applicable accounting requirements remain unchanged for the recognition of gains and losses resulting from reassessment of the hedged item and the hedging instrument while taking into account the changes described above.

For the purpose of the retrospective effectiveness assessment, the cumulative fair value changes may be reset to zero on a case-by-case basis for each hedging relationship modified.

The amounts of gains or losses recognised in other comprehensive income for cash flow hedges that have been discontinued prospectively, when the benchmark rate used as a basis for the future cash flows hedged is changed, are kept in other comprehensive income until the hedged cash flows are recorded in the Statement of Income.

An alternative reference interest rate used as a risk component not specified by an agreement may be used, provided it is, as reasonably expected, separately identifiable (i.e. quoted on a sufficiently liquid market) in the 24 months after its first use.

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 the 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 the 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.

Exposures under the Bank's private moratorium are also reported as forborne, but without automatic stage deterioration.

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 in applying the definition of default under Article 178 of Regulation (EU) No. 575/2013.

Significant increase in credit risk

Being a trigger for the transfer of an exposure into Stage 2, significant increase in credit risk (SICR) is one of the most important drivers for the resulting ECL. It is evaluated by the Bank at each reporting date in line with IFRS 9 requirements. In compliance with the SG Group IFRS 9 methodology, SICR is assessed at facility level by comparing the observed increase in the lifetime probability of default since the initial recognition with specific thresholds. The increase is measured in two ways: (i) absolute – by the difference between the probabilities of default (current vs. at origination), or (ii) relative – by the ratio of these. For SICR recognition, the thresholds must be breached in both ways – absolute and relative – for the given facility.

The lifetime probability of default is deduced from the result of the internal credit risk assessment (expressed by client's rating) as well as from the internal IFRS 9 PD curve models reflecting both the history of observed default rates within a given asset class and the forward-looking (macro-) economic development. The lifetime PD is calculated from the corresponding PD curve over the remaining maturity of the deal (annualised). For portfolios with a lack of data for regular statistical modelling (e.g., smaller KB subsidiaries), SICR is expressed by deterioration of the ratings rather than by PD curves. The thresholds (both relative and absolute) have been assessed by the Bank to keep the prescribed performance criteria for Stage 2 (default capture rate, default rate in S2, exposure volume).

In addition to the aforementioned criteria, the Bank supplements the SICR rules with indicators reflecting the current deteriorated situation of the client, such as delay in contractual payments of more than 30 days past due, a worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after loan restructuring. There are no additional probation periods for the transfer back to Stage 1 other than those already established in regular credit risk rules for rating improvement.

The Bank also closely monitors sectors most affected by the impacts of (post)-Covid-19 (real estate developers and investors, 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 with the exception of those sectors and portfolios mentioned in Note 42(A).

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 has been 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

<u>The Bank 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 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 a 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:

	2021	2020
Machinery and equipment	4	4
Information technology – notebooks, servers	4/5	4/5
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
Licences – 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, and remuneration for years of service. 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 the 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 Equity

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 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.

3.6 Changes in accounting policies

3.6.1 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the context of the IBOR reform

Interest rate benchmark reform
The reform of interbank interest rate benchmarks (IBOR: InterBank Offered Rates), initiated by the Financial Stability Board in 2014, aims at replacing these benchmarks with alternative rates, in particular the Risk-Free Rates (RFR). This reform was accelerated on 5 March 2021, when the Financial Conduct Authority, which is in charge of supervising LIBOR, announced its end dates:
- USD LIBOR: The publication of the main settings should cease by the end of June 2023;
- GBP, CHF, JPY and EUR LIBOR: The publication of these benchmarks ceased at the end of 2021.

At the same time, regarding the major benchmarks of the euro area:
- EURIBOR: Although there was uncertainty regarding the prospective use and existence of EURIBOR in the beginning phase of the reform, currently EMMI (the European Money Markets Institute), which administers the interest rate benchmarks, does not contemplate discontinuing its publication. EURIBOR will thus continue to be used in the coming years;
- EONIA: Since 1 October 2019, EONIA has been calculated using a methodology based on €STR plus an adjustment spread of 8.5 bps. Its administrator, EMMI, ceased its publication at the end of 2021. The replacement reference rate recommended by the working group on euro risk-free rates established by the European Central Bank is €STR/ESTER.

The IBOR reform currently does not include the CZK main interest rate benchmark – PRIBOR.

In preparation for the announced LIBOR end dates, the financial authorities and working groups set up by central banks have issued recommendations to the market participants. These recommendations concern:
- on the one hand, the production of new transactions referencing LIBOR and EONIA (ceased on 31 December 2021); and
- on the other hand, the legacy transactions referencing these benchmarks to switch to alternative reference rates by 31 December 2021 at latest (except USD LIBOR: 30 June 2023 at latest).

Reflection of changes
Despite the fact that the main currencies and benchmarks in the Bank's financing and interest-rate hedging business remain CZK/PRIBOR and EUR/EURIBOR, the Bank has performed an upgrade of its tools and processes to be able to deal in RFR-based products and, thereby, to ensure its post-LIBOR and post-EONIA business continuity.

In the area of Investment Banking:
- RFRs ESTER, SOFR, and SONIA were implemented in trading and risk management tools, relevant valuation curves were set up;
- new RFR-linked products and related processes and methodological guidelines were prepared and approved;
- the production of EONIA and LIBOR referencing products gradually ceased in spring 2021 and KB's Investment Banking has been providing its clients with alternate solutions;
- accession to the ISDA 2020 IBOR Fallbacks Protocol, which covers all ISDA Master Agreement and Credit Support Annex (CSA) transactions;
- all legacy transactions referencing EONIA and LIBOR benchmarks (terminated as of the end of 2021) were renegotiated; the only outstanding LIBOR transactions concern 1M and 3M USD LIBOR (i.e. benchmarks to be terminated on 30 June 2023);
- all concerned CSAs and CMAs, containing collateral management on terminated benchmarks, were either amended or agreed with the counterparty on applying the fallback rates without a need for formal amendment of the contract; these changes were also projected into instruments keeping the evidence of the provided/accepted collateral, so-called Call Accounts.

In the area of Commercial Banking:
- the RFRs needed for the transitions from the ceased benchmarks were implemented in the Bank's central system, namely: ESTER, SOFR, SARON, TONAR, and SONIA;
- the contracts referencing to ceased benchmarks were renegotiated for the use of RFRs or linked to RFRs based on the statutory or fallback rules. As a result of this process, 98% of contracts linked to benchmarks in cessation were renegotiated and 2% were treated using the statutory or fallback rules. Consequently, after 31 December 2021 there remained no such contracts using the benchmarks ceased by 31 December 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
In response to the interest rate benchmark reform (hereinafter the "IBOR reform") currently being implemented, the accounting standards applicable have been amended by the IASB in two phases to provide relief to entities impacted by the transition to alternative rates.

The purpose of **Phase 1** of these amendments, applied in advance by the Bank since 31 December 2019, has been to enable the continued application of hedge accounting treatments despite uncertainties regarding the timetable and specifics regarding the transition from current interest rate benchmarks to new ones. These amendments will remain applicable until the uncertainties have been resolved.

The notional amounts of hedging instruments to which the IAS 39 amendment is likely to be applied, thus permitting to use exceptions to the hedge accounting requirement in the context of the interest rate benchmark reform, are CZK 1,756 million for instruments identifying USD LIBOR.

Phase 2 of these amendments was adopted by the European Union on 13 January 2021, effective for the reporting periods beginning on or after 1 January 2021. The amendments address treatment of the changes to financial instruments in the context of the IBOR reform. The Phase 2 amendments have provided as a practical expedient in particular for application of the following treatments:
(i) when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income and lessee's lease liabilities, the changes brought about by the IBOR reform in the determination of the contractual cash flows, when performed on an economically equivalent basis, are booked as the revision of a variable interest rate (refer to Note 3.5.5.4); and
(ii) continuation of the hedging relationship when changes are made, in the context of the IBOR reform, to the hedged item and/or the hedging instrument and lead to the re-documentation of the hedge (refer to Note 3.5.5.4.3).

The table below provides information about the Bank's significant exposures to financial instruments referencing to benchmark interest rates subject to the IBOR reform that have yet to transition to risk-free rates and maturing after 31 December 2021 for non-USD LIBOR instruments and after 30 June 2023 for USD LIBOR instruments.

Financial assets, liabilities and derivatives impacted by the reform of interest rate benchmarks:

(CZKm)		Exposure as of 31 December 2021		
Benchmark interest rate	Quotation end date	Financial assets impacted by the reform – Residual principal amount	Financial liabilities impacted by the reform – Residual principal amount	Derivatives impacted by the reform – Notional amount
EUR LIBOR	31 December 2021	1,417	0	0
USD LIBOR	30 June 2023*	3,707	0	26,870
Total		**5,124**	**0**	**26,870**

* Except USD LIBOR tenors of 1 week and 2 months that were ceased on 31 December 2021.

3.6.2 Classification of financial assets according to risk stages

In accordance with the SG Group methodology, a new relative criterion was introduced in the fourth quarter of 2021 to determine the classification of exposures into relevant staging grade. The rule is applied that in cases where the current 1-year PD (default probability) deteriorates three times compared to the PD at the time the loan was granted, the loan is transferred from Stage 1 to Stage 2. Due to the implementation of this rule, an exposure of CZK 9.8 billion was transferred from Stage 1 to Stage 2 and 2020 comparative figures have been restated. An impact on the creation of allowances in the amount of CZK 92 million was booked in 2021.

Restatement of Financial assets at amortised cost in 2020:

	Reported 2020		Restatement		Restated 2020	
	Gross carrying value		Gross carrying value		Gross carrying value	
(CZKm)	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
Central banks	216,388	0	0	0	216,388	0
General governments	23,066	18	(35)	35	23,031	53
Credit institutions	66,414	533	(157)	157	66,257	690
Other financial corporations	66,226	26	(413)	413	65,813	439
Non-financial corporations	195,848	20,813	(1,043)	1,043	194,805	21,856
Households	267,546	12,446	(5,407)	5,407	262,139	17,853
Total loans	**835,488**	**33,836**	**(7,055)**	**7,055**	**828,433**	**40,891**

	Reported 2020		Restatement		Restated 2020	
	Allowances		Allowances		Allowances	
(CZKm)	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
Central banks	0	0	0	0	0	0
General governments	(16)	0	0	0	(16)	0
Credit institutions	(1)	0	0	0	(1)	0
Other financial corporations	(80)	(1)	2	(2)	(78)	(3)
Non-financial corporations	(634)	(1,338)	4	(4)	(630)	(1,342)
Households	(199)	(802)	6	(6)	(193)	(808)
Total loans	**(930)**	**(2,141)**	**12**	**(12)**	**(918)**	**(2,153)**

	Reported 2020	Restatement	Restated 2020
	Gross carrying value	Gross carrying value	Gross carrying value
(CZKm)	From Stage 1 to Stage 2	From Stage 1 to Stage 2	From Stage 1 to Stage 2
Central banks	0	0	0
General governments	3	35	38
Credit institutions	0	157	157
Other financial corporations	23	413	436
Non-financial corporations	12,755	1,043	13,798
Households	7,085	5,407	12,492
Total loans	**19,866**	**7,055**	**26,921**
Total guarantees and other credit-related commitments	**4,813**	**2,743**	**7,556**

Complete data regarding financial assets at amortised cost as broken down by Staging are disclosed in Note 22.

Restatement of commitments and contingencies in 2020:

	Reported 2020		Restatement		Restated 2020	
	Carrying value		Carrying value		Carrying value	
(CZKm)	Stage 1	Stage 2	Stage 1*	Stage 2	Stage 1*	Stage 2
Central banks	0	0	0	0	0	0
General governments*	24,127	0	208	52	24,335	52
Credit institutions	4,734	8	(16)	16	4,718	24
Other financial corporations*	13,356	22	(261)	1	13,095	23
Non-financial corporations	111,040	6,803	(1,096)	1,096	109,944	7,899
Households	29,280	613	(1,578)	1,578	27,702	2,191
Total commitments and contingencies	**182,537**	**7,446**	**(2,743)**	**2,743**	**179,794**	**10,189**

* This reflects specification as to changes in the categorisation of one counterparty in the amount of CZK 260 million.

	Reported 2020		Restatement		Restated 2020	
	Provisions		Provisions		Provisions	
(CZKm)	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
Central banks	0	0	0	0	0	0
General governments	10	0	0	0	10	0
Credit institutions	2	0	0	0	2	0
Other financial corporations	21	1	0	0	21	1
Non-financial corporations	141	244	(4)	4	137	248
Households	21	27	(2)	2	19	29
Total commitments and contingencies	**195**	**272**	**(6)**	**6**	**189**	**278**

Complete data regarding commitments and contingencies as broken down by Staging are disclosed in Note 36.

3.6.3 Attributing benefit to periods of service

During its April 2021 meeting, the IFRS Interpretations Committee (hereinafter the "IFRS IC") specified the method for determining the vesting period of a defined post-employment benefit plan with the following characteristics: (i) employees are entitled to a lump-sum benefit payment, depending on their length of employee service, when they reach retirement age; and (ii) this length is capped at a specified number of consecutive years of service. The IFRS IC specified that, applying IAS 19, the vesting period should be the period of employee service immediately before the retirement age, capped at the number of consecutive years of service specified in the pension plan. Therefore, it is not possible to use as the vesting period the total length of service when the latter is greater than the cap used to calculate the benefit. The decision not to place the issue on the IFRS IC agenda was validated by the IASB on 24 May 2021.

During the second half of 2021, the Bank assessed the retirement benefits plan similar to the ones covered by the IFRS IC decision and whose vesting period applied until now corresponded to the employees' total length of service. In response to the IFRS IC decision, the commitments relating to this plan have been reassessed based on a capped length of service, resulting in a release of the provisions for employee benefits. As this change has no significant impact on the annual profit and loss, the comparative information has not been restated and the change was reflected as an adjustment to the opening balance in 2021 of the provisions for employee benefits in the amount of CZK 403 million and the retained earnings in the amount after tax of CZK 326 million.

4 Segment reporting

(CZKm)	Retail banking 2021	Retail banking 2020	Corporate banking 2021	Corporate banking 2020	Investment banking 2021	Investment banking 2020	Other 2021	Other 2020	Total 2021	Total 2020
Net interest income	11,046	11,242	6,298	5,751	1,049	659	707	959	19,100	18,611
Net fee and commission income	3,293	3,073	1,667	1,478	208	48	(244)	(63)	4,924	4,536
Net profit/(loss) on financial operations	1,261	1,051	1,817	1,787	(44)	(215)	595	255	3,629	2,878
Dividend income	0	0	0	0	0	0	1,087	6	1,087	6
Other income	192	179	(22)	(32)	347	134	(261)	(24)	256	257
Net operating income	**15,792**	**15,545**	**9,760**	**8,984**	**1,560**	**626**	**1,884**	**1,133**	**28,996**	**26,288**

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 – more than 98% (2020: more than 98%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2021	Restated 2020
Interest income	32,264	32,977
Interest expense	(13,164)	(14,366)
Net interest income	**19,100**	**18,611**
Of which net interest income from:		
– Loans and advances at amortised cost*	17,889	16,786
– Debt securities at amortised cost	1,908	1,526
– Other debt securities	682	671
– Financial liabilities at amortised cost*	(2,079)	(2,094)
– Hedging financial derivatives – income	11,389	13,643
– Hedging financial derivatives – expense	(10,689)	(11,921)

* Figures for 2020 have been recalculated due to a change in the manner of displaying negative interest. Net interest income from 'Loans and advances at amortised cost' was decreased by CZK 351 million and net interest income from 'Financial liabilities at amortised cost' were increased by CZK 351 million.

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 288 million (2020: CZK 217 million).

In both 2021 and 2020, 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 0 million (2020: CZK 1 million). *'Interest expense'* includes interest expense on lease liabilities in the amount of CZK 37 million (2020: CZK 45 million).

In 2021, the Bank recorded a modification loss in the amount of CZK 0 million (2020: CZK 127 million) from the postponement of instalment payments under the loan moratorium. This item will be amortised to the Bank's profit or loss in coming years.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2021	2020
Deposit product fee and commission income	741	726
Loan fee and commission income	483	476
Transaction fee and commission income	2,104	2,128
Cross-selling fee income	1,127	899
Specialised financial services fee and commission income	1,176	928
Other fee and commission income	218	150
Total fee and commission income	**5,849**	**5,307**
Deposit product fee and commission expense	(98)	(105)
Loan fee and commission expense	(134)	(88)
Transaction fee and commission expense	(487)	(400)
Cross-selling fee expense	(28)	(18)
Specialised financial services fee and commission expense	(135)	(110)
Other fee and commission expense	(43)	(50)
Total fee and commission expenses	**(925)**	**(771)**
Total net fee and commission income	**4,924**	**4,536**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 163 million (2020: CZK 156 million) and fee expense for these services in the amount of CZK 38 million (2020: CZK 32 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2021	2020
Net realised gains/(losses) on securities held for trading*	213	438
Net unrealised gains/(losses) on securities held for trading*	(94)	(51)
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	(9)	0
Net realised and unrealised gains/(losses) on security derivatives**	8	(79)
Net realised and unrealised gains/(losses) on interest rate derivatives	(2,455)	1,241
Net realised and unrealised gains/(losses) on trading commodity derivatives	0	0
Net realised and unrealised gains/(losses) on foreign exchange operations	5,120	532
Net realised gains/(losses) on foreign exchange from payments	847	797
Total net profit/(loss) on financial operations	**3,630**	**2,878**

* This line also includes trading in emission allowances.
** This line also includes impacts of derivative trades in emission allowances.

A loss of CZK 21,813 million (2020: gain of CZK 5,305 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 the 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 1,087 million (2020: CZK 2 million) and from other financial investments of CZK 0 million (2020: CZK 4 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 (2020: CZK 0 million).

9 Other income

The Bank reports *'Other income'* in the amount of CZK 256 million (2020: CZK 257 million). In both 2021 and 2020, *'Other income'* was predominantly composed of income from services provided to the Group's companies and the Société Générale Group entities as well as income from non-banking activities.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2021	2020
Wages, salaries, and bonuses	4,734	4,816
Social costs	1,869	1,922
Total personnel expenses	**6,603**	**6,738**
Physical number of employees at the end of the period*	6,789	7,094
Average recalculated number of employees during the period*	6,736	7,104
Average cost per employee (CZK)	**980,255**	**948,441**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 99 million (2020: CZK 100 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 30 million (2020: CZK 34 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net income of CZK 40 million (2020: CZK 3 million) related to provisions for restructuring. The change in provisions in relation to the "KB Change" transformation project involves use in the amount of CZK 0 million (2020: CZK 28 million) and release in the amount of CZK 0 million (2020: CZK 56 million). In 2021, the Bank adjusted provisions for restructuring related to planned structural changes based on the Covid-19 experience. These provisions include a charge in the amount of CZK 41 million (2020: CZK 136 million) and release and use in the amount of CZK 81 million (2020: CZK 55 million). Further information is presented in Note 31.

Indexed bonuses

In 2021, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *'Personnel expenses'* was CZK 32 million (2020: CZK 42 million) and the total amount of CZK 93 million (2020: CZK 84 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 31 million (2020: net loss of CZK 9 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 180,404 shares (2020: 152,100 shares).

Changes in the numbers of Komerční banka shares were as follow:

(in shares)	2021	2020
Balance as of 1 January	**152,100**	**137,090**
Paid out during the period	(28,866)	(22,556)
Presumed number of newly guaranteed shares	57,170	37,566
Balance as of 31 December	**180,404**	**152,100**

Free shares and deferred share plans

For 2021, the total amount relating to the free shares programme and deferred share plans recognised in *'Personnel expenses'* was CZK 18 million (2020: CZK 19 million).

Changes in the numbers of Société Générale shares were as follow:

	2021		2020	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**101,319**	**21.56**	**87,466**	**30.74**
Granted during the year	46,281	18.74	36,128	11.26
Forfeited during the year	(1,644)	21.56	(697)	30.74
Exercised during the year	(21,153)	21.56	(21,578)	30.74
Balance as of 31 December	**124,803**	**17.52**	**101,319**	**21.56**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2021	2020
Insurance	74	65
Marketing and representation	440	413
Selling and banking products expenses	288	289
Other employees expenses and travelling	67	63
Real estate expenses	656	796
IT support	1,254	1,167
Equipment and supplies	70	87
Telecommunications, postage, and data transfer	150	184
External consultancy and other services	321	303
Resolution and similar funds	1,016	917
Other expenses	57	47
Total general and administrative expenses	**4,393**	**4,331**

'General administrative expenses' in 2020 included net expense of CZK 29 million due to provisions for restructuring created in relation to the "KB Change" transformation project in the amount of CZK 1 million and use and release in the amount of CZK 30 million. In 2021, the Bank did not account for provisions in relation to the "KB Change" project.

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 also variable lease payment expenses which are not included in the lease liabilities.

Lease payment expenses were as follow:

				2021				2020
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	130	0	0	130	176	0	0	176
Low-value assets	0	17	0	17	0	22	0	22
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)	2021	2020
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	2,615	2,480
Impairment of operating assets	(30)	24
Total depreciation, amortisation, and impairment of operating assets	**2,585**	**2,504**

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)	2021	2020
Real estate	463	508
Hardware	0	0
Other	14	14
Total depreciation of right-of-use assets	**477**	**522**

13 Cost of risk

The net loss in *'Cost of risk'* totalling CZK 615 million (2020: CZK 3,953 million) includes a net loss from allowances and provisions in the amount of CZK 665 million (2020: CZK 4,083 million) and a net gain from loans and advances transferred and written off in the amount of CZK 50 million (2020: CZK 130 million).

'Cost of risk' was influenced in 2021 by (i) update of staging rules (for change of methodology refer to Note 3.6.2); (ii) update of IFRS 9 models for allowances; and (iii) adjustments of provisions in allowances for particular portfolios with deteriorating credit risk profile (for points (ii) and (iii) refer to Note 42(A)).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2021 were as follow:

(CZKm)	As of 1 Jan 2021	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 2021
Allowances for financial assets (Stage 1)	(945)	(506)	299	(42)	0	0	20	(1,174)
– Debt securities	(15)	0	0	(5)	0	0	0	(20)
– Loans and advances	(930)	(506)	299	(37)	0	0	20	(1,154)
Allowances for financial assets (Stage 2)	(2,141)	0	166	10	(68)	1	26	(2,006)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(2,141)	0	166	10	(68)	1	26	(2,006)
Allowances for financial assets (Stage 3)	(7,339)	0	716	(1,360)	0	195	114	(7,674)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(7,339)	0	716	(1,360)	0	195	114	(7,674)
Total allowances for financial assets (refer to Notes 22 and 41)	**(10,425)**	**(506)**	**1,181**	**(1,392)**	**(68)**	**196**	**160**	**(10,854)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(195)	(217)	0	148	0	0	5	(259)
Provisions for guarantees and other credit-related commitments (Stage 2)	(272)	0	0	125	(25)	0	3	(169)
Provisions for guarantees and other credit-related commitments (Stage 3)	(839)	0	0	204	0	0	14	(621)
Total provisions for guarantees and other credit-related commitments (refer to Note 31)	**(1,306)**	**(217)**	**0**	**477**	**(25)**	**0**	**22**	**(1,049)**

* 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 – only full repayments, partial repayments are presented in item Change of credit risk (net)). 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.

** This item includes mainly changes in allowances as a result of FX translation.

*** This item includes changes in allowances due to a change of methodology as described in Note 3.6.2.

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 derecogni-tion*	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 – only full repayments, partial repayments are presented in item Change of credit risk (net)). 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.

** This item includes mainly changes in allowances as a result of FX translation.

14 Profit/(loss) on subsidiaries and associates

In April, the Bank sold 490 shares of Bankovní identita, a.s. to seven other banks (Air Bank a.s., Equa bank a.s., Fio banka, a.s., mBank S.A., MONETA Money Bank, a.s., Raiffeisenbank a.s., and UniCredit Bank Czech Republic and Slovakia, a.s.). The Bank currently holds a 17% share in Bankovní identita, a.s. that is reported in the *'Financial assets at fair value through other comprehensive income'* portfolio.

The balances of allowances for subsidiaries and associates are as follow:

(CZKm)	2021	2020
Balance as of 1 January	**(40)**	**0**
Charge for allowances	0	(41)
Release and use of allowances	0	1
Balance as of 31 December	**(40)**	**(40)**

15 Net profits on other assets

Net profits on other assets comprise the following:

(CZKm)	2021	2020
Net profits/(losses) from sale of buildings	43	19
Net profits/(losses) from impairment on assets held for sale	244	0
Net profits/(losses) from sale-and-lease-back transactions	(1)	(3)
Net profits/(losses) from sale/disposal of other assets	(29)	(31)
Total net profits on other assets	**257**	**(15)**

16 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2021	2020
Tax payable – current year, reported in profit or loss	(2,686)	(1,796)
Tax of previous years	28	26
Deferred tax (refer to Note 32)	(63)	(8)
Total income tax	**(2,721)**	**(1,778)**

The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:

(CZKm)	2021	2020
Profit before income tax	**15,075**	**8,707**
Theoretical tax calculated at a tax rate of 19% (2020: 19%)	2,864	1,655
Tax on pre-tax profit adjustments	(4)	8
Non-taxable income (tax effect)	(1,722)	(1,140)
Expenses not deductible for tax purposes (tax effect)	1,542	1,269
Tax allowance	(3)	(3)
Movement in deferred tax	64	8
Other	8	7
Income tax expense	**2,749**	**1,804**
Tax of previous years	(28)	(26)
Total income tax	**2,721**	**1,778**
Effective tax rate	18.05%	20.43%

Non-taxable income primarily includes tax-free dividends, tax-free government securities, and 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 2021 is 19% (2020: 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 2021, the Bank generated a net profit of CZK 12,353 million (2020: CZK 6,929 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 43.80 per share (2020: CZK 23.86 per share), which means a total amount of CZK 8,324 million (2020: CZK 4,535 million). The proposal is subject to the Supervisory Board's approval and subsequently to approval of the General Shareholders' Meeting.

Net profit for the period ended 31 December 2020 was fully allocated to retained earnings. At the General Meeting held on 2 November 2021, the shareholders approved a dividend from retained earnings of CZK 23.86 per share before tax. The dividend was declared in the aggregate amount of CZK 4,535 million.

18 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Cash and cash values	8,492	8,496
Current balances with central banks	20,468	12,484
Total cash and current balances with central banks (refer to Note 35)	**28,960**	**20,980**

Obligatory minimum reserves in the amount of CZK 19,507 million (2020: CZK 10,754 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2021, the interest rate was 3.75% (2020: 0.25%) in the Czech Republic and 0.00% (2020: 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 2021	31 Dec 2020
Trading equity securities	0	0
Trading debt securities	8,696	3,342
Trading derivatives	33,637	22,979
Total financial assets held for trading at fair value through profit or loss	**42,333**	**26,321**

As of 31 December 2021 and 2020, 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 2021, the portfolio of trading securities included securities at fair value of CZK 8,696 million (2020: CZK 3,228 million) that are publicly traded on stock exchanges and securities at fair value of CZK 0 million (2020: CZK 114 million) that are not publicly traded on stock exchanges (rather are traded on the interbank market).

'Trading debt securities' include securities used as collateral for borrowing securities at fair value of CZK 6,366 million (2020: CZK 3,068 million).

'Trading debt securities' include securities eligible for refinancing with central banks at fair value of CZK 2,260 million (2020: CZK 76 million).

20 Non-trading financial assets at fair value through profit or loss

As of 31 December 2021, the *'Non-trading financial assets at fair value through profit or loss'* portfolio includes financial assets at fair value of CZK 0 million (2020: CZK 279 million) that are issued by foreign financial institutions and financial assets at fair value of CZK 135 million (2020: CZK 0 million) granted to non-financial corporations.

During 2021, the Bank sold 9,924 shares of VISA Series C Preferred Stock to the parent company Société Générale.

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 2021	31 Dec 2020
Equity instruments at FVOCI option	29	1
Debt securities at FVOCI	35,422	40,054
Total financial assets at fair value through other comprehensive income	**35,451**	**40,055**

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included the equity interest in Bankovní identita, a.s. at fair value of CZK 28 million. In 2020, the equity interest in Bankovní identita, a.s. was recognised in *'Investments in associated undertakings'*. During 2021, however, the Bank sold part of its shares and decreased its equity share in the company.

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 42(A).

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 35,423 million (2020: CZK 40,055 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 35,422 million (2020: CZK 40,054 million).

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 841 million (2020: CZK 915 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2021, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 3,816 million (2020: CZK 1,596 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.

22 Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Loans and advances to banks	285,669	283,334
Loans and advances to customers	622,178	589,741
Debt securities	105,192	83,939
Total financial assets at amortised cost	**1,013,039**	**957,014**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 42(A).

As of 31 December 2021, the *'Financial assets at amortised cost'* portfolio includes debt securities in the amount of CZK 104,745 million (2020: CZK 83,392 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 447 million (2020: CZK 547 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 80,924 million (2020: CZK 80,132 million).

As of 31 December 2021, the *'Financial assets at amortised cost'* portfolio includes mortgage loans, which are allocated in the cover pool of Mortgage bonds (refer to Note 30) with the identifier "Komerční_banka_HZL_0000" in the amount of CZK 17,218 million (2020: CZK 20,923 million) and in the cover pool with the identifier "Komerční_banka_HZL_EUR_0001" in the amount of CZK 15,339 million (2020: CZK 0 million). The cover pool "Komerční_banka_HZL_EUR_0001" includes a government bond in nominal value of CZK 200 million (2020: CZK 0 million).

As of 31 December 2021, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

(CZKm)	Gross carrying value				Allowances				Carrying value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	201,132	0	0	201,132	0	0	0	0	201,132
General governments	26,302	43	148	26,493	(30)	(1)	(14)	(45)	26,448
Credit institutions	84,166	373	0	84,539	(1)	(1)	0	(2)	84,537
Other financial corporations	75,084	496	271	75,851	(131)	(14)	(53)	(198)	75,653
Non-financial corporations	194,240	25,751	9,146	229,137	(852)	(1,577)	(5,353)	(7,782)	221,355
Households*	277,106	19,721	4,702	301,529	(140)	(413)	(2,254)	(2,807)	298,722
Total loans	**858,030**	**46,384**	**14,267**	**918,681**	**(1,154)**	**(2,006)**	**(7,674)**	**(10,834)**	**907,847**
Central banks	0	0	0	0	0	0	0	0	0
General governments	99,620	0	0	99,620	(14)	0	0	(14)	99,606
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	1,054	0	0	1,054	0	0	0	0	1,054
Non-financial corporations	4,533	0	0	4,533	(1)	0	0	(1)	4,532
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**105,207**	**0**	**0**	**105,207**	**(15)**	**0**	**0**	**(15)**	**105,192**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2020, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

(CZKm)	Restated								Carrying value
	Gross carrying value				Allowances				
	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	23,031	53	234	23,318	(16)	0	(23)	(39)	23,279
Credit institutions	66,257	690	0	66,947	(1)	0	0	(1)	66,946
Other financial corporations	65,813	439	303	66,555	(78)	(3)	(48)	(129)	66,426
Non-financial corporations	194,805	21,856	8,888	225,549	(630)	(1,342)	(4,711)	(6,683)	218,866
Households*	262,139	17,853	4,736	284,728	(193)	(808)	(2,557)	(3,558)	281,170
Total loans	**828,433**	**40,891**	**14,161**	**883,485**	**(918)**	**(2,153)**	**(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.

For the year ended 31 December 2021, 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	30	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	309	21	0	0	0	0
Non-financial corporations	13,833	4,064	1,483	100	703	43
Households*	12,823	4,947	685	276	664	74
Total loans	**26,995**	**9,033**	**2,168**	**376**	**1,367**	**117**
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	**6,414**	**1,488**	**297**	**8**	**236**	**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 Stage 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 2020, the transfers between Stages were as follow:

(CZKm)	Restated					
	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	38	1,200	233	1	0	0
Credit institutions	157	0	0	0	0	0
Other financial corporations	436	116	199	0	0	0
Non-financial corporations	13,798	3,196	1,001	57	1,498	10
Households*	12,492	4,576	606	363	1,424	240
Total loans	**26,921**	**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	**7,556**	**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 Stage 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 2020, *'Financial assets at amortised cost'* has been restated between Stage 1 and Stage 2. The detailed data are disclosed in Note 3.6.2.

Set out below is a breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2021	31 Dec 2020
Agriculture, forestry, and fishing	10,259	10,362
Mining and quarrying	3,087	2,788
Manufacturing	56,669	59,516
Electricity, gas, steam, and air conditioning supply	10,215	13,416
Water supply, sewerage, waste management, and remediation activities	1,329	1,291
Construction	10,894	8,239
Wholesale and retail trade, repair of motor vehicles and motorcycles	43,027	38,009
Transportation and storage	9,069	8,133
Accommodation and food service activities	2,071	2,250
Information and communication	6,384	5,536
Real estate activities	52,585	52,778
Professional, scientific, and technical activities	8,997	8,739
Administrative and support service activities	7,050	5,832
Public administration and defence, compulsory social security	86	4
Education	555	535
Human health and social work activities	2,694	2,433
Arts, entertainment, and recreation	2,719	1,939
Other service activities	1,447	3,749
Total loans and advances to non-financial corporations	**229,137**	**225,549**

Exposure to the automotive industry and related suppliers is CZK 15,700 million (2020: CZK 16,219 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' to be of higher risk in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgements and estimates).

The majority of loans – more than 95% (2020: more than 92%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2021, loans and advances to customers included accrued interest of CZK 1,070 million (2020: CZK 1,077 million), of which CZK 211 million (2020: CZK 235 million) relates to interest from overdue advances.

'Financial assets at amortised cost' includes CZK 27,245 million (2020: CZK 11,201 million) provided as cash collateral linked to derivative operations.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 201,132 million (2020: CZK 216,500 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 2021	31 Dec 2020
Treasury bills	197,044	212,322
Debt securities issued by state institutions	0	111
Emission allowances	0	0
Investment certificates	0	0
Total	**197,044**	**212,433**

As of 31 December 2021, loans provided to customers under reverse repurchase transactions in the amount of CZK 0 million (2020: CZK 0 million) are collateralised by securities with a fair value of CZK 0 million (2020: CZK 0 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 2021:

	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 collateral	Financial guarantees received
Loans and advances to customers	**243,694**	**33,584**	**1,557**	**16,293**	**28,497**
of which:					
– Other financial corporations	65	1,152	0	4,960	6,704
– Non-financial corporations	2,799	28,532	1,368	10,862	18,295
– Households**	240,805	3,866	183	387	716

* 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 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 collateral	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.

Pledges on industrial real estate represent 8% of total pledges on real estate (2020: 7%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2021:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	210	0	0	210	0	1
Other financial corporations	106	0	0	106	0	0
Non-financial corporations	6,332	4	1,894	8,230	1,028	2,440
Households*	7,804	108	1,936	9,848	698	7,784
Total	**14,452**	**112**	**3,830**	**18,394**	**1,726**	**10,225**

* This item also includes loans granted to individual entrepreneurs.

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.

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 2021			31 Dec 2020
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
General governments	26,493	210	0.79%	23,318	242	1.04%
Other financial corporations	75,851	106	0.14%	66,555	233	0.35%
Non-financial corporations	229,137	8,230	3.59%	225,549	10,515	4.66%
Households*	301,529	9,848	3.27%	284,728	11,565	4.06%
Total	**633,010**	**18,394**	**2.91%**	**600,150**	**22,555**	**3.76%**

* 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 2021	31 Dec 2020
Due less than 1 year	14	11
Due from 1 to 2 years	2	5
Due from 2 to 3 years	2	2
Due from 3 to 4 years	1	2
Due from 4 to 5 years	2	1
Due over 5 years	3	3
Total	**24**	**24**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2021	31 Dec 2020
Due less than 1 year	0	0
Due from 1 to 2 years	0	0
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**	**0**

23 Prepayments, accrued income, and other assets

Prepayments, accrued income, and other assets comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Prepayments and accrued income	1,049	831
Settlement balances	172	314
Receivables from securities trading	4	147
Other assets	2,297	2,107
Total prepayments, accrued income, and other assets	**3,522**	**3,399**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 207 million (2020: CZK 213 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 2021	31 Dec 2020
Investments in subsidiary undertakings	17,024	16,999
Investments in associated undertakings	837	858
Total investments in subsidiaries and associates	**17,861**	**17,857**

Subsidiary undertakings

The following companies were subsidiary undertakings of the Bank as of 31 December 2021:

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	628	0	628
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	223	(40)	183
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					**17,064**	**(40)**	**17,024**

Associated undertakings

The following companies were associated undertakings of the Bank as of 31 December 2021:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
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					**837**	**0**	**837**

* 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 2021:

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 2021	Additions	Decreases	Reclassification	Cost of investment as of 31 Dec 2021
BASTION EUROPEAN INVESTMENTS S.A.[3]	649	0	(21)	0	628
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.[4]	177	46	0	0	223
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	**17,039**	**46**	**(21)**	**0**	**17,064**
Bankovní identita, a.s.[1), 2)]	21	16	(18)	(19)	0
CBCB - Czech Banking Credit Bureau, a.s.	0*	0	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	0	837
Total associates	**858**	**16**	**(18)**	**(19)**	**837**
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 2021

1) In March, the Bank increased shareholders' equity of Bankovní identita, a.s. by CZK 16 million through a financial contribution into other capital funds.

2) In April, the Bank sold 490 shares of Bankovní identita, a.s. to seven other banks (Air Bank a.s., Equa bank a.s., Fio banka, a.s., mBank S.A., MONETA Money Bank, a.s., Raiffeisenbank a.s., and UniCredit Bank Czech Republic and Slovakia, a.s.). The Bank currently holds a 17% share in Bankovní identita, a.s. that is reported in the *'Financial assets at fair value through other comprehensive income'* portfolio.

3) In July, the Bank decreased shareholders' equity of BASTION EUROPEAN INVESTMENTS S.A. by EUR 750 thousand (equivalent to CZK 21 million).

4) During 2021, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 46 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 2020	15,412	1,952	14	1,695	19,073
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
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	2,073	162	0	2,381	4,616
Disposals/transfers	(340)	(18)	(13)	(2,235)	(2,606)
Foreign exchange rate difference	0	(3)	0	0	(3)
As of 31 December 2021	**18,892**	**2,258**	**1**	**2,127**	**23,278**
Accumulated depreciation and allowances					
As of 1 January 2020	(11,832)	(1,726)	(14)	(7)	(13,579)
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)
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	(1,421)	(110)	0	0	(1,531)
Disposals	315	18	13	0	346
Impairment	27	0	0	0	27
Foreign exchange rate difference	0	1	0	0	1
As of 31 December 2021	**(14,175)**	**(1,905)**	**(1)**	**0**	**(16,081)**
Net book value					
As of 31 December 2020	4,063	303	0	1,981	6,347
As of 31 December 2021	**4,717**	**353**	**0**	**2,127**	**7,197**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2021, the Bank spent CZK 145 million (2020: CZK 133 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2021, the Bank recognised allowances against intangible assets of CZK 17 million (2020: CZK 45 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 2020	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
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(17)	(765)	0	0	0	(782)
Additions	0	0	300	456	394	1,150
Disposals/transfers	0	25	(118)	(444)	(183)	(720)
Foreign exchange rate difference	0	(1)	(1)	0	(4)	(6)
As of 31 December 2021	**77**	**7,001**	**4,793**	**249**	**3,759**	**15,879**
Accumulated depreciation and allowances						
As of 1 January 2020	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)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	422	0	0	0	422
Additions	0	(257)	(351)	0	(477)	(1,085)
Disposals	0	110	116	0	77	303
Impairment	0	244	1	0	2	247
Foreign exchange rate difference	0	1	0	0	1	2
As of 31 December 2021	**0**	**(4,306)**	**(3,784)**	**0**	**(1,361)**	**(9,451)**
Net book value						
As of 31 December 2020	94	2,916	1,062	237	2,588	6,897
As of 31 December 2021	**77**	**2,695**	**1,009**	**249**	**2,398**	**6,428**

As of 31 December 2021, the Bank recognised allowances against tangible assets of CZK 0 million (2020: CZK 245 million). These allowances primarily included allowances charged in respect of Nonet building CZK 0 million(2020: 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). In 2021, Nonet building was transferred to *'Assets held for sale'* and, with a view to the estimated selling price, the allowances were released.

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).

Net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2021	31 Dec 2020
Real estate	2,307	2,481
Hardware	0	0
Other	91	107
Total net value of right-of-use assets	**2,398**	**2,588**

27 Assets held for sale

As of 31 December 2021, the Bank reported assets held for sale at a carrying amount of CZK 440 million (2020: CZK 123 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 2021, the Bank recognised allowances against assets held for sale of CZK 50 million (2020: CZK 96 million).

As of 31 December 2021, *'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 (2020: 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 2021 and 2020, 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 2021	31 Dec 2020
Short sales	6,210	3,132
Derivative financial instruments	34,915	22,758
Financial liabilities held for trading at fair value through profit or loss	**41,125**	**25,890**

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 2021	31 Dec 2020
Amounts due to banks	62,655	64,844
Amounts due to customers	899,654	849,029
Securities issued	29,134	20,625
Lease liabilities	2,425	2,641
Total financial liabilities at amortised cost	**993,868**	**937,139**

'Financial liabilities at amortised cost' includes CZK 4,273 million (2020: CZK 8,226 million) received as cash collateral linked to derivative operations.

The total amount of loans from banks and customers received under repurchase transactions was CZK 9,500 million (2020: CZK 13,883 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2021		31 Dec 2020	
(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	0	0
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	9,326	9,326	13,880	13,880
Total	**9,326**	**9,326**	**13,880**	**13,880**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Central banks	0	0
General governments	102,625	94,979
Credit institutions	62,655	64,844
Other financial corporations	54,229	51,613
Non-financial corporations	323,283	319,437
Households*	419,517	383,000
Total amounts due to banks and customers	**962,309**	**913,873**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Mortgage bonds	29,134	20,584
Depository bills of exchange	0	41
Total securities issued	**29,134**	**20,625**

The Bank issues mortgage bonds to fund its mortgage activities.

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 maturity date 20 January 2026. The bond's maturity is extendable by 1 year according to the terms and conditions of the bond (a so-called soft bullet) and the bond received an AAA rating from the rating agency Fitch.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

			Non-cash changes			
(CZKm)	31 Dec 2020	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	Foreign exchange difference	31 Dec 2021
Mortgage bonds	20,584	9,163	440	(413)	(640)	29,134
Depository bills of exchange	41	(41)	0	0	0	0
Total securities issued	**20,625**	**9,122**	**440**	**(413)**	**(640)**	**29,134**

* The item includes the cash flow on principal and interest paid.

			Non-cash changes			
(CZKm)	31 Dec 2019	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	Foreign exchange difference	31 Dec 2020
Mortgage bonds	25,347	(5,479)	578	138	0	20,584
Depository bills of exchange	2,617	(2,594)	18	0	0	41
Total securities issued	**27,964**	**(8,073)**	**596**	**138**	**0**	**20,625**

* 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 2021	31 Dec 2020
In less than one year	3,823	0
In one to five years	16,213	5,977
In five to ten years	2,063	4,021
In ten to twenty years	7,035	10,586
More than twenty years	0	0
Total mortgage bonds	**29,134**	**20,584**

The securities issued detailed above include the following mortgage bonds issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2021 (CZKm)	31 Dec 2020 (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	1,988	1,966
HZL Komerční banky, a.s., 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	2,365	2,338
HZL Komerční banky, a.s., CZ0002001431	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	0	1,190
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	2,682	2,658
HZL Komerční banky, a.s., 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	0	2,434
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,005	3,009
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	848	853
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,194	1,207
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	933	937
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	818	824
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	673	780
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	671	787
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	689	797
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	703	804
HZL Komerční banky, a.s., XS2289128162	0.01%	EUR	20 Jan 2021	20 Jan 2026	12,565	0
Total mortgage bonds					**29,134**	**20,584**

* 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 2021 was 429 bps (2020: 40 bps).
The value of the interest rate swap CZK sale average for 5 years as of 31 December 2021 was 386 bps (2020: 113 bps).
The value of the interest rate swap CZK sale average for 10 years as of 31 December 2021 was 328 bps (2020: 130 bps).

30 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Accruals and deferred income	100	112
Settlement balances and outstanding items	293	296
Payables from securities trading and issues of securities	3,979	4,064
Payables from payment transactions	1,796	1,650
Other liabilities	4,080	3,519
Total accruals and other liabilities	**10,248**	**9,641**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2020: CZK 18 million).

'Other liabilities' mainly include various estimated items, including, among others, liabilities to employees.

31 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Provisions for contracted commitments (refer to Note 36)	172	575
Provisions for other credit commitments (refer to Notes 13 and 36)	1,049	1,306
Provisions for restructuring	41	81
Total provisions	**1,262**	**1,962**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise 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 "KB Change" transformation project and recognised a restructuring provision in connection with planned structural changes based upon experience with Covid-19 pandemic. In 2021, the Bank did not account for provisions in relation to either the "KB Change" project or 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 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
Changes in accounting policies (refer to Note 3.6.3)	(403)	0	0	(403)
Charge	16	64	41	121
Release	0	(58)	(18)	(76)
Use	(7)	(7)	(63)	(77)
Accrual	0	0	0	0
Remeasurement	(8)	0	0	(8)
Foreign exchange difference	0	0	0	0
Balance as of 31 December 2021	**67**	**105**	**41**	**213**

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 2021	31 Dec 2020
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	20	20
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)	(66)	0
Other temporary differences	72	0
Net deferred tax assets	**28**	**21**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2021	31 Dec 2020
Banking provisions and allowances	118	162
Allowances for assets	16	71
Non-banking provisions and allowances	11	18
Difference between accounting and tax net book value of assets	(590)	(538)
Leases	7	14
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	52	54
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)	(297)	20
Revaluation of debt securities at FVOCI – equity impact (refer to Note 41)	(255)	(181)
Other temporary differences	116	165
Net deferred tax liabilities	**(822)**	**(215)**

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)	2021	2020
Balance as of the beginning of the period	**(194)**	**(246)**
Changes in accounting policies	(77)	N/A
Movement in the net deferred tax – profit and loss impact (refer to Note 16)	(65)	(8)
Movement in the net deferred tax – equity impact (refer to Notes 38, 39, 40, and 41)	(458)	60
Balance as of the end of the period	**(794)**	**(194)**

33 Subordinated debt

As of 31 December 2021, the Bank reports subordinated debt of CZK 2,490 million (2020: CZK 2,629 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, as Amended. 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 the share in the Bank's profits and in other its resources as have been approved for distribution by the Annual General Meeting based on the Bank's financial results and the payment of which was decided upon by the Board of Directors subject to compliance with the conditions stipulated by generally binding legal regulations.

The right to payment of the share in the profits and in other of its resources 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 shares in profits and in other of its resources 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 shares in profits and in other of its resources 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 2021:

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
CHASE NOMINEES LIMITED	4.23%
NORTRUST NOMINEES LIMITED	3.74%
CLEARSTREAM BANKING S.A.	2.36%

Société Générale S.A., being the only entity with a qualified holding in the Bank, and moreover as the ultimate 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 2021, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2020: 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 2021 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 2021. On top of the TSCR capital ratio, a combined capital buffer of 6.0% was applied, consisting of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical capital buffer of 0.5% for exposures in the Czech Republic (the countercyclical capital buffer was decreased by the CNB as part of measures against the impact of the Covid-19 pandemic to 0.5% from 1 July 2020). Thus, the required overall capital ratio (OCR) was approximately 16.20% from 1 January 2021. Subsequently, during 2021 the required overall capital ratio decreased due to implementation of the Capital Requirement Directive (CRD V), at which time the CNB set for banks in place of the systemic risk buffer a capital buffer for other systematically important institutions (J-SVI, or O-SII) for the purpose of limiting risks associated with their systemic importance. Therefore, a combined capital buffer in the final value of 5.0% was applied to the Bank from October 2021, consisting of the capital conservation buffer of 2.5%, the capital buffer for other systematically important institutions of 2.0% applied for the first time (the systemic risk buffer of 3.0% was repealed at the same time), and the countercyclical capital buffer of 0.5%. The aforementioned changes resulted in the required overall capital ratio (OCR) of approximately 15.20% from October 2021 (a decrease of 1.0 percentage point in comparison with the previous year). 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 15.20% as of 1 January 2022. Nevertheless, the overall capital ratio will increase in 2022, at least due to an increase in the countercyclical capital buffer (the CNB has already announced a gradual increase in the countercyclical capital buffer for exposures in the Czech Republic to a rate of 1.0% from 1 July 2022, 1.5% from 1 October 2022, and 2.0% from 1 January 2023).

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 a 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 2021. As of 31 December 2021, the Bank held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2020: 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 will 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 a local resolution authority that defines the most appropriate 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 dated 20 September 2021 setting a minimum MREL requirement. According to this decision, the Bank is required to maintain its own funds and eligible liabilities on a sub-consolidated basis of at least 20.4% of the total risk exposure amount (i.e. risk-weighted exposure amount) and 5.91% of the total exposure amount from 31 December 2023. The interim legally binding target, which the Bank is obliged to meet from 1 January 2022, was set at 14.4% of the total risk exposure amount (i.e. risk-weighted exposure amount) and 4.46% of the total exposure amount.

35 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2021	31 Dec 2020	Change in the year
Cash and current balances with central banks (refer to Note 18)	28,960	20,980	7,980
Loans and advances to banks – current accounts with other banks	185	2,824	(2,639)
Amounts due to central banks	0	0	0
Amounts due to banks – current accounts	(2,911)	(5,963)	3,052
Cash and cash equivalents at the end of the year	**26,234**	**17,841**	**8,393**

The total cash outflow on leases in 2021 totalled CZK 697 million (2020: CZK 770 million).

36 Commitments and contingent liabilities

Legal disputes
The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2021. 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 18 million (2020: CZK 13 million) for these legal disputes (refer to Note 31). The Bank has also recorded a provision of CZK 3 million (2020: CZK 5 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2021, 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.

Since 2006, the Bank has been facing a legal dispute with the Austrian company Brijuni GmbH at the Commercial Court of Vienna. Brijuni GmbH is challenging admission of the Bank's claim in B.C.L. Trading GmbH's bankruptcy proceeding where the Bank, as a creditor, obtained prior to 2015 an amount of approximately EUR 10 million. The judgement in this matter is expected during 2022.

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 2021, the Bank had capital commitments of CZK 459 million (2020: CZK 432 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 310 million (2020: CZK 281 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 2021, 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	29,287	23	0	29,310	17	0	0	17
Credit institutions	5,938	124	0	6,062	1	2	0	3
Other financial corporations	14,861	43	0	14,904	23	1	0	24
Non-financial corporations	129,922	7,658	1,238	138,818	198	132	582	912
Households*	42,431	2,853	85	45,369	20	34	39	93
Total commitments and contingencies	**222,439**	**10,701**	**1,323**	**234,463**	**259**	**169**	**621**	**1,049**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2020, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:

								Restated
			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	24,335	52	0	24,387	10	0	0	10
Credit institutions	4,718	24	0	4,742	2	0	0	2
Other financial corporations	13,095	23	0	13,118	21	1	0	22
Non-financial corporations	109,944	7,899	1,713	119,556	137	248	816	1,201
Households*	27,702	2,191	39	29,932	19	29	23	71
Total commitments and contingencies	**179,794**	**10,189**	**1,752**	**191,735**	**189**	**278**	**839**	**1,306**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

For 2020, *'Commitments and contingencies'* between Stage 1 and Stage 2 have been restated. Detailed data are disclosed in Note 3.6.2.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2021	31 Dec 2020
Non-payment guarantees including commitments to issued non-payment guarantees	45,829	39,881
Payment guarantees including commitments to issued payment guarantees	20,490	19,519
Committed facilities and unutilised overdrafts	10,172	13,016
Undrawn credit commitments	127,332	92,257
Unutilised overdrafts and approved overdraft loans	19,433	17,022
Unutilised limits under framework agreements to provide financial services	6,974	6,161
Open customer/import letters of credit not covered	430	550
Standby letters of credit not covered	3,040	3,061
Confirmed supplier/export letters of credit	763	268
Total commitments and contingencies	**234,463**	**191,735**

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 2021, the Bank recorded provisions for these risks in the amount of CZK 1,049 million (2020: CZK 1,306 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 2021	31 Dec 2020
Agriculture, forestry, and fishing	3,476	3,055
Mining and quarrying	1,107	1,105
Manufacturing	35,065	29,686
Electricity, gas, steam, and air conditioning supply	8,188	6,110
Water supply, sewerage, waste management, and remediation activities	1,546	1,059
Construction	37,181	34,590
Wholesale and retail trade, repair of motor vehicles and motorcycles	20,692	13,074
Transportation and storage	5,519	6,252
Accommodation and food service activities	640	636
Information and communication	2,768	4,335
Real estate activities	9,084	6,488
Professional, scientific, and technical activities	10,182	9,655
Administrative and support service activities	975	1,014
Public administration and defence, compulsory social security	468	253
Education	49	187
Human health and social work activities	568	509
Arts, entertainment, and recreation	1,004	1,356
Other service activities	306	192
Total commitments and contingencies to non-financial corporations	**138,818**	**119,556**

Exposure to the automotive industry and related suppliers is CZK 7,730 million (2020: CZK 3,568 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' to be of higher risk in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgements 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 2021:

	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 collateral	Financial guarantees received
Commitments and contingencies	**9,223**	**4,322**	**2,091**	**9,022**	**9,359**
of which:					
– Other financial corporations	18	47	0	180	2,370
– Non-financial corporations	1,047	4,163	2,072	8,059	4,076
– Households**	8,158	112	19	31	53

* 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 2020:

(CZKm)	Applied commitments and contingencies collateral value* Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collateral	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.

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, KB Penzijní společnost, a.s. contributed in 2018 to the Fund assets to offset the value of liabilities in excess of the value of assets. The excess was caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. This capital injection was gradually repaid during 2020 and 2021 as positive other comprehensive income supported transfer from the Fund to KB Penzijní společnost, a.s. and proved that the negative revaluation differences had been correctly regarded as temporary and were fully offset no later than upon maturity of the bonds.

Based upon an amendment to Decree No. 501/2002 Coll., there was a change in accounting policies in KB Penzijní společnost, a.s. as of 1 January 2021. Consequently IFRS are used for the purpose of presenting the financial instruments, their measurement, and the disclosure of related information in the notes to the financial statements. Therefore, the previous limit for a 35% share of instruments in the Held-to-maturity portfolio among the global investments was revised as inefficient.

Due to a strong monetary policy response to rising inflation, KB Penzijní společnost, a.s. needed to contribute again to the Fund assets as of 31 December 2021, and there exist certain expectations for further limited contribution during 2022. Nevertheless, the capital adequacy is relatively strong and KB Penzijní společnost, a.s. has sufficient capital to cover all stress and adverse scenarios which are regularly projected.

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 2021, 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 2021	31 Dec 2020
BASTION EUROPEAN INVESTMENTS S.A.	2,238	2,503
ESSOX s.r.o.	12,900	12,535
ESSOX FINANCE, s.r.o.	210	732
Factoring KB, a.s.	9,110	5,896
KB Real Estate, s.r.o.	332	362
Modrá pyramida stavební spořitelna, a.s.	28,790	21,243
SG Equipment Finance Czech Republic s.r.o.	9,069	8,616
STD2, s.r.o.	315	340
Total loans	**62,964**	**52,227**
BASTION EUROPEAN INVESTMENTS S.A.	559	625
ESSOX s.r.o.	767	815
ESSOX FINANCE, s.r.o.	1	0
Factoring KB, a.s.	21	24
KB Penzijní společnost, a.s.	208	195
KB Real Estate, s.r.o.	51	54
KB SmartSolutions, s.r.o.	16	5
Modrá pyramida stavební spořitelna, a.s.	3	4
Protos, uzavřený investiční fond, a.s.	34	11
SG Equipment Finance Czech Republic s.r.o.	1,382	1,909
STD2, s.r.o.	14	26
VN 42, s.r.o.	287	196
Total deposits	**3,343**	**3,864**

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 2021	31 Dec 2020
Modrá pyramida stavební spořitelna, a.s.	623	471
Protos, uzavřený investiční fond, a.s.	6	1
SG Equipment Finance Czech Republic s.r.o.	0	0
Total positive fair value of financial derivatives	**629**	**472**
Modrá pyramida stavební spořitelna, a.s.	562	249
Protos, uzavřený investiční fond, a.s.	0	0
SG Equipment Finance Czech Republic s.r.o.	1	1
Total negative fair value of financial derivatives	**563**	**250**

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 15,100 million (2020: CZK 18,500 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 200 million (2020: CZK 400 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2020: CZK 417 million).

The Bank has provided to Platební instituce Roger a.s. an overdraft in the total limit of CZK 150 million (2020: CZK 150 million) and related interest income amounted to CZK 2 million (2020: CZK 0 million).

As of 31 December 2021 and 2020, other amounts due to and from the Group subsidiaries were not significant.

Interest income from loans granted to the Group subsidiaries:

(CZKm)	2021	2020
BASTION EUROPEAN INVESTMENTS S.A.	91	99
ESSOX s.r.o.	135	160
ESSOX FINANCE, s.r.o.	2	7
Factoring KB, a.s.	42	34
KB Real Estate, s.r.o.	11	12
Modrá pyramida stavební spořitelna, a.s.	378	319
SG Equipment Finance Czech Republic s.r.o.	105	116
STD2, s.r.o.	7	7
Total interest from loans granted by the Bank	**771**	**754**

In connection with lease contracts, the Bank records:

	31 Dec 2021					31 Dec 2020				
(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	0	0	0	0	0	(2)	0
Factoring KB, a.s.	15	2	0	(2)	0	(4)	4	0	(2)	0
KB Penzijní společnost, a.s.	(4)	3	0	(3)	0	(6)	6	0	(3)	0
KB Real Estate, s.r.o.	27	0	69	67	1	92	0	67	65	2
Modrá pyramida stavební spořitelna, a.s.	1	0	1	0	0	1	0	1	0	0
SG Equipment Finance Czech Republic s.r.o.	(9)	10	0	(5)	0	(11)	11	0	(6)	0
STD2, s.r.o.	0	0	0	43	0	42	0	43	42	1
Total	**30**	**15**	**70**	**100**	**1**	**114**	**21**	**111**	**94**	**3**

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2021 amounted to CZK 916 million (2020: CZK 967 million) and total expenses other than depreciation and interest expenses related to lease contracts amounted to CZK 1,454 million (2020: CZK 1,307 million), mainly represented by financial derivatives transactions.

As of 31 December 2021, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 2,245 million (2020: CZK 1,424 million).

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include the following:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,847	0	6,594	0
ALD Automotive Slovakia s. r. o.	83	0	31	0
BRD - GROUPE Société Générale	11	0	22	0
Komerční pojišťovna, a.s.	1,260	734	1,116	593
PJSC Rosbank	159	0	170	0
SG Zurich	193	0	219	0
Société Générale New York	0	0	10	0
Société Générale International Limited	2	0	2	0
Société Générale Paris	18,713	8,151	18,128	4,317
Société Générale oddzial w Polsce	0	0	179	0
Total	**27,268**	**8,885**	**26,471**	**4,910**

Principal balances owed to Société Générale Group entities include the following:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	369	0	371	0
BRD - GROUPE Société Générale	6	0	3	0
Crédit du Nord	124	0	245	0
Komerční pojišťovna, a.s.	2,155	98	2,085	263
SG Amsterdam	72	0	8	0
SG Bruxelles	70	0	0	0
Société Générale Factoring	60	0	102	0
SG Frankfurt	73	0	12	0
Société Générale Londres	183	0	47	0
Société Générale Luxembourg	25	0	7	0
SG Milan	43	0	10	0
Société Générale New York	3	0	0	0
Société Générale oddzial w Polsce	1	0	3	2
SG Option Europe	1	0	1	0
Société Générale Paris	56,483	13,600	43,503	11,295
SG Private Banking (Suisse)	45	0	116	0
Société Générale Succursal en Espana	0	0	31	0
SG Zurich	73	0	12	0
SOGEPROM Česká republika s.r.o.	4	0	4	0
Total	**59,790**	**13,698**	**46,560**	**11,560**

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 2021, 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 549,734 million (2020: CZK 498,807 million) and CZK 510,802 million (2020: CZK 449,238 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 2021 and 2020, 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 2021, the Bank generated net operating revenues due to the Société Générale Group of CZK 1,890 million (2020: CZK (2,010) million). The total amount is mainly affected by the volatile revaluation of derivative transactions to fair value. These operations follow on from operations concluded with clients and eliminate the Bank's market risk, or they are hedging derivatives of the fair value hedging type. Other sources of revenue include the distribution of SG Group products, providing services in areas of infrastructure, information technology, and business intelligence services. Net interest income of CZK (3) million (2020: CZK (102) million) consisted mainly of interest on hedging derivatives, transactions on the interbank market, and subordinated debt received. Operating expenses realised in relation to the SG Group reached CZK 234 million (2020: CZK 282 million), mostly for the use of services in the area of operation and management of hardware and software and assistance services. The operating result in relation to the SG Group reached CZK 1,655 million (2020: CZK (2,292) million).

In connection with lease contracts, the Bank records:

	31 Dec 2021				31 Dec 2020			
(CZKm)	Right-of-use assets	Lease liabilities	Depre-ciation expense	Interest expense	Right-of-use assets	Lease liabilities	Depre-ciation expense	Interest expense
ALD Automotive s.r.o.	90	57	14	1	105	62	14	1
ALD Automotive Slovakia s. r. o.	0	0	0	0	1	0	0	0
Total	**90**	**57**	**14**	**1**	**106**	**62**	**14**	**1**

As of 31 December 2021, the Bank reported a loss of CZK 2 million (2020: CZK 3 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)	2021	2020
Remuneration to members of the Board of Directors*	67	74
Remuneration to members of the Supervisory Board**	7	6
Total	**74**	**80**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2021 to current and former directors for the duration of their memberships. It also includes a part of bonuses awarded in 2021. 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 2021 to current and former members of the Supervisory Board for the duration of their memberships. 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 memberships. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2021	31 Dec 2020
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 2021, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 51 million (2020: CZK 47 million). During 2021, draw-downs of CZK 6 million (2020: CZK 30 million) were made under the loans granted. Loan repayments during 2021 amounted to CZK 2 million (2020: CZK 1 million). The increase of loans in 2021 is affected by new members already having loans in the amount of CZK 0 million. Loans to resigning members amounted to CZK 0 million as of 31 December 2020.

38 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2021	2020
Remeasurement of retirement benefits plan as of 1 January	(284)	(266)
Deferred tax asset/(liability) as of 1 January	54	51
Balance as of 1 January	**(230)**	**(215)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	8	(18)
Deferred tax	(2)	3
	6	**(15)**
Remeasurement of retirement benefits plan as of 31 December	(276)	(284)
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	52	54
Balance as of 31 December	**(224)**	**(230)**

39 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2021	2020
Revaluation of equity securities at FVOCI option as of 1 January	0	351
Deferred tax asset/(liability) as of 1 January	0	(67)
Balance as of 1 January	**0**	**284**
Movements during the year		
Gains/(losses) from changes in fair value	0	0
Deferred tax	0	0
	0	**0**
Reclassification to Non-trading financial assets at fair value through profit or loss	0	(351)
Deferred tax	0	67
	0	**(284)**
Revaluation of equity securities at FVOCI option as of 31 December	0	0
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	0	0
Balance as of 31 December	**0**	**0**

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)	2021	2020
Cash flow hedge fair value as of 1 January	(105)	(55)
Deferred tax asset/(liability) as of 1 January	20	10
Hedge of foreign currency risk of foreign net investment	53	77
Balance as of 1 January	**(32)**	**32**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 42(C))	1,124	281
Deferred tax	(214)	(53)
	910	**228**
Transferred to interest income/expense	(71)	(346)
Deferred tax	14	66
	(57)	**(280)**
Transferred to net profit/loss on financial operations	633	0
Deferred tax	(120)	0
	513	**0**
Transferred to personnel expenses	(18)	11
Deferred tax	3	(2)
	(15)	**9**
Transferred to general and administrative expenses	(2)	4
Deferred tax	0	(1)
	(2)	**3**
Change in the hedge of foreign currency risk of foreign net investment	37	(24)
	37	**(24)**
Cash flow hedge fair value as of 31 December	1,561	(105)
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	(297)	20
Hedge of foreign currency risk of foreign net investment	90	53
Balance as of 31 December	**1,354**	**(32)**

Significant movement is due to a new hedging relationship for foreign currency flows arising from the issue of mortgage-backed bonds hedged by cross currency swaps.

41 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2021	2020
Reserve from fair value revaluation as of 1 January	947	846
Deferred tax asset/(liability) as of 1 January	(181)	(161)
Impairment as of 1 January	5	2
Balance as of 1 January	**771**	**687**
Movements during the year		
Gains/(losses) from changes in fair value	742	101
Deferred tax	(140)	(20)
	602	**81**
Impairment	0	3
	0	**3**
Reserve from fair value revaluation as of 31 December	1,689	947
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	(321)	(181)
Impairment as of 31 December	5	5
Balance as of 31 December	**1,373**	**771**

42 Risk management and financial instruments

(A) Credit risk

Assessment of client'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 collateral 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 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

In the individuals and small business segment, 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 and is regularly updated to reflect current market trends. In 2021, the Bank implemented the first version of the credit anti-fraud system for the corporate segment.

(g) Granting process

After the end of the payment moratorium in 2020, the default intensity temporarily increased, but the magnitude of the increase was significantly less than the Bank had expected. Because the credit risk quality of the portfolio remained at a high level (as measured by default rates) during 2021, the Bank did not materially change its granting policy, but it continued cautiously to assess clients from sectors vulnerable to Covid-19 impacts. Through the year, the Bank continued to focus upon simplifying its processes and accelerating credit granting to all client segments (with gradual introduction of digital processes).

(h) Environmental, social, and governance

The risks related to climate change (both physical risks and transition risks) are an aggravating factor for credit risk. This risk is therefore taken into consideration in the credit risk assessment process. A climate change vulnerability assessment must be submitted by the Bank's business units interacting with clients in potentially exposed sectors (Oil and Gas, Metals and Mining, Power Generation (excl. electricity distribution and supply), Automotive, Shipping and Aviation) for exposures above EUR 20 million. The assessment of the climate change vulnerability may have an impact on the internal rating in order to include the client adaptation strategy. The Bank gradually increases its ability to collect, measure and disclose ESG data. Regulatory risk is increasing due to booming ESG regulation, however the Bank is following the regulatory development in this area (including Sustainable Finance Disclosure Regulation or ECB Guide on climate related risks). For the future, the Bank is preparing to apply holistic approach to ESG regulation and to further embed ESG impacts into its core operations and policies (in all relevant areas such asin all relevant areas as onboarding of clients and transaction/financing validation in line with regulation and Group commitments in the ESG area).

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 the law in respect of concentration risk. Refer to Notes 22 and 36 for quantitative information about this type of risk.

Loan portfolio breakdown by risk class based on an internal rating scale:

	31 Dec 2021 Gross carrying value			31 Dec 2020 Gross carrying value		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Unrated	2,145	0	0	4,838	0	0
PD 1 (0.0% – 0.1%)	436,238	2,041	0	408,696	3,071	0
PD 2 (0.1% – 0.2%)	122,268	180	0	110,598	276	0
PD 3 (0.2% – 0.4%)	100,327	1,817	0	97,128	524	0
PD 4 (0.4% – 0.8%)	91,272	3,903	0	83,732	2,257	0
PD 5 (0.8% – 1.6%)	93,558	6,755	0	96,873	4,947	0
PD 6 (1.6% – 3.2%)	65,540	4,324	0	62,462	4,320	0
PD 7 (3.2% – 6.4%)	47,875	7,562	0	44,573	6,222	0
PD 8 (6.4% – 12.8%)	4,008	9,723	0	3,445	12,260	0
PD 9 (>12.8%)	7	10,078	0	37	7,014	0
Stage 3 (default)	0	0	14,267	0	0	14,161
Total	**963,237**	**46,384**	**14,267**	**912,382**	**40,891**	**14,161**

The Bank's maximum credit exposure as of 31 December 2021:

(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	**20,468**	**x**	**20,468**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**42,333**	**x**	**42,333**	**0**	**x**	**0**
Non-trading financial assets at fair value through profit or loss	**135**	**x**	**135**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,752**	**x**	**13,752**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**35,451**	**x**	**35,451**	**0**	**x**	**0**
Financial assets at amortised cost	**1,023,888**	**234,463**	**1,258,351**	**323,625**	**34,017**	**357,642**
of which:						
– Other financial corporations	76,905	14,904	91,809	12,881	2,615	15,496
– Non-financial corporations	233,670	138,818	372,488	61,856	19,417	81,273
– Households**	301,529	45,369	346,898	245,957	8,373	254,330
Revaluation differences on portfolios hedge items	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,136,027**	**234,463**	**1,370,490**	**323,625**	**34,017**	**357,642**

* 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 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 debt securities, allocated by sector and currency, comprised the following as of 31 December 2021:

(CZKm)	Fair value through profit or loss CZK	Other	Total	Fair value through other comprehensive income CZK	Other	Total	Amortised cost CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	8,621	5	8,626	22,993	12,429	35,422	99,606	0	99,606
Credit institutions	61	0	61	0	0	0	0	0	0
Other financial corporations	8	0	8	0	0	0	1,054	0	1,054
Non-financial corporations	1	0	1	0	0	0	4,110	422	4,532
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**8,691**	**5**	**8,696**	**22,993**	**12,429**	**35,422**	**104,770**	**422**	**105,192**

* This item also includes individual entrepreneurs.

The Bank's debt securities, allocated by sector and currency, comprised the following as of 31 December 2020:

(CZKm)	Fair value through profit or loss CZK	Other	Total	Fair value through other comprehensive income CZK	Other	Total	Amortised cost 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.

Classification of loans and advances
The Bank classifies its loans and advances arising from financial activities into three categories: Stage 1, Stage 2, and Stage 3. Performing exposures are classified as Stages 1 or Stage 2 while non-performing or defaulted exposure are classified as Stage 3. The classification reflects both quantitative criteria (e.g. payment discipline, financial data) and qualitative criteria (e.g. in-depth knowledge of the client). In case of retail individual clients, the classification also reflects the default sharing principle for co-debtors and guarantors.

The structure of the credit portfolio according to its classification or staging is regularly reported to CNB and to investors.

New definition of default
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, except for the Bank's subsidiary ESSOX. ESSOX implemented the new definition of default during the first quarter of 2021.

Forbearance (for definition of forborne loans, refer to Note 3.5.5.8)
1. Forbearance measures resulting in exposure being classified as Stage 3 (non-performing). Designation is discontinued once the following conditions are met:
   (a) Termination of defaulted (Stage 3) status, which is possible 12 months after the approval of forbearance measures;
   (b) Termination of 2-year grace period following the termination of defaulted status, during which the repayment discipline must be properly fulfilled (i.e. the overdue debt exceeding the materiality threshold used for default identification must not exceed 30 days). If the repayment discipline condition during the grace period is breached, the exposure is reclassified back to Stage 3 (non-performing status) and the 2-year grace period starts again (from the time that zero overdue amount is reported).

2. The concept of forbearance measures that do not lead to exposure being classified as Stage 3 (non-performing) is only used by the Bank in case of such measures being granted within the private payment moratorium applied prior to state payment moratorium. The designation is discontinued only after 2-years grace.

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:

(a) 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

(b) Using expected credit loss statistical models based on the observed history of defaults and losses and forward-looking information.

During 2021, the Bank updated and recalibrated its IFRS 9 models for the performing portfolio (Stage 1 and Stage 2) and for retail non-performing portfolio (Stage 3), considering:

(a) New macroeconomic forecasts;

(b) The new definition of default in accordance with the EBA Regulation (EBA/GL/2016/07 to apply the definition of default under Article 178 of Regulation (EU) No. 575/2013);

(c) The new data history covering defaults and recoveries since the last model update; and

(d) Other aspects, mainly future expected development of the real estate market and legal standards and their impact on recovery performance.

This update of IFRS 9 models led to the release of allowances for the performing portfolio in the amount of CZK 46 million and the release of allowances for the non-performing portfolio in the amount of CZK 205 million. In accordance with the IFRS 9 methodology, the update was based on the multi-scenario approach, which as of the end of 2021 was based on four scenarios:

(a) A baseline scenario with a probability of 51%;

(b) A scenario of prolonged negative development with a probability of 10%;

(c) A scenario of severe negative development with a probability of 29%; and

(d) An optimistic scenario with a probability of 10%.

The baseline scenario anticipates increase in GDP of 3.5% in 2022 and GDP growth of 3% in 2023 and unemployment at 2.87% in 2022 and at 2.69% in 2023. The scenario of severe negative development expects a 2.3% decrease in GDP in 2022 and GDP growth of 0.3% in 2023 and unemployment 4.44% in 2022 and at 6.39% in 2023. However, as per Bank's own assessment, the impact of Covid-19 is still not fully reflected in credit quality of the portfolio due to delayed effect of state support programmes. To include this effect in forward-looking information, the Bank used an adjusted (so-called "smoothed") version of the scenarios. The smoothed scenarios are derived from the scenarios described above and are as follow:

(a) Smoothed baseline scenario assumes a 3.9% decrease in GDP for 2022 and 3% growth for 2023; and

(b) Smoothed scenario of severe negative development assumes a 9.3% decrease in GDP for 2022 and 0.3% growth for 2023.

Unemployment was not the subject of smoothing. The scenarios were developed internally using the best estimates and following forecasts published by government, regulatory, and other authorities.

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 CNB 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 line with the forward-looking approach, the Bank continued with a specific approach using post-model adjustments for the following portfolios with deteriorating credit profile that as of 31 December 2021 is not fully reflected in the individual credit ratings:

1. Exposures within the office and retail store sub-segments (belonging to the real estate developers and investors segments), which the Bank considers to be highly sensitive in connection with the Covid-19 crisis, mainly due to:
    - (a) Growing office vacancy connected with the increasing use of home offices; and
    - (b) The growing transition to electronic commerce at the expense of traditional retail stores.

   The Bank decided to create specific allowances for this portfolio in the second quarter of 2021, which totalled CZK 209 million as of 31 December 2021. Total exposure of this portfolio as of 31 December 2021 amounted to CZK 22.3 billion.

2. Exposures of clients in the hotels, restaurants, and catering sectors, which sectors absorbed significantly negative impact of the Covid-19 crisis, mainly due to state imposed closures and ongoing restrictions. The exposures of these sectors in Stage 1 were moved to Stage 2 in the second quarter of 2021 and specific allowances were created, which totalled CZK 17 million as of 31 December 2021. This portfolio's total exposure as of 31 December 2021 was CZK 1.6 billion.

3. Exposures in retail segments of individuals and small business, which clients' ability to repay their liabilities the Bank expects to be negatively influenced by accelerating inflation and rising interest rates. The Bank decided to create specific allowances for this portfolio during the fourth quarter of 2021. As of 31 December 2021, the exposure of this portfolio amounted to CZK 52.1 billion. The rating of these clients was downgraded by one notch for the purpose of allowance calculation, and specific allowances were created totalling CZK 247 million as of 31 December 2021.

In addition, the Bank also reassessed its approach towards following portfolios with originally identified deteriorated credit profile:

- As of 30 November 2021, the Bank released all additional allowances of CZK 279 million for retail exposures that were in the payment moratorium at the end of September 2020 and that the Bank had originally identified on the basis of an expert approach or model approach as exposures with potentially deteriorating credit profile after the end of the moratorium and to which the Bank had allocated additional allowances since third quarter 2020. The remaining allowances have been released, as the credit quality of this portfolio has been gradually approaching that of the retail portfolio not impacted by payment moratorium and therefore a specific approach for this portfolio in accordance with the forward-looking approach is no longer necessary.

The following table breaks out non-performing loans and advances to banks and customers (Stage 3) according to assessment used:

		31 Dec 2021		31 Dec 2020
(CZKm)	**Individually**	**Statistical model**	**Individually**	**Statistical model**
Central banks	0	0	0	0
General governments	148	0	234	0
Credit institutions	0	0	0	0
Other financial corporations	268	3	300	3
Non-financial corporations	7,005	2,141	6,690	2,198
Households*	317	4,385	292	4,444
Total	**7,738**	**6,529**	**7,516**	**6,645**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral management

The Bank uses collateralisation as one of its techniques for credit risk mitigation. The risk management related to collaterals 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 estate in granting mortgages or other loans secured by real estate 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 estate obtained as collateral 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. Since 2019, the Bank has started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2021, 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 estate depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estate, adjustment is performed regularly.

Recovery of loans and advances from defaulted clients

In 2021, the Bank continued to adapt its collection processes to the Covid-19 pandemic environment in order to be able to respond progressively to the deteriorating situation of clients affected by the pandemic. Increased inflow of clients, which was recorded in the second half of 2020, proved to be only a temporary impact consequent to the end of the state moratorium (loan repayments postponement). In 2021, the Bank observed a return to pre-Covid-19 client inflow values.

The Bank continues to increase the efficiency of processes by digitising and automating activities in out-of-court, collection so that it is able to absorb any increased inflow of clients due to the possibly deteriorating economic situation in the Czech Republic caused by rising prices (especially of energy) and the CNB's rising base repo rate. These activities also involve the use of external recovery capacities, both in out-of-court and court recovery, which were further extended in 2021.

During 2021, the Bank continued in regular sales of uncollateralised and collateralised retail non-performing loans and receivables to selected qualified investors so that the maximum achievable recovery rate is obtained. The Bank has not carried out any mass sales of non-performing loans secured by real estate collateral.

The Bank continuously responded to the changing legal environment and its impact on the recovery of loans and receivables. The Bank was increasingly attentive to utilizing the Insolvency Act in the process of collecting loans and receivables 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 upon a given debtor's circumstances and the attitudes of other creditors.

In 2021, the Bank joined the "Merciful Summer" initiative in order to offer support to clients who had found themselves in difficulty with repaying their debts and were no longer able to resolve their debt in the execution phase, thus proving the Bank's responsibility to society.

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 2021, the Bank was exposed to credit exposure of CZK 221,800 million (2020: CZK 255,257 million) on financial derivative instruments and repo operations, including those with central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2021 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, and bills of exchange programmes.

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) 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 (84) million as of 31 December 2021 (2020: CZK (27) million). The average VaR was CZK (34) million in 2021 (2020: CZK (34) 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. The actual results should not exceed VaR more frequently than on 1% of the days within a given period. There was no P&L vs. VaR breach in 2021. However, the CNB's rate hiking translated into significant increase of VaR levels in December and breach of the VaR limit.

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, and interest rate exposures are used. These are developed either based upon 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 uses Société Générale Group's VaR and stress tests methodology and 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 2021, for the hypothetical assumption of a 0.1% change in market interest rates, the CZK interest rate risk sensitivity was CZK (19) million (2020: CZK (71) million), the EUR sensitivity was CZK 2 million (2020: CZK 5 million), the USD sensitivity was CZK 2 million (2020: CZK 1 million), and for other currencies it was CZK (0.2) million (2020: CZK (0.1) 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 in 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 2021 Nominal value		31 Dec 2020 Nominal value		31 Dec 2021 Fair value		31 Dec 2020 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	1,599,234	1,599,234	1,313,601	1,313,601	16,613	19,120	10,107	9,509
Interest rate forwards and futures*	107,864	107,864	157,249	157,249	2	2	0	0
Interest rate options	72,253	72,253	77,836	77,836	205	205	168	168
Total interest rate instruments	**1,779,351**	**1,779,351**	**1,548,686**	**1,548,686**	**16,820**	**19,327**	**10,275**	**9,677**
Foreign currency instruments								
Currency swaps	467,871	468,657	401,447	401,942	4,525	4,045	3,470	3,752
Cross currency swaps	242,611	241,258	227,515	226,982	10,120	7,982	7,124	6,549
Currency forwards	156,466	162,271	91,677	92,900	1,156	2,545	863	1,534
Purchased options	59,370	60,449	62,846	63,314	1,014	0	1,226	0
Sold options	60,450	59,370	63,314	62,846	0	1,014	0	1,226
Total currency instruments	**986,768**	**992,005**	**846,799**	**847,984**	**16,815**	**15,586**	**12,683**	**13,061**
Other instruments								
Forwards on emission allowances	0	0	0	0	0	0	0	0
Forwards on debt securities	0	0	393	393	0	0	0	0
Commodity forwards	0	0	0	0	0	0	0	0
Commodity swaps	7	7	226	226	2	2	21	20
Purchased commodity options	0	0	0	0	0	0	0	0
Sold commodity options	0	0	0	0	0	0	0	0
Total other instruments	**7**	**7**	**619**	**619**	**2**	**2**	**21**	**20**
Total	**2,766,126**	**2,771,363**	**2,396,104**	**2,397,289**	**33,637**	**34,915**	**22,979**	**22,758**

* 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 2021:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	300,982	883,263	414,989	1,599,234
Interest rate forwards and futures*	105,736	2,128	0	107,864
Interest rate options	0	69,105	3,148	72,253
Total interest rate instruments	**406,718**	**954,496**	**418,137**	**1,779,351**
Foreign currency instruments				
Currency swaps	436,612	29,341	1,918	467,871
Cross currency swaps	43,860	145,165	53,586	242,611
Currency forwards	109,876	46,540	50	156,466
Purchased options	32,175	27,195	0	59,370
Sold options	32,864	27,586	0	60,450
Total currency instruments	**655,387**	**275,827**	**55,554**	**986,768**
Other instruments				
Commodity swaps	7	0	0	7
Total other instruments	**7**	**0**	**0**	**7**
Total	**1,062,112**	**1,230,323**	**473,691**	**2,766,126**

* 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 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 hedging are as follow:

	31 Dec 2021 Nominal value		31 Dec 2020 Nominal value		31 Dec 2021 Fair value		31 Dec 2020 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for fair value hedging	1,150,032	1,150,032	967,953	967,953	11,126	33,527	12,412	7,922
Cross currency swaps for cash flow hedging	47,225	46,081	38,496	37,946	2,594	66	656	354
Cross currency swaps for fair value hedging	13,080	12,430	0	0	0	735	0	0
Forwards on stocks for cash flow hedging	55	55	51	51	20	0	0	8
Forwards on stocks for fair value hedging	34	34	33	33	12	0	0	4
Total	**1,210,426**	**1,208,632**	**1,006,533**	**1,005,983**	**13,752**	**34,328**	**13,068**	**8,288**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2021:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	260,581	471,377	418,074	1,150,032
Cross currency swaps for cash flow hedging	4,519	38,648	4,058	47,225
Cross currency swaps for fair value hedging	0	13,080	0	13,080
Forwards on stocks for cash flow hedging	0	55	0	55
Forwards on stocks for fair value hedging	22	12	0	34
Total	**265,122**	**523,172**	**422,132**	**1,210,426**

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 flow 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**

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 2021			31 Dec 2020		
(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	785	1,079	92	464	807	18

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 2021, 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 and savings accounts from clients are hedged by a portfolio of interest rate swaps and cross currency 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. receivables from contractual partners). 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;
   b. Foreign currency flows arising from the issue of mortgage-backed bonds are hedged by cross currency swaps.

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 2021, the gain from the ineffectiveness of hedging relationships was in the amount of CZK 9 million (2020: loss of CZK 2 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 contractual maturities or a repricing dates 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	Unde-fined****	Total
Assets						
Cash and current balances with central banks	28,960	0	0	0	0	28,960
Financial assets and other assets held for trading at fair value through profit or loss	8,696	0	0	0	33,637	42,333
Non-trading financial assets at fair value through profit or loss	142	0	0	0	(7)	135
Positive fair values of hedging financial derivatives	0	0	0	0	13,752	13,752
Financial assets at fair value through other comprehensive income	954	385	9,866	26,343	(2,097)	35,451
Financial assets at amortised cost	520,488	87,696	252,472	156,657	(4,274)	1,013,039
– Loans and advances to banks	253,383	7,234	12,952	12,100	0	285,669
– Loans and advances to customers	264,387	61,049	217,076	80,315	(649)	622,178
– Debt securities	2,718	19,413	22,444	64,242	(3,625)	105,192
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	28	28
Prepayments, accrued income, and other assets	0	0	0	0	3,523	3,523
Investments in subsidiaries and associates	0	0	0	0	17,861	17,861
Intangible assets	0	0	0	0	7,197	7,197
Tangible assets	0	0	0	0	6,428	6,428
Assets held for sale	0	0	0	0	440	440
Total assets	**559,240**	**88,081**	**262,338**	**183,000**	**76,488**	**1,169,147**
Liabilities						
Amounts due to central banks	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	6,210	0	0	0	34,915	41,125
Negative fair values of hedging financial derivatives	0	0	0	0	34,328	34,328
Financial liabilities at amortised cost	90,908	21,784	27,014	6,074	848,088	993,868
– Amounts due to banks	50,630	4,519	4,447	3,059	0	62,655
– Amounts due to customers*	39,815	11,241	104	0	848,494	899,654
– Securities issued	345	5,749	21,196	2,250	(406)	29,134
– Lease liabilities	118	275	1,267	765	0	2,425
Revaluation differences on portfolios hedge items	0	0	0	0	(30,690)	(30,690)
Current tax liabilities	0	0	0	0	276	276
Deferred tax liabilities	0	0	0	0	822	822
Accruals and other liabilities	0	0	0	0	10,248	10,248
Provisions	0	0	0	0	1,262	1,262
Subordinated debt	2,490	0	0	0	0	2,490
Total liabilities	**99,608**	**21,784**	**27,014**	**6,074**	**899,249**	**1,053,729**
Statement of Financial Position interest rate gap as of 31 December 2021	**459,632**	**66,297**	**235,324**	**176,926**	**(822,761)**	**115,418**
Nominal value of derivatives**	1,328,050	610,234	781,095	512,920	0	3,232,299
Total off-balance sheet assets	**1,328,050**	**610,234**	**781,095**	**512,920**	**0**	**3,232,299**
Nominal value of derivatives**	1,506,807	571,589	779,216	371,540	0	3,229,152
Undrawn portion of loans***	(21,225)	(18,179)	13,696	25,708	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,485,582**	**553,410**	**792,912**	**397,248**	**0**	**3,229,152**
Net off-balance sheet interest rate gap as of 31 December 2021	**(157,532)**	**56,824**	**(11,817)**	**115,672**	**0**	**3,147**
Cumulative interest rate gap as of 31 December 2021	**302,100**	**425,221**	**648,728**	**941,326**	**118,565**	**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 for which no interest rate has been set.

****The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unde-fined****	Restated 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	1,220	1,694	10,288	24,782	2,071	40,055
Financial assets at amortised cost	510,442	83,695	254,209	107,270	1,398	957,014
– Loans and advances to banks	260,554	2,896	11,984	7,900	0	283,334
– Loans and advances to customers	247,743	61,942	218,457	60,877	722	589,741
– Debt securities	2,145	18,857	23,768	38,493	676	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	**535,984**	**85,389**	**264,497**	**132,052**	**75,586**	**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	81,416	15,856	22,298	8,838	808,731	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	233	3,682	12,917	3,800	(7)	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	**87,177**	**15,856**	**22,298**	**8,838**	**854,143**	**988,312**
Statement of Financial Position interest rate gap as of 31 December 2020	**448,807**	**69,533**	**242,199**	**123,214**	**(778,557)**	**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	**298,592**	**367,332**	**610,166**	**884,836**	**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 for which no interest rate has been set.
****The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

The Bank has changed the method of disclosure the revaluation to fair value of financial assets and financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

Average interest rates as of 31 December 2021 and 2020 were as follow:

	31 Dec 2021			31 Dec 2020		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	2.96%	x	x	0.04%	x	x
Financial assets at fair value through other comprehensive income	1.79%	x	1.52%	1.77%	x	2.24%
Financial assets at amortised cost	2.93%	1.17%	0.75%	1.74%	0.88%	0.90%
– Loans and advances to banks	3.37%	0.46%	(0.37%)	0.37%	0.75%	(0.12%)
– Loans and advances to customers	2.90%	2.21%	1.56%	2.39%	1.34%	1.59%
– Debt securities	2.07%	0.00%	4.05%	2.03%	3.49%	3.99%
Total assets	**2.84%**	**1.04%**	**0.75%**	**1.61%**	**0.77%**	**0.98%**
Total interest-earning assets	**2.88%**	**1.14%**	**0.76%**	**1.73%**	**0.82%**	**1.00%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.11%	0.22%	(0.02%)	0.11%	0.41%	0.04%
– Amounts due to banks	(5.83%)	0.31%	0.05%	(0.12%)	0.54%	0.12%
– Amounts due to customers	0.14%	0.04%	(0.01%)	0.05%	0.17%	0.01%
– Securities issued	2.28%	x	x	2.48%	x	x
– Lease liabilities	1.55%	x	0.68%	1.60%	x	0.67%
Subordinated debt	x	x	0.71%	x	x	0.75%
Total liabilities	**0.33%**	**0.22%**	**(0.01%)**	**0.14%**	**0.40%**	**0.06%**
Total interest-bearing liabilities	**0.17%**	**0.22%**	**(0.01%)**	**0.15%**	**0.41%**	**0.06%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.90%	2.23%	0.32%	0.82%	2.81%	0.42%
Undrawn portion of loans	2.68%	x	0.73%	1.76%	x	1.41%
Undrawn portion of revolving loans	6.06%	1.17%	0.29%	4.04%	1.04%	0.43%
Total off-balance sheet assets	**1.04%**	**2.22%**	**0.32%**	**0.91%**	**2.80%**	**0.42%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.79%	1.92%	0.19%	0.67%	2.45%	0.28%
Undrawn portion of loans	2.68%	x	0.73%	1.76%	x	1.41%
Undrawn portion of revolving loans	6.06%	1.17%	0.29%	4.04%	1.04%	0.43%
Total off-balance sheet liabilities	**0.93%**	**1.92%**	**0.19%**	**0.78%**	**2.44%**	**0.29%**

Note: The table above sets out the average interest rates for December 2021 and 2020 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2021 from 0.25% to 3.75%. Czech crown money market rates (PRIBOR) increased by as much as 3.56% (1M) to 3.96% (12M). Interest rate swaps increased by as much as 1.62% (10Y) to 3.83% (2Y).

Euro money market rates decreased during 2021 by 0.00–0.03% (1–12M), and interest rate swaps increased by as much as 0.22% (2Y) to 0.56% (10Y).

Dollar money market rates changed during 2021 from –0.04% (1M) to 0.24% (12M), and interest rate swaps increased by as much as 0.63% (10Y) to 0.72% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2021 Fixed interest rate	31 Dec 2021 Floating interest rate	31 Dec 2021 No interest	31 Dec 2021 Total	31 Dec 2020 Fixed interest rate	31 Dec 2020 Floating interest rate	31 Dec 2020 No interest	31 Dec 2020 Total
Assets								
Cash and current balances with central banks	0	19,507	9,453	28,960	0	10,754	10,226	20,980
Financial assets and other assets held for trading at fair value through profit or loss	5,491	3,205	33,637	42,333	2,281	1,061	22,979	26,321
Non-trading financial assets at fair value through profit or loss	0	135	0	135	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	13,752	13,752	0	0	13,068	13,068
Financial assets at fair value through other comprehensive income	35,422	0	29	35,451	39,818	236	1	40,055
Financial assets at amortised cost	541,587	467,020	4,432	1,013,039	500,244	452,853	3,917	957,014
– Loans and advances to banks	32,826	252,272	571	285,669	22,502	260,670	162	283,334
– Loans and advances to customers	418,664	199,653	3,861	622,178	393,803	192,183	3,755	589,741
– Debt securities	90,097	15,095	0	105,192	83,939	0	0	83,939
Liabilities								
Amounts due to central banks	0	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	0	0	41,125	41,125	0	0	25,890	25,890
Negative fair values of hedging financial derivatives	0	0	34,328	34,328	0	0	8,288	8,288
Financial liabilities at amortised cost	32,143	961,369	356	993,868	26,406	910,659	74	937,139
– Amounts due to banks	7,506	54,883	266	62,655	13,504	51,320	20	64,844
– Amounts due to customers*	227	899,337	90	899,654	263	848,712	54	849,029
– Securities issued	21,985	7,149	0	29,134	9,998	10,627	0	20,625
– Lease liabilities	2,425	0	0	2,425	2,641	0	0	2,641
Revaluation differences on portfolios hedge items	0	0	(30,690)	(30,690)	0	0	2,548	2,548
Subordinated debt	0	2,490	0	2,490	0	2,629	0	2,629

* 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	20,468	0	0	0	0	8,492	28,960
Financial assets and other assets held for trading at fair value through profit or loss	0	(87)	2,923	1,187	4,673	33,637	42,333
Non-trading financial assets at fair value through profit or loss	0	142	0	0	0	(7)	135
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,752	13,752
Financial assets at fair value through other comprehensive income	1,340	0	251	9,666	26,343	(2,149)	35,451
Financial assets at amortised cost	144,800	177,626	103,632	255,669	335,586	(4,274)	1,013,039
– Loans and advances to banks	131,294	120,141	7,065	14,302	12,867	0	285,669
– Loans and advances to customers	12,551	56,739	89,898	215,458	248,181	(649)	622,178
– Debt securities	955	746	6,669	25,909	74,538	(3,625)	105,192
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	28	0	0	0	0	0	28
Prepayments, accrued income, and other assets	41	0	0	0	0	3,482	3,523
Investments in subsidiaries and associates	0	0	0	0	0	17,861	17,861
Intangible assets	0	0	0	0	0	7,197	7,197
Tangible assets	0	0	0	0	0	6,428	6,428
Assets held for sale	0	0	440	0	0	0	440
Total assets	**166,677**	**177,681**	**107,246**	**266,522**	**366,602**	**84,419**	**1,169,147**
Liabilities and equity							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	6,210	0	0	0	0	34,915	41,125
Negative fair values of hedging financial derivatives	0	0	0	0	0	34,328	34,328
Financial liabilities at amortised cost	878,601	55,282	21,066	25,708	13,617	(406)	993,868
– Amounts due to banks	19,636	25,123	4,786	8,843	4,267	0	62,655
– Amounts due to customers	858,454	29,884	11,213	103	0	0	899,654
– Securities issued	393	0	3,800	15,997	9,350	(406)	29,134
– Lease liabilities	118	275	1,267	765	0	0	2,425
Revaluation differences on portfolios hedge items	0	0	0	0	0	(30,690)	(30,690)
Current tax liabilities	0	276	0	0	0	0	276
Deferred tax liabilities	822	0	0	0	0	0	822
Accruals and other liabilities	10,080	0	0	0	0	168	10,248
Provisions	868	103	177	0	0	114	1,262
Subordinated debt	0	0	0	0	2,490	0	2,490
Equity	0	0	0	0	0	115,418	115,418
Total liabilities and equity	**896,581**	**55,661**	**21,243**	**25,708**	**16,107**	**153,847**	**1,169,147**
Statement of Financial Position liquidity gap as of 31 December 2021	**(729,904)**	**122,020**	**86,003**	**240,814**	**350,495**	**(69,428)**	**0**
Off-balance sheet assets*	244,589	345,259	132,978	271,897	57,462	0	1,052,185
Off-balance sheet liabilities*	478,618	348,347	134,893	270,838	57,394	0	1,290,090
Net off-balance sheet liquidity gap as of 31 December 2021	**(234,029)**	**(3,088)**	**(1,915)**	**1,059**	**68**	**0**	**(237,905)**

* 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 column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

(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**	Restated 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	1,050	271	1,746	10,136	24,782	2,070	40,055
Financial assets at amortised cost	116,919	204,100	101,902	251,979	280,716	1,398	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	13,446	48,261	86,028	208,426	232,858	722	589,741
– Debt securities	331	419	13,412	30,318	38,783	676	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	**131,803**	**204,374**	**103,915**	**263,618**	**306,993**	**82,805**	**1,093,508**
Liabilities and equity							
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	839,844	43,647	11,201	20,684	21,770	(7)	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	275	40	0	5,817	14,500	(7)	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 and equity	**853,465**	**43,829**	**11,759**	**20,684**	**24,399**	**139,372**	**1,093,508**
Statement of Financial Position liquidity gap as of 31 December 2020	**(721,662)**	**160,545**	**92,156**	**242,934**	**282,594**	**(56,567)**	**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.

** The column Maturity undefined also contains a revaluation to fair value of financial assets and financial liabilities.

The Bank has changed the method of disclosure the revaluation to fair value of financial assets and financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

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 2021:

(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)	6,210	0	0	0	0	0	6,210
Financial liabilities at amortised cost	878,611	55,443	21,564	26,747	13,779	1,333	997,477
– Amounts due to banks	19,641	25,144	4,863	9,111	4,302	406	63,467
– Amounts due to customers	858,459	29,960	11,349	108	0	222	900,098
– Securities issued	393	56	4,062	16,688	9,451	705	31,355
– Lease liabilities	118	283	1,290	840	26	0	2,557
Current tax liabilities	0	276	0	0	0	0	276
Deferred tax liabilities	822	0	0	0	0	0	822
Accruals and other liabilities	10,080	0	0	0	0	168	10,248
Provisions	868	103	177	0	0	114	1,262
Subordinated debt	0	0	0	0	2,490	0	2,490
Total non-derivative financial liabilities	**896,591**	**55,822**	**21,741**	**26,747**	**16,269**	**1,615**	**1,018,785**
Other loans commitment granted	167,381	0	0	0	0	0	167,381
Guarantee commitments granted	67,082	0	0	0	0	0	67,082
Total contingent liabilities	**234,463**	**0**	**0**	**0**	**0**	**0**	**234,463**

* The column Maturity undefined also contains a revaluation to fair value of financial liabilities.

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:

							Restated
(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	839,855	43,753	11,726	22,078	22,080	(7)	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	275	91	378	6,769	14,695	(7)	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	**853,475**	**43,935**	**12,284**	**22,078**	**24,709**	**583**	**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 column Maturity undefined also contains a revaluation to fair value of financial liabilities.

The Bank has changed the method of disclosure the revaluation to fair value of financial liabilities, which it now presented in the columns Unspecified. The comparable period has been restated.

(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	27,692	650	311	307	28,960
Financial assets and other assets held for trading at fair value through profit or loss	39,502	2,788	43	0	42,333
Non-trading financial assets at fair value through profit or loss	0	135	0	0	135
Positive fair values of hedging financial derivatives	12,673	939	140	0	13,752
Financial assets at fair value through other comprehensive income	23,021	12,430	0	0	35,451
Financial assets at amortised cost	837,897	165,922	8,214	1,006	1,013,039
– Loans and advances to banks	232,582	47,833	4,876	378	285,669
– Loans and advances to customers	500,545	117,667	3,338	628	622,178
– Debt securities	104,770	422	0	0	105,192
Current tax assets	0	0	0	0	0
Deferred tax assets	0	28	0	0	28
Prepayments, accrued income, and other assets	3,036	481	4	2	3,523
Investments in subsidiaries and associates	17,233	628	0	0	17,861
Intangible assets	7,161	36	0	0	7,197
Tangible assets	6,373	55	0	0	6,428
Assets held for sale	440	0	0	0	440
Total assets	**975,028**	**184,092**	**8,712**	**1,315**	**1,169,147**
Liabilities and equity					
Amounts due to central banks	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	38,312	2,730	81	2	41,125
Negative fair values of hedging financial derivatives	33,207	1,121	0	0	34,328
Financial liabilities at amortised cost	806,736	148,281	35,316	3,535	993,868
– Amounts due to banks	10,661	28,655	23,325	14	62,655
– Amounts due to customers	777,448	106,694	11,991	3,521	899,654
– Securities issued	16,569	12,565	0	0	29,134
– Lease liabilities	2,058	367	0	0	2,425
Revaluation differences on portfolios hedge items	(30,534)	(47)	(109)	0	(30,690)
Current tax liabilities	264	12	0	0	276
Deferred tax liabilities	822	0	0	0	822
Accruals and other liabilities	8,352	1,194	463	239	10,248
Provisions	652	524	45	41	1,262
Subordinated debt	0	2,490	0	0	2,490
Equity	115,441	(23)	0	0	115,418
Total liabilities and equity	**973,252**	**156,282**	**35,796**	**3,817**	**1,169,147**
Net FX position as of 31 December 2021	**1,776**	**27,810**	**(27,084)**	**(2,502)**	**0**
Off-balance sheet assets*	2,647,975	1,110,652	178,307	44,248	3,981,182
Off-balance sheet liabilities*	2,652,518	1,138,791	151,517	41,798	3,984,624
Net off-balance sheet FX position as of 31 December 2021	**(4,543)**	**(28,139)**	**26,790**	**2,450**	**(3,442)**
Total net FX position as of 31 December 2021	**(2,767)**	**(329)**	**(294)**	**(52)**	**(3,442)**

* 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	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 and equity					
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 and equity	**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.

(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 upon 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 2021		31 Dec 2020	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	28,960	28,960	20,980	20,980
Financial assets at amortised cost	1,013,039	1,004,972	957,014	981,736
– Loans and advances to banks	285,669	285,516	283,334	283,376
– Loans and advances to customers	622,178	617,182	589,741	612,659
– Debt securities	105,192	102,274	83,939	85,701
Financial liabilities				
Amounts due to central banks	0	0	0	0
Financial liabilities at amortised cost	993,868	994,194	937,139	937,201
– Amounts due to banks	62,655	62,667	64,844	64,840
– Amounts due to customers	899,654	899,656	849,029	849,029
– Securities issued	29,134	29,446	20,625	20,691
– Lease liabilities	2,425	2,425	2,641	2,641
Subordinated debt	2,490	2,490	2,629	2,629

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:

(CZKm)	31 Dec 2021 Fair value	Level 1	Level 2	Level 3	31 Dec 2020 Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	28,960	8,492	0	20,468	20,980	8,496	0	12,484
Financial assets at amortised cost	1,004,972	96,380	0	908,592	981,736	81,997	0	899,739
– Loans and advances to banks	285,516	0	0	285,516	283,376	0	0	283,376
– Loans and advances to customers	617,182	0	0	617,182	612,659	0	0	612,659
– Debt securities*	102,274	96,380	0	5,894	85,701	81,997	0	3,704
Financial liabilities								
Amounts due to central banks	0	0	0	0	0	0	0	0
Financial liabilities at amortised cost	994,194	0	0	994,194	937,201	0	0	937,201
– Amounts due to banks	62,667	0	0	62,667	64,840	0	0	64,840
– Amounts due to customers	899,656	0	0	899,656	849,029	0	0	849,029
– Securities issued	29,446	0	0	29,446	20,691	0	0	20,691
– Lease liabilities	2,425	0	0	2,425	2,641	0	0	2,641
Subordinated debt	2,490	0	0	2,490	2,629	0	0	2,629

(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 2021	Level 1	Level 2	Level 3	31 Dec 2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets held for trading at fair value through profit or loss	**42,333**	**8,626**	**33,707**	**0**	**26,321**	**3,144**	**23,177**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	8,696	8,626	70	0	3,342	3,144	198	0
– Derivatives	33,637	0	33,637	0	22,979	0	22,979	0
Other assets held for trading at fair value through profit or loss	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Non-trading financial assets at fair value through profit or loss	**135**	**0**	**0**	**135**	**279**	**0**	**0**	**279**
Positive fair value of hedging financial derivatives	**13,752**	**0**	**13,752**	**0**	**13,068**	**0**	**13,068**	**0**
Financial assets at fair value through other comprehensive income	**35,451**	**35,423**	**0**	**29**	**40,055**	**40,055**	**0**	**1**
Financial assets at fair value	**91,671**	**44,049**	**47,459**	**164**	**79,723**	**43,199**	**36,245**	**280**
FINANCIAL LIABILITIES								
Financial liabilities held for trading at fair value through profit or loss	**41,125**	**6,210**	**34,915**	**0**	**25,890**	**3,132**	**22,758**	**0**
of which:								
– Sold securities	6,210	6,210	0	0	3,132	3,132	0	0
– Derivatives	34,915	0	34,915	0	22,758	0	22,758	0
Negative fair value of hedging financial derivatives	**34,328**	**0**	**34,328**	**0**	**8,288**	**0**	**8,288**	**0**
Revaluation differences on portfolios hedge items	**(30,690)**	**0**	**(30,690)**	**0**	**2,548**	**0**	**2,548**	**0**
Financial liabilities at fair value	**44,763**	**6,210**	**38,553**	**0**	**36,726**	**3,132**	**33,594**	**0**

Financial assets at fair value – Level 3:

(CZKm)	2021 Financial assets at FVOCI option	2021 Non-trading financial assets at fair value through profit or loss	2021 Total	2020 Financial assets at FVOCI option	2020 Non-trading financial assets at fair value through profit or loss	2020 Total
Balance as of 1 January	**1**	**279**	**280**	**514**	**0**	**514**
Reclassification between portfolios (refer to Note 21)	28	0	28	(513)	513	0
Comprehensive income/(loss)						
– In the Statement of Income	0	(3)	(3)	0	91	91
– In Other Comprehensive Income	0	0	0	0	0	0
Purchases	0	142	142	0	0	0
Sales	0	(285)	(285)	0	(309)	(309)
Settlement	0	0	0	0	0	0
Transfer from Level 1	0	0	0	0	0	0
Foreign exchange rate difference	0	2	2	0	(16)	(16)
Balance as of 31 December	**29**	**135**	**164**	**1**	**279**	**280**

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 2021:

	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	50,531	3,142	47,389	40,700	4,273	2,416
Negative fair value of derivatives	72,385	3,142	69,243	40,700	27,245	1,298

* 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 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	40,717	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.

44 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2021		31 Dec 2020	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,979	626,685	3,957	573,043
Assets under management	0	6,582	0	4,195

Assets in custody include securities in the amount of CZK 25,646 million (2020: CZK 30,655 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.

Optimisation of branch network
The Bank decided during 2022 on further steps in optimising its branch network. As of 1 April 2022, 25 branches will be closed and at an additional 19 branches cash services will be provided only via ATMs. As of 1 July 2022, the Bank will simplify the management structure of the branch network, including to replace regional retail divisions by a joint segment and line management of all distribution channels at the headquarters level. The selection of branches for closing was based upon a long-term analysis of branch customer traffic, coverage and potential of locations, and changes in clients behaviour that reflect increasing preference for remote sales and assisted services in the digital environment. The estimated costs incurred in 2022 are expected to be in the tens of millions of crowns.

Geopolitical situation
The Bank is aware that the sharply deteriorating geopolitical situation will have a significant impact on the economies of European countries. Nevertheless, due to the heightened global uncertainty and turbulent development, it is impossible to fully assess and quantify the impacts at the current stage. The Bank is continuously monitoring and evaluating potential impacts of the current crisis on its activities and on its clients. The Bank's direct exposure to Russia and Ukraine is limited, but the Bank is also evaluating secondary and indirect impacts (supply chains, dependence on raw materials, etc.). As may be necessary and appropriate, the Bank will respond to the changing situation by adjusting its policies and accounting estimates, including to adjust its provisioning models in accordance with IFRS 9.

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.

	2021	2020	2019	2018	2017
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)	176.6	124.1	156.7	160.0	172.8
Earnings per share (CZK)[1)]	67.4	43.2	78.9	78.6	79.1
Dividend per share for the year (CZK)[2)]	43.8[3)]	23.9	0.0	51.0	47.0
Dividend payout ratio (%)[4)]	65.0	55.3	0.0	64.9	59.5
Book value per share (CZK)[5)]	654.0	602.7	558.8	529.1	511.2
Share price (CZK)					
closing price at year-end	935.0	657.0	829.5	847.0	915.0
maximum	955.0	835.0	962.0	965.0	1,010.0
minimum	642.0	465.0	737.0	847.0	881.0

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 2022.
4) Dividend per share / Earnings per share.
5) Shareholders' equity excluding minority equity (IFRS consolidated) divided by 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 as amended, 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 (a dividend) approved for distribution to the Shareholders by the General Meeting 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 in the statutory records of the securities' issuer as owning shares 7 working 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 calendar days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

The right to claim payment of the share in profit 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 of 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 share in profit payment.

After the lapse of 10 years from the date of share in profit 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 2021, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and Komerční banka's share are traded at public stock exchanges in Czechia managed by the market organizers Prague Stock Exchange, a.s., and RM-SYSTEM, Czech Stock Exchange, a.s. The average daily trading volume of KB shares on the PSE of CZK 119.3 million (EUR 4.8 million) was the second highest[1)] among shares traded on the exchange and represented 21.5% of the exchange turnover.

Stock market performance

Global stock markets in 2021 were marked by a growing trend following recovery from the initial shock of the Covid-19 pandemic in February 2020. The impact of the pandemic was still evident in some markets with the onset of the spring waves and resulting economic constraints, but fading economic constraints and the growing proportion of the vaccinated population provided further support to markets. The main US S&P 500 Index continued on the growth course begun in 2020 to close out 2021 at its all-time high. Thus, in total it strengthened by 26.9% in dollar terms (29% in CZK terms). Similarly, the Dow Jones Industrial Average finished 2021 stronger by 18.7% (20.7% in CZK terms). The technology-heavy NASDAQ index, which included more shares of companies from sectors benefiting from the pandemic situation, added 21.4% in 2021 (23.4% in CZK terms). The MSCI ACWI Global Index, which includes equities from 46 developed and emerging markets, gained 16.8% in USD terms (18.8% in CZK terms) in 2021. The MSCI Europe European Equity Markets Index (which includes the Czech Republic) rose by 22.4% in EUR terms (15.4% in CZK terms). In addition to the pandemic still ongoing in 2021, European stock markets were affected also by uncertainty associated with the disruption of global supply chains, shortages of some production inputs, and rising industrial producer prices. The Prague Stock Exchange's PX Index was also affected by specifics of the domestic reaction to the pandemic situation, a gradual economic recovery, rapid growth in prices, and rising monetary policy rates. It rose by 38.8% in 2021.

The stock index of European banks (STOXX Europe 600) increased by 34.0% (26.9% in CZK terms), supported by less-than-expected effects of the pandemic crisis on asset quality, recovering economic activity in individual countries, reversals in anticipation of interest rate trends, and an easing of regulatory restrictions on dividends.

KB share price development

The KB shares closed out trading in 2021 at a price of CZK 935, up by 42.3% from the closing price of the previous year. As of 31 December 2021, Komerční banka's market capitalisation stood at CZK 176.6 billion (EUR 7.1 billion), ranking KB in third place by capitalisation among the shares listed on the PSE's Prime Market.

KB's share price started the year at CZK 657 and was benefiting amidst growth momentum continuing from the end of 2020, but that potential was relatively soon exhausted. The onset of the spring pandemic wave then eclipsed the economic outlook. As true of many other companies, KB's share price fell sharply, to CZK 642, its lowest point for the year, down –2.3% from the closing price of 2020. With the numbers of people newly infected with Covid-19 in decline and the easing of restrictive measures, the price of KB shares found an upward trend, which did not break even despite a worsening of the epidemic situation during autumn that was not halted even by higher levels of vaccination and improved know-how regarding Covid-19. Amid rising interest rates, share prices reacted positively across the entire sector. KB's share price was further underpinned by the CNB's announcement of the release of dividend restrictions and the General Meeting's November approval of the dividend in the amount of CZK 23.86 per share. The share price thus reached the CZK 955 level at the beginning of November, and, after the dividend was paid, it closed the year at CZK 935, which was 42.3% stronger year on 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 fully followed in 2021, however, due to a prohibition and subsequent restrictions on dividend payments and share buybacks that the regulator applied as one of its measures in response to the uncertainty and crisis caused by the Covid-19 pandemic. The maximum volume of dividends to be paid by Czech banks was limited to the lowest of the following four criteria: a) 100 basis points of risk-weighted assets as of 31 December 2020, b) 25% of cumulative net profit for 2019 and 2020, c) capital adequacy after payout or redemption exceeding the total capital requirement by at least 4 percentage points, or d) adjusted leverage ratio ≥ 7%. Of these four conditions, the most limiting condition for KB was condition a) and the General Meeting subsequently approved paying out a share in retained earnings of CZK 4.5 billion. The amount of the share in retained earnings per share was CZK 23.86 before taxation. This amount represented 19.7% of cummulative consolidated net profit for the year 2019 and 2020. The corresponding gross dividend yield based on 2020's closing share price was 3.6%.

The total return from holding KB shares in 2021 was thus 45.5%, assuming reinvestment of the net dividend on the payment day.

[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 58,000 shareholders as of 31 December 2021, individuals resident in the Czech Republic numbered almost 53,000.

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 2021, Komerční banka's management participated in almost 50 investor meetings – only virtual in nature – involving representatives from approximately 150 institutions. In addition to these meetings with equity investors, Komerční banka's management met with investors in euro-denominated covered bonds through more than 20 meetings with representatives from greater than 20 institutions.

More than 20 financial firms regularly publish their investment research reports on Komerční banka.

Acquisition of treasury shares in 2021

Komerční banka held 1,193,360 of its own shares as of 31 December 2021. 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 2021, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares. In 2021, Komerční banka intermediated buy and sell transactions in KB shares for its clients through its own account in the amount of 132,207 shares.

Based upon the consent of the General Meeting 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 under the Komerční banka Bond Debt Issuance Programme established in 2007

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 Komerční banka Bond Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30-Year Bond 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

THZL ISIN CZ0002002801 was admitted for trading on the Regulated Market of the Prague Stock Exchange. Transferability of the bonds is not limited.

List of bonds issued by Komerční banka (as of 31 December 2021)

No.	Bond	ISIN	Issue date	Maturity date	Currency	Volume in currency	Number of pieces	Interest rate	Payout of interest
1	HZL 2007/2037	CZ0002001324[1),2)]	16 Nov 2007	16 Nov 2037	CZK	1,200,000,000	12	Note A	stated
2	HZL 2007/2037	CZ0002001332[1),2)]	16 Nov 2007	16 Nov 2037	CZK	1,200,000,000	12	Note A	stated
3	HZL 2007/2037	CZ0002001340[1),2)]	16 Nov 2007	16 Nov 2037	CZK	1,200,000,000	12	Note B	stated
4	HZL 2007/2037	CZ0002001357[1),2)]	16 Nov 2007	16 Nov 2037	CZK	500,000,000	5	Note B	stated
5	HZL 2007/2037	CZ0002001365[1)]	16 Nov 2007	16 Nov 2037	CZK	1,000,000,000	10	RS minus 0.20% p.a.	stated
6	HZL 2007/2037	CZ0002001373[1)]	16 Nov 2007	16 Nov 2037	CZK	1,000,000,000	10	RS minus 0.20% p.a.	stated
7	HZL 2007/2037	CZ0002001381[1),2)]	16 Nov 2007	16 Nov 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
8	HZL 2007/2037	CZ0002001399[1),2)]	16 Nov 2007	16 Nov 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
9	HZL 2007/2037	CZ0002001431[1),2)]	30 Nov 2007	30 Nov 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
10	HZL 2007/2037	CZ0002001449[1)]	30 Nov 2007	30 Nov 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
11	HZL 2007/2037	CZ0002001456[1)]	30 Nov 2007	30 Nov 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
12	HZL 2007/2037	CZ0002001464[1),2)]	30 Nov 2007	30 Nov 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
13	HZL 2007/2037	CZ0002001472[1),2)]	30 Nov 2007	30 Nov 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
14	HZL 2007/2037	CZ0002001480[1),2)]	30 Nov 2007	30 Nov 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
15	HZL 2007/2037	CZ0002001498[1),2)]	7 Dec 2007	7 Dec 2037	CZK	500,000,000	5	RS minus 0.20% p.a.	stated
16	HZL 2007/2037	CZ0002001506[1)]	7 Dec 2007	7 Dec 2037	CZK	700,000,000	7	RS minus 0.20% p.a.	stated
17	HZL 2007/2037	CZ0002001514[1)]	7 Dec 2007	7 Dec 2037	CZK	1,000,000,000	10	RS minus 0.20% p.a.	stated
18	HZL 2007/2037	CZ0002001522[1)]	7 Dec 2007	7 Dec 2037	CZK	1,000,000,000	10	RS minus 0.20% p.a.	stated
19	HZL 2007/2037	CZ0002001530[1),2)]	7 Dec 2007	7 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
20	HZL 2007/2037	CZ0002001548[1),2)]	7 Dec 2007	7 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
21	HZL 2007/2037	CZ0002001555[1),2)]	12 Dec 2007	12 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
22	HZL 2007/2037	CZ0002001563[1),2)]	12 Dec 2007	12 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
23	HZL 2007/2037	CZ0002001571[1),2)]	12 Dec 2007	12 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
24	HZL 2007/2037	CZ0002001589[1),2)]	12 Dec 2007	12 Dec 2037	CZK	1,200,000,000	12	RS minus 0.20% p.a.	stated
25	HZL 2007/2037	CZ0002001753[2),3)]	21 Dec 2007	21 Dec 2037	CZK	10,330,000,000	1,033	RS plus 1.5% p.a.	yearly
26	HZL 2007/2037	CZ0002001746[2),3)]	28 Dec 2007	28 Dec 2037	CZK	1,240,000,000	124	RS plus 1.5% p.a.	yearly
27	HZL 2012/2022	CZ0002002801[3)]	21 Dec 2012	21 Dec 2022	CZK	3,000,000,000	300,000	2.55% p.a.	yearly
28	HZL 2014/2022	CZ0002003379[3)]	30 Jan 2014	30 Apr 2022	CZK	800,000,000	80,000	3.00% p.a.	yearly
29	HZL 2014/2024	CZ0002003361[3)]	30 Jan 2014	30 Jan 2024	CZK	900,000,000	90,000	3.00% p.a.	yearly
30	HZL 2014/2025	CZ0002003353[3)]	31 Jan 2014	31 Jan 2025	CZK	1,117,000,000	111,700	3.50% p.a.	yearly
31	HZL 2014/2026	CZ0002003346[3)]	31 Jan 2014	31 Jan 2026	CZK	800,000,000	80,000	3.50% p.a.	yearly
32	HZL 2014/2026	CZ0002003742[1)]	18 Nov 2014	18 Nov 2026	CZK	750,000,000	75,000	2.00% p.a.	yearly
33	HZL 2014/2028	CZ0002003767[1)]	20 Nov 2014	20 Nov 2028	CZK	750,000,000	75,000	2.20% p.a.	yearly
34	HZL 2014/2027	CZ0002003759[1)]	24 Nov 2014	24 Nov 2027	CZK	750,000,000	75,000	2.10% p.a.	yearly
35	HZL 2014/2029	CZ0002003775[1)]	27 Nov 2014	27 Nov 2029	CZK	750,000,000	75,000	2.30% p.a.	yearly

[1)] Certificated bonds represented by a global certificate.
[2)] The whole bond issue held by Komerční banka
[3)] Dematerialised bonds.
Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.
HZL = mortgage bond (covered bond), RS = reference rate
Note A: 5.06% p.a. for the first 12 annual periods, afterwards the relevant RS minus 0.20% p.a.
Note B: 5.02% p.a. for the first 11 annual periods, afterwards the relevant RS minus 0.20% p.a.

Bonds issued under the Komerční banka Mortgage Covered Bond Programme established in 2021

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 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 are made on an annual basis. The bond's interest and principal payments are made 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 Komerční banka 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.

Public tradability and transferability

The bond was admitted for trading on the Regulated Market of the Luxembourg Stock Exchange. The transferability of the bond is not limited.

List of bonds issued under the Komerční banka Mortgage Covered Bond Programme (as of 31 December 2021)

No.	Bond	ISIN	Issue date	Maturity date	Currency	Volume in currency	Number of pieces	Interest rate	Payout of interest
36	HZL 2021/2026	XS2289128162[1)]	20 Jan 2021	20 Jan 2026	EUR	500,000,000	500,000	0.01% p.a.	yearly

[1)] Registered global mortgage covered bonds.

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 2021:

	Deloitte		EY		Total	
Type of service – CZK thousand, excl. VAT	**KB**	**KB Group**	**KB**	**KB Group**	**KB**	**KB Group**
Audit services	19,740	24,356	0	4,303	19,740	28,659
Tax advisory	0	0	0	0	0	0
Non-audit services*	4,521	5,791	216	216	4,737	6,007
Total	**24,261**	**30,147**	**216**	**4,519**	**24,477**	**34,666**

* Non-audit services – PSD2 audit, AML/CTF audit for ČNB, input data contribution to PRIBOR benchmark, DevOPs assesment and training.

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 2021, the base for calculating the volume of the contribution was CZK 1,127 million (2020: CZK 742 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 23 million (2020: CZK 15 million).

Report on Relations among Related Entities

for the year ended 31 December 2021

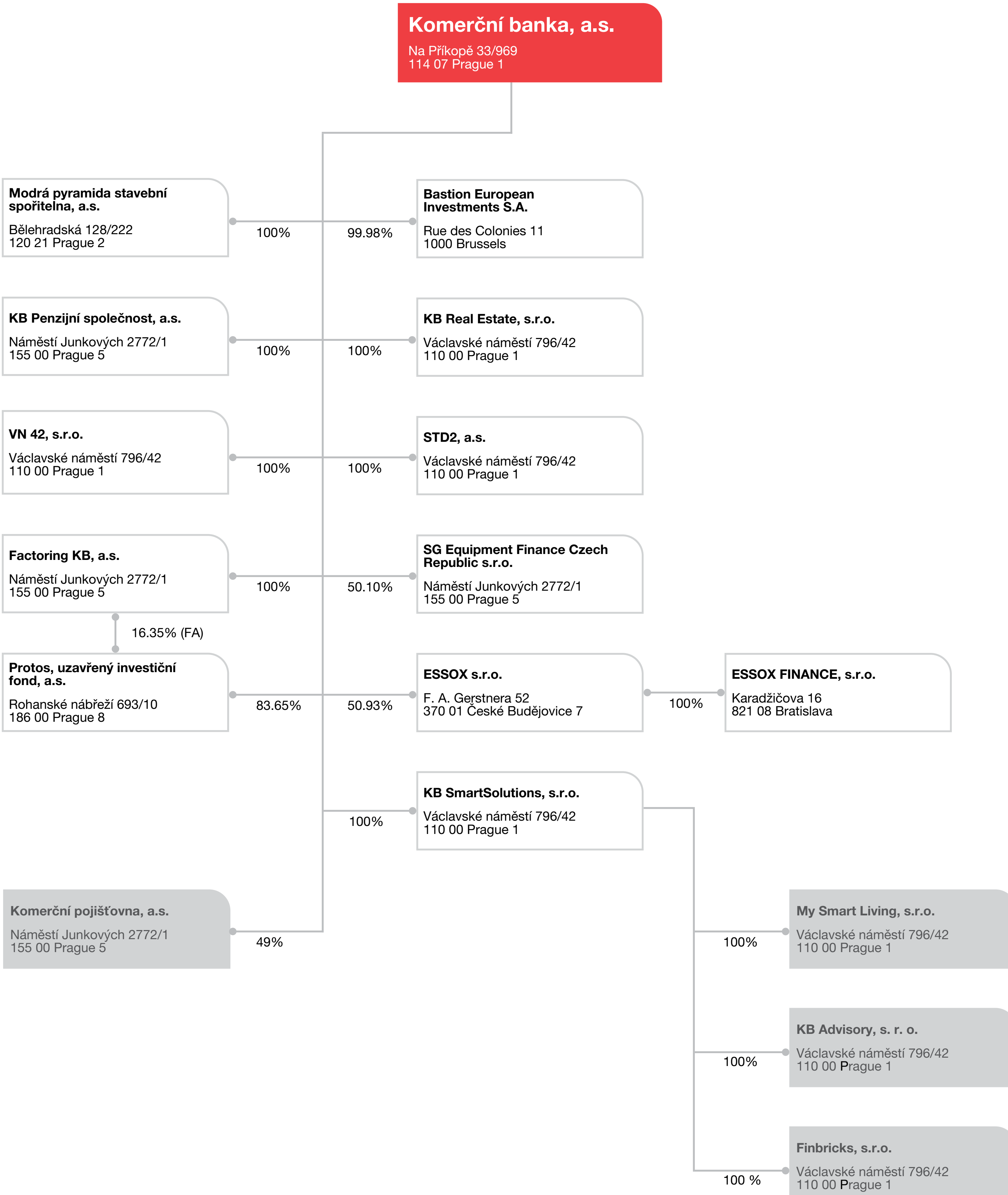
(hereinafter the **“Report on Relations”**)

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 the “Company”), is part of a business group (holding company) where the following relations exist between the Company and its controlling entity and further between the Company and other entities controlled by the same controlling entities (hereinafter the “business group”).

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), as amended, for the year ended 31 December 2021, that is, from 1 January 2021 to 31 December 2021 (hereinafter the “reporting period”).

I. Introduction

Structure of relations among entities within the business group:
In the period from 1 January 2021 to 31 December 2021, the Company 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”). Société Générale S.A.’s share in the voting rights of Komerční banka, a.s. was 60.73%, and its share in the ownership interest of Komerční banka, a.s. was 60.35%. The structure of relations within the Group is as follows:



% share ownership interest

The list of SG Group companies as shown in the Consolidated financial statements is annexed to the report.

During the 2021 reporting period, the Company had relationships with the following entities which are part of the Group:[1)]

Company	Registered office	SG's share in voting rights
ALD Automotive s. r. o.	U Stavoservisu 527/1, 108 00 Prague 10, Czech Republic	100
ALD Automotive Slovakia s. r. o.	Panónska cesta 47, 851 01 Bratislava, Slovakia	100
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector l, Bucharest, Romania	100
BASTION EUROPEAN INVESTMENTS S.A.	Rue des Colonies 11, 1000 Brussels, Belgium	100
Crédit du Nord	28 Place Rihour, 59800 Lille, France	100
ESSOX FINANCE s.r.o.	Karadžičova 16 , 821 08 Bratislava, Slovakia	100
ESSOX s.r.o.	F. A. Gerstnera č. ev. 52, 370 01 České Budějovice 7, České Budějovice, Czech Republic	100
Factoring KB, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Finbricks, s.r.o.	Václavské náměstí 796/42, Prague 1 – Nové Město, postal code 110 00, Czech Republic	100
GEFA BANK GmbH	Robert-Daum-Platz 1, 42117 Wuppertal, Germany	100
KB Advisory, s. r. o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
KB Real Estate, 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
Komerční pojišťovna, a. s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Lyxor International Asset Management (LIAM)2	Tours Société Générale 17, Cours Valmy 92967 Paris La Défense	0
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128/222, 120 21 Prague 2, Czech Republic	100
My Smart Living, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
Protos, uzavřený investiční fond, a. s.	Rohanské nábřeží 693/10, 186 00 Prague 8 – Karlín, Czech Republic	100
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	99.97
SG Equipment Finance Czech Republic s. r. o.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Beijing, China	100
SG Issuer S.A.	16, boulevard Royal, 2449 Luxembourg	100
SG Maroccaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	57.65
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France, 92987	100
SG Private Banking (Suisse) S.A.	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneva 11, Switzerland	100
SG Private wealth management S.A.	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100
SG Securities Services	Via Benigno Crespi 19, 20159 Milan, Italy	100
SGA Société Générale Acceptance N.V.	Pietermaai 15, Willemstad, Netherlands Antilles	100
SOCIETE GENERALE FACTORING	3 Rue Francis de Pressensé, 93210 Saint-Denis, France	100
SOCIETE GENERALE GHANA LIMITED	GHANA	60.22
SOCIETE GENERALE GLOBAL SOLUTION CENTRE PRIVATE	Whitefield Road, International Tech Park Bangalore, Bangalore – 560066	100
Societe Generale International Ltd.	Lyxor SG House, 41 Tower Hill London, EC3N 4SG, Great Britain	100
SOCIETE GENERALE LUXEMBOURG	11 avenue Emile Reuter, L-2420 LUXEMBOURG	100
Societe Generale SA	29, Boulevard Haussmann, Paris, France	-
SOCIETE GENERALE SENEGAL	19 AVENUE LEOPOLD SEDAR SENGHOR, DAKAR, SENEGAL	64.87
SOGEPROM Česká republika s.r.o., v likvidaci	Legerova 802/64, 120 00 Prague 2 – Vinohrady, Czech Republic	100
STD2, 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

1) Companies controlled by SG Paris, both directly and indirectly, pursuant to Section 74 (1) of the Business Corporations Act.
2) The company has been a part of another group since 31 December 2021.

Role of the Company within the aforementioned relationship structure
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 area of retail, corporate, and investment banking on the territory of the Czech Republic. KB operates on the territory of the Slovak Republic using its branch abroad and 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, services and advisory within the framework of internal and external communication and marketing, as well as advisory in the areas of compliance, operational risks, and insurance within the SG Group. The headquarters of Komerční banka and of the KB Group companies in Prague share common premises owned by the KB 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 makes investments in start-up and fintech companies through its subsidiary KB SmartSolutions.

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 the Company's activity by setting a unified Group policy and, furthermore, through the General Meeting, 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 in 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 takes place in the form of consultancy in individual areas of the KB's activity.

The intermediation of SG's control over KB's subsidiaries is formally represented by 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

This section is not complete as it does not include contracts or relationships covered by banking secrecy. However, all such contracts and relationships have been reviewed and it can be stated that they were granted on standard terms and conditions as per the Company's price list, taking into account the creditworthiness of the individual clients within the terms and conditions customary in the ordinary course of trade or inter-bank dealings. None of these contracts or relationships were made based on an instruction of the controlling person.

A. Significant transactions made in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity and relating to assets exceeding 10% of the Company's equity as determined based on the financial statements for the reporting period immediately preceding the reporting period for which the Report on Relations is prepared

Komerční banka, a.s. made no significant transactions which would not be subject to banking secrecy.

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

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
Co-operation agreement – Jobs	ALD Automotive s.r.o.	9 Jun 2010
Non-disclosure agreement	ALD Automotive s.r.o.	9 Jul 2010
Service framework agreement – IT	ALD Automotive s.r.o.	31 Aug 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
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
Co-operation agreement	ALD Automotive s.r.o.	29 Mar 2013
Agreement – Outsourcing of HR services (excluding Payroll)	ALD Automotive s.r.o.	1 Apr 2013
Framework agreement – Vehicle leasing	ALD Automotive s.r.o.	1 May 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
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. 3 between KB and ALD Automotive – IT infrastructure services	ALD Automotive s.r.o.	30 Jun 2017
Service contract – Outsourcing (HR services)	ALD Automotive s.r.o.	1 Jan 2018
Agreement on services: eDoceo	ALD Automotive s.r.o.	1 Apr 2018
Agreement – outsourcing of DPO services	ALD Automotive s.r.o.	16 May 2018
Agreement for the provision of technical infrastructure solution services, connectivity services	ALD Automotive s.r.o.	17 May 2018
Service agreement – C4M access	ALD Automotive s.r.o.	14 Sep 2018
KBP – ČB, Krajinská – ALD	ALD Automotive s.r.o.	28 Jan 2020
Contract for the lease of non-residential premises	ALD Automotive s.r.o.	30 Jan 2020
Contract for the lease of non-residential premises – Ústí nad Labem	ALD Automotive s.r.o.	30 Jan 2020
KBP – Brno (8346) – ALD	ALD Automotive s.r.o.	24 Feb 2020
KBP – Ostrava – ALD	ALD Automotive s.r.o.	2 Mar 2020
Separate agreement no. 5 – IT infrastructure services – Telephony Services	ALD Automotive s.r.o.	11 Dec 2020
Separate agreement no. 4 – IT infrastructure services	ALD Automotive s.r.o.	10 Feb 2021
Agreement on the organisation of periodic control	ALD Automotive SIA	27 May 2019
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
Agreement – outsourcing of HR services (excluding Payroll) with an amendment	ALD Automotive Slovakia s. r. o.	30 Dec 2016
Co-operation Agreement	ALD Automotive Slovakia s. r. o.	19 Oct 2018
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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
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 amendments	ESSOX s.r.o.	16 Jan 2009
Framework agreement for financial market trading	ESSOX s.r.o.	16 Apr 2009
Co-operation Agreement, including amendments	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
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 – C4M access, including amendments (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 amendments	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
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
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
Service agreement, including amendments	ESSOX s.r.o.	3 Jan 2017
Memorandum of understanding – project AS/400 Lifecycle Renewal	ESSOX s.r.o.	3 Apr 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
Distribution Agreement for Product “Retail Car Loans”	ESSOX s.r.o.	15 Feb 2018
Agreement on services: eDoceo	ESSOX s.r.o.	31 Mar 2018
Agreement – outsourcing of DPO services	ESSOX s.r.o.	11 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
Agreement on the organisation of periodic control	ESSOX s.r.o.	8 Jul 2019
Service agreement	ESSOX s.r.o.	17 Dec 2020
Compliance Co-operation Agreement	ESSOX s.r.o.	21 Jan 2021

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
AGREEMENT – SERVICES: Processing KYS – Know Your Supplier	ESSOX s.r.o.	27 Jan 2021
Contract on providing of online services	ESSOX s.r.o.	22 Mar 2021
Contract for the payment of insurance premium and of insurance broker's commission	ESSOX s.r.o.	10 Jun 2021
Service Level Agreement – reporting	ESSOX s.r.o.	20 Dec 2021
License agreement – Logo, including amendments	Factoring KB, a.s.	20 Dec 2004
Mutual co-operation agreement, including amendments – provision of banking services to staff	Factoring KB, a.s.	1 Aug 2007
Lease of non-residential premises, movable assets, and payment of related services, including amendments – Ostrava	Factoring KB, a.s.	18 Jun 2008
Framework agreement – personal data processing	Factoring KB, a.s.	1 Dec 2008
Sales agreement (Distribution agreement), including amendments	Factoring KB, a.s.	1 Dec 2008
Service Agreement – outsourcing (HR services), including amendments	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
Service agreement – C4M access, including amendments	Factoring KB, a.s.	24 May 2011
Agreement for co-operation in performance of contract for employee group risk insurance no. 3280000000	Factoring KB, a.s.	24 Aug 2012
Contract for sublease of parking spaces, including amendments – Prague Stodůlky, building no. 2772, indoor parking space	Factoring KB, a.s.	28 Aug 2012
Lease of non-residential premises, movable assets, and payment of related services, including amendments – Prague	Factoring KB, a.s.	31 Aug 2012
IT – Separate agreement no. 1, Connectivity services, technical infrastructure solution services, including an amendment	Factoring KB, a.s.	1 Dec 2012
IT – Separate agreement no. 2, Physical hosting of equipment, technical infrastructure solution services, including an amendment	Factoring KB, a.s.	1 Dec 2012
IT – Separate agreement no. 3: IT Infrastructure hosting, provision of technical infrastructure solution services, including amendments	Factoring KB, a.s.	1 Dec 2012
Service contract – BI services, including amendments	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 amendments	Factoring KB, a.s.	1 Jan 2013
Contract for sublease of parking spaces, including amendments – Prague Stodůlky, outdoor parking	Factoring KB, a.s.	1 Jan 2013
Agreement services: data transfer – current accounts	Factoring KB, a.s.	1 Aug 2013
Agreement to provide postal services and destruction of document duplicates, including amendments	Factoring KB, a.s.	31 Oct 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
Agreement to provide services regarding OHS, environmental protection and fire protection, including amendments	Factoring KB, a.s.	30 Jan 2015
Contract for sublease of parking spaces, including amendments – Siemens	Factoring KB, a.s.	23 Mar 2015
IT – Separate agreement no. 5: E-mail, provision of technical infrastructure solution services	Factoring KB, a.s.	25 May 2015
Lease of non-residential premises, movable assets, and payment of related services, including amendments – Plzeň	Factoring KB, a.s.	30 Sep 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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
Lease of non-residential premises, movable assets, and payment of related services, including amendments – Ústí nad Labem	Factoring KB, a.s.	1 Apr 2017
IT – Separate agreement no. 12: SOC – Vulnerability detection (VD), provision of technical infrastructure solution services	Factoring KB, a.s.	28 Aug 2017
Lease of non-residential premises, movable assets, and payment of related services, including amendments – Brno	Factoring KB, a.s.	14 Dec 2017
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
Agreement to provide internal audit services, including amendments	Factoring KB, a.s.	21 May 2019
Agreement to use unreserved parking places, including an amendment	Factoring KB, a.s.	1 Jun 2020
KYS Processing	Factoring KB, a.s.	1 Oct 2020
Compliance Co-operation Agreement	Factoring KB, a.s.	3 Dec 2020
Contract for the payment of insurance premium and of insurance broker's commission	Factoring KB, a.s.	10 Feb 2021
Purchase agreement for the sale of movable property	Factoring KB, a.s.	23 Sep 2021
Lease of non-residential premises, movable assets, and payment of related services, Palmovka	Factoring KB, a.s.	1 Oct 2021
Contract on a future agreement on the lease of non-residential premises and payment for services related to their use	Factoring KB, a.s.	1 Oct 2021
Agreement for the rental of motor vehicles	KB Advisory s.r.o.	15 Nov 2019
Co-operation agreement	KB Advisory s.r.o.	23 Jan 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	3 Feb 2020
Service agreement – outsourcing (services)	KB Advisory s.r.o.	14 Feb 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 Feb 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	19 Mar 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	1 Apr 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	1 Apr 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	13 May 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	25 Jun 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	11 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Jul 2020

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate service agreement, consultancy in the field of providing subsidies	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, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Aug 2020
Framework agreement	KB Advisory s.r.o.	31 Aug 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	21 Oct 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	22 Oct 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	29 Oct 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	29 Oct 2020
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	7 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	7 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	7 Jan 2021
Separate agreement no. 5 Provision of technical infrastructure solution services, EUW	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 1 Provision of technical infrastructure solution services – Connectivity services	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 2 Provision of technical infrastructure solution services – Data Storage Services	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 3 Provision of technical infrastructure solution services – Collaborative Services	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 4 Provision of technical infrastructure solution services – Integration Services	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 6 Provision of technical infrastructure solution services – Security	KB Advisory s.r.o.	8 Jan 2021
Separate agreement no. 7 Provision of technical infrastructure solution services – Application Maintenance and Support	KB Advisory s.r.o.	8 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	27 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	27 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	28 Jan 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	9 Feb 2021
Contract for the payment of insurance premium and of insurance broker's commission	KB Advisory s.r.o.	17 Feb 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	15 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	15 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	18 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	18 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	18 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	23 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	23 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	30 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	30 Mar 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	14 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	15 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	28 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	28 Apr 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 May 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 May 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 May 2021

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	24 May 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	16 Jun 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	16 Jun 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	17 Jun 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	18 Jun 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	28 Jun 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	1 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	1 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	14 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	15 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	16 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	23 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	26 Jul 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	2 Aug 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	4 Aug 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	25 Aug 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	25 Aug 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	1 Sep 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	2 Sep 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	10 Sep 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	30 Sep 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Oct 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Oct 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Oct 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	12 Oct 2021
Separate service agreement, consultancy in the field of providing subsidies	KB Advisory s.r.o.	20 Oct 2021
Licensing agreement, including amendments	KB Penzijní společnost, a.s.	20 Dec 2004
Personal data processing framework agreement	KB Penzijní společnost, a.s.	11 Aug 2006
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
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
Framework agreement to provide IT services, including amendments	KB Penzijní společnost, a.s.	2 Nov 2010
Agreement on the organisation of periodic control, including amendments	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
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 (offices), including amendments	KB Penzijní společnost, a.s.	10 Aug 2012
Sublease agreement (parking), including amendments	KB Penzijní společnost, a.s.	10 Aug 2012
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
Contract for the provision of technical infrastructure services – Connectivity services (Contract no. 2 relating to Framework Agreement), including amendments	KB Penzijní společnost, a.s.	20 Dec 2012
Agreement for the provision of technical infrastructure solution services (Physical Hosting of Equipment)(Agreement no. 3 to framework agreement), including amendments	KB Penzijní společnost, a.s.	20 Dec 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
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
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 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, including amendments	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
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 of mandate – supplier contract management including amendments	KB Penzijní společnost, a.s.	31 Dec 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 for the sublease of parking places including amendments	KB Penzijní společnost, a.s.	31 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 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
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
Sublease agreement	KB Penzijní společnost, a.s.	27 Mar 2018
Agreement on services: eDoceo	KB Penzijní společnost, a.s.	31 Mar 2018
Agreement – outsourcing of DPO services	KB Penzijní společnost, a.s.	26 Apr 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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service agreement – outsourcing (accounting services)	KB Penzijní společnost, a.s.	31 Dec 2018
Distribution agreement for products “Pension Saving Plan – Pillar II” and “Supplementary Pension Saving Plan with a State Contribution – Pillar III”, including amendments	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, including amendments	KB Penzijní společnost, a.s.	19 May 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
Contract for the payment of insurance premium and of insurance broker’s commission	KB Penzijní společnost, a.s.	12 Feb 2021
Service agreement	KB Penzijní společnost, a.s.	21 Apr 2021
Agreement on KB Contact Centre Services	KB Penzijní společnost, a.s.	11 May 2021
Memorandum of Supervision and Co-operation in Risk Area	KB Penzijní společnost, a.s.	28 May 2021
Agreement for the provision of technical infrastructure services – Middleware as a Service (Separate Agreement no. 19 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Oct 2021
Memorandum of Supervision and Co-operation in Risk Area	KB Penzijní společnost, a.s.	15 Nov 2021
Agreement to use unreserved parking places, including amendments	KB Penzijní společnost, a.s.	17 Dec 2021
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.	17 Feb 2021
Oral agreement – outsourcing of accounting services and payroll (replaced with an agreement dated 3 January 2022)	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
Business co-operation agreement	KB SmartSolutions, s.r.o.	16 Oct 2020
Co-operation agreement	KB SmartSolutions, s.r.o.	10 Dec 2020
Rules for co-operation between KB and Group members in the area of sourcing and procurement	KB SmartSolutions, s.r.o.	10 Dec 2020
Contract for the payment of insurance premium and of insurance broker’s commission	KB SmartSolutions, s.r.o.	10 Feb 2021
Supplementary payment agreement	KB SmartSolutions, s.r.o.	11 Jun 2021
Compliance Co-operation Agreement	KB SmartSolutions, s.r.o.	20 Sep 2021
Group insurance agreement including amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework co-operation agreement no. 3010000235 (Spektrum insurance programme) 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 Programme and Vital Plus Programme” 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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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 IT service agreement no. 2040/2010/0000008044/0000 + 8 separate agreements (Separate agreement no. 6 terminated in 2020), 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 fund 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 fund 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 fund Optimo 6Y EMTN	Komerční pojišťovna, a.s.	20 Sep 2011
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 fund 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 fund 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
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
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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
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
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
Administration order	Komerční pojišťovna, a.s.	27 Dec 2017
Administration order	Komerční pojišťovna, a.s.	15 Jan 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
Administration order	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
Compliance Co-operation Agreement	Komerční pojišťovna, a.s.	21 Jan 2021
Providing of KP IT application services for property insurance	Komerční pojišťovna, a.s.	9 Feb 2021
Contract for the payment of insurance premium and of insurance broker's commission	Komerční pojišťovna, a.s.	17 Feb 2021
Contract termination agreement (Agreement on KB Call Centre Services)	Komerční pojišťovna, a.s.	30 Mar 2021
Sub-lease of non-residential premises and payment of related services – HK – Čelakovského	Komerční pojišťovna, a.s.	28 Jun 2021
Administration order – Fialová Nikola – Amundi	Komerční pojišťovna, a.s.	12 Jul 2021
Cancellation agreement (termination of contract)	Komerční pojišťovna, a.s.	14 Jul 2021

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Administration order – assignment Lenka Jiráková	Komerční pojišťovna, a.s.	6 Sep 2021
Contract of a future contract on sublease of non-residential premises and payment for services related to their use + Contract on sublease of non-residential premises	Komerční pojišťovna, a.s.	1 Oct 2021
Sublease agreement	Komerční pojišťovna, a.s.	24 Nov 2021
Contract for sublease of parking spaces	Komerční pojišťovna, a.s.	24 Nov 2021
Sub-lease of non-residential premises and payment of related services and movable property loan agreement	Komerční pojišťovna, a.s.	1 Dec 2021
Contract for sublease of parking spaces	Komerční pojišťovna, a.s.	1 Dec 2021
Contract for sublease of parking spaces	Komerční pojišťovna, a.s.	1 Dec 2021
Sub-lease of non-residential premises and payment of related services and loan agreement – Jihlava	Komerční pojišťovna, a.s.	20 Dec 2021
Administration Command – Cubiq	Komerční pojišťovna, a.s.	21 Dec 2021
Commitment Agreement – Protective 12	Komerční pojišťovna, a.s. Société Générale S.A.	15 Feb 2021
Contract regarding the funds Certus and Certus 2 financial instrument	Komerční pojišťovna, a.s. Société Générale S.A.	14 Jan 2013
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
Contract relating to financial instrument – fund Certus 7	Komerční pojišťovna, a.s. Société Générale S.A.	18 Aug 2016
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
Commitment Agreement – Protective 13	Komerční pojišťovna, a.s. Société Générale S.A.	24 May 2021
Contract for the use of KB's sales network – PO (products and customer intelligence)	Modrá pyramida stavební spořitelna, a.s.	1 Mar 2005
Confidentiality Agreement / – - four-party contract-TTS (company secretary team)	Modrá pyramida stavební spořitelna, a.s.	11 Aug 2006
Framework contract for employee temporary assignment, including amendment no. 1 – HR	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2006
Lease agreement – garage parking places, including an amendment	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2007
Mutual co-operation agreement of 31 August 2007, including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Aug 2007
Outsourcing Agreement – Treasury-TF	Modrá pyramida stavební spořitelna, a.s.	7 Feb 2008
Lease of non-residential premises and payment of related services (Uherský Brod), including amendments – 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 emended, including amendments	Modrá pyramida stavební spořitelna, a.s.	27 Nov 2008
Confidentiality agreement relating to "HP OV SD license agreement" – IT	Modrá pyramida stavební spořitelna, a.s.	9 Feb 2009
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
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
Framework agreement for personal data processing (KB as administrator, MPSS as processor) of 30 May 2009 – PCI	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Agreement on KB call centre services of 1 January 2010, including cost re-invoicing from KB to MPSS in 2014 – MARK	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2010
Confidentiality agreement relating to "Outsourcing agreement (HR services)"	Modrá pyramida stavební spořitelna, a.s.	27 Apr 2010
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
Service Agreement – outsourcing (HR services), including amendments	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2010
Framework service agreement of 24 January 2011- IT, including Amendment no. 1 – support service team	Modrá pyramida stavební spořitelna, a.s.	24 Jan 2011
Separate distribution agreement (Perfektní půjčka) of 1 April 2011 including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
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
Separate agreement no. 4 of 31 October 2011 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. 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
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
Outsourcing service agreement: Assessment of real-estate-development-related risks for MPSS in KB-RISK system	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2011
ATM placement contract no. 20076/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	20 Feb 2012
ATM placement contract no. 20162/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	2 Apr 2012
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
Co-operation agreement including amendments	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2013
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
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
SLA – Agreement on Exchange of Fraud Lists-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on Scoring Calculator for MPSS – RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on Co-operation on IRBA Implementation in MPSS-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on Data Administration and Delivery for Collective 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
Sublease of non-residential premises and payment of related services – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
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
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 – Services PD/LGD Models for RWA calculation – RISK	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
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
Memorandum of Understanding – co-operation within KB Group in collective claim assignment – RISK	Modrá pyramida stavební spořitelna, a.s.	3 Mar 2016
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
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
Service agreement – outsourcing – data warehouse of 20 December 2017 – IT	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
Agreement – outsourcing of DPO services – support service team	Modrá pyramida stavební spořitelna, a.s.	23 Apr 2018
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
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
Separate oral agreement for MP HOME implementation (CAAS) – IT	Modrá pyramida stavební spořitelna, a.s.	1 Oct 2019
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
Separate oral agreement no. 10 – Citrix service (End User Workplace) MP – IT	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2020
Agreement on the organisation of periodic control	Modrá pyramida stavební spořitelna, a.s.	21 Jan 2020
ATM placement agreement no. 25070/0000-TF	Modrá pyramida stavební spořitelna, a.s.	16 Apr 2020
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. 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 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
Contract for work and contract for assignment of property rights (housing factory) – IT, including an amendment	Modrá pyramida stavební spořitelna, a.s.	22 Dec 2020
Contract for executing inspection SLC as part of permanent control – OpRisk	Modrá pyramida stavební spořitelna, a.s.	23 Dec 2020
Compliance co-operation agreement	Modrá pyramida stavební spořitelna, a.s.	5 Jan 2021
Contract for the payment of insurance premium and of insurance broker's commission	Modrá pyramida stavební spořitelna, a.s.	17 Feb 2021
Separate agreement no. 9 regarding Provision of technical infrastructure solution services – Telephony Services	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2021
Separate agreement no. 10 regarding Provision of technical infrastructure solution services – End User Workplace	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2021
Sub-lease of non-residential premises and payment of related services and movable property loan agreement	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2021
Contract for sublease of parking spaces	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2021
Contract for sublease of parking spaces	Modrá pyramida stavební spořitelna, a.s.	8 Dec 2021
Contract for sublease of parking spaces	Modrá pyramida stavební spořitelna, a.s.	8 Dec 2021
Service Agreement	Modrá pyramida stavební spořitelna, a.s.	28 Dec 2021
Contract on common administration of personal data according to marketing consent	Modrá pyramida stavební spořitelna, a.s. Komerční pojišťovna, a.s. KB Penzijní společnost, a.s. Factoring KB, a.s. SG Equipment Finance Czech Republic s.r.o. ESSOX s.r.o. ALD Automotive s.r.o.	21 Jan 2021
SG Group worldwide insurance programme (Insurance premiums paid as per contract concluded between Société Générale S.A. and Komerční banka, a.s. for MPSS) – support services team	Modrá pyramida stavební spořitelna, a.s. Société Générale S.A.	30 Aug 2013 insurance periods 1 Jul 2019 – 30 Jun 2020, 1 Jul 2020 – 30 Jun 2021
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
Agreement on cost re-invoicing	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
Contract on transfer of the right to perform property copyright	My Smart Living, s.r.o.	26 Jul 2021
Service level agreement	Protos uzavřený investiční fond, a.s.	8 Dec 2014
Administration order	Protos uzavřený investiční fond, a.s.	9 Dec 2015
Agreement on sending account statements via SWIFT MT 940 messages	Protos uzavřený investiční fond, a.s.	1 Nov 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Administration order	Protos uzavřený investiční fond, a.s.	17 Jun 2021
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
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, including amendments	SG Equipment Finance Czech Republic s.r.o.	14 Dec 2010
Lease of non-residential premises and payment of related services – České Budějovice, including amendments	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 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 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 amendments	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
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, including amendments	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2014
Lease of parking places, including amendments	SG Equipment Finance Czech Republic s.r.o.	30 Dec 2014
Lease of land, including amendments	SG Equipment Finance Czech Republic s.r.o.	19 Mar 2015
Lease of non-residential premises and payment of related services – Pilsen, including amendments	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, including amendments	SG Equipment Finance Czech Republic s.r.o.	28 Jan 2016
Service agreement – occupational health and safety, environmental protection and fire protection, including amendments	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
Database usage license agreement	SG Equipment Finance Czech Republic s.r.o.	29 Jun 2016
Service agreement – BI services, including amendments	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2016
Co-operation agreement, including amendments	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 amendments	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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate agreement no. 7: Provision of technical infrastructure solution services – Fileshare, including amendments	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
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
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
Separate agreement no. 13: Provision of technical infrastructure solution services, Security	SG Equipment Finance Czech Republic s.r.o.	10 Jan 2021
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	18 Feb 2021
Lease of non-residential premises and payment of related services	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2021
Agreement on the organisation of periodic control, including an amendment (client)	SG Equipment Finance Czech Republic s.r.o. Société Générale S.A.	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, including Amendment	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
Co-operation agreement	Société Générale S.A.	31 Mar 2008
SOCIETE GENERALE GROUP RECRUIT	Société Générale S.A.	15 Apr 2009
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
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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
Agreement on the organisation of periodic control	Société Générale S.A.	17 May 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
Local JV agreement relating to securities activities	Société Générale S.A.	15 Mar 2012
ACCESS TO THE SWIFTNET NETWORK AND RELATED SERVICES inc. Amend.	Société Générale S.A.	14 Sep 2012
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. Amend.	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
IT Services Agreement, including Amendment	Société Générale S.A.	1 Jan 2014
Due Diligence Questionnaire for Fund Providers	Société Générale S.A.	29 Jan 2014
SERVICE LEVEL AGREEMENT E-TRADING	Société Générale S.A.	1 Jun 2014
SLA for the provision of Sogecash Intraday Sweeping	Société Générale S.A.	1 Jul 2015
USD Clearing Services Agreement for Komerční banka	Société Générale S.A.	24 Aug 2015
INTERNAT. SOGEXPRESS AGREEMENT	Société Générale S.A.	24 Jun 2016
Service Level Agreement CUSTODY inc. Amend.	Société Générale S.A.	27 Oct 2016
iC – Customer Relationship Management (CRM) tool	Société Générale S.A.	30 Dec 2016
Market activities business – ECM transfer pricing agreement	Société Générale S.A.	1 Apr 2017
Client service agreement – regulatory capital calculation and allocation of operational risk	Société Générale S.A.	25 May 2017
Service Level Agreement SGSS S.p.A.	Société Générale S.A.	10 Oct 2017
Agreement on the organisation of periodic control	Société Générale S.A.	15 Nov 2017
Non-disclosure agreement pertaining to the communication of the official ISAE 3402 report	Société Générale S.A.	24 Nov 2017
Supplemental agreement	Société Générale S.A.	22 Feb 2018
MASTER SERVICE AGREEMENT (MSA)_IRBS inc. Amend.	Société Générale S.A.	28 Nov 2018
Master service agreement	Société Générale S.A.	23 Apr 2019
Client service agreement	Société Générale S.A.	23 Apr 2019
Contract Renewal Notice to the Hosting contract incl. Amendments	Société Générale S.A.	20 Jun 2019
Software as a Service Agreement Loansat – Covtrack	Société Générale S.A.	9 Jul 2019
Master Service Agreement, including Amendment	Société Générale S.A.	5 Sep 2019
Service level agreement	Société Générale S.A.	15 Oct 2019
Agreement to modify the agreement for temporary staff assignment (the “Agreement”) inc. Amendments	Société Générale S.A.	21 Oct 2019
Corporate Services Fees Agreement	Société Générale S.A.	25 Jan 2020
Data Protection Agreement	Société Générale S.A.	7 Feb 2020
Side Letter to the Licence and Services Agreement	Société Générale S.A.	2 Jun 2020
Services Contract	Société Générale S.A.	7 Aug 2020
Agreement for temporary staff assignment	Société Générale S.A.	1 Sep 2020
Master Service Agreement	Société Générale S.A.	3 Sep 2020
Intra-Group Frame Co-operation Agreement	Société Générale S.A.	12 Oct 2020
Share Purchase Agreement – VISA	Société Générale S.A.	29 Mar 2021
Service agreement – Digitrade	Société Générale S.A.	25 Nov 2021
Uncommitted Overdraft Service Agreement	Société Générale, New York Branch	30 Aug 2019
Shareholder agreement, including Amendment	SOGECAP S.A.	26 Sep 2005

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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 amendments	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.	17 Feb 2021
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
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
Contract for lease of movable assets	VN 42, s.r.o.	1 Jan 2021
Contract for the payment of insurance premium and of insurance broker's commission	VN 42, s.r.o.	17 Feb 2021
Lease of non-residential premises and payment of related services, including amendments	VN 42, s.r.o.	1 Jul 2021

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 synergic effects, including project pooling, a strong international brand, and the know-how of SG and all the Group companies. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payments 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. KB provides certain subsidiaries with its distribution channels and provides certain services, such as management of human resources, information technologies and data processing, compliance, internal audit, and risk management. The advantages from the Company's integration into the SG Group contribute to the Company's positive financial results.

Assessment of detriment

The Company's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2021 reporting period and states that the Company incurred no detriment as a result of any contracts, agreements, or any other legal acts made or adopted by the Company in the reporting period or as a result of any other influence otherwise exerted by Société Générale S. A. as the controlling entity.

The report does not include contracts which are subject to banking secrecy under the Banking Act. The Board of Directors has, nevertheless, assessed these contracts from the perspective of potential detriment and stated that KB also did not suffer any detriment arising from these contracts.

In Prague on 28 February 2022

Jan Juchelka m. p.
Chairman of the Board of Directors
Komerční banka, a.s.

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 31/12/2021
Algeria			
	ALD AUTOMOTIVE ALGERIE SPA	Specialist Financing	99.99
	SOCIETE GENERALE ALGERIE	Bank	100
Australia			
	SOCIETE GENERALE SECURITIES AUSTRALIA PTY LTD	Broker	100
	SOCIETE GENERALE SYDNEY BRANCH	Bank	100
Austria			
	ALD AUTOMOTIVE FUHRPARKMANAGE MENT UND LEASING GMBH	Specialist Financing	100
	SG VIENNE	Bank	100
Belarus			
	ALD AUTOMOTIVE LLC	Specialist Financing	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
	SG EQUIPMENT FINANCE BENELUX B.V. BELGIAN BRANCH	Specialist Financing	100
	SOCIETEGENERALE 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
	SOCIETE GENERALE EQUIPMENT FINANCE S/A – ARRENDAMENTO MERCANTIL (Ex- SG EQUIPMENT FINANCE S.A. ARRENDAMENTO MERCANTIL)	Specialist Financing	100
Bulgaria			
	ALD AUTOMOTIVE EOOD	Specialist Financing	100
Burkina Faso			
	SOCIETE GENERALE BURKINA FASO	Bank	52.61
Cameroon			
	SOCIETE GENERALE CAMEROUN	Bank	58.08
Canada			
	SG CONSTELLATION CANADA LTD.	Specialist Financing	0
	SOCIETE GENERALE (CANADA BRANCH)	Bank	100
	SOCIETE GENERALE (CANADA)	Bank	100
	SOCIETE GENERALE CAPITAL CANADA INC	Broker	100
Cayman Islands			
	AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	100
Chad			
	SOCIETE GENERALE TCHAD	Bank	67.83

Country	Company	Type of company	Share of voting rights as of 31/12/2021
Chile			
	ALD AUTOMOTIVE LIMITADA	Specialist Financing	100
China			
	SOCIETE GENERALE (CHINA) LIMITED	Bank	100
	SOCIETEGENERALE LEASING AND RENTING CO. LTD	Specialist Financing	100
Colombia			
	ALD AUTOMOTIVE S.A.S	Specialist Financing	100
Congo			
	SOCIETE GENERALE CONGO	Bank	93.47
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
Czech Republic			
	ALD AUTOMOTIVE S.R.O.	Specialist Financing	100
	ESSOX S.R.O.	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 A.S.	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, S.R.O. (Ex- 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
Denmark			
	ALD AUTOMOTIVE A/S	Specialist Financing	100
	NF FLEET A/S	Specialist Financing	80
Equatorial Guinea			
	SOCIETE GENERALE DE BANQUES EN GUINEE EQUATORIALE	Bank	57.23
Estonia			
	ALD AUTOMOTIVE EESTI AS	Specialist Financing	75.01
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
	908 REPUBLIQUE	Real Estate and Real Estate Financing	40
	AIR BAIL	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	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	0
	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
	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	0
	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	0
	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
	DISPONIS	Specialist Financing	100
	ECHIQUIER AGENOR EURO SRI MID CAP	Insurance	40.85
	ESNI – COMPARTIMENT SG-CREDIT CLAIMS – 1	Financial Company	100
	ETOILE CAPITAL	Financial Company	100
	ETOILE CLIQUET 90	Financial Company	0
	ETOILE MULTI GESTION EUROPE-C	Insurance	51.59
	ETOILE MULTI GESTION USA – PART P	Insurance	35.18
	ETOILE VALEURS MOYENNES-C	Insurance	0
	F.E.P. INVESTISSEMENTS	Real Estate and Real Estate Financing	100
	FCC ALBATROS	Portfolio Management	51

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	FEEDER LYX E ST50 D5	Portfolio Management	0
	FEEDER LYX E ST50 D6	Portfolio Management	100
	FEEDER LYXOR CAC 40	Financial Company	0
	FEEDER LYXOR CAC40 D2-EUR	Portfolio Management	100
	FEEDER LYXOR CAC40 D6	Insurance	100
	FEEDER LYXOR EUROSTOXX50-D9	Financial Company	99.98
	FENWICK LEASE	Specialist Financing	100
	FINANCIERE UC	Real Estate and Real Estate Financing	0
	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
	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	56.68
	GENEVALMY	Group Real Estate Management Company	100
	ILOT AB	Real Estate and Real Estate Financing	80
	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	0
	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	0
	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
	LYX ACT EURO CLIMAT-D3EUR	Insurance	100
	LYX ACT EURO CLIMAT-DEUR	Insurance	100
	LYXOR ACTIONS EURO CLIMAT D4 EUR	Insurance	100
	LYXOR ASSET MANAGEMENT	Financial Company	0
	LYXOR GL OVERLAY F	Portfolio Management	87.27
	LYXOR INTERMEDIATION	Bank	0
	LYXOR INTERNATIONAL ASSET MANAGEMENT	Financial Company	0
	LYXOR SKYFALL FUND	Insurance	88.98
	MEDITERRANEE GRAND ARC	Real Estate and Real Estate Financing	50

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	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	0
	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	0
	PARCOURS NANTES	Specialist Financing	100
	PARCOURS STRASBOURG	Specialist Financing	100
	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 AUTO LEASE FRANCE 1	Financial Company	100
	RED & BLACK CONSUMER FRANCE 2013	Financial Company	100
	RED & BLACK HOME LOANS FRANCE 1	Financial Company	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
	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 BORDEAUX- 20-26 RUE DU COMMERCE (Ex- SCI BORDEAUX-20-26 RUE DU COMMERCE)	Real Estate and Real Estate Financing	30
	SARL CS 72 – KERIADENN	Real Estate and Real Estate Financing	0
	SARL D'AMENAGEMENT DU MARTINET	Real Estate and Real Estate Financing	50
	SARL DE LA COTE D'OPALE	Real Estate and Real Estate Financing	0
	SARL DE LA VECQUERIE	Real Estate and Real Estate Financing	32.5
	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 SO'IN	Real Estate and Real Estate Financing	75
	SAS FOCH SULLY	Real Estate and Real Estate Financing	90
	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

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	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	58.5
	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 VILLENEUVE D'ASCQ – RUE DES TECHNIQUES BUREAUX	Real Estate and Real Estate Financing	50
	SAS ZAC DU TRIANGLE	Real Estate and Real Estate Financing	0
	SCCV 282 MONTOLIVET 12	Real Estate and Real Estate Financing	60
	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 BOURG BROU	Real Estate and Real Estate Financing	60
	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 CHOISY LOGEMENT	Real Estate and Real Estate Financing	67
	SCCV CITY SQUARE	Real Estate and Real Estate Financing	0
	SCCV CLICHY BAC D'ASNIERES	Real Estate and Real Estate Financing	100
	SCCV CLICHY BRC	Real Estate and Real Estate Financing	50
	SCCV COMPIEGNE – RUE DE L'EPARGNE	Real Estate and Real Estate Financing	35
	SCCV CUGNAUX- LEO LAGRANGE	Real Estate and Real Estate Financing	50
	SCCV DEVILLE- CARNOT	Real Estate and Real Estate Financing	60
	SCCV DUNKERQUE PATINOIRE DEVELOPPEMENT	Real Estate and Real Estate Financing	50
	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 GAMBETTA LA RICHE	Real Estate and Real Estate Financing	25
	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	0
	SCCV ISTRES PAPAILLE	Real Estate and Real Estate Financing	70
	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 D'ESCOUBLAC	Real Estate and Real Estate Financing	25

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	SCCV LA MADELEINE – PRE CATELAN	Real Estate and Real Estate Financing	51
	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 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 L'IDEAL – MODUS 1.0	Real Estate and Real Estate Financing	80
	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	0
	SCCV MARQUETTE CALMETTE	Real Estate and Real Estate Financing	50
	SCCV MEHUL	Real Estate and Real Estate Financing	70
	SCCV MERIGNAC 53-55 AVENUE LEON BLUM	Real Estate and Real Estate Financing	0
	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	0
	SCCV NICE ARENAS	Real Estate and Real Estate Financing	100
	SCCV NOGENT PLAISANCE	Real Estate and Real Estate Financing	60
	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
	SCCVPRADESBLEU 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
	SCCVSOGABILEDE 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 ST MARTIN DU TOUCH ILOT S9	Real Estate and Real Estate Financing	50
	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 TRETS CASSIN LOT 4	Real Estate and Real Estate Financing	70
	SCCV VERNAISON – RAZAT	Real Estate and Real Estate Financing	50
	SCCV VERNONNET- FIESCHI	Real Estate and Real Estate Financing	51
	SCCV VILLA CHANZY	Real Estate and Real Estate Financing	40
	SCCV VILLA VALERIANE	Real Estate and Real Estate Financing	30
	SCCV VILLAS URBAINES	Real Estate and Real Estate Financing	80
	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

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	SCCV WAMBRECHIES RESISTANCE	Real Estate and Real Estate Financing	50
	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	0
	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 DU 84 RUE DU BAC	Real Estate and Real Estate Financing	0
	SCI DU PARC SAINT ETIENNE	Real Estate and Real Estate Financing	40
	SCI ETAMPES NOTRE-DAME	Real Estate and Real Estate Financing	50
	SCI HEGEL PROJECTIM	Real Estate and Real Estate Financing	0
	SCI LA MANTILLA COMMERCES	Real Estate and Real Estate Financing	100
	SCI LA MARQUEILLE	Real Estate and Real Estate Financing	0
	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
	SCI LE MANOIR DE JEREMY	Real Estate and Real Estate Financing	40
	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 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	0
	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	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 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	0
	SCI VILLA EMILIE	Real Estate and Real Estate Financing	35

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	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	0
	SG ACTIONS FRANCE	Portfolio Management	38.14
	SG ACTIONS LUXE-C	Insurance	84.25
	SG ACTIONS MONDE	Insurance	67.59
	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
	SG FINANCIAL SERVICES HOLDING	Portfolio Management	100
	SG FLEXIBLE	Portfolio Management	92.48
	SG LYXOR GOVERNMENT BOND FUND	Portfolio Management	0
	SG LYXOR LCR FUND	Portfolio Management	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
	SGA AXA IM US CORE HY LOW CARBON	Insurance	100
	SGA AXA IM US SD HY LOW CARBON	Insurance	100
	SGA INFRASTRUCTURES	Insurance	100
	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
	SHINE	Financial Company	80.6
	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	0
	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	0
	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	0
	SOCIETE CIVILE IMMOBILIERE ERICA	Real Estate and Real Estate Financing	0
	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

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	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	0
	SOCIETE FINANCIERE D'ANALYSE ET DE GESTION	Financial Company	100
	SOCIETE GENERALE	Bank	100
	SOCIETEGENERALE CAPITAL FINANCE	Portfolio Management	100
	SOCIETEGENERALE CAPITAL PARTENAIRES	Portfolio Management	100
	SOCIETEGENERALE FACTORING	Specialist Financing	100
	SOCIETEGENERALE PARTICIPATIONS INDUSTRIELLES	Portfolio Management	100
	SOCIETE GENERALE POUR LE DEVELOPPEMENT DES OPERATIONS DE CREDIT-BAIL IMMOBILIER "SOGEBAIL"	Real Estate and Real Estate Financing	100
	SOCIETEGENERALE REAL ESTATE	Real Estate and Real Estate Financing	100
	SOCIETEGENERALE SCF	Financial Company	100
	SOCIETEGENERALE SECURITIES SERVICES HOLDING	Portfolio Management	100
	SOCIETEGENERALE 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	0
	SOCIETE MARSEILLAISE DE CREDIT	B	100
	SOFIDY CONVICTIONS IMMOBILIERES	Insurance	35.1
	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.M ON.	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 FRANCE (Ex- SOGEFINERG SG POUR LE FINANCEMENT DES INVESTISSEMENTS ECONOMISANT L'ENERGIE)	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
France (cont.)	SOGEFONTENAY	Group Real Estate Management Company	100
	SOGELEASE FRANCE	Specialist Financing	100
	SOGEMARCHE	Group Real Estate Management Company	100
	SOGEPARTICIPATIO NS	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 COTE D'AZUR (Ex- RIVAPRIM)	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 LYON	Real Estate and Real Estate Financing	100
	SOGEPROM PARTENAIRES	Real Estate and Real Estate Financing	100
	SOGEPROM REALISATIONS (Ex- SOGEPROM HABITAT)	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
	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	0
	TEMSYS	Specialist Financing	100
	TREEZOR SAS	Financial Company	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
French Polynesia			
	BANQUE DE POLYNESIE	Bank	72.1
	SOGELEASE BDP “SAS”	Specialist Financing	100
Germany			
	ALD AUTOLEASING D GMBH	Specialist Financing	100
	ALD INTERNATIONAL GMBH	Specialist Financing	100
	ALD NTERNATIONAL GROUP HOLDINGS GMBH	Specialist Financing	100
	ALD LEASE FINANZ GMBH	Specialist Financing	100
	BANK DEUTSCHES KRAFTFAHRZEUGG EWERBE GMBH	Specialist Financing	51
	BDK LEASING UND SERVICE GMBH	Specialist Financing	100
	CAR ROFESSIONAL FUHRPARKMANAGE MENT UND BERATUNGSGESELL SCHAFT MBH & CO. KG	Specialist Financing	100
	CARPOOL GMBH	Broker	100
	GEFA BANK GMBH	Specialist Financing	100
	GEFA VERSICHERUNGSDI ENST GMBH	Specialist Financing	100
	HANSEATIC BANK GMBH & CO KG	Specialist Financing	75
	HANSEATIC GESELLSCHAFT FUR BANKBETEILIGUNGE N MBH	Portfolio Management	100
	HSCE HANSEATIC SERVICE CENTER GMBH	Services	100
	INTERLEASING DELLO HAMBURG G.M.B.H.	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
	LYXOR INTERNATIONAL ASSET MANAGEMENT GERMANY	Financial Company	0
	RED & BLACK AUTO GERMANY 4 UG (HAFTUNGSBESCHR ANKT)	Financial Company	100
	RED & BLACK AUTO GERMANY 5 UG (HAFTUNGSBESCHR ANKT)	Specialist Financing	100
	RED & BLACK AUTO GERMANY 6 UG	Financial Company	100
	RED & BLACK AUTO GERMANY N°7	Financial Company	100
	RED & BLACK AUTO GERMANY N°8	Financial Company	100
	SG EQUIPMENT FINANCE GMBH	Specialist Financing	100
	SG FRANCFORT	Bank	100
	SOCIETEGENERALE EFFEKTEN GMBH	Financial Company	100
	SOCIETEGENERALE SECURITIES SERVICES GMBH	Specialist Financing	100
	SOGCAP DEUTSCHE NIEDERLASSUNG	Insurance	100
	SOGESSUR DEUTSCHE NIEDERLASSUNG	Insurance	100
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.LEASEOFCARS	Specialist Financing	100
Guernsey Island			
	ARAMIS II SECURITIES CO, LTD	Financial Company	0
	CDS INTERNATIONAL LIMITED	Services	100
	GRANGE NOMINEES LIMITED	Bank	0
	GUERNSEY FINANCIAL ADVISORY SERVICES LIMITED	Bank	0
	GUERNSEY NOMINEES LIMITED	Bank	0
	HAMBROS (GUERNSEY NOMINEES) LTD	Services	100
	HTG LIMITED	Services	100
	K.B. (C.I.) NOMINEES LIMITED	Bank	0
	KLEINWORT BENSON INTERNATIONAL TRUSTEES LIMITED	Bank	100
	MISON NOMINEES LIMITED	Bank	0
	SG KLEINWORT HAMBROS BANK (CI) LIMITED, GUERNSEY BRANCH (Ex- SG HAMBROS BANK (CHANNEL ISLANDS) LTD GUERNSEY BRANCH)	Bank	100
Guinea			
	SOCIETE GENERALE GUINEE	Bank	57.94
Hong Kong			
	SG ASSET FINANCE (HONG KONG) LIMITED	Broker	100
	SG CAPITAL FINANCE (ASIA PACIFIC) LIMITED	Financial Company	100
	SG CAPITAL FINANCE (HONG KONG) LIMITED	Financial Company	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	0
	SG SECURITIES ASIA INTERNATIONAL HOLDINGS LIMITED	Broker	100
	SGL ASIA HK	Real Estate and Real Estate Financing	100
	SOCIETEGENERALE ASIA LTD	Financial Company	100
	TH INVESTMENTS (HONG KONG) 1 LIMITED	Financial Company	100
	TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	0
	TH INVESTMENTS (HONG KONG) 5 LIMITED	Financial Company	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
Hungary			
	ALD AUTOMOTIVE MAGYARORSZAG AUTOPARK-KEZELO ES FINANSZIROZO KORLATOLT FELELOSSEGU TARSASAG	Specialist Financing	100
India			
	ALD AUTOMOTIVE PRIVATE LIMITED	Specialist Financing	100
	SG MUMBAI	Bank	100
	SOCIETE GENERALE GLOBAL SOLUTION CENTRE INDIA (Ex- 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	0
	IRIS SPV PLC SERIES MARK	Financial Company	100
	IRIS SPV PLC SERIES SOGECAP	Financial Company	100
	MERRION FLEET FINANCE LIMITED	Financial Company	0
	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
Isle of Man			
	KBBIOM LIMITED	Bank	50
	KBTIOM LIMITED	Bank	100
Italy			
	ALD AUTOMOTIVE ITALIA S.R.L	Specialist Financing	100
	FIDITALIA S.P.A	Specialist Financing	100
	FRAER LEASING SPA	Specialist Financing	75.02
	SG EQUIPMENT FINANCE ITALY S.P .A.	Specialist Financing	100
	SG FACTORING SPA	Specialist Financing	100
	SG LEASING SPA	Specialist Financing	100
	SG LUXEMBOURG ITALIAN BRANCH	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			
	SG TOKYO	Bank	100
	SOCIETE GENERALE HAUSSMANN MANAGEMENT JAPAN LIMITED (Ex- LYXOR ASSET MANAGEMENT JAPAN CO LTD)	Portfolio Management	100
	SOCIETE GENERALE SECURITIES JAPAN LIMITED	Broker	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
	NEWMEAD TRUSTEES LIMITED	Financial Company	0
	SG HAMBROS (FOUNDATIONS) LIMITED	Financial Company	0

Country	Company	Type of company	Share of voting rights as of 31/12/2021
	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
Latvia			
	ALD AUTOMOTIVE SIA	Specialist Financing	75
Lithuania			
	UAB ALD AUTOMOTIVE	Specialist Financing	75
Luxembourg			
	ALD INTERNATIONAL SERVICES S.A.	Specialist Financing	100
	AXUSLUXEMBOURG SA	Specialist Financing	100
	BARTON CAPITAL SA	Financial Company	100
	CODEIS COMPARTIMENT A0084	Insurance	100
	CODEIS COMPARTIMENT A0076	Financial Company	100
	CODEISSECURITIES S.A.	Financial Company	100
	COVALBA	Financial Company	100
	FIDELITY FUNDS EURHYIQ- LU0954694930	Insurance	0
	GOLDMAN SACHS 2 GEMMDBPID	Financial Company	100
	IVEFI S.A.	Financial Company	100
	LYXOR EURO 6M – CLASS SI	Insurance	64.37
	LYXOR FUND SOLUTIONS (Ex-LYXOR FUNDS SOLUTIONS)	Financial Company	0
	MOOREA GLB BALANCED	Insurance	68.08
	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. (Ex- 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
	SGL RE	Insurance	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
	SOCIETEGENERALE LUXEMBOURG LEASING	Specialist Financing	100
	SOCIETEGENERALE 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
	SPIRE SA – COMPARTIMENT 2021-51	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
	LNG MALTA INVESTMENT 2 LIMITED	Financial Company	100
Mauritius			
	SG SECURITIES BROKING (M) LIMITED	Broker	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
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	0
	SMC MONACO	Bank	0
	SOCIETE DE BANQUE MONACO	Bank	100
	SOCIETE GENERALE (SUCCURSALE MONACO)	Bank	100
	SOCIETE GENERALE PRIVATE BANKING (MONACO)	Bank	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	57.65
	SOCIETE D'EQUIPEMENT DOMESTIQUE ET MENAGER "EQDOM"	Specialist Financing	53.72
	SOCIETEGENERALE DE LEASING AU MAROC	Specialist Financing	100
	SOCIETEGENERALE OFFSHORE	Financial Company	99.94
	SOGECAPITAL GESTION	Financial Company	99.94
	SOGECAPITAL PLACEMENT	Portfolio Management	99.94
	SOGEFINANCEMENT MAROC	Specialist Financing	100
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	0
	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
New Caledonia			
	CREDICAL	Specialist Financing	96.64
	SOCIETE GENERALE CALEDONIENNE DE BANQUE	Bank	90.1
Norway			
	ALD AUTOMOTIVE AS	Specialist Financing	100
	NF FLEET AS	Specialist Financing	80
Peru			
	ALD AUTOMOTIVE PERU S.A.C.	Specialist Financing	100
Poland			
	ALD AUTOMOTIVE POLSKA SP Z O.O.	Specialist Financing	100
	SG EQUIPMENT LEASING POLSKA SP Z.O.O.	Specialist Financing	100
	SOCIETE GENERALE S.A. ODDZIAL W POLSCE	Bank	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
	SOGECAP SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	100
	SOGESSUR SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	100
Portugal			
	SGALD AUTOMOTIVE SOCIEDADE GERAL DE COMERCIO E ALUGUER DE BENS SA	Specialist Financing	100
Romania			
	ALD AUTOMOTIVE SRL	Specialist Financing	100
	BRD – GROUPE SOCIETE GENERALE SA	Bank	60.17
	BRD ASSET MANAGEMENT SAI SA	Portfolio Management	100
	BRD FINANCE IFN S.A.	Financial Company	100
	BRD SOGELEASE IFN S.A. (Ex- 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 GLOBAL SOLUTION CENTRE ROMANIA (Ex-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
Russian federation			
	ALD AUTOMOTIVE OOO	Specialist Financing	100
	CLOSED JOINT STOCK COMPANY SG FINANCE	Specialist Financing	100
	CREDIT INSTITUTION OBYEDINYONNAYA RASCHOTNAYA SISTEMA	Financial Company	0
	LLC RUSFINANCE	Bank	100
	LLC RUSFINANCE BANK	Bank	0
	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
	RB TRADING LIMITED LIABILITY COMPANY	Specialist Financing	100
	SOCIETE GENERALE STRAKHOVANIE LLC	Insurance	100
	SOCIETE GENERALE STRAKHOVANIE ZHIZNI LLC	Insurance	100
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 RUPUBLIC BRANCH) Financial Company	Specialist Financing	100
Slovenia			
	ALD AUTOMOTIVE OPERATIONAL LEASING DOO	Specialist Financing	100
South Africa			
	SG JOHANNESBURG	Bank	100

Country	Company	Type of company	Share of voting rights as of 31/12/2021
South Korea			
	SG SECURITIES KOREA CO, LTD	Broker	100
	SG SEOUL	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	0
	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
Sweden			
	ALD AUTOMOTIVE Specialist AB	Specialist Financing	100
	NF FLEET AB	Specialist Financing	80
	SOCIETE GENERALE SA BANKFILIAL SVERIGE	Bank	100
Switzerland			
	ALD AUTOMOTIVE Specialist AG	Specialist Financing	100
	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
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
United Arab Emirates			
	SOCIETE GENERALE DUBAI	Bank	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
	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
	KH COMPANY SECRETARIES LIMITED	Bank	100
	KLEINWORT BENSON FARMLAND TRUST (MANAGERS) LIMITED	Bank	75

Country	Company	Type of company	Share of voting rights as of 31/12/2021
	LANGBOURN NOMINEES LIMITED	Bank	100
	LYXOR ASSET MANAGEMENT UK LLP	Financial Company	0
	ROBERT BENSON, LONSDALE & CO. (CANADA) LIMITED	Bank	100
	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 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
	SOCGEN NOMINEES (UK) LIMITED	Financial Company	100
	SOCIETEGENERALE EQUIPMENT FINANCE LIMITED	Specialist Financing	100
	SOCIETE GENERALE INTERNATIONAL LIMITED	Broker	100
	SOCIETEGENERALE INVESTMENTS (U.K.) LIMITED	Financial Company	100
	STRABUL NOMINEES LIMITED	Financial Company	100
	TH INVESTMENTS (HONG KONG) 2 LIMITED (UK BRANCH)	Financial Company	0
	TYNEVOR B.V. (UK BRANCH)	Financial Company	100
United States of America			
	AEGIS HOLDINGS (ONSHORE) INC.	Financial Company	100
	LYXOR ASSET MANAGEMENT HOLDING CORP.	Portfolio Management	0
	LYXOR ASSET MANAGEMENT INC,	Financial Company	0
	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 ONSTELLATION, 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
	SOCIETE GENERALE (NEW YORK)	Bank	100
	SOCIETEGENERALE FINANCIAL CORPORATION	Financial Company	100
	SOCIETEGENERALE INVESTMENT CORPORATION	Financial Company	100
	SOCIETEGENERALE LIQUIDITY FUNDING, LLC	Financial Company	100

Note: % of shares reported in table are as of 31 December 2021.
Note 2: For a certain period of 2021, companies with a 0% share were part of the Group, but at the end of the reporting period their share was already zero.

Report of the Supervisory Board

Throughout 2021, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association of the Bank. It supervised the exercise of powers by the Board of Directors, checked the accounts and other accounting records 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 2021 to 31 December 2021, the Supervisory Board reports that the accounts and accounting records were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and accounting records 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 recommends that the general meeting approve the annual (separate) and consolidated financial statements and the proposal for the distribution of profit for the year 2021 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2021, drawn up under Section 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2021 to 31 December 2021, Komerční banka, a.s. did not suffer any harm resulting from any contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 9 March 2022

On behalf of the Supervisory Board of Komerční banka, a.s

Giovanni Luca Soma
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 2021, as well as the outlook for the development of the Bank's and Group's financial situation, business activities, and results.

Prague, 16 March 2022

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

<u>Opinion</u>

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 2021, 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 2021, 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 2021, 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 2021, 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.

<u>Basis for Opinion</u>

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.

<u>Key Audit Matters</u>

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 2021, gross loans and advances to customers, banks (hereinafter “loans”) amounted to CZK 995,088 million and CZK 918,681 million for the Group and the Company, respectively, against which allowances for loans to customers and banks (hereinafter “allowances”) of CZK 13,305 million and CZK 10,834 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 2021 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 information about changes in accounting policies relating to classification of financial assets to risk stage in note 3.6.2 to the Consolidated Financial Statements and note 3.6.2. to the Separate Financial Statements. Further information about loan impairment are disclosed in Note 3.5.5.11,Note 22 and Note 43A to the* Consolidated *Financial Statements and in Note 3.5.5.11, Note 22 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. Assumptions used in the expected credit loss models 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 relevant risks, were relevant in the light of historical experience and future outlook, economic climate and the circumstances of customers. We reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default. In light of the extreme volatility in economic scenarios caused by the 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. Identification of exposures with a significant increase in credit risk and non-performing loans We tested system-based and manual controls of the timely classification of loans to the relevant stage. In cooperation with our specialists, we evaluated revised methodology and assumptions used for staging models and we recalculated the staging on a portfolio basis. We assessed the disclosures relating to the change in accounting policies. 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.

Key audit matter	Related audit procedures
	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 2021 the gross interest income amounted to CZK 35,558 million and CZK 32,264 million for the Group and the Company, respectively. Total fee and commission income for the same period amounted to CZK 7,040 million and CZK 5,849 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. We analysed the accuracy of the recognised amount of interest income and fee and commission income using substantive analytical tests and data analytics.

<u>Other Information in the Consolidated Annual Report</u>

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Consolidated 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 2021 which is included in Financial part of this Consolidated 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 2021 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:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 21 April 2021 and our total uninterrupted engagement including previous renewals has lasted for 7 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 16 March 2022 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 consolidated 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 2021 included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 16 March 2022

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Daniela Hynštová
registration no. 2235

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