

Komerční banka, a.s.

# ANNUAL REPORT

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# 2019



**KB**

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**Loans to clients**

(KB Group, gross loans, CZK billion)\*

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2018	634.6	
2019	654.0	

**CZK 654.0 billion +3.1%**

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

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**Client deposits**

(KB Group, CZK billion)\*

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2018	795.6	
2019	816.3	

**CZK 816.3 billion +2.6%**

\* Excluding repo operations with clients.

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**Profit attributable to the Group's equity holders**

(CZK billion)

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2018	14.8	
2019	14.9	

**CZK 14.9 billion +0.4%**

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**Number of standalone Bank clients**

2018	1,668,000	
2019	1,664,000	

**1,664,000 clients -0.2%**

# ANNUAL REPORT 2019

Komerční banka, a.s.

# I Survey of Results 2015–2019

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2019	2018 <sup>1)</sup>	2017 restated <sup>2)</sup>	2016	2015
<b>Financial results</b>					
Net operating income	32,573	32,203	31,060	31,750	31,044
of which Net interest income	23,591	22,704	20,985	21,067	21,357
of which Net fees and commissions	5,983	6,025	6,284	6,683	6,968
of which Net profit on financial operations	2,804	3,209	3,576	3,837	2,610
Total operating costs	(14,932)	(14,635)	(14,510)	(14,026)	(14,352)
Profit attributable to the Group's equity holders	14,901	14,846	14,930	13,688	12,758
Earnings per share (CZK) <sup>3)</sup>	78.90	78.61	79.05	72.48	67.55
<b>Balance sheet</b>					
Total assets	1,077,334	1,059,932	1,001,652	922,737	891,556
Loans and advances to customers, net <sup>4)</sup>	647,259	624,954	593,639	580,198	532,617
Amounts due to customers	821,507	812,451	762,043	699,377	656,287
Total shareholders' equity <sup>5)</sup>	105,540	99,931	94,450	101,570	102,413
<b>Ratios (%)<sup>6)</sup></b>					
Return on average equity (ROAE) <sup>7)</sup>	14.50	15.28	15.07	13.42	12.22
Return on average assets (ROAA) <sup>7)</sup>	1.39	1.44	1.55	1.51	1.38
Net interest margin <sup>7)</sup>	2.35	2.33	2.33	2.53	2.6
Cost/income ratio	45.84	45.45	46.72	44.18	46.23
<b>Capital<sup>8)</sup></b>					
Capital adequacy (%)	19.72	18.48	18.63	16.18	16.34
Tier 1 ratio (%)	19.14	17.91	18.02	16.18	16.34
Tier 1	84,062	80,788	76,525	71,659	66,606
Tier 2	2,546	2,578	2,560	0	0
Total regulatory capital	86,608	83,366	79,084	71,659	66,606
Total risk-weighted assets	439,237	451,052	424,566	442,865	407,642
<b>Other data</b>					
Number of employees, average	8,167	8,413	8,492	8,476	8,426

## Notes

- <sup>1)</sup> 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 the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base.
- <sup>2)</sup> Comparative data has been restated to reflect the presentation of the current period and reclassifications in the Consolidated Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
- <sup>3)</sup> Adjusted for the effect of 1-to-5 split of KB shares carried out in April 2016.
- <sup>4)</sup> Figures for 2015–2016 include also debt securities issued by KB corporate clients.
- <sup>5)</sup> Not including Non-controlling interest.
- <sup>6)</sup> According to the Komerční banka methodology.
- <sup>7)</sup> Ratios for 2018 and 2019 based on figures according to IFRS 9; ratios for 2015–2017 based on figures according to IAS 39.
- <sup>8)</sup> 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 2020) <sup>1)</sup>	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A1
Fitch	F1	A

- <sup>1)</sup> KB was assigned credit ratings 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)	2019	2018 <sup>1)</sup>	2017 restated <sup>2)</sup>	2016	2015
<b>Financial results</b>					
Net operating income	30,599	30,707	29,216	30,608	28,995
of which Net interest income	20,550	19,694	17,756	20,571	19,883
of which Net fees and commissions	5,313	5,390	5,702	5,979	6,287
of which Net profit on financial operations	2,802	3,181	3,570	3,830	2,665
Total operating costs	(13,428)	(13,155)	(13,058)	(12,710)	(13,113)
Net profit	14,816	15,238	14,914	14,119	12,424
<b>Balance sheet</b>					
Total assets	1,011,519	1,001,504	944,230	868,065	835,526
Loans and advances to customers, net <sup>3)</sup>	567,805	553,888	531,085	527,143	484,474
Amounts due to customers	762,157	755,039	702,053	638,410	593,059
Total shareholders' equity	98,218	92,721	87,004	93,032	93,303
<b>Ratios (%)<sup>4)</sup></b>					
Return on average equity (ROAE) <sup>5)</sup>	15.52	16.96	16.42	15.15	13.15
Return on average assets (ROAA) <sup>5)</sup>	1.47	1.57	1.64	1.66	1.46
Net interest margin <sup>5)</sup>	2.20	2.17	2.13	2.34	n.a.
Cost/income ratio	43.88	42.84	44.69	41.53	45.23
<b>Capital<sup>6)</sup></b>					
Capital adequacy (%)	21.10	19.6	19.41	16.91	16.66
Tier 1 ratio (%)	20.46	18.97	18.75	16.91	16.66
Tier 1	80,982	77,769	72,622	67,263	61,665
Tier 2	2,546	2,578	2,560	0	0
Total regulatory capital	83,528	80,347	75,181	67,263	61,665
Total risk-weighted assets	395,828	409,958	387,330	397,796	370,228
<b>Other data</b>					
Number of employees, average	7,210	7,458	7,551	7,549	7,538
Number of points of sale	343	365	387	392	397
Number of clients (thousands)	1,664	1,668	1,664	1,654	1,647
Number of ATMs	796	776	764	768	772

#### Notes

- <sup>1)</sup> 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 the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base.
- <sup>2)</sup> Comparative data has been restated to reflect the presentation of the current period and reclassifications in Separate Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
- <sup>3)</sup> Figures for 2015–2016 include also debt securities issued by KB corporate clients.
- <sup>4)</sup> According to the Komerční banka methodology.
- <sup>5)</sup> Ratios for 2018 and 2019 based on figures according to IFRS 9; ratios for 2015–2017 based on figures according to IAS 39.
- <sup>6)</sup> According to Basel III.

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](http://www.kb.cz/investors). Additional information on corporate social responsibility and ethics at KB is available in the 'Corporate Social Responsibility' section at <https://www.kb.cz/en/about-the-bank/about-kb>. Information about KB's products and services is accessible from the homepage [www.kb.cz/en](http://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.

## Contacts

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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-System.

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

The development of the Bank was based not only on organic growth but also on optimising the Bank's and the Group's presence on the market in the form of acquisitions. Therefore, in 2004, a short-lived subsidiary of KB and SG, FRANFINANCE CONSUMER CREDIT, was merged with ESSOX and focused on consumer finance. In 2005, Komerční banka sold 100% of its stake in the asset management company Investiční kapitálová společnost KB, a.s. to SG Asset Management and a 51% stake in Komerční pojišťovna to SOGECAP S.A., whereby it retained a 49% minority interest. In 2006, it completed the acquisition of Modrá pyramida by buying the remaining 60% stake, through which the Bank gained full control over the third-largest building savings bank in the Czech Republic. Another significant step in extending the offer to clients was the acquisition of a 50.1% share in SG Equipment Finance Czech Republic s.r.o., the leading provider of asset-backed financing in the Czech Republic, in May 2011. Through a branch, SGEF also is active in Slovakia. In 2016, KB established a business alliance for credit and debit card acceptance whereby it transferred 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.

KB is progressively optimising the location of its individual central functions at two locations in Prague, one of which is a building on Wenceslas Square in the city centre and the other a new office complex at Stodůlky in the western part of Prague. The first relocation to the new headquarters building in Stodůlky took place in 2012, and in 2017 KB decided to purchase a second, neighbouring building that it has been using since 2018. In the context of this optimisation, among other reasons, KB in 2017 sold the Na Příkopě 33 building in the centre of Prague to Commerz Real CZ, a part of the Commerzbank Group.

Komerční banka has been operating in Slovakia since 1995, originally in the form of a subsidiary. Komerční banka Bratislava has successfully implemented changes connected with adoption of the euro (EUR) in 1 January 2009. In January 2009, the KB Board of Directors approved a plan for transformation of Komerční banka Bratislava from a subsidiary to a foreign branch, which was completed by a merger of the two entities. Since 1 January 2011, it has operated as a foreign branch of the Bank.

## 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 Group combines financial strength and proven expertise in innovation with a strategy for sustainable growth. It aims to be a trusted partner for its clients and is committed to positive change in society and the economy.

Société Générale has been helping clients for more than 150 years and maintains a strong position in Europe and connections to the rest of the world. Société Générale has over 149,000 employees in 67 countries and supports on a daily basis 31 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 Societe Generale, 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 with a presence in emerging economies and leading specialised businesses;
- Global Banking and Investor Solutions, which offers recognised expertise, key international locations, and integrated solutions.

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

## Company profile

Komerční banka, a.s. (hereinafter also “KB” or the “Bank”) is the parent company of KB Group (hereinafter also the “Group”) and a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate, and investment banking. Member companies of Komerční banka Group provide additional specialised financial

services, such as pension savings and building society schemes, leasing, factoring, consumer lending, and insurance. These are accessible through KB’s branch network, its direct banking channels, and the subsidiaries’ own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients as well as through selected subsidiaries.

CZK billion	Loans to clients – gross loans*		Amounts due to customers**	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
<b>KB Group</b>	<b>654.0</b>	<b>634.6</b>	<b>816.3</b>	<b>795.6</b>
KB – total loan portfolio	573.1	561.8	756.3	736.5
– Individuals	255.5	249.5	285.8	276.6
– Businesses and other	317.6	312.3	470.6	459.9
– Entrepreneurs and small businesses	36.7	35.5	196.2	187.1
– Corporates and municipalities	100.8	104.8	163.9	157.9
– Top corporates and other (including KB Slovakia)	180.1	172.0	110.4	114.9
Modrá pyramida	56.2	50.7	61.8	61.8
ESSOX (including PSA Finance)	17.4	17.3	0.2	0.2
Factoring KB	9.4	9.0	1.0	0.8
SGEF	29.0	28.1	N/A	N/A
BASTION	2.6	2.7	N/A	N/A
Consolidation and other adjustments	(33.7)	(34.9)	(3.1)	(3.7)

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

\*\* Excluding repo operations with clients.



## The Bank's identification details as of 31 December 2019

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 of 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 příkopě 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 § 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

## Vision

Real bank for real situations

## Mission

We stand by discerning individuals and their families, small businesses and corporations, supporting them throughout their lifetime journeys and diverse business ventures to succeed in the dynamic world. We provide first-class advisory, tailor-made solutions, and leading industry innovations through our passionate people and convenient digital channels.

## KB Change – KB's updated strategy

KB aims to be a lifetime partner with a human touch for active individual, small business, and corporate customers, to provide employees a sense of purpose and room for growth, and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

In order to address the key challenges existing in the Czech banking market, including the ongoing erosion of product margins due to competition and regulation, clients' swiftly escalating preference for digital banking channels, and rapid development of banking technologies, Komerční banka decided in 2018 to update its strategic direction. The KB Change programme defines the steps of this transformation.

The updated strategy for 2018–2020 focuses on reinforcing or achieving market-leading customer satisfaction status as measured by Net Promoter Score in the target client segments of affluent individual clients, small and medium-sized enterprises, as well as large corporations. 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.

In implementing the KB Change programme during 2018–2020, KB is simplifying, digitalising, and accelerating key customer processes and journeys in retail and corporate segments. The simple, basic services increasingly have been provided through digital and self-service tools. The Bank is proactively seeking 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. Mainly to further strengthen its concentration on client satisfaction, KB has also upgraded the employee motivational schemes.

The improvements in culture, organisation, and motivations should lead to increased engagement of employees. Leadership, accountability, and information flow have been enhanced by organisational delayering and by optimising the management span of control. Activities leading to change or improvement in the Bank's functions are newly organised in agile cross-functional teams built around specific client needs or journeys and having advanced data analytical capacities. During 2019, KB completed establishment of the agile organisational structure at headquarters; as of 31 December 2019, some 44% of headquarters employees were working within the agile units. The operating model for the retail network has been adapted in accordance with the pace of change in consumption of banking services. The network management structure has been simplified and the number of branches reduced. The Bank has been increasing the share of branches wherein cash services are provided through deposit-taking ATMs. The capacity to share specialised expertise by remote means is being enhanced. As a result, the co-ordination and efficiency of processes has increased. The control environment of the Bank has not been affected.

KB will prepare and publish in 2020 a strategic plan for the period beyond 2020. It will address the current and expected challenges for the banking business.

## Key ambitions of KB Change programme for the year 2020 and their fulfilment by 2019

	2017	2018	2019	Ambition for 2020 as announced in May 2018	Comments
NPS	Affluent individuals	17	16	32	Reinforcing client satisfaction gradually during 2019
	Small businesses	16	20	32	Significant improvement year over year
	SMEs	24	34	35	Excellent results maintained, outperforming the market
	Large corporates	27	59	58	
Employee engagement				80	Visible improvement in 2019
% of HQ in Agile				30%	Higher share of HQ working in agile than originally planned
Revenues (Net operating income, CZK billion)				≥ 33 (excl. one-off items)	Target expected to be met despite negative regulatory impact (SEPA)
Return on average equity				12.0%	On track to exceed the target with help of lower risk costs
Cost / Income ratio				~45%	Slightly above targeted level due to higher personnel cost reflecting the tight labour market situation

## Principles of corporate social responsibility

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

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

KB's CSR activities are developed within the following organisational areas:

- Client satisfaction
- Ethics and responsible banking
- Responsible employer
- Protection of the environment
- Social trends and innovations
- Sponsoring and charity

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

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

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

Further detailed non-financial information on Komerční banka's corporate responsibility activities and results is provided in KB's 2019 Non-Financial Report, which will be issued in 2020.

## Code of conduct

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

## Corporate governance

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

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

## Sustainable development

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

## Major events of 2019

### January

On 7 January 2019, KB SmartSolutions, s.r.o. was established as a fully owned subsidiary of Komerční banka with the aim to facilitate the preparation of some new KB Group services. On 8 January 2019, My Smart Living, s.r.o. was established as a fully owned subsidiary of KB SmartSolutions, s.r.o. It develops solutions to meet clients' housing needs.

With effect from 14 January 2019, Ms Sylva Kynychová, Mr Ondřej Kudrna, and Mr Vojtěch Šmajer were elected members of the Supervisory Board as employees' representatives.

Mr Margus Simson was elected by the Supervisory Board with effect from 14 January 2019 as a new member of the Board of Directors. Mr Simson holds the post of Chief Digital Officer.

With effect from 14 January 2019, Mr Pavel Jiráček became Chairman and CEO of Modrá pyramida stavební spořitelna.

The Supervisory Board appointed Ms Cécile Camilli a substitute member of the Supervisory Board with effect from 15 January 2019 until the next general meeting. The General Meeting held on 24 April 2019 then elected Ms Camilli as a member of the Supervisory Board with effect from 25 April 2019.

### February

With effect from 1 February 2019, Mr Jan Kotík became Chairman and CEO of Factoring KB.

In co-operation with Czech Information Agency (ČIA), Komerční banka newly offered its entrepreneur clients more favourable access to ČIANEWS, which provides extensive economic news that includes reports on tenders, investment plans, and other business opportunities in individual fields or regions.

Komerční banka became one of the first Czech banks enabling its clients to pay through Apple Pay. KB was also the first bank in the Czech Republic providing clients with a banking application for Apple Watch.

### March

In signing the Partnership Contract for 2019, Komerční banka and the Federation of the Food and Drink Industries of the Czech Republic confirmed their traditionally good mutual co-operation, mainly in the efficient financing of food-processing investments and boosting the competitiveness of Czech food producers.

Komerční banka opened in its branch network the first so-called Corporate Centre. Its aim is to provide to clients also from smaller firms and to entrepreneurs services and advisory to an extent heretofore provided only to large companies.

### April

Based on its long-term successful co-operation with Czech–Moravian Guarantee and Development Bank, Komerční banka concluded a Guarantee Agreement in the new EXPANSION programme to support small and medium-sized enterprises,

bringing them benefits through larger guaranteed loans and longer guarantee periods.

At the General Meeting on 24 April, Komerční banka's shareholders approved the reported financial results, distribution of profit, and paying out of the 2018 dividend of CZK 51 per share. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2018, the consolidated financial statements and the separate financial statements for 2018. Upon the Nomination Committee's proposal, the General Meeting elected Ms Cécile Camilli and Ms Petra Wendelová members of the Supervisory Board. Ms Wendelová was also elected as a member of the Audit Committee.

KB began modifying its ATMs to accommodate contactless cards, mobile phones or smart watches.

### May

In co-operation with the Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic, KB opened the seventh year of the Start-Up Grant Program. Its aim is to support new entrepreneurs in the Czech Republic. Participants' winning business ideas will receive financial and media support and other prizes.

Komerční banka won the Kentico Site of the Year competition for best website.

### June

KB launched on its website KB M&A Point, which is focused on the Bank's M&A consulting.

FTSE affirmed KB as a constituent company in its FTSE4Good Index Series, including membership in several individual indices. The FTSE4Good Index Series is designed to identify companies that demonstrate strong environmental, social, and governance practices as measured against globally recognised standards.

### July

KB connected the first foreign bank – from Slovakia – in its internet and mobile banking applications.

KB again became the main partner of the Rock for People music festival in Hradec Králové. In addition to seeing a number of stars, fans appreciated the performance of the previously unfinished part of Antonín Dvořák's symphony entitled From the Future World, which had been completed with the support of KB through artificial intelligence and has already been performed by the Prague Philharmonia.

### August

Komerční banka became general partner of the Letní Letná festival, new circus, and summer theatre.

Komerční banka placed ten beehives on the roof of its office building in Stodůlky, Prague. The honey produced will be used within its own charitable activities and at the same time the bees will support the fragile ecosystem in the vicinity.

## September

KB launched instant interbank payments. That means incoming and outgoing payments denominated in Czech crowns among KB and several other banks are now booked to accounts within a matter of seconds – 24 hours a day, 7 days a week.

Komerční banka continues to provide preferential financing for energy savings. It is the only bank in the Czech Republic to conclude an agreement with the European Investment Bank on the further provision of EuroEnergie loans with an 80% guarantee and advantageous interest rate.

Modrá pyramida offered the new Relay mortgage that allows passing on repayments among family members to better match the evolving needs and income development during each member's life cycle.

Modrá pyramida made its clients' lives easier with MP Home, a new smartphone application that assists clients during the savings and financing phases of their relationships with the building society, as well as at the time of acquiring and/or possibly reconstructing a home.

On 16 September 2019, KB Advisory, s. r. o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established. This new company will provide business advisory services to clients.

Based on KB's long-term ratings from the Moody's, Standard & Poor's, and Fitch rating agencies, the prestigious magazine Global Finance named Komerční banka The Safest Bank in Central and Eastern Europe 2019, as well as, of course, in the Czech Republic.

KB became a Platinum partner of Future Port Prague 2019. This conference brought together thousands of participants, hundreds of innovative companies, and dozens of speakers from around the world to discuss and show how technology will change business, life, and society.

Komerční banka co-hosted Bankathon 2019, the biggest FinTech hackathon in Europe. Some 100 developers in 27 teams coded their applications providing solutions (or "hacks") for particular problems and suited to Open Banking and the PSD2 environment. KB's own team won the Multibanking category.

## October

KB launched in start-up mode Cincink.cz real estate portal, which provides the most comprehensive set of online housing services for all buyers, sellers, and real estate agents.

SG Equipment Finance of the KB Group entered into a partnership with the world leader in debt insurance, the insurance company Euler Hermes. SGEF's corporate clients thus gained access to a further expanded financing offer.

Hospodářské noviny announced the results from its 11th year of research to name the Best Bank and Best Insurance Company of 2019. KB took home three precious metals: gold in the category Most Friendly Life Insurance Company, silver in the Best Life Insurance category, and, for the first time this year, also silver in the Insurance Innovator category for its Mutumut product.

Known as "Seniors at Branches", Komerční banka launched its own project aimed at strengthening financial education of seniors. The project's purpose is to help those who are interested to become better oriented in the modern financial world.

## November

The prestigious Euromoney magazine's client survey ranked Komerční banka first among banks in the Czech Republic in the area of Cash Management, awarding it the title Euromoney Market Leader.

## December

CFOs at KB's clients now have an overview of performance indicators for their businesses obtained directly from MojeBanka Business internet banking in a solution developed by the fintech company BudgetBakers.

KB introduced a brand new and modern mobile banking application (Mobile Bank and Mobile Bank Business) also for phones using the iOS operating system. Its completely innovative design offers significantly simpler and more intuitive operation.

Laurent Goutard ceased to be a member of the Supervisory Board on 4 December 2019. The Supervisory Board appointed Ms Maylis Coupet as a substitute member of the Supervisory Board with effect from 4 December 2019 until the next General Meeting.

## Year 2020

KB Mobilní banka was cited as the best banking application on the Czech market in the Financial Product of the Year 2019 competition. The evaluation took into account the total number of functionalities and their year-on-year increase, the number of unique functionalities, user-friendliness of the application, and its security. Komerční banka's Personal Loan came in second in the category of consumer general-purpose loans.

On 18 March, the Supervisory Board elected with effect from 4 June 2020 Ms Jitka Haubová as a new member of the Board of Directors. Ms Haubová will be responsible for Transaction and Payment Services, for the Support Services, Investment Banking Services, Legal and for Payment Methods departments, and the Customer Tribe.

Following an announcement of the Czech National Bank dated 16 March 2020 on the adoption of stabilising measures in connection with the coronavirus epidemic, the Board of Directors of Komerční banka on 23 March changed its proposal for distribution of 2019 profit, so that all profit will be retained and no dividend paid. Distribution of profit is subject to a vote of the General Meeting. The Bank also cancelled the validity of the outlook for 2020 results, as published on 6 February together with the results from 2019.



## Economic and monetary environment in 2019

The year 2019 was one of slowing growth dynamics against a background of geopolitical uncertainty and weakening external demand. Nevertheless, the strength of the domestic economy, and especially of household consumption due to the still-tight conditions on the labour market, was also reflected in price developments. Headline inflation remained in the upper part of the CNB's tolerance band for most of the year, even exceeding 3% at the end of the year. However, the existing external risks, in particular, led CNB to noticeably slow the pace of monetary policy tightening and interest rate normalisation. While the two-week repo rate was increased five times during 2018, it was raised only once in 2019, to 2.0%.<sup>1)</sup> Meanwhile, exchange rate developments remained relatively stable.

The external environment did not develop favourably last year for the Czech Republic's export-oriented economy. The overall global economy slowed in the face of increasing uncertainties, especially of geopolitical character. The trade wars unleashed by the President of the United States, Donald Trump, have contributed to the first decline in world trade since the global recession in 2009. Specifically, Europe, including the Central, was burdened by the endless Brexit story. But the biggest challenge for Czech producers was to cope with recession in German industry. Its economy has been slipping continuously since mid-2018. This has been due in part to cyclical effects, such as the impact of weaker global demand, but in part also due to structural problems linked to the transition to greener production. In the energy sector, for example, Germany is closing down its coal mining, used in electricity production. In the automotive sector, meanwhile, it is moving towards electromobility.

Domestic producers have dealt with the external threats more than valiantly. Although the economy as a whole slowed during 2019 as measured by real GDP growth, it grew by 2.4% after expanding by 2.8% in 2018.<sup>2)</sup> The slowing was more significant only in the year's second half, however, and especially in the final quarter. The Czech export and industrial economy was hit by the recession in German industry. Especially under pressure was the production of cars, which in December 2019 recorded a double-digit drop year over year (–10.3%). It was only 0.7% weaker for the year overall. For the first time after five years of continuous growth, industrial production as a whole fell by 0.5% in 2019. The decline year over year in industrial production can be attributed mostly to the mechanical engineering (–2.6%) and metalworking industries (1.9%). Despite stalling auto production, output of electrical equipment increased (+5.7%), as did production in the pharmaceutical industry (+19.3%). The deterioration in the industrial sector is documented by a 1.1% reduction in employment. Due to persisting tightness in the labour market, wage growth in industry was still robust at 6.2%.<sup>3)</sup>

Household consumption held up domestic demand, thereby more than offsetting the weakening external demand. While consumer sentiment slipped slightly throughout 2019, the mood of Czech households remained relatively upbeat. After the extreme labour market tightness in 2018, the following year brought minimal relief

to employers. The record employment rate in 2019, at 59.2%, fell almost imperceptibly, and the unemployment rate appears to have found its bottom in the second quarter of 2019, at 1.9%. For the full year unemployment averaged 2.0%.<sup>4)</sup> In the light of record employment and continuing solid wage growth (7.2% year over year through three quarters of 2019),<sup>5)</sup> domestic consumers increased their spending. Retail sales in real terms grew by 4.7% (excluding motor vehicles) in 2019 and car sales ticked up by 0.4%.<sup>6)</sup> The services sector as a whole recorded an increase of 0.8% in real terms during 2019.<sup>7)</sup> While household consumption remained stable, the second component of domestic demand – investment – slowed noticeably in 2019's second half. The reason can be attributed to the aforementioned uncertainty in the external environment. Nevertheless, the construction sector flourished, despite that it continues to face insufficient production capacity. Construction output at constant prices grew by 2.3% year over year during 2019. While building construction output climbed by 2.0% year over year, civil engineering improved even by 3.4%. Employment in this sector rose by 1.0% along with average nominal wage growth of 6.1%.<sup>8)</sup>

At the end of 2019, inflation reached the upper edge of the CNB's target tolerance band. Consumer price inflation stood at 3.2% in December, and overall average inflation for 2019 was 2.8%.<sup>9)</sup> Increasing unit labour costs continued to be the main inflationary factor in 2019. According to CNB calculations, core inflation reached 2.7% in 2019.<sup>10)</sup> Rising costs of housing added significantly to headline inflation (contributing half of total headline inflation). Regulated prices rose by a sizable 4.4%. At the end of 2019, rising food prices also increased their contribution to the overall dynamics of price developments.

The dilemma posed by an environment of slowing economic growth and inflation above the CNB's target led the central bankers to significantly slow their pace of monetary policy normalisation. While in 2018 the central bank had raised interest rates five times, in 2019 it did so only once (at its May meeting). An attractive interest rate differential supported the domestic currency despite growing uncertainties, essentially resulting in exchange rate stability. Throughout the year, the crown traded within a relatively narrow band between CZK 25.4 and 26.0 per euro.<sup>11)</sup> Czech government bond yields<sup>12)</sup> in the first months of 2019 rode a wave of stability despite higher inflation and the May rise in CNB interest rates. During summer, however, they saw significant drop in yields along the yield curve. The turbulence in global markets associated with the escalation of trade wars and risk of “hard” Brexit intensified the already strong demand for Czech government bonds as an asset of safe haven from emerging markets. At the end of 2019, yields gradually returned to their values from the start of the year, supported by speculation that the central bank would further lift interest rates.

<sup>1)</sup> <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>.

<sup>2)</sup> <https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4-quarter-of-2019>.

<sup>3)</sup> [https://www.czso.cz/csu/czso/industry\\_energy\\_ekon](https://www.czso.cz/csu/czso/industry_energy_ekon).

<sup>4)</sup> [https://www.czso.cz/csu/czso/employment\\_unemployment\\_ekon](https://www.czso.cz/csu/czso/employment_unemployment_ekon).

<sup>5)</sup> [https://www.czso.cz/csu/czso/labour\\_and\\_earnings\\_ekon](https://www.czso.cz/csu/czso/labour_and_earnings_ekon).

<sup>6)</sup> <https://www.czso.cz/csu/czso/ari/retail-trade-december-2019>.

<sup>7)</sup> [https://www.czso.cz/csu/czso/services\\_stat](https://www.czso.cz/csu/czso/services_stat).

<sup>8)</sup> <https://www.czso.cz/csu/czso/ari/construction-december-2019>.

<sup>9)</sup> <https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2019>.

<sup>10)</sup> [https://www.cnb.cz/cnb/STAT.ARADY\\_PKG.PARAMETRY\\_SESTAVY?p\\_sestuid=21727&p\\_strid=ACBAA&p\\_lang=EN](https://www.cnb.cz/cnb/STAT.ARADY_PKG.PARAMETRY_SESTAVY?p_sestuid=21727&p_strid=ACBAA&p_lang=EN).

<sup>11)</sup> Source: Bloomberg.

<sup>12)</sup> Source: Bloomberg.

## Fulfilment of targets set for 2019

The development of the economic environment in the Czech Republic in 2019 was essentially in line with or just slightly poorer than what had been expected at the beginning of the year. The economy was slowing throughout the year while growth in prices was accelerating and unemployment remained very low. The rise in housing prices decelerated, as prices had climbed beyond the reach of many potential buyers and prudential measures imposed by the CNB with effect from October 2018 also had an influence. The national bank continued increasing its counter-cyclical capital buffer requirement, even into 2020. In spite of faster inflation, the CNB increased its monetary policy rates just once, in May.

Total bank lending for the overall market (excluding repo operations) grew by 4.1% year over year,<sup>1)</sup> thus somewhat more slowly than KB had assumed. Mortgage growth continued apace better than expected while expansion in consumer lending accelerated modestly, which was in line with expectations. Lending to businesses and corporations disappointed, decelerating to just 1.9% growth. Public sector borrowing even declined in connection with slowing public investments. The volume of client deposits in Czech banks expanded by 6.4% year over year, similar to what had been assumed. Deposits growth was fastest from non-bank financial institutions. Deposits from individuals grew by 6.1%, while growth in deposits from private non-financial corporations was a bit slower (4.3%).

Not surprisingly, competition on the banking market remained vigorous, characterised by excessive Czech crown liquidity in the market, attempts by some players to acquire or regain market shares in certain important product categories, and rapid adoption of technological innovations by both clients and financial institutions.

In this context, the annual growth rate for KB Group's loan portfolio reached 3.1% in 2019. That compares to guidance published at the beginning of the year calling for a mid- to low-single-digit pace. The main causes for coming in at the lower end of that approximate range were slower market demand for loans from corporations and a certain weakening of KB's market share in consumer lending. The 2.6% volume growth in deposits was in line with the plan. The volume of clients' assets under management expanded by a solid 9.7% (similar to expectation), while volumes in mutual funds increased by an even faster 16.0%.

Komerční banka reported slight growth in total net operating income for 2019, in accordance with the provided guidance. Nevertheless, net income from fees and commissions dropped and did not turn positive as was expected and the drop in income from financial operations was a bit larger than the Bank had planned. The core revenues were negatively influenced by intense competition, and gains from financial operations were affected by a year over year lower number of big hedging structures created for clients.

Thanks to rigorous management, KB reported growth in operating expenditures adjusted for one-off effects of just 2.7%, thus in line with the plan and lower than the annual inflation

rate. This was in spite of substantial investments made in such areas as new products development and digitalisation. Given the excellent quality of the loan portfolio and better-than-expected performance from recovery activities (including on one large historical corporate exposure), the Bank was again able to make an extraordinary release of credit risk provisions.

Slower growth in risk-weighted assets, influenced in part by an upgrade of Czech sovereign exposures and creation of higher net profit, had allowed KB to propose, as announced on 6 February 2020, a dividend pay-out in the amount of 74% of consolidated net profit, thus better than the 65% that had been planned at the beginning of the year. Nevertheless, in accordance with stabilisation measures adopted by the CNB on 16 March 2020, the Board of Directors amended its proposal on 23 March 2020, so that the net profit earned in 2019 is retained. KB intends to return the management capital buffer (i.e. the volume of voluntary reserves exceeding the regulatory capital requirements) to an adequate level once the public health and economic situation normalises.

Moreover, Komerční banka succeeded in boosting average satisfaction of its clients and engagement levels of its employees while continuing to transform its operating model. The Bank was thus on track to meeting the targets set for 2020 within the KB Change programme.

## Expected development and main risks to that development in 2020

The following text describes the baseline scenario for the development of the Czech economy and KB's business in 2020, as assumed by the Bank at the beginning of the year. At the time of publishing this annual report, these baseline assumptions have been put under review, due to a rapid evolution related to the outbreak of Covid-19 disease, which threatens the health of employees and clients and is disrupting economic activity in the country.

In accordance with prepared operational risk management procedures and business continuity plans, KB has adopted a set of measures to ensure proper operations. The measures comprise rules for quarantine and work from home for employees who are vulnerable due to health conditions and for those colleagues who have returned from epicentres of the infection, replacing face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including with the clients, as well as the rules of hygiene, physical separation of teams, providing workplace backup, increased intensity of cleaning and disinfection of spaces, and other measures. Vulnerable employees who cannot work from home have been provided a leave of absence for reasons of obstacles on the side of the employer.

The economic impacts will depend upon the intensity and duration of the epidemic phase of spreading of the coronavirus causing the Covid-19 illness. It is expected that slowdown of economic activity will lead to lower transaction activity of clients and smaller demand for loans. Lower interest rate environment will affect net interest income. Consequently, revenues in 2020 will be lower than previously expected. Operating expenditures will reflect various measures and adjustments in operations

<sup>1)</sup> Source of data on banking market developments: ARAD statistics of the CNB, <https://www.cnb.cz/docs/ARADY/HTML/index.htm>

linked to protection of health and facilitation of distance working, however, the increase in total operating costs will not be material. During 2020, KB will be carefully following the impact of the Covid-19 outbreak on the Group's credit risk profile. On a regular basis, KB will be updating (i) its IFRS 9 provisioning models while taking into account the current assumptions and outlook, and (ii) provisioning for those clients that are assessed individually. Cost of risk will be higher due to impact of worsened macroeconomic environment, need to create provisions for exposures that will have been provided a grace period according to KB's offer to the clients, and a pro-cyclical pattern of provisioning under IFRS 9 accounting standard. The Bank assumes that a part of the newly created provisions might be reversed later, once the extraordinary economic situation fades away.

However, the management expects that KB's operations will generate sufficient profit in 2020 to cover the Group's capital needs ensuing from its growing volume of assets, as well as to pay out dividends.

Following is the baseline macroeconomic scenario from the beginning of the year, which is under review at the time of issuing this annual report.

In its baseline macroeconomic scenario published at the beginning of the year, Komerční banka expects that the Czech economy will moderate its growth rate during 2020 towards 2%. Rising household consumption should continue to be the main driver of that growth, while government consumption, fixed investments, and net exports should contribute positively albeit marginally. The main reason for the deceleration is weakening industrial output. The slower growth is set to feed through gradually to other sectors, but the impact should be fairly limited. The outlook nevertheless remains quite uncertain due to the global environment and to stringent regulation in the automotive sector. The labour market should react only gradually to the economic slowdown, which so far has been evident mainly in the manufacturing sector. The slow economic deceleration is expected to become visible in the service sector, and therefore the labour market will be affected, albeit with some delay. Wage growth has been decelerating gradually. For 2020, average nominal wage growth should reach 5.6%. Private sector wage growth will likely slow, while public wage growth should speed up, especially in education. A slight tick up in unemployment and weaker wage growth will probably lead to slower rise in household consumption, which will be up around 2% in 2020.

The pick-up in inflation increases the likelihood of further interest rate hikes. Given the prevailing uncertainties and assumption of weak economic growth abroad, however, KB's baseline scenario includes an expectation that the key CNB interest rate will remain unchanged through the year. Strong demand for Czech government bonds should persist. Yields will likely be pulled up by higher inflation and a hawkish CNB. The yield curve is expected to begin returning to a more normal upward slope in the second half of the year.

The banking market will remain intensely competitive, particularly due to excessive Czech crown liquidity in the market, clients' expectations to have swiftly available to them all technological advances in banking products and access channels, and attempts by large and smaller players to strengthen their market shares in certain important product categories.

The development in 2020 will be affected by several regulatory changes. Lending for housing will already have absorbed the effects of regulatory limits on the debt-to-income and debt service-to-income ratios of mortgage borrowers in effect since October 2018. The CNB will continue in raising the countercyclical capital buffer requirement, doing so twice in 2020, with effect from January and from July, by 25 basis points each time. KB will comply, too, with the increase in the additional (Pillar II) capital requirement of 0.6 percentage point effective from January. Komerční banka also expects during 2020 to be required to issue additional volumes of debt to cover the Minimum Required Level of Eligible Liabilities (MREL) with a phase-in period until 2023.<sup>1)</sup> This issuance must ultimately total tens of billions of crowns and will effectively reduce potential growth in net interest income during the next four years. Moreover, 2020 will bring the full impact on fee income from the cap on fees charged for cross-border payments within the Single European Payments Area, effective from 15 December 2019.<sup>2)</sup>

The loan market should grow similarly as in 2019, which means at a pace in mid-single digits across all main categories. Mortgages may expand a tick more slowly due to the regulations implemented in 2018. Unsecured consumer lending could accelerate slightly, given the relatively dynamic expansion in households' aggregate disposable incomes. Business lending will probably grow less than the nominal rate of GDP expansion, reflecting reduced investments of private businesses in the context of slowing demand and the tight labour market. Growth of the overall deposit market will again be influenced by the volatile placements from financial institutions and the public sector while the underlying trend of deposits from individuals, entrepreneurs, and non-financial corporations may slow somewhat as it follows the broader economy.

In this context, KB management expects that the annual percentage growth rate of the loan portfolio during 2020 will fluctuate within mid-single digits. In comparison with 2019, KB aims to accelerate mainly its unsecured consumer lending. The Group's housing loans should expand at a pace similar to that of the market's growth. The negative impulse from an uncertain economic outlook for business lending should be mitigated by improved efficiency in KB's lending processes. The result will be influenced also by the volume of bond issuance, which KB is promoting as a financing alternative to its corporate clients. Growth in total deposit balances will probably slow in accordance with the overall market trend. The volume of assets under management in mutual funds has potential to expand at a high single-digit pace, while technical reserves in life insurance and client assets in the pension funds are expected to advance only moderately.

KB Group's total net operating income for 2020 should rise slightly in comparison with that from 2019. This growth should be driven mainly by net interest income, underpinned by increasing volumes of loans and deposits, while the net interest margin will be negatively influenced by continuing competitive pressure on

<sup>1)</sup> <https://www.cnb.cz/en/resolution/general-approach-of-the-czech-national-bank-to-setting-a-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel/>.

<sup>2)</sup> REGULATION (EU) 2019/518 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.



lending spreads and moderately increasing costs of deposits. Income from fees and commissions is expected to benefit from clients' increasing utilisation of various financial services and growing volume of their assets under KB Group's management. This positive trend will be more than offset, however, by the impact from implementing the cap on fees for euro-denominated payments within the Single European Payment Area. The level of net profit from financial operations will reflect mainly the volume of financing deals, the volatility and trend of interest and exchange rates, as well as the gradually developing demand from smaller businesses for hedging of financial risks.

Operating expenditures are targeted to rise at a rate similar to that of inflation. The Bank has agreed with the trade unions to 3.6% growth in average remuneration for 2020. At the same time, KB is continuing its optimisation and simplification and is investing substantial amounts into such areas as digitalisation and new products development. During 2020, the Bank will introduce a strategic programme to build upon the successful transformation achieved within the KB Change plan introduced in 2018.

Cost of risk is expected to begin gradually normalising from the exceptionally favourable results of the previous two years. Effects of the slowing economy likely will be first felt in the corporate segments, while the risk profile of the retail lending portfolio will continue to benefit from the strong labour market and rising welfare transfers. The anticipated continuing, albeit slower, growth trend within the Czech economy is consistent with a cost of risk for 2020 that is still below a normalised rate of 30 to 40 basis points.

The main risk to the aforementioned assumption at the time of issuing this annual report consisted in consequences of the spreading Covid-19 illness, which threatens the health of employees and clients and is disrupting economic activity in the country.

In accordance with prepared operational risk management procedures and business continuity plans, KB has adopted a set of measures to ensure proper operations. The measures comprise rules for quarantine and work from home for employees who are vulnerable due to health conditions and for those colleagues who have returned from epicentres of the infection, replacing face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including with the clients, as well as the rules of hygiene, physical separation of teams, providing workplace backup, increased intensity of cleaning and disinfection of spaces, and other measures. Vulnerable employees who cannot work from home have been provided a leave of absence for reasons of obstacles on the side of the employer.

The economic impacts will depend upon the intensity and duration of the epidemic phase of spreading of the coronavirus causing the Covid-19 illness. These will include slowing of economic growth. Limitations on investment activity may lead to reduced demand for loans. The financial markets had been expecting the Czech National Bank to decrease its monetary policy rates, but this step may be prevented by inflation persisting above the CNB's tolerance band, as well as by weakening of the Czech crown. The negative economic effects may be mitigated by the fiscal actions of governments and in the Czech Republic

also by weakening of the currency and a drop in the price of oil, which represents a major cost item for Czech businesses and households.

However, the management expects that KB's operations will generate sufficient profit in 2020 to cover the Group's capital needs ensuing from its growing volume of assets, as well as to pay out dividends constituting 65% of consolidated net profit attributable to shareholders.

## KB Group clients and their service

### Business model

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

KB is focusing on simplification, digitalisation, and acceleration of key customer processes and journeys in retail and corporate segments. The simple, basic services increasingly will be provided through digital and self-service tools. The Bank proactively seeks options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that may enrich KB's offer. The development of client and internal solutions is organised in cross-functional teams applying the agile@KB working method.

KB perceives its competitive advantage on the banking market as consisting in the value of partnerships with clients, the ability of its banking advisors to provide high-quality advisory, a wide range of relevant and advantageous financial products, and proximity to clients via the branch network and advanced, secure direct banking. Digital banking is an integral part of the multi-channel distribution model. The Bank aims to maintain its leadership position on the Czech market in mobile banking. KB's own distribution network is further complemented by the subsidiaries' distribution capacities (especially those of Modrá pyramida) and, in the cases of selected products, also by the business partners' networks. Services and products of other KB Group companies are available within their own distribution networks, in the KB branch network, and potentially through the business partners.

Komerční banka adheres strictly to regulatory requirements in all areas of its activities, and it is developing the "know your client" concept. KB perceives knowing the client and the client's needs to be an integral part of the business relationship with the customers and a process reflecting the respect, responsibility, and trust the Bank has in and with its clients. Knowledge of clients also provides a basis for the Bank to offer appropriate advisory and services corresponding to clients' actual needs. In this sense, the concept is a selling activity directly influencing

the customer experience, and especially at the beginning of the business relationship. Komerční banka is dedicating increased attention to training employees in this area and to continuously updating business processes so that they adequately serve to maximise business efficiency while ensuring compliance with evolving regulatory demands.

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

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

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

### Client satisfaction

Komerční banka's strategy is based on building long-term and mutually advantageous partnerships with its clients. A professional approach and high quality of the Group's services are prerequisites for maintaining and developing partnership with clients. The people at the branches meet the clients daily, and those in Contact Centres talk to them every day. The client experience, however, also encompasses internet banking, mobile banking, card payments at merchants, ATM withdrawals, the website, advertisements, contracts, and other aspects of the bank-client relationship. This means that all employees of KB Group work for clients, and it is why client experience permeates into all activities of the Group.

Komerční banka systematically determines and measures the satisfaction of all its clients. In 2019, more than 900,000 clients were surveyed by KB or on the Bank's behalf and feedback was obtained from 200,000 of them. Retail clients are contacted after having visited a branch or after other interaction with the Bank (such as use of a digital channel, call to a Contact Centre). A random sample of clients is surveyed on a daily basis about their overall satisfaction with the Bank. A further survey is conducted on a sample representative of the Czech population, thereby providing a whole-market perspective. Client satisfaction research among corporate clients is conducted during regular campaigns, wherein a research agency approaches a representative sample from the client portfolio. All feedback provided is examined with due care. In most cases, the feedback is positive, and that contributes to a sense of meaningfulness about the work to the banking advisors themselves. If, however, a rating is negative, then the feedback is resolved with the client on an individual basis with the ultimate aim of making the client happy.

An independent agency (Ipsos again in 2019) systematically measures KB client satisfaction in the individual segments using the Net Promoter Score (NPS) method. Clients are asked to express, on a scale from 0 to 10, how probable it is that they would recommend the Bank's services to their friends or colleagues. Clients who give a score of zero to six are considered detractors. Clients who rate at seven and eight are neutral, while those who put the probability of recommendation at nine

or ten are considered promoters. NPS is calculated as the difference between the number of promoters and detractors, and is therefore positive if promoters are predominant among customers and negative if detractors predominate. The measurement results from 2019 for the individual segments are stated in the following text. Since 2019, KB has been disclosing on its website the client satisfaction ratings for relationship managers, the Contact Centre, mobile banking, and certain other products and services.<sup>1)</sup>

KB is continuing its Quality Guarantee programme, which ensures high quality of the services currently provided and the maintaining of a professional approach on the part of its employees and the Bank as a whole. Client feedback is acquired also through this programme. In addition, clients may try out KB services free of charge and without worries for up to six months.

- The Quality Guarantee ensures that if a client is not satisfied with a service, he or she does not have to pay for it. The client can therefore make his or her decision whether a solution is the right one for him or her directly on the basis of his or her actual experience.
- With every change to the price list, terms and conditions, or services our clients are allowed up to six months simply to try everything out with the Quality Guarantee and potentially to change their minds. Within this programme, Komerční banka undertakes that, if the client is dissatisfied, he or she may request that the fees be returned, and that can be done even online.
- The Quality Guarantee brings transparent information about each service and its content, including to state the price. The clients are always informed of changes sufficiently in advance.
- The Quality Guarantee also provides opportunity for searching out and offering effective solutions that will maximise the extent to which the clients' expectations are fulfilled.

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

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

### Development of digital services capacities

KB is continuously reflecting clients' escalating preference for digital banking channels and the rapid development of banking technologies in its service adjustments and development. As

<sup>1)</sup> <https://www.kb.cz/cs/o-bance/spokojenost-se-sluzbami>.

of 31 December 2019, almost 800,000 of Komerční banka's clients were able to control their accounts via mobile phone. Its state-of-the-art mobile banking application was continuously improved throughout 2019. Versions for both Android and iOS operating systems have undergone major changes in the way they operate, and their appearance was modernised. KB was the first bank in the Czech Republic and one of the first in Europe to enable authorisation by facial identification in the Android version (Android Face Unlock). This has added another option to the palette of security means for authentication. KB is still the only Czech bank to provide its clients at no charge with the Trusteer security tool from IBM that protects their computers and mobile devices from most banking-related cyber attacks, such as fake, harmful websites (phishing) and malware, as well as attempts to detect passwords (e.g. keylogging).

On top of the major operational changes and application security, significant additions to the client experience were introduced. Since 2019, clients have been able to use a mobile banking application for signing an investment contract, including to complete the required investment questionnaire. A new feature is that clients can find PINs for their payments cards in mobile banking. Clients with smart homes may also use Alexa voice assistant to learn basic information about the Bank.

Since 2019, Komerční banka's internet banking has offered the possibility of increasing the provided credit line. Clients with mortgages close to fixation periods will find the new interest rate offer in MojeBanka internet banking, and entrepreneur clients can find in MojeBanka Business internet banking a possibility for negotiating an authorised overdraft.

Komerční banka is very active in the field of open banking activities. It was the first bank on the Czech market enabling clients also to check balances on their accounts with other banks using KB's internet as well as mobile banking applications. As of 31 December 2019, clients have been able to connect via KB's digital banking channel to 1 Slovak and 13 other Czech banks.

At the end of 2019, KB's digital ecosystem added another feature from a fintech partner to MojeBanka Business internet banking. The Board application from BudgetBakers provides to CFOs at KB's business clients an overview of performance indicators for their businesses directly in internet banking.

KB was the first part of SG Group to launch its public API portal not as a technology per se but as a banking product and service. This KB API portal serves as a gateway for all partners of the whole SG Group. The first service made available to partners in 2019 was electronic identity. Other examples of API services are information about the Bank's ATMs and branches as well as contact information for the Bank generally. All API services already have begun to create their first business opportunities.

Banking identity is another digital project wherein KB is very active. The Czech Banking Association has co-operated on drafting legislation necessary for successful launch of this digital banking service. KB is actively preparing to offer identity verification as a service of the Bank.

KB is strengthening the market's perception of it as an innovative digital leader not only through constant innovation, introduction of services with fintech partners, and supporting digital banking

identity, but also by its being an active member of the digital community. Through its activities, it endeavours to obtain and maintain contact with innovations at the very level of an idea's origin. Therefore, KB co-organised in 2019 the biggest hackathon in Europe. This competition in banking and finance innovation attracted 100 contestants and 27 competing teams from 14 countries. More than 350 people participated in the events of the final evening. This Bankathon, held under the auspices of the European Banking Federation, the Czech Banking Association, and the Czech Fintech Association (among others), was thus one of the most visible events of the year.

During 2020, KB Group will continue developing a range of solutions for improving the client experience in digital banking, acquiring new clients, introducing and selling additional products and services, accelerating payments, and leveraging on the open banking concept. In its operations, KB will prepare for the replacement or upgrading of certain elements within its IT infrastructure, including tools for monitoring and reporting.

## Selected business indicators

Distribution network	31 December 2019	31 December 2018
KB Retail branches	343	365
KB Business centres	10	10
KB Corporate divisions	5	5
Modrá pyramida points of sale	205	204
SGEF branches	9	9
ESSOX Group points of sale	1,031	920
ATMs	796	776
of which: deposit taking	389	320
contactless	241	0

Number of clients	31 December 2019	31 December 2018
KB Group's clients	2,365,000	2,391,000
Komerční banka <sup>1)</sup>	1,664,000	1,668,000
– individual clients <sup>1)</sup>	1,407,000	1,410,000
– using at least one direct banking channel	1,484,000	1,455,000
– internet banking clients	1,423,000	1,389,000
– mobile banking clients	786,000	611,000
Modrá pyramida	490,000	490,000
KB Penzijní společnost	530,000	532,000
ESSOX (incl. PSA FINANCE) <sup>2)</sup>	202,000	212,000

<sup>1)</sup> Affected by write-off of non-active defaulted clients in recovery in 1Q 2019.

<sup>2)</sup> Influenced by the new qualification requirements for intermediaries of consumer financing.

Direct channels	31 December 2019	31 December 2018
Active direct banking products	2,632,000	2,435,000
KB Payment cards – active	1,579,000	1,565,000
– debit cards	1,401,000	1,388,000
– credit cards	178,000	178,000
ESSOX credit cards – active	94,000	104,000
Number of cards virtualised into mobile devices	178,000	23,000

Loans to clients – gross loans (CZK billion) <sup>1)</sup>	31 December 2019	31 December 2018
<b>KB Group</b>	<b>654.0</b>	<b>634.6</b>
KB – total loan portfolio	573.1	561.8
– Loans to individuals	255.5	249.5
– Volume of KB's mortgages	229.4	223.9
– Volume of KB's consumer and other loans	26.1	25.5
– Loans to entrepreneurs and small businesses	36.7	35.5
– Loans to corporates and municipalities	100.8	104.8
– Loans to top corporates and other loans <sup>2)</sup>	180.1	172.0
Modrá pyramida – total loan portfolio	56.2	50.7
ESSOX – total loan portfolio (including PSA FINANCE)	17.4	17.3
Factoring KB – total loan portfolio	9.4	9.0
SGEF – total loan portfolio	29.0	28.1
BASTION – total loan portfolio	2.6	2.7
Consolidation and other adjustments	(33.7)	(34.9)

<sup>1)</sup> Excluding Other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.

<sup>2)</sup> Including loans provided by KB Slovakia.

Amounts due to customers and assets under management (CZK billion)	31 December 2019	31 December 2018
<b>KB Group deposits<sup>1)</sup></b>	<b>816.3</b>	<b>795.6</b>
KB deposits	756.3	736.5
– individuals	285.8	276.6
– small business	196.2	187.1
– MEM corporates	163.9	157.9
– top corporates and other deposits <sup>2)</sup>	110.4	114.9
Modrá pyramida – building savings	61.8	61.8
ESSOX	0.2	0.2
Factoring KB	1.0	0.8
Consolidation and other adjustments	(3.1)	(3.7)
<b>Non-bank assets under management</b>	<b>183.8</b>	<b>167.5</b>
Assets under management in mutual funds <sup>3)</sup>	73.4	63.3
Clients' assets managed by KB Penzijní společnost	62.4	57.6
KP life insurance technical reserves <sup>4)</sup>	48.0	46.6

<sup>1)</sup> Excluding repo operations with clients.

<sup>2)</sup> Including deposits in KB Slovakia.

<sup>3)</sup> Assets of KB Group clients managed by third party asset managers.

<sup>4)</sup> Komerční pojišťovna is consolidated by the equity method.

## New products and Services

February 2019	<p>In co-operation with Czech Information Agency (ČIA), Komerční banka newly offered its entrepreneur clients more favourable access to ČIANEWS, which provides extensive economic news that includes reports on tenders, investment plans, and other business opportunities in individual fields or regions.</p> <p>Komerční banka became one of the first Czech banks enabling its clients to pay through Apple Pay. KB was also the first bank in the Czech Republic providing clients with a banking application for Apple Watch.</p>
April 2019	<p>Clients can newly conclude a contract on investments in mutual funds in Mobilní banka application.</p> <p>KB began modifying its ATMs to accommodate contactless cards, mobile phones or smart watches.</p> <p>Based on its long-term successful co-operation with Czech–Moravian Guarantee and Development Bank, Komerční banka concluded a Guarantee Agreement in the new EXPANSION programme to support small and medium-sized enterprises, bringing them benefits through larger guaranteed loans and longer guarantee periods.</p> <p>KB API portal launched, providing a stable environment for third-party developers using KB's application programming interfaces.</p>
June 2019	<p>KB's web provided access to KB M&amp;A POINT – offering advisory services, including an online tool for companies valuation</p> <p>Komerční pojišťovna introduced the TEAM collective risk life insurance policy for businesses who wish to provide a support to the employees and their families in case of tragic events, injuries. or serious illness.</p>
July 2019	KB connected the first foreign bank – from Slovakia – in its internet and mobile banking applications.
August 2019	<p>SGEF, thanks to digitalisation of some internal processes, gained capability to assess and validate simpler financing transactions automatically.</p> <p>The new version of Mobilní banka brought users a more transparent and appealing design, as well as new functionality.</p>
September 2019	<p>KB launched instant interbank payments. That means incoming and outgoing payments denominated in Czech crowns among KB and several other banks are now booked to accounts within a matter of seconds – 24 hours a day, 7 days a week.</p> <p>Modrá pyramida offered the new Relay mortgage, which allows passing on repayments among family members to better match the evolving needs and income development during each member's life cycle.</p> <p>Modrá pyramida made its clients' lives easier with MP Home, a new smartphone application that assists clients during the savings and financing phases of their relationships with the building society, as well as at the time of acquiring and/or possibly reconstructing a home.</p>
October 2019	SGEF concluded a partnership with EULER HERMES, a leading global credit insurance company, enhancing the range of financing options available to the clients. SGFE itself will benefit from advanced risk management know-how, better efficiency of equity allocation, and improved resilience against a potential economic downturn.

	<p>KB launched in start-up mode Cincink.cz, a web portal providing online the most comprehensive set of services related to housing for all buyers, sellers, and real estate agents.</p> <p>For the clients of KB Private banking, the Bank opened the NextGen Academy, sharing experience and know-how for facilitating a smooth and responsible intergenerational transfer of family wealth.</p>
November 2019	Clients of ESSOX can newly sign their loan contracts by text message, and they can pay with their mobile devices using the Google Pay application.
December 2019	<p>Despite its low interest rate, the new 4U credit card offered post-warranty appliance repairs, payment protection insurance, and free ATM withdrawals across Europe.</p> <p>CFOs at KB's corporate clients obtained access to important performance indicators for their businesses directly in MojeBanka Business internet banking through a solution developed by the BudgetBakers fintech company.</p> <p>KB introduced its brand new and modern mobile banking application (Mobile Bank and Mobile Bank Business) also for phones using the iOS operating system. Its completely innovative design offers significantly simpler and more intuitive operation.</p> <p>Companies operating in multiple international markets obtained access to the upgraded multi-bank application Global Cash, enabling secure and comprehensive accounts administration across Société Générale Group's global network.</p>

## Selected awards

May 2019	<p>FocusEconomics:</p> <ul style="list-style-type: none"> <li>– 1st place in category Policy Rate Forecaster</li> <li>– 2nd place in category Inflation Forecaster – Czech Republic</li> <li>– 3rd place in category Inflation Forecaster – Slovakia</li> </ul>
	Kentico Site of the Year – 1st place in category Best Webpage
September 2019	Magazine Global Finance – The Safest Bank in Central and Eastern Europe 2019, as well as in the Czech Republic
October 2019	<p>Hospodářské noviny Best Insurer award:</p> <ul style="list-style-type: none"> <li>– 1st place in category Most Friendly Life Insurance Company</li> <li>– 2nd place in category Best Life Insurer</li> <li>– 2nd place in the Insurance Innovator category with Mutumut product</li> </ul>
November 2019	Euromoney magazine – 1st place among banks in the Czech Republic for cash management services
January 2020	<p>Finparáda.cz:</p> <ul style="list-style-type: none"> <li>– Special prize Finparada for Mobile Bank</li> <li>– 2nd place in the General Purpose Consumer Loans category for the Personal Loan product</li> <li>– 3rd place in the Loan Consolidation category for the Optimal Loan product</li> </ul>



## Indicators of business performance

Total gross volume of lending to clients rose by 3.1% year over year to CZK 654.0 billion.<sup>1)</sup>

In lending to individuals, the overall volume of housing loans grew by 4.0% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 2.5% to CZK 229.4 billion. Modrá pyramida's loan portfolio grew by a strong 10.9% to CZK 56.2 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.3%, at CZK 39.2 billion. The total volume of loans to businesses and other lending provided by KB Group climbed by 2.4% year over year to CZK 329.1 billion. Lending to small businesses grew by 3.3% to CZK 36.7 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia<sup>2)</sup> increased by 2.2% year over year to CZK 263.4 billion. At CZK 29.0 billion, the total credit and leasing amounts outstanding at SGEF were 3.1% greater year over year.

The volume of standard client deposits within KB Group rose by 2.6% year over year to CZK 816.3 billion.<sup>3)</sup> Deposits at Komerční banka from individual clients grew by 3.3% from the year earlier to CZK 285.8 billion. The deposit book at Modrá pyramida increased by 0.1% year on year to CZK 61.8 billion. Total deposits from businesses and other corporations climbed by 3.6% to CZK 462.4 billion.

Client assets managed by KB Penzijní společnost were higher by 8.4%, at CZK 62.4 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 2.9% year over year to CZK 48.0 billion. The volumes in mutual funds held by KB Group clients grew by 16.0% to CZK 73.4 billion.

The Group's liquidity as measured by the ratio of net loans<sup>4)</sup> to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) was at 79.0%.

## Individuals

Komerční banka ranks among the three largest banks in the Czech Republic by number of individual clients.<sup>5)</sup> KB acquired nearly 68,000 new clients in this segment, bringing the total number of individual clients to 1,407,000, a year-on-year decrease of (0.2%). The Bank also maintains a leading position in the segment for children and young people, with more than 393,000 accounts.

In 2019, KB undertook a thorough review of its client portfolio and tightened the monitoring of all client information criteria (KYC) to prevent potential risks. This also led to consistent testimony of clients who did not meet strict requirements. At the same time,

the relationship with some clients whose outstanding receivables were sold by the Bank continued to be cancelled. KB will continue its activities to ensure a healthy client portfolio in 2020.

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According to an independent client satisfaction survey based upon a representative sample of the entire Czech population, the Net Promoter Score in the individuals segment rose to a good level of 32 (33 in the standard sub-segment). The survey detail showed clients to be very satisfied over the long term with KB's bank advisors at branches as well as at contact centres and with the mobile banking application (these categories recorded >9 on the 10-point scale). Komerční banka also is succeeding to maintain high satisfaction with its services and products. Moreover, it is increasing clients' satisfaction with products offered in co-operation with partners.

Again in 2019, KB responded to the needs of its clients by improving the offer of services and products. In the financing area, for example, Komerční banka has brought to the market a new approach to financing housing for young people – the Relay Mortgage. The Bank introduced a solution that helps parents and their children who want to acquire their own housing solve their housing needs more easily and prepare for handing over the obligation to repay the property mortgage.

Another new feature in the field of financing is a preferential loan in amounts up to CZK 400,000. This reflects a situation in which clients use advantageous interest rates for longer-term purposes and invest to improve their living conditions.

In the area of meeting clients' everyday needs, KB also introduced in 2019 a number of new services. It significantly accelerated client payments, as it was one of the first banks to offer instant payments to all other Czech banks enabling this service. It offers payments by telephone, but also via smart watches (Apple Pay, Google Pay, Fitbit, and Garmin). Login using KB key as a new secure client authentication tool is already used by more than 500,000 clients. One-third of KB ATMs are contactless, and half of them accept deposits. KB is the only bank in the Czech Republic already having four drive-up ATMs, which are used by both individuals and entrepreneurs and provide a welcome solution also for clients with physical disabilities.

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 3.1% to CZK 656.6 billion.

<sup>2)</sup> Including financing from Factoring KB and financing of car sellers by PSA FINANCE.

<sup>3)</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 1.1% to CZK 821.5 billion.

<sup>4)</sup> Gross volume of loans reduced by the volume of provisions for loan losses.

<sup>5)</sup> Source: Statements of individual Czech banks.

## Private Banking

Komerční banka offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno, and Ostrava, and according to their preference also outside the Bank's business premises. Clients with assets in excess of CZK 3 million have access to selected Private Banking products at 48 regional branches.

Services provided include in particular private portfolio management, a comprehensive range of investment instruments and complete banking services, real estate and Lombard loans for financing clients' private needs, as well as investment into funds for qualified investors. Other services include alternative investment solutions (real estate funds and private equity funds) and bond instruments. In 2019, KB Private Banking further developed its services directed to structuring family assets and multi-generational planning for assets transfer. The Bank has also launched the NextGen Academy, an educational programme directed to succeeding generations.

KB's private banking was recognised for its excellence by the renowned magazine *The Banker* from the Financial Times group.

Priorities for 2020 include continuing to develop portfolio management and investment advisory services in an open architecture and further developing digital services. KB Private Banking will focus, too, on services to company owners selling their businesses, intergenerational structuring of assets, services for trustees, constructing portfolios of financial assets and deposits, and on structured financing for clients' private projects.

## Services for businesses and corporations

Despite the weakening of foreign markets and growing uncertainty of the external environment, the Czech economy continued to grow at a solid pace and was surprisingly resilient to the economic weakening of its key trading partners. A positive output gap provided a decent cushion against external shocks, while fiscal policy supported economic growth.

The structure of GDP has changed. While household consumption has shown considerable resilience, fixed capital investment has weakened significantly. Industrial production growth almost halted in mid-2019, as did new foreign orders. In 2019, the construction industry developed relatively favourably. This is not surprising given the fact that this sector is more related to domestic demand, which remains strong. The market for corporate lending was relatively weak during 2019, reflecting the slower growth in the Czech economy.

Economic growth depended on labour productivity developments. Growth in overall labour productivity was no longer ensured by more hours worked, as in the previous year, but by higher work efficiency. Increasing innovation in modern technology is an important element of labour productivity growth. Growing wages due to persisting labour market tightness and higher prices of other inputs are, together with weakening foreign demand, one of the main barriers to further growth.

In 2019, Société Générale became a signatory to the Principles of Responsible Banking, thereby committing the Group to the principles of sustainable funding in all its activities and to

adopting its own objectives to support the goals of the Paris Climate Agreement. In this context, and in order to build a sustainable business and its own reputation, Komerční banka has implemented the ensuing principles into its activities.

Komerční banka won first place and the title of Euromoney Market Leader in Cash Management in the Czech Republic<sup>1)</sup> in a 2019 survey by the international magazine Euromoney, which aimed to highlight and recognise the best provider of cash management services in the Czech Republic. The resulting ranking of banks was based on a rating by clients consisting mainly of financial managers and directors of medium and large corporates.

KB continued its innovative efforts in relation to corporate clients. The Bank has established a new company, KB Advisory, which aims to provide comprehensive consultancy in the area of subsidies for corporate clients. Komerční banka also introduced instant payments for its clients. These payments allow the transfer of funds between two client accounts held in different banks that are involved in the instant payment system supported by the Czech National Bank. Payments will take place in a matter of seconds 24/7/365.

## Entrepreneurs and small businesses

Due to the enduring positive economic environment, entrepreneurs and small firms continued to develop their businesses, as demonstrated by the substantial increase in balances on deposit accounts at KB, which grew by 4.9% to reach a total CZK 196.2 billion. Entrepreneurs also supported their activities by growing use of medium- and long-term loans. The total volume of financing provided by KB to small businesses increased by 3.3% year over year to CZK 36.7 billion. Meanwhile, to finance their operating or investment needs, clients used the services of Factoring KB for financing their receivables as well as loans or leasing provided by SGEF, ALD Automotive, and ESSOX.

More than 14,000 entrepreneurs and small businesses opened business accounts at KB during 2019, and greater than half of those were just starting their businesses. The total number of clients served in this segment reached 244,000.

In order continuously to improve the quality of services provided, KB continued to monitor customer satisfaction using Net Promoter Score (NPS) also in the Business and Small Business segment. In addition to regular one-off measurements on a sample of several hundred clients and non-clients (in order to obtain comparison with competitors), the Bank moved to continuous measurement on a significantly larger sample of clients. More than 117,000 clients were interviewed on an ongoing basis throughout the year, representing 48% of the total client portfolio. More than 14,800 clients (13%) answered a questionnaire sent to them. The NPS indicator rose during the year, reaching 33 by the end of 2019. Entrepreneurs and small companies expressed the greatest satisfaction. The comparison with competitors showed that KB achieves the best results in clients' satisfaction with the services of bank advisors and with services in branches.

<sup>1)</sup> <https://www.euromoney.com/article/b1gl6sg0tc3zht/cash-management-survey-2019-results-index>.

KB continued to focus on the quality and availability of services for beginning entrepreneurs. In addition to offering preferential financial services, it improved the availability of start-up financing and developed a pilot mentoring concept for start-up entrepreneurs in co-operation with the KB student branch in Brno, the Association of Small and Medium-Sized Enterprises of the Czech Republic, and with the project Undertake It! (Podnikni to!). Already in its seventh year, the Start up! (Nastartujte se!) grant programme saw its second-highest number of participating start-up entrepreneurs from various sectors and who submitted a total of 64 projects.

During the year, KB expanded its offer of third-party services to add value for its clients. In addition to the already existing online billing service from the company Fakturoid as a part of business accounts, Czech Information Agency's CIA NEWS information services about business opportunities, and access to the portal Kooperace.cz enabling clients in engineering fields to identify new business opportunities, newly offered was advantageous access to the Board application that is unique to the Czech market for managing business finances from the company BudgetBakers.

In 2020, the Bank will focus on further improving the quality of services and consultations from the level of Corporate Centres, continued simplification of processes and access to credit, including expanding the online offer of selected services, new possibilities using banking identity to accelerate and simplify processes on the side of clients, and extending the concept of providing timely and practical client advice. The aim is to continuously improve client satisfaction and loyalty.

## Corporates and Municipalities

Competition remained very intense during 2019. Nevertheless, KB maintained its leading position in the corporate banking market, with approximately 46% of SMEs using the Bank's services.<sup>1)</sup> Komerční banka remains one of the two largest banks in public sector financing and with an upward sloping trend. KB now serves 52% of clients in this sector.<sup>2)</sup> The number of clients increased 0.2% year over year to a total of 11,000.

Deposits continued to strengthen significantly, expanding their volume year over year by 3.8% to CZK 163.9 billion in 2019. Despite that economic activity growth already had passed its peak, demand for loans remained stable, thanks in part to the interest in EU-supported financing, for which KB provides clients with a full advisory service for obtaining subsidies. The volume of financing provided by the Bank increased by (3.8%) compared to the previous year to CZK 100.8 billion. Demand for financing is mainly driven by investments in the further development of companies and the construction of residential and commercial real estate. The share of public sector financing, where both national and EU structural funds contribute to infrastructure investment, is also increasing.

Net Promoter Score was maintained at a very good level of 35 in this segment. Clients continue to appreciate the expertise and professionalism of bank advisors and the good availability of KB's

staff. Komerční banka's digital banking and product offerings are additional pillars of good customers ratings.

The availability of client care in the area of services and consulting and service of investment specialists was fully developed during 2019. This was particularly evident in regard to hedging of exchange rates, currencies, and trades for a wide portfolio of clients.

In 2018, KB had implemented with great success among clients a simplified approval process for KB Financování Expres. During 2019, it raised the limit for this lending product to CZK 60 million. The loan application is processed within 7 days.

Komerční banka continued in its preferential financing of energy savings projects. KB is the only bank in the Czech Republic to have signed a contract with the European Investment Bank for further provision of a EuroEnergie loan with an 80% guarantee and an interest rate reduction of as much as 0.4% p.a. The loan is intended for financing energy saving projects in the amount of CZK 1 million to CZK 125 million. The total volume of funds allocated for preferential financing is EUR 50 million (approximately CZK 1.3 billion) until August 2020.

In June 2019, KB launched its unique M&A Point website onto the market. It provides M&A advisory, including a free online calculator whereby business owners (and other interested parties) can quickly determine an indicative value for a business, such as when considering to sell or buy a company.

## Top Corporations

Komerční banka maintains a strong position in serving and financing large corporations with turnover exceeding CZK 1.5 billion. Meanwhile, the portfolio and number of clients in the large corporation segment is relatively stable. About 55% of large companies in the Czech Republic with turnover in excess of CZK 1.5 billion are clients of KB.<sup>3)</sup>

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

In 2019, the NPS indicator for large corporate clients reached an excellent value of 58. The best evaluations were for services and the breadth of their offer.

Deposits grew by 0.1% year over year in 2019, reaching CZK 100.7 billion. The total volume of loans (excluding reverse

<sup>1)</sup> Source: The Business Register of the Czech Statistical Office, KB's client database.

<sup>2)</sup> Source: reports of other Czech banks, KB's internal data.

<sup>3)</sup> Source: The Business Register of the Czech Statistical Office, KB's client database.



repo operations) in the Top Corporations segment increased year over year by 4.7% to CZK 157.0 billion. Komerční banka, in co-operation with its parent bank Société Générale, has begun to provide its clients with the multi-bank Internet banking application Global Cash as a replacement for the previous Sogecash Web application. This allows clients to manage their accounts at different banks in various countries with a single login.

KB helped launch the first issue of so-called green bonds in Central and Eastern Europe. The whole operation was an excellent example of Komerční banka's long-term relationship with a client and business synergies within the SG Group, as Société Générale was entrusted with the mandate for the transaction. The combination of local trust and know-how with international experience brings interesting and innovative financing opportunities to Komerční banka's clients.

An innovative product is an identity verification called eID. The eID product belongs to the group of services provided within the so-called partner API, which enables the use of Komerční banka's API interface on the basis of an agreement on use of the eID service. This service involves verifying the identity of KB's client vis-à-vis a third party who is a liable entity under the relevant anti-money laundering regulations.

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

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the 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 performance of KB SK reflects the situation on the Slovak market. The euro is the domestic currency of Slovakia, and therefore the Bank is active on a highly competitive market with excess liquidity. KB SK experienced a narrowing of spreads for standard client financing, although this was successfully offset by deeper penetration into structured transactions and year-on-year growth in the total volume of loans to reach a new high point in the branch's history. Disciplined management of operating expenditures remained essential and contributed to an excellent cost-to-income ratio relative to other banks operating in Slovakia. The cost of risk rose in the last quarter of 2019, mainly as a reflection of cyclicity in some industrial sectors of KB SK clients. Despite the higher cost of risk, KB SK has delivered its standard profitability.

KB SK's team remained very stable, and its professionals delivered the Bank's services to clients at a high quality standard.

Clients confirmed their high level of satisfaction with the services of KB SK by awarding the branch with a Net Promoter Score of 46 while mentioning the professionalism and expertise of the staff as an important differentiating factor. Client satisfaction and exceeding their expectations remain at the centre of interest for KB SK. The Bank utilises every opportunity to actively collect feedback from clients and implement it into its tailor-made client solutions. Clients have helped the Bank to redesign several of its loan products, while the main delivery inspired by feedback from clients is the mobile payment validation tool, KB SKyline, introduced in summer 2019.

The branch further invested into its systems and processes to remain compliant with rigorous regulatory requirements as well as internal standards of KB and the Société Générale Group. Cyber security and projects mitigating operational risks, particularly in the area of anti-money laundering and combating the financing of terrorism, remain among top priorities.

The Slovak economy posted a solid performance, although many industrial clients remained very cautious about their investments given the uncertainty and concerns of a global economic downturn. Industrial clients were impacted by general softening of European market conditions. A continuing focus on efficiency, prudence in lending, and compliance with regulatory requirements will remain a proven recipe for creating stakeholders' value also in 2020.

### **Investment banking**

In 2019, financial markets were driven most by geopolitical themes, and particularly by trade wars between the US and China and the repeated postponement of UK exit from the European Union. In the second half of the year, a deterioration in macroeconomic indicators in Europe and Asia, which was then exacerbated in the summer months, fed the negative sentiment on the markets. The German economy narrowly avoided recession and the Central European region also recorded slowing growth. The main central banks of the world have responded to this mix of events with a new wave of easing monetary conditions to avoid the bleak scenarios predicted by leading indicators or the slope of yield curves across markets. Despite that the global slowdown also hit the domestic economy, the Czech National Bank had to face accelerating inflation and erratic development of the crown's exchange rate. For a while it moved above the level of 26 crowns per euro in the second half of the year, but it then again showed that it can quickly strengthen. The central bank delivered one interest rate hike despite that markets were speculating on declining rates through most of the year.

The Czech stock market, as measured by the main index of the Prague Stock Exchange PX Index, rose by a decent +13.1% in 2019. Including dividends (total return), the appreciation was a strong +18.3%. Share prices grew in the first quarter, then corrected before gaining again in the last quarter of the year. Compared to the loss that the PSE recorded in 2018 (-8.5% and -4%, respectively), the rise last year came as a pleasant change. Other major European markets, however, outperformed the PSE by a few percentage points. Equity markets were influenced by the global events described above. Liquidity decreased, as total trading volume on the PSE fell by almost a quarter year over year. There was no delisting from the trading on the Prague Stock Exchange, but no new IPO either. The PSE's best performer of 2019 was Avast, whose share price jumped up +71.8%, followed by the media group CME (+63.7%). On the other hand, PFNonwovens (-13.2%) and CEZ (-4.8%) recorded the biggest losses.

KB's investment banking achieved very solid results in 2019. The Czech and Slovak corporate sales desks put in a very good performance while executing large and sophisticated transactions in the interest rate, cross currency swap, and foreign exchange markets. Particularly strong results were achieved in the SME and Retail Sales segments. Volumes traded across the

eTrading platform continued to grow. The Financial Institutions Sales Desk executed several corporate bond issues and cross currency repo transactions. Traders earned good income from market-making activities, but, with lower volatility and only one CNB rate hike in 2019, flows from clients were lower compared to the post-CNB intervention years 2017–2018.

A new sales organisation was put in place to better serve KB clients and to be in line with the new KB Corporate & Investment Banking arm structure.

## Transaction and payment services

### Cash payment operations

The year 2019 was a breakthrough one for KB in the area of cash payments as it continued in fulfilling the strategy to boost the efficiency of cash operations by enhancing automation of those processes. Already before the end of 2019, nearly 60% of the total volume of client cash transactions (even almost 90% by transaction count) was executed away from the cash desks. This was mainly enabled by massive development of the KB deposit ATM network. Within the branch network, additional Teller Cash Recycling machines were also installed, reaching a total of 76 out of the originally planned 80.

During 2019, KB put into operation 70 new deposit ATMs. That means KB clients can deposit their banknotes already at 389 locations (178 ATMs include direct recycling of banknotes). The average volume of a single ATM deposit was approximately 23,500 CZK, and at the end of 2019 the total number of ATM deposits exceeded 270,000 per month. KB is the market leader in the area of deposit ATMs and operates the largest network of deposit ATMs in the Czech Republic.<sup>1)</sup> That network includes several drive-up ATMs installed at Benzina petrol stations, where clients can conduct cash operations directly from their cars. On a monthly basis, almost CZK 5.5 billion in cash flows through deposit ATMs. That represents a 30% increase year over year.

During 2019, KB already implemented the technology of contactless payment card reading on 241 of its ATMs, where clients also can use mobile phones with NFC technology or smart watches instead of classic payment cards. The number of ATMs with this innovation will gradually increase.

As of the end of 2019, KB was operating almost 800 ATMs.

Another innovation in 2019 which contributed significantly not only to boosting client satisfaction but also to the efficiency of KB's cash operations was the launch of cash deposits acceptance via closed packages under an improved regime. In contrast to previous practice, the amount of a cash deposit is credited to the client's account immediately after taking over the closed package at selected of the Bank's points of sale during their full opening hours.

Another significant achievement during 2019 was implementation of key changes in the area of foreign exchange cash transactions as stipulated by the amendment to the Foreign Exchange Act. KB successfully implemented the required technical changes for providing foreign exchange cash transactions without any

negative impact on clients. That this was no easy process can be seen in the facts that some non-bank exchange offices as well as major banks competing with KB gave up on providing this service with effect from 1 April 2019 and that at the end of 2019 another competitor discontinued this service for its clients. This was probably the reason, too, that the volumes and numbers of foreign exchange cash transactions carried out in the remaining three quarters of 2019 were significantly higher than in the previous period. At the peak of the season, these values were approximately three times greater than in the previous year.

### Non-cash payment operations

KB is one of the three largest payments players on the Czech market. The Bank recorded a 2.8% year-on-year increase in the number of domestic payments and 3.5% gain in foreign payments. The share of SEPA payments in euro in the total number of foreign payments remained at 85% for the year.

Clients benefited during 2019 from accelerated payments to other domestic banks, which transactions totalled some 40 million. They further benefited from processing payments in 24/7/365 mode between current and savings accounts within KB. These payments are credited to the beneficiary's account in KB within seconds. About 6.5 million of these transactions were executed in 2019.

In July 2019, KB also introduced faster sending of direct debit orders to other domestic banks, thereby allowing business and corporate clients to improve their cash flow.

Payments acceleration was escalated by introducing instant payments. From mid-August, KB began to receive instant payments from other domestic banks that allowed their processing. From the beginning of October, KB also provided its clients the possibility to submit instant payments. At the end of 2019, instant payments were available in the Mobile Banking and Mobile Banking Business applications, as well as in MojeBanka and MojeBanka Business Internet banking. During this period, KB processed 3.3 million incoming instant payments and 92,000 outgoing immediate payments. All immediate payments are verified in order to prevent fraudulent transactions.

Since August, the processing of domestic payments has been further optimised. Repeated attempts are now made to post a pending order during the day for clients who did not have sufficient funds on their accounts at the time of submission to the Bank, and also by introducing repeated attempts to post a pending order for the next two business days in cases of insufficient funds at the time of a transaction's submission.

Redesign of the overviews and the method of entering, changing, and cancelling standing orders and direct debit authorisations in August was followed in November by the introduction of repeat attempts to post pending standing orders for the next four business days if a client did not have sufficient funds in his or her account. Simultaneously, changes in notifications of non-execution of standing orders to HTML e-mails and default settings for sending them to all internet banking users were introduced. The logic of sending notifications was changed so that the client immediately becomes aware of the first unsuccessful attempt to post a payment (which includes the date by which it is possible to add missing funds in order to execute

<sup>1)</sup> <https://www.finparada.cz/5874-Prehled-bankomatu-a-vkladomatu-bank-v-Cesku.aspx>.

the standing order successfully) and the final refusal of the standing order.

Since mid-December, SEPA payment fees have been reduced to the price level for domestic payments. Clients pay the same amounts for outgoing and incoming SEPA payments as they pay for outgoing and incoming domestic payments.

We plan to further improve our customer experience in making instant payments during 2020 and to expand their use while also optimising foreign payment processing and further enhancing the transparency of payment information.

As of mid-September 2019, banks have been subject to a mandatory requirement to issue an API interface under the EU Regulation known as PSD2 with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.<sup>1)</sup> As early as 2019, KB was one of the first banks on the Czech market to implement a defined API interface in accordance with PSD2, thereby allowing third parties to access clients' payment accounts. This implementation includes all three PSD2 services in accordance with COBS (Czech Open Banking Standard), in the development of which KB was actively involved. These are: 1) AIS – account information, 2) PIS – initiation of a payment order including immediate payments, and 3) CIS – verification of sufficient resources.

Based on the proven reliability of the API interface and removal of PSD2 barriers identified by the regulator, KB obtained an exemption from the CNB from the obligation to build an emergency mechanism for the PSD2 API. At the end of 2019, KB was actively providing PSD2 services through 13 licensed entities: 5 payment institutions (FinTech companies) and 8 banks (including 1 foreign). In 2019, we processed 3.6 million requests sent via the PSD2 API interface.

### Payment cards

In the payment cards area, 2019 was a year of smart devices payments. In particular, that meant mobile phones and watches. A major event in this sense was the launch of Apple Pay on the Czech market in February 2019. KB was among the first six banks supporting this payment channel for all its issued payment cards.

Along with other, similar platforms available in the Czech Republic (Google Pay, Garmin Pay, and Fitbit Pay), the share in the volume and number of card transactions executed via these payment means reached 10%. KB is a pioneer in this area and is one of the few banks in the Czech Republic supporting all available payment platforms.

Also in 2019, the number and volume of KB card transactions at merchants increased by 17% and 14%, respectively. KB thus confirmed that with its 1.6 million payment cards in issue it is one of the leading issuing banks on the Czech market. At the end of the year, KB began offering a new 4U credit card on the Czech market with a revolutionarily low interest rate and no monthly fee.

In 2019, KB continued to maintain its uniqueness in the area of special limited edition design payment cards. In addition to a series dedicated to the 80th anniversary of a leading superhero (Batman), it also featured a unique series of cards dedicated to the popular Big Bang Theory television show plus a unique set associated with the Rock for People music festival and featuring new mascots of this important cultural event.

Regarding payment cards acceptance, KB continues to develop its business alliance with Worldline under the KB SmartPay brand. In 2019, year-on-year growth in both number and volume of card transactions was 14%. With its almost 50% growth, e-commerce was the most dynamic vertical.

### Trade finance and cash management

The Bank has proven its traditionally strong position in providing trade finance services to corporate clients. A slight gain was recorded year over year in trade finance sales volumes while significant double-digit growth was seen specifically in the SME segment. KB issued 10% greater volumes in bank guarantees. For the third consecutive year, there persisted an upward trend in export letters of credit. The Bank received 10% greater volume of export documentary credits. In addition to typical export items, bark beetle wood newly represented substantial export flows. As a part of digitalisation processes, KB invested into developing a brand-new application for online communication with clients that is scheduled for deployment in 2020. In parallel, preparatory works have started for KB's joining an innovative trade finance portal we.trade that runs on blockchain technology. This interface will offer clients a whole range of new services like guaranteed payment and its financing or automatic payment.

### Selected indicators on payment services

Komerční banka (Bank only)	2019	2018	Year-on-year change (%)
<b>Number of payment cards in circulation</b>	<b>1,579,000</b>	<b>1,565,000</b>	<b>0.9</b>
– debit cards	1,401,000	1,388,000	0.9
– credit cards	178,000	178,000	-
Volume of payments using KB cards (CZK <sub>m</sub> )	126,000	110,000	14.5
Number of payments using KB cards	175,896,000	149,763,000	17.4
<b>Volume of cash withdrawals (CZK<sub>m</sub>)</b>	<b>231,000</b>	<b>236,000</b>	<b>(2.1)</b>
– via ATM	139,000	136,000	2.2
– via non-ATM	93,000	100,000	(7.0)
<b>Volume of cash deposits (CZK<sub>m</sub>)</b>	<b>252,000</b>	<b>259,000</b>	<b>(2.7)</b>
– via ATM	64,000	47,000	36.2
– via non-ATM	188,000	212,000	(11.3)
<b>Number of cash withdrawals</b>	<b>26,585,000</b>	<b>27,650,000</b>	<b>(3.9)</b>
– via ATM	25,472,000	26,331,000	(3.3)
– via non-ATM	1,113,000	1,319,000	(15.6)
<b>Number of cash deposits</b>	<b>5,844,000</b>	<b>6,007,000</b>	<b>(2.7)</b>
– via ATM	2,728,000	2,073,000	31.6
– via non-ATM	3,116,000	3,934,000	(20.8)

<sup>1)</sup> COMMISSION DELEGATED REGULATION (EU) 2018/389 of 27 November 2017, supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council.

As digitalisation continues, it is bringing increased demand for product innovation also in cash management. The Bank extended and improved its product offer particularly in international cash management services. One of new services KB offers is international cross border cash pooling with centralisation of funds in the accounts of multinational companies held by Société Générale in EUR and CZK with same-day settlement of funds on the KB client's account. In a prestigious survey by Euromoney magazine, KB was named Best Cash Management Provider in the Czech Republic. Among all banks operating on the local market, KB was recognised with the title Euromoney Market Leader. Moreover, cash management has been gaining interest not only among multinational companies, but also from SMEs.

As of 31 December 2019, Komerční banka had 11 subsidiaries, where KB held more than 50%, and 1 associate, Komerční pojišťovna, where it held a 49% share. KB considers these companies as part of the Group. In addition to its ownership interests in the Group, KB held strategic interests of 20% in Czech Banking Credit Bureau, a.s. and 1% in Worldline Czech Republic, s.r.o.

With the aim of maximising all potential synergy effects, KB Group deepened mutual business co-operation within the Group during 2019 and also with other members of Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas, as well as in distribution, procurement, IT, and other supporting services. The result should be optimal, comprehensive, and effective satisfaction of clients' financial needs.

On 7 January 2019, KB SmartSolutions, s.r.o. was established to analyse the needs of clients and of the Bank in various areas of its operations and to meet these needs through co-operation with external start-ups, as well as by developing its own internal innovative solutions. An example of this activity was the establishment of two fully owned subsidiaries of KB SmartSolutions, s.r.o., which are My Smart Living, s.r.o. and KB Advisory, s. r. o.

Information on values and changes in equity investments is provided in the Separate Financial Statements according to IFRS, Note 23 'Investments in subsidiaries and associates'.

## Summary of the results of major companies in Komerční banka Group

	Group Holding (%)*	Total assets		Shareholders' equity		Net profit		Consolidation method
CZK million, IFRS		2019	2018	2019	2018	2019	2018	
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100.00	83,988	83,225	5,900	5,945	712	721	Full consolidation
Komerční pojišťovna, a.s.	49.00	52,938	51,674	2,487	2,007	622	347	Equity method
KB Penzijní společnost, a.s.	100.00	2,625	2,372	2,093	1,863	230	205	Full consolidation
SG Equipment Finance Czech Republic s.r.o.	50.10	30,917	30,290	2,827	3,349	255	277	Full consolidation
ESSOX s.r.o.	50.93	16,474	16,713	3,451	3,544	285	375	Full consolidation
Factoring KB, a.s.	100.00	10,226	9,790	1,581	1,620	61	115	Full consolidation
Protos, uzavřený investiční fond, a.s.	100.00	6,214	6,109	6,159	6,095	125	157	Full consolidation
KB Real Estate, s.r.o.	100.00	912	937	516	504	11	6	Full consolidation
VN 42, s.r.o.	100.00	1,839	2,053	1,809	2,019	(2)	27	Full consolidation
STD2, s.r.o.	100.00	574	566	201	187	15	2	Full consolidation
KB SmartSolutions, s.r.o.	100.00	47	N/A	45	N/A	(3)	N/A	Full consolidation
My Smart Living, s.r.o. (100% subsidiary of KB SmartSolutions, s.r.o.)	100.00	24	N/A	18	N/A	(15)	N/A	Not consolidated**
KB Advisory, s. r. o. (100% subsidiary of KB SmartSolutions, s.r.o.)	100.00	1	N/A	1	N/A	0	N/A	Not consolidated**
Foreign participations								
BASTION EUROPEAN INVESTMENT S.A.	99.98	3,157	3,233	607	533	(1)	20	Full consolidation
ESSOX FINANCE, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	2,523	2,368	240	236	7	4	Full consolidation

\* KB direct and indirect holding.

\*\* My Smart Living, s.r.o. and KB Advisory, 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. Detailed information on 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). The KB branch in the Slovak Republic is oriented towards serving large and medium-sized enterprises with turnover of EUR 40 million or more. The position of the KB branch in Slovakia is a strong one in this field, having at its disposal the 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's branch in the Slovak Republic 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. 12. 2019	31. 12. 2018
Total assets	28,972,436	29,265,723
Shareholder's equity	162,332	289,376
Loans to clients (gross)	23,378,549	22,502,115
Volume of deposits	4,251,203	5,236,284
Net operating income	461,900	508,449
Tax	(73,791)	(82,941)
Net profit	158,703	337,054
Average number of FTEs	42	41
Number of points of sale	1	1
State support	0	0

#### Contact:

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P. O. BOX 137  
811 06 Bratislava  
ID 47231564  
Phone: +421/2/592 77 328, 329  
Fax.: +421/2/529 61 959  
E-mail: koba@koba.sk



### 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 19% market share.<sup>1)</sup> 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, plus life and non-life insurance.

#### Financial summary

(IFRS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	84,023,044	83,163,448
Shareholder's equity	5,932,378	5,944,572
Loans to clients (gross)	56,289,070	51,240,521
Volume of deposits	61,806,774	61,845,090
Net operating income	1,371,214	1,341,878
Tax	(44,470)	(52,690)
Net profit	707,534	720,962
Average number of FTEs	328	328
Number of points of sale	205	204
State support	0	0

\* Not audited.

#### Contact:

Modrá pyramida stavební spořitelna, a.s.  
Bělehradská 128, č. p. 222  
120 21 Prague 2  
ID: 60192852  
Phone: +420 222 824 111  
E-mail: info@modrapyramida.cz  
Internet: www.mpss.cz  
www.modrapyramida.cz

<sup>1)</sup> 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](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 14% share in the supplementary pension savings market (3rd pillar) and an 11% share in the pension insurance market (Transformed Fund).<sup>2)</sup>

#### Financial summary

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Assets under management**	63,773,595	58,850,207
of which		0
in Transformed Fund	56,324,780	53,517,368
Shareholder's equity	1,840,115	1,609,778
Net operating income	414,624	387,003
Tax	(54,935)	(49,227)
Net profit	230,336	204,893
Average number of FTEs	48	49
State support	0	0

\* CAS: Czech Accounting Standards, not audited. Figures for year 2018 were changed according to the final audited financial statements.

\*\* Total volume on client accounts.

#### Contact:

KB Penzijní společnost, a.s.  
náměstí Junkových 2772/1  
155 00 Prague 5  
ID: 61860018  
Phone: +420 955 525 999  
E-mail: kbps@kbps.cz  
Internet: www.kbps.cz

<sup>2)</sup> Source: Association of Pension Funds of the Czech Republic, <https://www.apfcr.cz/ctvrtletni-vysledky-2019/>.

## 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-tech, real estate, and special projects by leasing and lending. SGEF has a 9% market share in the non-bank financing market in the Czech Republic as measured by financed amount (excluding consumer loans).<sup>1)</sup>

### Financial summary

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	31,982,524	31,396,317
Shareholders' equity	2,829,848	3,340,505
Volume of new financing	13,375,989	11,995,473
Net operating income	600,598	479,541
Tax	(89,620)	(40,687)
Net profit	266,526	155,980
Average number of FTEs	140	130
State support	0	0

\* CAS: Czech Accounting Standards, not audited. Figures for year 2018 were changed according to the final audited financial statements.

### Contact:

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

## 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 by companies associated in the Czech Leasing and Finance Association.<sup>2)</sup> Main products include financing of consumer goods and automobiles, general purpose loans, and revolving credit (credit cards). Through the acquisition of PSA FINANCE ČESKÁ REPUBLIKA and PSA FINANCE SLOVAKIA, ESSOX entered the market for financing new cars in 2016. As of 1 January 2018, PSA FINANCE ČESKÁ REPUBLIKA became part of its parent company, ESSOX s.r.o., and PSA FINANCE SLOVAKIA changed its name to ESSOX FINANCE, s.r.o.

### Financial summary

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	16,333,596	16,546,737
Shareholders' equity	3,310,782	3,411,276
Amounts due from clients (gross)	14,934,532	14,886,624
Net operating income	948,579	962,336
Tax	(59,391)	(49,896)
Net profit	280,844	382,885
Average number of FTEs	363	376
State support	0	0

\* CAS: Czech Accounting Standards, not audited. Figures for year 2018 were changed according to the final audited financial statements.

### Contact:

ESSOX s.r.o.  
F. A. Gerstnera 52, 370 01 České Budějovice  
ID: 267 64 652  
Phone: +420 389 010 111  
E-mail: [essox@essox.cz](mailto:essox@essox.cz)  
Internet: [www.essox.cz](http://www.essox.cz)

## 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 33% share on the Czech factoring market according to the volume of receivables transferred.<sup>3)</sup> 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. 12. 2019	31. 12. 2018
Total assets	16,411,331	16,315,332
Shareholder's equity	1,581,849	1,620,585
Factoring turnover	54,019,832	50,168,004
Amounts due from clients (gross)	15,564,488	15,470,803
Net operating income	171,078	166,502
Tax	(17,513)	(26,640)
Net profit	61,633	115,094
Average number of FTEs	44	41
State support	0	0

\* CAS: Czech Accounting Standards, not audited.

### Contact:

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

<sup>1)</sup> Source: Czech Leasing and Finance Association, data as of 30 June 2019, <https://www.clfa.cz/data/dokumenty/910-1pololeti2019zebrickys.xls>.

<sup>2)</sup> Source: Czech Leasing and Finance Association, data as of 30 June 2019, <https://www.clfa.cz/data/dokumenty/910-1pololeti2019zebrickys.xls>.

<sup>3)</sup> Source: Czech Leasing and Finance Association, data as of 30 June 2019, <https://www.clfa.cz/data/dokumenty/910-1pololeti2019zebrickys.xls>.

## Komerční pojišťovna a.s.

The shareholders of Komerční pojišťovna are SOGECAP (51%) and Komerční banka (49%). This insurance company has a 4% share in the life insurance market (according to methodology of the Czech Insurers Association, measured by premiums written).<sup>1)</sup> 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, since 2016, non-life insurance for residential real estate and households.

### Financial summary

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	49,663,044	47,797,166
Shareholders' equity	2,233,950	1,936,468
Technical reserves (gross)	48,899,752	47,452,817
Gross premium written	8,310,265	5,146,804
Tax	(133,443)	(125,230)
Net profit	580,677	547,949
Average number of FTEs	222	210
State support	0	0

\* CAS: Czech Accounting Standards, not audited.

### Contact:

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

## ESSOX FINANCE s.r.o.

ESSOX FINANCE (formerly PSA FINANCE SLOVAKIA, s.r.o.) provides 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. On 14 July 2017, the ownership structure of PSA FINANCE SLOVAKIA, s.r.o. changed and the sole owner of the company became ESSOX s.r.o. On 1 January 2018, the name of the company was changed to ESSOX FINANCE.

### Financial summary

(SAS*, EUR thousand)	31. 12. 2019	31. 12. 2018
Total assets	99,033	92,121
Shareholder's equity	9,402	9,199
Amounts due from clients (gross)	97,585	91,036
Net operating income	3,235	3,275
Tax	(157)	(94)
Net profit	171	64
Average number of FTEs	30	27
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

## BASTION EUROPEAN INVESTMENTS S.A.

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. The ownership share of Komerční banka a.s. in BASTION was 99.98% as of 31 December 2019.

### Financial summary

(IFRS*, EUR thousand)	31. 12. 2019	31. 12. 2018
Total assets	124,243	125,692
Shareholder's equity	23,874	20,710
Loans to clients (gross)	100,362	104,976
Volume of deposits	0	0
Net operating income	(9)	709
Tax	26	107
Net profit	(36)	784
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

<sup>1)</sup> Source: Czech Insurance Association, <http://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2019Q4-CAP-CZ-2020-01-27-WEB.pdf>



**VN 42 s.r.o.**

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. VN 42 s.r.o. was fully owned by Komerční banka a.s. as of 31 December 2019.

**KB Real Estate s.r.o.**

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. Komerční banka a.s. fully owned KB Real Estate s.r.o. as of 31 December 2019.

**STD2 s.r.o.**

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. Komerční banka a.s. fully owned STD2 s.r.o. as of 31 December 2019.

**Financial summary**

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	1,838,763	2,052,572
Shareholder's equity	1,809,158	2,018,711
Net operating income	180,717	178,398
Tax	(17,841)	(24,789)
Net profit	(2,305)	27,248
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

**Financial summary**

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	911,995	937,806
Shareholder's equity	515,552	504,445
Net operating income	65,252	60,321
Tax	(2,605)	(1,399)
Net profit	11,107	5,961
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

**Financial summary**

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	573,550	569,015
Shareholder's equity	200,870	186,869
Net operating income	42,914	17,967
Tax	(3,540)	(531)
Net profit	15,082	2,450
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.

Protos, uzavřený investiční fond a.s. (a closed-end investment fund) was established in 2007 as a fund for qualified investors. The company's investment objective is the implementation of investment decisions, in particular primary issues of government bonds and other receivables issued or guaranteed by governments of the European Union member states. The company's long-term intention is to provide a regular and equitable dividend that follows the principle of accrued revenues and costs in the company's accounts. For this reason, the company prefers to minimise purchases and sales into and from the asset portfolio in such a way that trading gains and losses do not create additional dividend volatility. The ownership share of Komerční banka a.s. in Protos, uzavřený investiční fond a.s. was 83.65% as of 31 December 2019. The share of Factoring KB, a.s. in Protos, uzavřený investiční fond a.s. was 16.35% as of 31 December 2019.

#### Financial summary

(CAS*, CZK thousand)	31. 12. 2019	31. 12. 2018
Total assets	6,240,911	6,097,429
Shareholders' equity	6,184,964	6,094,898
Net operating income	132,315	166,736
Tax	(6,570)	(8,289)
Net profit	124,825	157,488
Average number of FTEs	0	0
State support	0	0

\* CAS: Czech Accounting Standards, not audited.

#### Contact:

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

### KB SmartSolutions, s.r.o.

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-ups, but it also provides support to and for internal innovative solutions. Komerční banka a.s. fully owned KB SmartSolutions, s.r.o. as of 31 December 2019.

#### 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.

On 8 January 2019, My Smart Living, s.r.o. was established to provide comprehensive solutions for clients' needs in relation to housing. Inasmuch as it is itself a fully owned subsidiary of KB SmartSolutions, s.r.o., Komerční banka a.s. fully owned My Smart Living, s.r.o. as of 31 December 2019.

#### 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](mailto:cink@cincink.cz)  
internet: <https://www.cincink.cz>

### KB Advisory, s. r. o.

The company KB Advisory, s. r. o. was established on 16 September 2019 as a consultancy for small and medium-sized enterprises and municipalities. Inasmuch as it is itself a fully owned subsidiary of KB SmartSolutions, s. r. o., Komerční banka a.s. fully owned KB Advisory, s.r.o. as of 31 December 2019.

#### Contact:

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

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

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

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

Compliance with the Code is maintained through the Bank’s open approach to disclosing information on material matters of the Bank, in particular concerning its financial position, dividend policy, performance, ownership, corporate governance, and company management. The financial reports provide a true and fair view of the Bank’s accounting and financial position. Shareholders are informed in a timely manner as to the date, location, and agenda of the General Meeting, the proposals of the individual resolutions and their rationale, including information on the proposal for paying out the share in profit and the method of this payment. Shareholders are informed of their rights relating to their participation in the General Meeting, including a description of how to participate in the General Meeting, whether in person or on the basis of a power of attorney, and have at their disposal in advance materials concerning the agenda of the General Meeting. The invitation to the General Meeting also explains the rules and voting procedures governing the General Meeting. Since 2019, shareholders have been able to vote on motions for resolutions before the general meeting is held via the electronic platform for remote communication. In October 2019, there came into effect an amendment to the Act on Capital Market Undertakings transposing the Directive of the European Parliament and of the Council on the long-term involvement of shareholders. Among other things, this amendment raises awareness and facilitates the exercise of shareholder rights, and it introduces certain obligations in regard to remunerating board members and significant related party transactions. KB initiated the implementation of these new obligations by, for example, submitting in 2020 to the General Meeting for approval the remuneration policy for members of the Bank’s bodies. All this information is available on the Bank’s website and in the press, and press releases are issued regularly.

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

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

The Bank applies a policy of diversity. The Supervisory Board endeavours within its scope of 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 assessment of 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 successes, 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. 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. Following the resignation of Supervisory Board member Mr Laurent Goutard, Ms Maylis Coupet was nominated as a member of the Supervisory Board and currently three out of nine members of the Supervisory Board are women. Candidates undergo assessment and evaluation as to their fulfilling the credibility, knowledge, experience, management, and independence requirements and respond to questions prepared for evaluating their suitability for the Bank's bodies. They submit a professional CV, an extract from the criminal record, and references. Once a year, the Nominations Committee evaluates the trustworthiness, professional competence, and experience of the individual members of the Supervisory Board and the Board of Directors and of the two bodies as a whole and submits reports on this evaluation to the Supervisory Board. These evaluations form the basis for seeking candidates for open positions and for ensuring that the two Boards as a whole as well as their members have suitable professional, time-related, and other requirements for performing their activities.

Since 14 January 2019, one-third of the Supervisory Board's members have consisted of employees' representatives, thus ensuring the proper and effective exercise of the Bank's employees' rights to elect one-third of the Supervisory Board members and the possibility to be elected as a Supervisory Board member.

At its meetings in March, April, and September 2019, the Nominations Committee reviewed the suitability of the Board of Directors and the Supervisory Board and concluded that individual members of the Board of Directors and Supervisory Board are suitable persons for their respective positions.

The Board of Directors and Supervisory Board co-ordinate with each other the main strategies and changes in the management direction of the Bank. The Board of Directors shall periodically provide the Supervisory Board with information on the state of

implementing these changes and all relevant facts concerning the Bank and its controlled companies.

There were no fundamental changes during 2019 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 2019

(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	5.131%
Nortrust Nominees Limited	4.079%
CLEARSTREAM BANKING, s.a.	2.395%
GIC PRIVATE LIMITED	1.664%
J.P. MORGAN BANK LUXEMBOURG S.A.	1.437%
STATE STREET BANK AND TRUST COMPANY	1.301%
Other shareholders	23.640%

### Shareholder structure of Komerční banka as of 31 December 2019

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

	Number of shareholder	Proportion in number of shareholders	Proportion of share capital
<b>Number of shareholders</b>	<b>50,462</b>	<b>100 %</b>	<b>100%</b>
of which: legal entities	743	1.47%	94.95%
private individuals	49,719	98.53%	5.05%
<b>Legal entities</b>	<b>743</b>	<b>1.47%</b>	<b>94.95%</b>
of which: from the Czech Republic	245	0.49%	1.63%
from other countries	498	0.99%	93.32%
<b>Private individuals</b>	<b>49,719</b>	<b>98.53%</b>	<b>5.05%</b>
of which: from the Czech Republic	45,360	89.89%	4.83%
from other countries	4,359	8.64%	0.22%

The General Meeting is the supreme body of the Bank. The Regular General Meeting is convened at least once per year, and in no case later than four months from the last day of each accounting period. A quorum of the General Meeting shall be constituted if the attending shareholders hold shares the total nominal value of which exceeds 30% of the Bank's registered capital, provided that voting rights are attached thereto in accordance with generally binding legal regulations and except in cases specified in § 12, para. 1 of the Articles of Association. 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](http://www.kb.cz) and on the notice board in the Bank's registered office, as well as published in the Mladá Fronta DNES daily newspaper. All documents relating to corporate governance are published on the Bank's website. Issues not included in the proposed agenda for the General Meeting are decided upon only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board of Directors or a person designated by the Board of Directors. This member of the Board of Directors shall also conduct the General Meeting until a Chairperson of the General Meeting is elected.

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

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

#### **The General Meeting has within its powers to:**

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



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

- w) provide its consent regarding a contract for settlement of a loss caused by a breach of the duty of due care on the part of a member of a body of the Bank;
- x) decide upon suspending the service of a member of a body of the Bank who declares a conflict of interest under the Act on Business Corporations, or prohibit a member of a body of the Bank from entering into a contract which is not in the Bank's interest;
- y) decide that the amount of variable remuneration for persons whose work activities have a material impact on the risk profile of the bank may be higher than the fixed remuneration component but not more than twice the fixed component of the remuneration;
- z) decide upon other matters which according to the generally binding legal regulations or the Articles of Association are a part of the powers of the General Meeting.

The results and information from the General Meeting are available on Komerční banka's website [www.kb.cz](http://www.kb.cz).

### Principle resolutions of Komerční banka's Annual General Meeting held in 2019

At the regular General Meeting held on 24 April 2019, 453 shareholders holding shares with nominal value representing 83.78% of the Bank's share capital were present in person or through their representatives.

The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2018 as well as the annual financial statements and consolidated financial statements of Komerční banka for the year 2018, decided to distribute profit for 2018 in the total amount of CZK 15,238,139,767.81, and decided to pay out dividends in the amount of CZK 51 per share before tax. The Annual General Meeting also:

- elected Mrs Cécile Camilli as a member of the Supervisory Board
- elected Mrs Petra Wendelová as a member of the Supervisory Board
- elected Mrs Petra Wendelová as a member of the Audit Committee
- appointed the company Deloitte Audit s.r.o., with its registered office at Karolinská 654/2, 186 00 Prague 8 – Karlín, registration No. 49620592, as the external auditor of Komerční banka for 2019 and the company Deloitte Audit s.r.o. with its registered office at Digital Park II, Einsteinova 23, Bratislava 851 01 as the auditor of KB's foreign branch in Slovakia.

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

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

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

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

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

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

## Board of Directors

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

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

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

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Didier Colin 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 2019

### Jan Juchelka

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

### Didier Luc Marie Colin

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

### David Formánek

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

### Miroslav Hiršl

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

### Vladimír Jeřábek

Member of the Board of Directors (since 1 June 2008, re-elected on 3 June 2016)

### 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. KB's Board of Directors elected Mr Juchelka as Chairman of the Board of Directors and Chief Executive Office of Komerční banka with effect from 3 August 2017. Mr Juchelka further serves as Chairman of the Supervisory Board of Modrá pyramida, ESSOX, and KB SmartSolutions, and he is a member of the Supervisory Board of ESSOX FINANCE, SGEF, Komerční pojišťovna, and ALD Automotive. He also is a member of the Czech Banking Association's Executive Board.

### Didier Luc Marie Colin

A graduate in finance at 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. Mr Didier Colin is a member of the Supervisory Boards of ESSOX, ESSOX FINANCE, and SGEF.

#### **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. Mr Formánek is also a member of the Supervisory Board of Modrá pyramida.

#### **Miroslav Hiršl**

A graduate from the University of Economics in Prague with a focus on foreign trade and banking and postgraduate studies at the Graduate School of Banking in Boulder, Colorado, United States of America. From 1996 to 2006, he worked in various positions within Komerční banka, first at a branch and a regional branch in Hradec Králové, then at a regional branch and at headquarters in Prague. From 2006 to 2014, he worked for Modrá pyramida, first as a director for business synergy, as a member of the Board of Directors, Deputy Chief Executive Officer, Executive Director of Trade and Marketing and finally as Deputy Chairman of the Board of Directors, First Deputy CEO, and Executive Director of Business and Marketing. Between 2014 and 2018, he served as CEO and member of the Board of Directors of Societé Générale Montenegro Bank, a.d. in Montenegro. From August 2018, he is a member of the Board of Directors of Komerční banka. Mr Miroslav Hiršl is also vice-chairman of the Supervisory Board of the company Modrá pyramida stavební spořitelna and a member of the Supervisory Boards of the companies Komerční pojišťovna, KB Penzijní společnost, ESSOX and KB SmartSolutions.

#### **Vladimír Jeřábek**

A graduate of VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University (MBA), he has held the positions of economic director and member of the board of directors in several banking institutions and at Zetor, a.s. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the regional manager responsible for the Brno region and later was in charge of Komerční banka's distribution channels. In February 2007, he was appointed Executive Director of the Distribution Network. The Supervisory Board elected Mr Jeřábek as a member of the Board of Directors in charge of Distribution with effect from 1 June 2008. He was further responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels. Moreover, Mr Jeřábek is Chairman of the Supervisory Board of KB Penzijní společnost and a member of the Supervisory Board of Modrá pyramida.

#### **Margus Simson**

An economics graduate of Tallinn University of Technology. From 2000 to 2006, he worked as a director of the Web Environment Department at SEB. From 2006 to 2009, he served as Director

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

### **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.

The Board of Directors met at 18 regular and 1 extraordinary meeting in 2019 and held 8 remote votes in accordance with the Bank's Articles of Association. A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors.

In 2019, the Board of Directors discussed the annual financial results of KB Group for the year 2018, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2018 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2018, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, the proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. Moreover, it approved the Bank's Annual Report for 2018 and Half-yearly Report for 2019. It also was presented a contract with an external auditor and documents on the providing of non-audit services.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. It continuously evaluated the Bank's capital adequacy and approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions, and investment firms. In this context, the CNB also approved an ICAAP 2019 half-yearly report, which was also submitted to the CNB, as requested by the CNB. On the basis of the test of solvency, it decided on the payment of dividends for the year



2018. It also discussed capital management policy, particularly with respect to new regulatory requirements on banks' capital requirements. In this connection, it approved a dividend policy in relation to the profit for the year 2019. Moreover, the Board of Directors discussed reports on the market situation, the development of structural risks for each quarter of the year, as well as the KB Group budget for 2019.

As part of its activities, the Board of Directors regularly assessed all of the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it discussed limits on market risks, and, within its competence, discussed loans to economically connected groups above a specified limit and the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department. Moreover, it approved competences in providing loans and the document on the level of so-called risk appetite. In the operational risks area, the Board of Directors discussed the regular quarterly reports and at the same time, it also approved the inclusion of this unit under Bank's Risk Management. The Board dealt with IT areas and measures to ensure the IT stability of its operations, including the management of information security issues. In connection with the arrival of a new member of the Board of Directors (in January 2019) managing this area, the position of Chief Digital Officer was established and a number of new organisational changes were implemented during the year. The Board of Directors also approved a cyber security strategy for the period 2019–2021 and a so-called "Client Digital Security Strategy" for the same period.

Compliance risks were evaluated both in the yearly report for 2018 and in quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2018 annual evaluation report on KB's system against money laundering and the financing of terrorism. It was informed on new regulations impacting the Bank and needing to be implemented as well as their expected development in the next year. It regularly discussed issues related to the Lafayette program (summary of the group regulatory activities implementing the highest standards in the area of fight against corruption and terrorist financing) and issues related to the so-called "know-your-customer" policy. The Board of Directors decided the Bank would commit to the Czech Banking Association's standard on GDPR and was informed of the steps and measures taken in connection with GDPR and the protection of personal data. The Board of Directors also addressed the issue of remedial measures (in accordance with Directive No. 2014/59/EU). The Board of Directors updated the list of those employees whose professional activities have a material impact on the Bank's risk profile.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It discussed reports on the status of corrective measures as of the end of each quarter of 2019 and was regularly informed of all actions carried out by Internal Audit. Management of corrective measures and their proper implementation were fully addressed. The Board of Directors discussed the audit plan of the KB Group for 2019. It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2020 and a strategic plan for the period 2020–2024 were established and approved. It discussed, too, measures (and status of their implementation) taken in

accordance with the findings presented in the Constructive Service Letter which had been prepared and presented to the Board of Directors by the external auditor Deloitte Audit, s.r.o.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system. That system is functional and effective, although there are certain areas for improvement covered by appropriate action plans. The Board of Directors approved the updated Statute of Internal Audit and the statutes of some of its committees, including the Statute of the Strategy and Executive Committee. Furthermore, the Board of Directors discussed the Bank's strategic direction for the next year and took appropriate steps to implement the KB Change programme. The Supervisory Board and the Czech National Bank were informed about all these steps. The Board of Directors evaluated the overall organisational structure and organisational changes adopted during 2018 and subsequent periods. It concluded that the organisational set-up is functional and effective, meeting the requirements for the division of incompatible functions and the prevention of potential conflicts of interest.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters. In January 2019, a subsidiary KB SmartSolutions was established, which primarily focuses on co-operation with fintech and financial start-ups.

The Board of Directors, acting as founder, also discussed the orientation of Komerční banka's Jistota Foundation and was informed of the Foundation's activities. The Board of Directors approved a financial contribution for the Foundation's activities, and a contribution was provided to the budget of the Debt Advisory Centre. It discussed contractual documentation related to co-operation with the European Investment Fund.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech law and in the context of corporate governance adopted by the parent company Société Générale. The Board of Directors evaluated its own activities in 2018 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors also approved the distribution of competences among individual members. It further discussed the setting and evaluation of Key Performance Indicators for Reconstruction Members, Chief Executive Officers, and Tribe Leaders. The Board of Directors dealt with matters related to the National Development Fund and signed the Memorandum of Co-operation in the implementation of its intention to establish it. The Board of Directors was kept continuously informed as to the state of collective bargaining and three amendments to the collective agreement were concluded during the year. The Board of Directors also examined the results of the Barometer 2019 Employee Satisfaction Survey. It was informed about matters under discussion within the Czech Banking Association.

## 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, approves the amount 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 have the casting 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 and Chief Risk Officer
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
Vladimír Jeřábek	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Margus Simson	Member of the Board, Senior Executive Director and Chief Digital Officer
Ctirad Lolek	Executive Director, Human Resources
Jiří Šperl	Executive Director, Strategy and Finance
Secretary of the Committee: Jakub Ondruška	

### 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 and Chief Risk Officer
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

Members – LEVEL 2	Position
Didier Colin	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
Jiří Čabrada	Credit Risk Assessment Manager
Agness Henn	Manager of Corporate Credit Portfolio Management
Lukáš Horáček	Manager of Loan Consulting
Radek Trachta	Executive Director, Top Corporations

Members – LEVEL 1 Pilsen	Position
Alena Vacíková	Manager of Regional Credit Risk Assessment
Martin Černý	Head of Loan Portfolio Management – Corporate
Petr Paružek	Head of Loan Portfolio Management – Corporate
Dana Hnojská	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Hradec Králové	Position
Jiří Dědek	Manager of Regional Credit Risk Assessment
Vladislav Bareš	Head of Loan Portfolio Management – Corporate
Alena Slípková	Head of Loan Portfolio Management – Corporate
Lenka Kalinová	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Ostrava	Position
Lubomír Andrla	Manager of Regional Credit Risk Assessment
Miroslav Sklenář	Head of Loan Portfolio Management – Corporate
Milena Veselá	Head of Loan Portfolio Management – Corporate
Renata Tobiášová	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Brno	Position
Markéta Riesnerová	Manager of Regional Credit Risk Assessment
Petr Lukášek	Head of Loan Portfolio Management – Corporate
Vladimír Minich	Head of Loan Portfolio Management – Corporate
Ilona Jarůšková	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Prague	Position
Petr Plašil	Regional Credit Risk Assessment Manager
Stanislav Chalupa	Head of Loan Portfolio Management – Corporate
Kateřina Mikulíková	Head of Loan Portfolio Management – Corporate
Vlastimil Dvořák	Head of Loan Portfolio Management – Retail
Secretary of the Committee: Blanka Neuhausel Kolářová	

### Assets and Liabilities Committee (ALCO)

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

Members	Position
Jan Juchelka	Chairman of the Board of Directors, Chief Executive Officer
Tomáš Hochmeister	Executive Director, Investment Banking
Jiří Šperl	Executive Director, Strategy and Finance
Marek Dotlačil	ALM Manager
Tomáš Fuchs	Manager of Treasury
Tomáš Kroutil	Markets and Structural Risk Manager
Dalimil Vyškovský	Trading Manager
Secretary of the Committee: Marek Dotlačil	

### 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 and Chief Risk Officer
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
Tomáš Doležal	Operational Risk Manager
Petr Trojek	Supervision and Measurement Manager
Secretary of the Committee: Milada Černá	

### 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 met. 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 and Chief Risk Officer
David Formánek	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Ida Balusková	Manager of Accounting and Reporting
Jiří Čabrada	Manager of Credit Risk Assessment
Tomáš Doležal	Operational Risk Manager
Jakub Dostálek	Manager of Tax
Tomáš Fuchs	Manager of Treasury
Tomáš Hora	Head of Legal – Investment Products
Martin Hrdý	Software Development Manager
Tomáš Choutka	Manager of Compliance
Tomáš Kroutil	Manager of Markets and Structural Risks
Norbert Vaněk	Manager of Investment Banking Services
Secretary of the Committee: Norbert Vaněk	

### 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 and Chief Risk Officer
Vladimír Jeřábek	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Yann Dumontheil	Executive Director, Retail Banking
Jan Kubálek	Retail Segment Tribe leader
Blanka Svobodová	Corporate Segment Tribe leader
Martin Berdych	Legal Services Manager
Tomáš Doležal	Operational Risk Manager
Tomáš Choutka	Compliance Manager
Thomas Jarsaillon	Shared Service Centre Manager
Pavel Polák	Information Security Manager, CISO
Antonín Prell	Digital Technology Office Manager
Petr Trojek	Supervision and Measurement Manager
Ivana Opová	Head of Steering and Quality
Secretary of the Committee: Marcela Králová	

### 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 and Chief Risk Officer
Martin Berdych	Manager of Legal Services
Roman Dolanský	Manager of Support Services- in charge of managing
Tomáš Doležal	Operational Risk Manager
Tomáš Choutka	Manager of Compliance
Thomas Jarsaillon	Shared Service Centre Manager
Pavel Polák	Information Security Manager, CISO
Petr Trojek	Supervision and Measurement Manager
Norbert Vaněk	Manager of Investment Banking Services
Helena Raizl	
Jumrová	Head Auditor
Secretary of the Committee: Dušan Pamětický	

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

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

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

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

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

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

- a) convene the General Meeting and implement its resolutions;
- b) submit to the General Meeting for its approval the annual, extraordinary, and consolidated financial statements and the interim financial statements along with a proposal for the distribution of profit (which must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for coverage of a loss;

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

- z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital ratios, the strategy for the information and communication system's development, and the strategy for human resources management;
- aa) approve and regularly evaluate the principles of the internal control system, including principles aiming to prevent the occurrence of any possible conflict of interest and principles related to compliance and internal audit and security policies;
- bb) discuss the audit report with the auditor;
- cc) after discussing with the trade unions operating in the Bank, to approve the Bank's voting rules governing the manner and rules for the election and dismissal of members of the Supervisory Board elected by employees of the Bank; and
- dd) declare and organise elections and recall of members of the Supervisory Board elected by employees of the Bank and inform the Supervisory Board of the results of these elections.

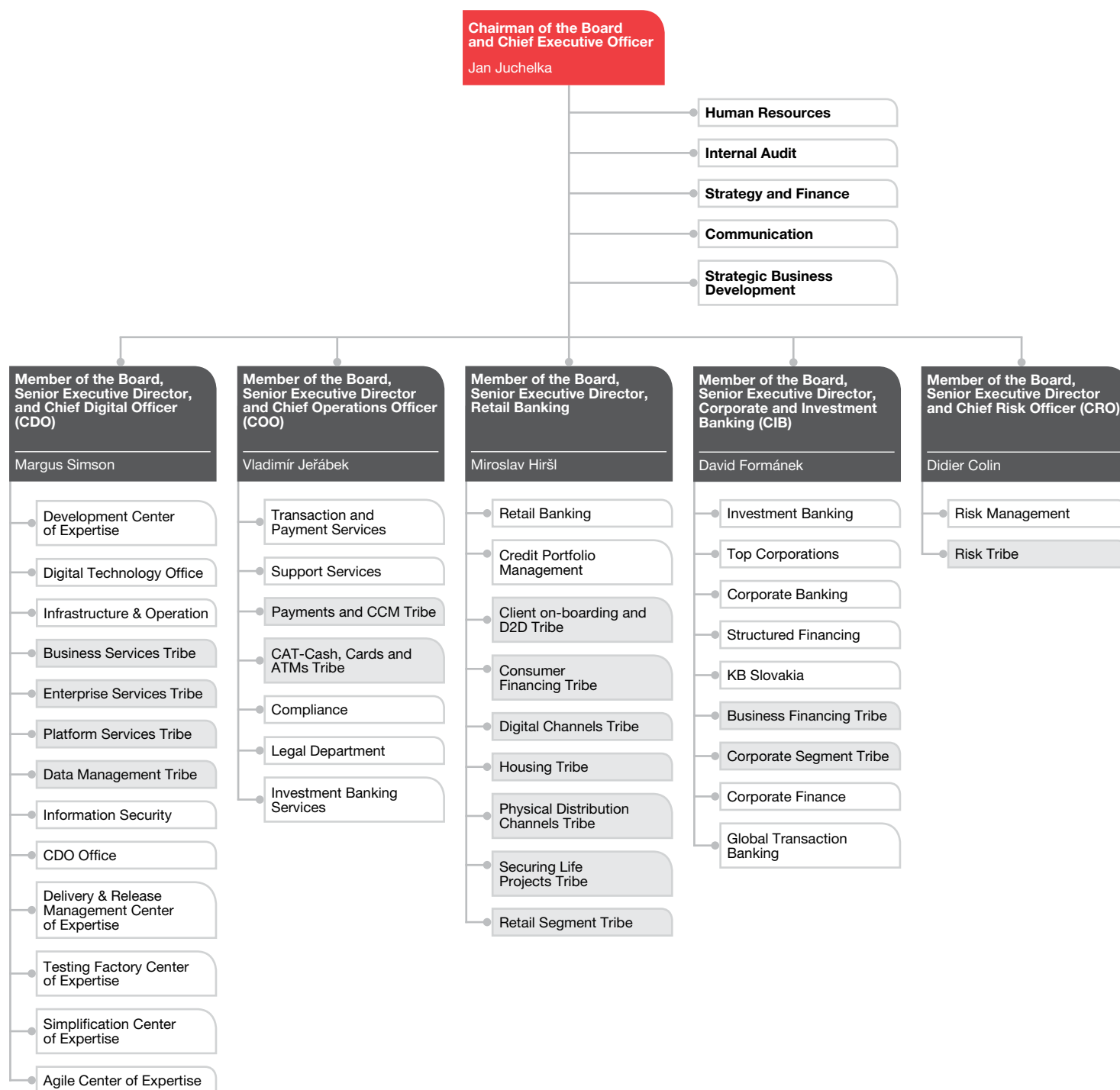
**In addition to the aforementioned, the Board of Directors shall in particular:**

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

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



## Organisational chart of Komerční banka (as of 31 December 2019)



## Supervisory Board

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

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

In accordance with 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 filed against them by a regulatory authority, except for the member of the Supervisory Board Giovanni Luca Soma, who was fined EUR 15,000 by the Bank of Italy as a member of the Executive Board of Fidelity for deficiencies in control and organisation to ensure transparency of client conditions. No bankruptcy, receivership, or liquidation was declared in relation to the stated persons in the past 5 years.

### Composition of the Supervisory Board

#### Jean-Luc André Joseph Parer

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

#### Giovanni Luca Soma

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

#### Cécile Camilli

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

#### Maylis Marie Suzanne Coupet

Member of the Supervisory Board (appointed as a substitute member since 4 December 2019)

#### Petr Dvořák

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

#### Ondřej Kudrna

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

#### Sylva Kynychová

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

#### Vojtěch Šmajer

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

#### Petra Wendelová

Member of the Supervisory Board (since 25 April 2019)

### Members whose mandate terminated during 2019

#### Laurent Goutard

Member of the Supervisory Board (from 1 May 2013, re-elected from 2 May 2017; membership terminated on 4 December 2019)

#### Pavel Jelínek

Member of the Supervisory Board, employee representative (since 1 June 2013, re-elected since 2 June 2017; membership terminated on 13 January 2019)

#### Bořivoj Kačena

Independent member of the Supervisory Board (since 29 April 2008, re-elected since 30 April 2012 and 1 May 2016; membership terminated on 13 January 2019)

#### Petr Laube

Independent member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005, 30 April 2009, 1 May 2013, and 2 May 2017; membership terminated on 24 April 2019)

#### Miroslava Šmídová

Member of the Supervisory Board, employee representative (since 2 June 2017; membership terminated on 13 January 2019)

#### Jean-Luc André Joseph Parer

A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at Société Générale in 1981 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Division. From 2001 to 2003, he participated in the development of the Debt Finance Department, and from 2003 to 2005 he was responsible for supervising activities in the debt capital markets. In 2005, he became Deputy Director of Debt Finance, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance. In 2012, he became a member of the Executive Committee of the Société Générale Group, serving as head of the International Banking Division, and, since 2013, head of the International Banking, Financial Services and Insurance Industry Division. From 2017, he had been an advisor to SG executive management. He is currently retired. Mr Parer is a member of the Supervisory Board of the company SG MAROCAINE DE BANQUES IBFS/AAMO and a member of the Boards of Directors of the companies ROSBANK IBFS/RUSS, BRD - Groupe SOCIETE GENERALE IBFS/EURO and SG DE BANQUES EN COTE D'IVOIRE IBFS/AFMO/AFO. Since 2012, he has also been a member of the Supervisory Board of Komerční banka, and, since 2013, he has been its Chairman.

#### 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. 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. Mr. Soma is chairman of the Supervisory Board of the company HANSEATIC BANK IBFS/EURO. Furthermore, he is chairman of the Board of Directors of the companies CGL IBFS/EURO and BRD - Groupe SOCIÉTÉ GÉNÉRALE IBFS/EURO, vice-chairman of the Board of Directors of the company FIDITALIA IBFS/EURO and a member of the Board of Directors of ROSBANK IBFS/RUSS. Since 2013, he has been a member and Vice Chairman of the Supervisory Board of Komerční banka.

### **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. Effective from 15 January 2019, she was appointed by the Supervisory Board as a substitute member of the Supervisory Board and elected as a member of the Supervisory Board by the General Meeting on 25 April 2019.

### **Maylis Marie Suzanne Coupet**

A graduate of the Ecole Normale Supérieure de Cachan, France, in the field of social sciences and the Ecole Nationale de la Statistique et de l'Administration Économique. During 2005–2007, she worked as Deputy Director of the Growth Policy Division of the French Ministry of Finance and during 2007–2008 as Deputy Director of the Insurance Division of the French Ministry of Finance. During 2009–2010, she worked as a financial inspector within Inspection Générale des Finances. During 2011–2014, she was Director of the Financial Markets Division of the French Ministry of Finance. During 2014–2017, she worked as a director of the Société Générale Inspection Department. Since 2017, she has been a senior banker within the Société Générale Retail Banking Department (BDDF). Effective from 4 December 2019 until the next General Meeting, she is appointed a substitute member of the Supervisory Board of Komerční banka.

### **Petr Dvořák**

A graduate of the University of Economics in Prague (VŠE), where he completed his PhD in 2003 and was named associate professor of finance in 2005. He has been active at VŠE throughout his entire professional career, in 1984–1990 within the Finance and Credit Department, and from 1990 to the present within the Banking and Insurance Department, which he headed during 1994–1998. From 2006–2014, he was also Dean of the Faculty of Finance and Accounting, and, since 2014, he has been Vice Rector for Academic Affairs. He is a member of several scientific and editorial boards and an author of numerous publications. Mr Dvořák is also a member of the Management Board of the company Bohemian Empire, investiční fond s proměnným základním kapitálem, a. s., and chairman of the Audit Committee of the company Modrá pyramida stavební spořitelna. Since 2017, he has been an independent member of the Supervisory Board of Komerční banka.

### **Ondřej Kudrna**

A graduate of the Business Academy Lobkovice, branch of economics and accounting. After graduating from secondary school and completing military service, he joined Komerční banka in 2000 as a processing specialist, then a trader, and bank advisor for Small Business. In these positions, he learned all activities and skills in the area of communication with customers and products of Komerční banka. In May 2006, he accepted the offer of the director of the Roztoky branch, where he was responsible for the training and development of new colleagues, including the promotion of a new business location. In May 2007, he accepted another challenge and became director of the Neratovice branch, where he is responsible for development of subordinates, business and financial results of the entrusted team, and compliance with the procedures of the cash and sales department. He currently holds the position in Komerční banka, of Branch Director. He has been a member of the Trade Union of Komerční banka since joining KB. Effective from 14 January 2019, he was elected a member of the Supervisory Board of Komerční banka.

### **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. Since joining KB, she has been a member of the trade union, since 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. Ms Kynychová is also a member of the Supervisory Board of the insurance company Oborová zdravotní pojišťovna. Effective from 14 January 2019, she was elected a member of the Supervisory Board of Komerční banka.

### **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 organization Brno-venkov and a member of the group for collective bargaining with the employer. Effective from 14 January 2019, he was elected a member of the Supervisory Board of Komerční banka.

### **Petra Wendelová**

She graduated from the University of Economics in Prague, where she earned the title Ing. in economic statistics and a CSc. in economic sciences. From 1984 to 1990, she worked as an internal candidate and assistant professor at the Department of Statistics of the University of Economics in Prague. From 1990 to 1992, she was a member of the Board of Directors and Vice President of HC&C (privatization fund administration). From 1992 to 1994, she worked as a member of the Board of Directors and President of HBS, a. s. (an investment firm). From 1995 to 2000, she served as Vice President of Credit Suisse First Boston. From 1996 to 2001, she was a member of the Prague Stock Exchange Chamber. From 2001 to 2005, she was a member of the Supervisory Board of the Prague Stock Exchange. From 2002 to 2005, she worked as a member of the Supervisory Board of UNIVYC (Central Securities Register). Between 2000 and 2014, she was a partner at Ernst & Young (Ernst & Young s.r.o., EY Valuations s.r.o., expert institute), and managing director and also a leading partner in the area of mergers and acquisitions. Since 2016, she has been Vice-Chairman of the Supervisory Board of Linet Group SE (Netherlands). Effective 25 April 2019, she was elected an independent member of the Supervisory Board of Komerční banka.

## **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 2019, the Supervisory Board held four regular meetings and four remote votes in accordance with the Bank's Articles of Association. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2018 prepared under International Financial Reporting Standards (IFRS) and recommended that the General Meeting approve both sets of financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2018 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2018 compiled in accordance with the provisions of § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Act on Business Corporations) and stated that, based on the presented

documents, Komerční banka did not incur during the accounting period from 1 January 2018 to 31 December 2018 any damages resulting from any concluded contract, agreement, other legal action taken or received by the Bank, or from any other influence imposed by Société Générale. At the same time, upon the recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve Deloitte Audit s.r.o. as the external auditor of the Bank for the year 2019.

During 2019, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective, although there are certain areas for improvement that are covered by appropriate action plans. Moreover, it examined the 2018 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance risk management report. KB Group's budget for 2019 was submitted for discussion to the Supervisory Board. The Supervisory Board discussed remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses. The Supervisory Board also discussed developments in the areas of employee demographics, sickness rate, and overtime. It discussed the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2018 also was presented to the Supervisory Board. Based on the proposal of the Nominations Committee, the Supervisory Board elected one new member of the Board of Directors and approved a contract for the performance of his duties. It also gave a favourable opinion on the Board of Directors' proposal to entrust functions to the Internal Audit Director. The Supervisory Board has been regularly informed by the Chairman of the Board of Directors of all steps taken under the KB Change Transformation Program.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to developments in the macroeconomic environment. Furthermore, it discussed the actions of Internal Audit and their results in individual periods of the year, as well as the internal audit plan for 2020 and the strategic plan for 2020–2024. It also discussed the update of the Internal Audit Status, the Internal Audit Strategy and the Internal Audit Quality Assurance and Improvement Program. It was informed about the preparation of the National Development Fund. In the course of its activities, the Supervisory Board continued to rely on the opinion of its Audit, Risk, Remuneration, and Nominations committees and was informed of the issues discussed by these committees. The Supervisory Board changed the personnel composition of the Nomination, Remuneration, and Risk committees. On the basis of a proposal by the Nominations Committee, the Supervisory Board approved the principle of suitability for the selection and appointment of Supervisory Board members and Board of Directors and noted the matrices for assessing individual and collective suitability of members of the Supervisory Board, members of the Board of Directors, and the Board of Directors as a whole.



## The Supervisory Board's committees

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

### Audit Committee

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

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

### Composition of the Audit Committee

#### Petra Wendelová

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

#### Giovanni Luca Soma

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

#### Petr Dvořák

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

### Members whose mandate terminated during 2019

#### Petr Laube

Independent member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010, re-elected from 30 April 2013 and 1 May 2017; membership terminated on 24 April 2019)

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

The Audit Committee held eight regular meetings in 2019. The committee performed its monitoring activities and worked

closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, and also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2018, the consolidated and separate financial statements and notes thereto as of 31 December 2018 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2018. In this context, it discussed the scope, strategy, and the main areas of external audit of financial statements for 2018, prepared by Deloitte Audit, s.r.o., and in this context it also monitored the integrity of the financial information. It further evaluated the independence of the external auditor and recommended that the Supervisory Board submit to the General Meeting for approval a proposal to appoint Deloitte Audit, s.r.o. as the Bank's external auditor for 2019. KB Group's budget for 2019 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's reports on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The committee discussed the Constructive Service Letter prepared by the external auditor, Deloitte Audit, s.r.o. It monitored the external audit process and was informed about the external auditor's plan in compiling the financial statements for 2019. It was also presented with the contract for an external audit with Deloitte Audit, s.r.o. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2020, and the strategic plan for 2020–2024.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Attention was also devoted to the capital adequacy of the Bank and Group. In this context, the committee discussed the Bank's capital management strategy, particularly with respect to new regulatory requirements regarding capital base. It also discussed the dividend policy in relation to the profit for the year 2019. The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks that it evaluated. The committee also considered the report on its activities for 2018, which was submitted to the Public Audit Board.

### Risk Committee

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

### Composition of the Risk Committee

#### Petra Wendelová

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

#### Jean-Luc Parer

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



### **Giovanni Luca Soma**

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

### **Members whose mandate terminated during 2019**

#### **Petr Laube**

Independent Member and Chairman of the Risk Committee (from 25 September 2014; re-elected from 3 October 2018; membership terminated on 24 April 2019)

The committee held two regular meetings in 2019. The committee discussed all issues of the Bank's risk management system and its efficiency (including the Bank's credit risk profile and remuneration principles). It considered the acceptable risk appetite and the Bank's strategy in the risk area.

### **Remuneration Committee**

The Remuneration Committee has four members, one of whom is independent and one is an employee representative. The committee meets according to need, but 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 Remuneration Committee**

#### **Petr Dvořák**

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

#### **Sylva Kynychová**

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

#### **Jean-Luc Parer**

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

#### **Giovanni Luca Soma**

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

### **Members whose mandate terminated during 2019**

#### **Bořivoj Kačena**

Independent Member of the Remuneration Committee (from 25 September 2014, membership terminated on 13 January 2019)

The committee held two regular meetings in 2019 and one remote vote.

The Committee discussed issues in the areas of deferred bonuses, remunerating members of KB's Board of Directors and the Executive Director of KB Internal Audit, and setting of KPIs for members of KB's Board of Directors, then gave its recommendations to the Supervisory Board. The Committee

was informed about the results of the ACR process and bonuses for 2018.

### **Nominations Committee**

The Nominations Committee has four members, one of whom is independent and one who is an employee representative. 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 Nominations Committee**

#### **Petr Dvořák**

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

#### **Jean-Luc Parer**

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

#### **Sylva Kynychová**

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

#### **Giovanni Luca Soma**

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

### **Members whose mandate terminated during 2019**

#### **Bořivoj Kačena**

Independent Member of the Nominations Committee (from 25 September 2014, re-elected from 3 October 2018; membership terminated on 13 January 2019)

In 2019, the Committee held three regular meetings and two remote votes. The Committee discussed the Bank's personnel policy issues and agreed with the appointment of the Executive Director of Internal Audit. It also dealt with the re-election of some members of the Supervisory Board and the appointment of new members of the Supervisory Board. It assessed the suitability, structure, size, composition, and activities of the Board of Directors and the Supervisory Board, and it assessed the credibility, professional competence, and experience of the members of both the Board of Directors and the Supervisory Board as well as of the two bodies as a whole. The Nominating Committee reviewed the suitability of the members of the Board of Directors and the Supervisory Board for their contributions to the functioning of those bodies and concluded that all members of those bodies and the bodies as a whole fulfil the regulatory eligibility criteria, function effectively, are adequately composed, and contribute to their proper functioning. To further deepen knowledge and experience in selected areas, opportunities for individual training and workshops are provided.

## Remuneration of members of the Board of Directors and Supervisory Board of Komerční banka

No person with management power in relation to his or her activities in the Bank has a conflict of interest between the obligations of persons with a managerial power to the Bank and his or her private interests or other duties. Komerční banka has performance contracts for the members of the Board of Directors signed and approved by the Supervisory Board with all members of the Board of Directors. The contracts are signed for the term of office of each member of the Board of Directors. The contracts do not provide for any benefits when terminating the job. Some members of the Board of Directors also have signed contracts for being members of the Supervisory Boards for subsidiaries. In these cases, the contracting parties are defined by description of the functions in the subsidiaries provided in the subsection on the composition of the Board of Directors. Didier Colin has, while active in the Bank, also a signed employment agreement with Société Générale S.A.

### Principles of remuneration for members of the Board of Directors

The remuneration of Board of Directors members is based on remuneration principles as described in the section 'Employee relationships'. In particular, their remuneration is in accordance with regulatory risk management principles in remuneration and with the strategy of remuneration. Furthermore, their remuneration is regulated under special rules for employees with a significant impact on the risk profile of the Bank (IS) in accordance with the European Capital Requirements Directive (CRD IV) and its transposition into the Czech legislation by CNB Decree No. 163/2014 Coll., as amended. The Supervisory Board decides on the amount of remuneration based upon a proposal from the Remuneration Committee.

The remuneration of the Board of Directors consists of two parts: fixed and flexible. The fixed part of the remuneration is paid on a monthly basis, reflecting the experience and responsibility of the individual members of the Board of Directors, as well as external competitiveness for a particular position. The flexible part of the remuneration is paid in the form of the annual performance bonus. This part of the remuneration is non-compulsory and is paid out upon assessment of pre-defined key performance indicators (KPIs). Each KPI has a percentage weight, summing to 100%. A level of fulfilment is assessed for each KPI (not met – met – exceeded). The Supervisory Board and the Remuneration Committee while deciding upon the amount of the flexible, performance-dependent part of remuneration for each member of the Board of Directors consider all relevant financial and business performance indicators, such as profit, market share, net operating income and cost of risk, as well as performance evaluation of the individual members of the Board of Directors, including from the viewpoint of risk management.

The maximum amount of the flexible part of the remuneration cannot exceed 200% of the fixed part of remuneration, and any variable component of the flexible remuneration that is greater than 100% of the fixed remuneration is subject to approval by the General Meeting. The variable part of the remuneration is subject to the rules for deferred bonuses. The minimum deferral

period for the variable part of the remuneration for the members of the Board of Directors is five years. A part of the variable part is awarded in an instrument linked to KB's share price (virtual shares) and is subject to a 12-month retention period. The value of the virtual shares is paid out in cash. Hedging against the changes of the value of the virtual shares is prohibited. In accordance with regulations, the virtual shares do not provide a right to payment of dividends or interest during the deferral period. The only period with the right to dividends is the retention period.

The entire flexible part of remuneration already awarded may be nullified (so-called malus) in case of malpractice or behaviour not consistent with the rules of conduct. This includes in particular breach of the legal rules or KB regulations (criminal offence, breach of the Code of Ethics, divulging of confidential information, exposing the Bank to excessive risk, damaging the Bank's reputation, causing financial or other damage to the Bank etc.)

The whole flexible part of the remuneration may also be claimed back at any time during the retention and deferral periods (so-called clawback). Clawback is applied particularly in case that the member of the Board contributed materially to negative financial result for the Bank, in cases of fraud or negligence leading to significant losses.

The budget for the variable component of the remuneration as a whole is determined in accordance with the financial plan of Komerční banka for the respective period and it is based upon (i) the planned number and structure of employees, and (ii) the target volume of the variable part of remuneration of employees. KB's financial plan takes into consideration all types of potential risk, including credit, operational, and liquidity risks.

The budget for the variable component of remuneration is drawn on the basis of fulfilling key performance indicators, and in particular return on equity (ROE), client satisfaction (NPS), cost/income ratio, and market share for loans. Application of malus up to as much as 100% is possible in cases of extraordinary events, and in particular if those affect the Bank's indicators for capital adequacy and liquidity.

### Remuneration scheme for the Chairman of the Board of Directors

The flexible remuneration of the Chairman of the Board of Directors is subject to a five-year postponement scheme, with 60% of the assigned variable component being spread over a period of five years. The postponement scheme is as follows: The first pay-out (12%) is made in March of the year following the year the bonus was awarded ( $N + 1$ ). The second pay-out (12%) will take place in March of the year  $N + 2$  after the bonus was awarded. The remaining three parts are transformed into a non-cash instrument linked to the KB share price, which are granted in March in  $N + 3$  (12%),  $N + 4$  (12%) and  $N + 5$  (12%), and are always paid out after the 12-month deferral period. The non-deferred part of the flexible remuneration of 40% of the amount awarded is paid as follows: the cash part of the unpaid flexible part of 20% is paid in the March of the year in which the remuneration was awarded (year  $N$ ). The remaining 20% non-deferred part is transformed into a non-cash KB share price-linked instrument and is paid after the 12-month deferral period.

## Scheme of variable remuneration for other members of the Board of Directors

Flexible remuneration for other members of the Board of Directors also is subject to a five-year postponement scheme. With respect to the ratio of the flexible and the fixed remuneration component, the flexible component is paid in two different modes:

If the variable component is less than or equal to EUR 300,000, or less than or equal to 100% of the fixed remuneration component, then 40% of the flexible, performance-dependent component is spread linearly over a period of five years as follows: The first payment (8%) will take place in March (N + 1). The second pay-out (8%) will take place in March in year N + 2 following the bonus award. The remaining three parts are transformed into a non-cash instrument linked to the KB share price and are granted in March of N + 3 (8%), N + 4 (8%), and N + 5 (8%) after a 12-month deferral period. The non-deferred part of the variable remuneration in the amount of 60% is paid as follows: 30% of the amount awarded is paid out in March of the year in which the remuneration was awarded (year N). The second part (30%) is transformed into a non-cash instrument linked to the KB share price and is paid after the 12-month deferral period.

If the flexible, performance-dependent remuneration is greater than the value of EUR 300,000 or is greater than 100% of the fixed component of the remuneration, then the same scheme applies to the members of the Board of Directors as for the case of the Chairman of the Board of Directors.

Settlement (payment) of the flexible, performance-dependent part of remuneration linked to the KB share price is made in cash.

The reference price of the non-cash KB share price-linked instrument is determined as the 20-day arithmetic mean of the KB share price at the Prague Stock Exchange (PSE) before the settlement day. The settlement date for establishing the initial reference price of the non-cash KB share price-linked instrument was 13 March 2019. On that date, the number of non-cash KB share price-linked instruments that were attributed to the members of the Board of Directors was determined. The Valuation Day was set by the Supervisory Board's Remuneration Committee.

In addition to the remuneration schemes described above, members of the Board of Directors who are citizens of the Czech Republic are entitled to these additional benefits exceeding the conditions established for other KB employees (as described in the subsection 'Employee relationships'):

- (i) Superior health care (Silver Card Santé),
- (ii) Monthly contribution of 3.5% of the gross remuneration (fixed and flexible) of the member of the Board of Directors paid in the respective month to supplementary pension savings or to supplementary pension insurance with state support.

Members of the Board of Directors of KB who are not citizens of the Czech Republic and who are temporarily allocated to the Czech Republic are entitled to the benefits established for other KB employees (as described in the subsection 'Employee relationships') except for contribution to supplementary pension insurance and supplementary pension savings, financial support during long-term illness, risk life insurance and

extraordinary social assistance. Furthermore, they are entitled to these additional payments benefits exceeding the conditions established for other KB employees (as described in the subsection 'Employee relationships'):

- i) Superior health care (Silver Card Santé),
- (ii) Contribution related to their stay abroad (e.g. moving and transport costs at the beginning and end of the working contract in the Czech Republic, accommodation costs, insurance including health and social insurance, support for the immigration process, traveling costs within an established budget, costs for children's tuition).

The Bank also provides to members of the Board of Directors for performance of their functions as well as for their private purposes: a passenger car, a fuel allowance, a mobile phone with unlimited calling and data tariff, and a personal computer.

The value of all in-kind and monetary income of the members of the Board of Directors is set out in the section "Information on monetary and in-kind income of the members of the Board of Directors and the Supervisory Board".

## Principles of remuneration for members of the Supervisory Board

Remuneration for members of the Supervisory Board consists of a fixed monthly part and a flexible part dependent on the members' attendance at meetings. Remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for members' attendance at Supervisory Board meetings is limited to a maximum of six meetings per year.

Members of the Supervisory Board elected by employees are additionally entitled as employees of the Bank to a basic monthly salary and other compensation in lieu of salary according to their employment contracts pursuant to the Labour Code.

Members of the Supervisory Board of KB, if they fulfil the specified conditions, and on the basis of their employment relationship with KB, are remunerated under the same conditions as KB's other employees.

Komerční banka has concluded service contracts with all members of the Supervisory Board, and these were approved by the General Meeting held on 30 April 2014. The contracts are concluded for the term of office of each member of the Supervisory Board. The contracts provide no benefits upon termination of service. Information on all in-kind and monetary payments to the members of the Supervisory Board is given in the following section.

## Information on monetary and in-kind income to members of the Board of Directors

The total value of remuneration to members of the Board of Directors includes all monetary and in-kind income received in 2019 by current and former members of the Board of Directors in relation to their membership in the Board of Directors. Furthermore, all bonuses awarded (but not necessarily paid) in 2019 are also included:

### Board of Directors (in total 9 current and former members)

	Total CZK	Of which for performance of Board responsibilities
A	34,320,766	34,320,766
B	1,260,847	1,260,847
C	28,615,650	28,615,650
D	0	0
E	8,880,000	8,880,000
F	4,386,125	4,386,125
<b>TOTAL</b>	<b>77,463,388</b>	<b>77,463,388</b>

Notes:

- (A) Total amount of remuneration awarded, which is at the same time remuneration paid for services performed in the given fiscal year;
- (B) Remuneration and benefits received from any company within the KB Group;
- (C) Bonuses to members of the Board of Directors awarded in 2019, regardless of when individual parts become due;
- (D) Remuneration to members of the audit committee;
- (E) Paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
- (F) Total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

The management of KB is convinced that the aforementioned net summary most faithfully describes the trend in remuneration for the given group of the Bank's representatives.

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and non-monetary income received by members (including former members) of the Board of Directors from Komerční banka and from entities controlled by the Bank during the 2019 financial reporting period, including for services provided outside the period of their membership in the Board of Directors. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

- (A) Total amount of remuneration paid for services performed in the given fiscal year;
- (B) Remuneration and benefits received from any company within the KB Group;
- (C) Remuneration paid in the form of profit sharing and/or bonuses;
- (D) Significant additional remuneration paid for special services beyond the scope of usual duties;

- (E) Compensation paid or payable to former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
- (F) Total estimated value of non-monetary benefits considered as remuneration not included in points (A) to (E).

### Board of Directors (in total 12 current and former members)

	Total CZK	Of which for performance of Board responsibilities	Of which for other income (employment / income from entities controlled by the Bank)
A	34,722,928	34,320,766	402,162
B	1,646,505	1,260,847	385,658
C	17,329,439	16,807,439	522,000
D	0	0	0
E	8,880,000	8,880,000	0
F	4,388,985	4,386,125	2,860
<b>TOTAL</b>	<b>66,967,857</b>	<b>65,655,177</b>	<b>1,312,680</b>

The tables above describe all remuneration received by members of the Board of Directors of Komerční banka in 2019, including that accepted in 2019 by former members of the Board of Directors of Komerční banka as a result of the deferral of remuneration (the total number of former and present members of the Board of Directors who were paid bonus during 2019 is ten).

If there are no items listed, then no such consideration was provided to the members by Komerční banka or by entities controlled by KB in the given year.

A regulatory change of the bonus deferral scheme (extending the deferral period to five years from three, and extending the retention period to 12 months from nine) gave rise to a decrease in the volume of bonuses paid in 2019, while it will lead to an increase in the volume of bonuses paid in the subsequent period.

## Information on monetary and in-kind income to members the Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and in-kind income received during the 2019 financial reporting period by members (including former members) of the Supervisory Board from Komerční banka and from entities controlled by the Bank. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

- (A) Total amount of remuneration paid for services performed in the given fiscal year, including remuneration for meeting attendance approved by the General Meeting of shareholders;
- (B) Remuneration and benefits received from any company within the Group (note: KB Financial Group) – concerns only members who are employees;
- (C) Remuneration paid in the form of profit sharing and/or bonuses – concerns only members who are employees;
- (D) Significant additional remuneration paid for special services beyond the scope of usual duties;

- (E) Paid or payable compensation for former members of the Supervisory Board in connection with termination of their activities during the given fiscal year; and
- (F) Total estimated value of non-monetary income considered as remuneration not included in points (A) to (E) – concerns only members who are employees.

**Supervisory Board  
(in total 14 members during the year)**

	Total CZK	Of which for performance of responsibilities	Of which for employment*
A	5,413,995	3,384,095	2,029,900
B	164,072	0	164,072
C	371,795	0	371,795
D	318,000	318,000	0
E	0	0	0
F	89,446	0	89,446
<b>TOTAL</b>	<b>6,357,309</b>	<b>3,702,095</b>	<b>2,655,214</b>

\* Employee income is included for employee members newly appointed or outgoing during the year only for periods when the employee was also a member of the Supervisory Board.

The table above presents in the aforementioned structure the compensation received during 2019 by members of the Supervisory Board of Komerční banka for performing the duties of a member of the Supervisory Board or the Audit Committee. If no value is shown for a given category, then no such compensation was made within the given year to the member of the Supervisory Board of Komerční banka.

**Information on shares and share options held by members of the Board of Directors and the Supervisory Board and by related persons**

The following table provides information on the numbers of shares issued by Komerční banka that were held as of 31 December 2019 by members of the Board of Directors and members of the Supervisory Board and related persons, as well as information on options and comparable investment instruments whose values are linked to the price of KB shares and which were concluded by or on behalf of the listed persons:

31 December 2019	Shares	Share options
Members of the Board of Directors in 2019 (total)	40	0
Members of the Supervisory Board in 2019 (total)	0	0
Related persons (total)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties to any option or similar contract concerning comparable investment instruments whose values are linked to KB shares, nor were any such contracts concluded on their behalf.



# I Employee relationships

## Key data on employees

Average recalculated number of employees	2019	2018	2017
KB Group	8,167	8,413	8,492
Komerční banka	7,210	7,458	7,551
– of which in Slovakia	42	42	40
– of which in Czech Republic	7,168	7,416	7,511
– of which at headquarters	4,050	3,993	4,009
– of which in distribution network	3,118	3,423	3,502
<b>Age structure of employees (KB, Czech Republic, year end (%))</b>			
≤30	17	17	17
31–40	26	26	27
41–50	33	33	32
51+	25	24	24
<b>Employees by type of employment (%)</b>			
– Full-time	94	94	93
– Part-time	6	6	7
<b>Employees by contract type (%)</b>			
– Permanent employment	81	86	85
– Other employment	19	14	15
<b>Employees' qualifications (%)</b>			
– University	45	44	45
– Secondary school	52	53	52
– Other education	3	3	3
<b>Proportions of men and women (%)</b>			
– Men	36	35	34
– Women	64	65	66
<b>Share of women in management positions (%)</b>			
– In all management positions	48	51	53
– In top management positions (maximum two levels below Board)	26	N/A	N/A
<b>Number of employees on maternal and parental leave</b>	<b>733</b>	<b>724</b>	<b>727</b>
<b>Number of employees with disabilities</b>	<b>146</b>	<b>151</b>	<b>137</b>
<b>Illness rate (%)</b>	<b>2.89</b>	<b>2.95</b>	<b>2.99</b>
<b>Employee turnover rate (voluntary, directed, natural) (%)</b>	<b>15.8</b>	<b>N/A</b>	<b>N/A</b>

A key aspect of Komerční banka's strategic vision is to pursue the creation of longstanding partnerships with its employees. In doing so, Komerční banka presumes there to be a professional relationship that stems from mutual trust, respect, communication, equality of opportunity, and availability of attractive professional and career development prospects. These values are shared across the Group.

Concerning the legal framework, Komerční banka and the entire Group are subject to the same legal conditions and standards as

apply to any other employer in the Czech Republic. Its activities are supervised by the Czech National Bank, which may apply other regulatory measures, for example in relation to employee education and remuneration. Rules of Société Générale and international standards also can have an influence. Conformity with all legal standards, decrees, and regulations is subject to regular or random control, 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 and all international agreements ratified by the Czech Republic and that are a part of the Czech Republic's legal order. These include, in particular, the Convention 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 law, KB ensures its employees' occupational safety as well as health and fire protection against possible risks that would endanger their lives and health when performing their work. The Bank provides its employees with sufficient and adequate information and instructions on safety standards and on providing first aid. The Bank also ensures respect for the prohibition against smoking and consumption of alcoholic beverages in the workplace. Management employees at all levels are responsible that the employer's obligations in this area be honoured. These tasks are an equal and integral part of their work obligations.

As an employer, KB provides work-related medical services through EUC Premium and regular employee training in safety, health, and fire protection standards according to the relevant legal standards. The Bank regularly organises checks and employee training in these areas while documenting and recording the results. Komerční banka has identified the health risks associated with each job position and assigns employees to the first or second category of work accordingly. In addition, EUC Premium regularly reviews all the Bank's workplaces to ensure that they comply with health and hygiene standards. Every year, selected workplaces are inspected by an independent body, namely the Union of Financial and Insurance Workers. An official record reporting conclusions of the inspection along with written recommendations is made from each inspection. For 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 within its branches, Komerční banka respects both safety and health requirements. It aims also to improve the social environment and effectively introduce state-of-the-art technologies.

### **Right to information and to social negotiation and employee satisfaction survey**

Information designated for employees is shared openly in numerous and various ways. For each employee, the main source of information is his or her superior. An Employee section is in operation within the KB intranet. Necessary and up-to-date information from the human resources area is accessible there. Employees can call the Moje HR (My HR) telephone line, submit their inquiries by e-mail, or contact HR Business Partners and consultants.

The right of KB employees to social bargaining is exercised through the KB Trade Unions Organisation. KB is in regular contact with representatives of the trade unions organisation, and collective bargaining is ongoing every year.

The right to information is based in the Collective Agreement. That agreement has been concluded for the period 2017–2020. The results of employer and trade union negotiations are fully accessible to all employees, including the full text of the Collective Agreement. The benefits of the collective agreement are valid for all employees, including those not organised into unions.

Employee care is a priority in human resources management and for KB's top managers. The Bank regularly determines employees' opinions, satisfaction, and engagement, and it enacts corresponding measures. Using satisfaction surveys, KB monitors employee engagement in two ways. First, SG Employee Barometer is used to monitor overall employee engagement at SG Group level. In this independent survey, engagement is monitored by 10 indicators covering satisfaction, motivation, recommendations, trust, and strategy, including SG Group's overall direction. Second, the KB Puls survey monitors commitment exclusively for KB purposes. In 2018, this was defined within the KB 2020 programme by five spheres of questions covering the areas of effective teamwork, meaning and importance, motivation, recognition, and leadership. These issues are also part of the SG Employee Barometer, which allows the Bank to monitor employee engagement twice a year.

The so-called "engagement score" within the global SG employee barometer (10 questions) reached 69% in 2019. Meanwhile, this indicator as monitored only at KB level within KB Pulse (5 questions) reached 78%. The goals of the KB Change transformation programme include an increase in employee engagement, as expressed by an increase in this composite index from 72% to 80%. Both of these surveys cover 100% of KB's employee population, consisting 64% of women and 36% of men.

### **Employee health and well-being**

Komerční banka has for several years been systematically attentive to the health of its employees. KB continued in 2019 its Moje Vitalita programme. It aims to support high work performance from KB employees by looking after their physical and mental well-being. Physical well-being was in focus, as the programme featured Health Days across the Czech Republic. The programme also includes courses focused on physical and mental health, lectures, and a helpline. KB supports the sports activities of its employees through contributions to the benefits system.

KB respects all its employees' human and social rights. KB has long been accommodating in relation to its employees who happen to be 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 vacation). 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.

### **Gender diversity**

The principles of equal opportunities and non-discrimination are among Komerční banka's basic principles as an employer. Employees are hired on the basis of their experience and competence, and the same approach is applied with regard to internal mobility. Moreover, KB applies a diversified approach to the individual employee groups based upon their needs and current situations. This approach can impact the offer of educational programmes for certain groups (new graduates, managers, sales positions, specialists).

Another specific group of employees consists of those on maternity and parental leave (ML/PL). Their successful reintegration into the workflow is among Komerční banka's important goals. KB is in contact with these employees also during the maternity and parental leave; they are invited to networking events and, in case of mutual interest and needs, co-operation during the leave is established. After return from ML/PL, employees may take advantage of reduced work responsibilities, home office, or flexible work hours if the type of operation and job character so permit.

The principle of equal treatment is anchored in KB's basic documents, such as the Code of Ethics, the Rules of Employment and the Principles of Remuneration. Employees and managers conducting recruitment are trained regarding discrimination and in the essentials of the Labour Code. The Bank regularly monitors the proportion of employees reintegrated after returning from ML/PL as a part of the managerial reporting.

### **Equal conditions in employment**

Komerční banka applies the principle of non-discrimination in selecting employees. Paramount is that expectations for the work position and job description are in accordance with the knowledge, competencies, and expectations of each individual applicant. A specific population upon which KB wants to focus attention is that of handicapped applicants with disabilities. Recruitment employees are trained in recruiting applicants with disabilities, and monthly monitoring of this area has been established.

For the second time, KB won a silver prize in the Same Chance – Employer of 2018 competition (prize is awarded biannually), and it also was recognised in the Employer without Barriers competition for its approach to people with health disabilities.

## Talent search and acquisition

In 2019, Komerční banka co-operated very actively with institutions of higher education, including universities and student organisations. The Bank thereby continues in its tradition of sponsorship and expert support to state tertiary schools throughout the Czech Republic. Among the most active co-operation was that with the University of Economics in Prague (VŠE), Masaryk University in Brno, and Czech Technical University in Prague (ČVUT). Other forms of co-operation with university students consisted of meetings at job fairs, open-house days, workshops, and special events with specific economic topics. These activities took place both at the partners' premises as well as at Komerční banka itself. More than 50 interns from secondary and tertiary schools acquired practical experience at Komerční banka's headquarters as well as within its branch network. The Bank's main partners among student organisations in 2019 were AIESEC and the Association of Students and Graduates (ASA). KB also established co-operation with Prague Banking Club.

Another community that Komerční actively addressed were people working in the field of information technology. In 2019, for example, the Bank established co-operation with the UX and DevOps community and organised one MeetUp for each area in KB. The Bank also sought talent at professional conferences and trade fairs, such as Java Days, JobsDev, Job Fair Czechitas, and Agile Prague.

The strategy of addressing and attracting talent also included presentation of the Bank, its products, services, and innovative solutions through podcasts featuring banking experts and industry specialists. In 2019, Komerční banka introduced four podcasts on digitisation of the banking environment.

## Employee education and career development

The Bank builds long-term partnerships with employees by supporting their development and education, among other ways. Komerční banka prepares for its and the Group's employees a broad range of training activities and programmes, providing space for their education and, at the same time, strongly emphasising individual responsibility for career development.

In 2019, the Bank focused particularly on skills development in the area of agility and the agile mode of product development. As in previous years, it continued to put special effort into developing those employees in direct contact with clients within the branch network and a programme of managerial education focused on enhancing long-term, personalised skills in the areas of human resources development, responsibility, innovation, and the pro-client approach.

The Bank also continued in developing its education platform to provide employees educational content in a clear and appealing way using modern digital tools.

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

## Corporate values and The Leadership Model

Inasmuch as corporate culture is a cornerstone in the foundation for achieving long-term success in business, KB is applying a new definition of its corporate values that are shared across SG Group.

KB applies the following basic values: **team spirit, innovation, commitment, and responsibility**. The values contribute to the basis of an updated model for managers and employees' conduct, known as "The Leadership Model". It is built on the following five pillars:

- Client satisfaction,
- Innovation in creativity and change management,
- Responsibility,
- Our teams' commitment, and
- Team spirit with a strong sense of achieving results together.

The updated corporate values are progressively being reflected in all associated processes, and particularly in recruitment, assessment, remuneration, and education.

## Remuneration in KB

General rules of remuneration stated in the following subsection are applicable for KB employees and members of the Board of Directors and Supervisory Board. More detailed information about remuneration of the members of the Board of Directors and Supervisory Board is provided in the Corporate Governance section.

Remuneration strategy in KB aims to:

- Support the general strategy and business targets,
- Prevent inappropriate risk-taking and improvident behaviour,
- Take into account the rights and interests of clients,
- Promote cost-effectiveness, and
- Boost the value of the Bank in terms of its employees, shareholders, and clients.

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

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

- **Internal justice** is a principle ensuring that the same remuneration is paid for the same work and same performance under the same transparent circumstances. That remuneration must not be affected by gender, age, religion, membership in trade unions or political parties, or other personal characteristics of an employee that are not directly related to his or her work performance or competencies.
- **External competitiveness** is ensured through regular market surveys, taking into account the intended market position and significant differences in the remuneration market. These surveys then lead to determination of the aforementioned basic wages.
- **Individual benefit** 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 benefits for the Group. The programme includes the acquisition of Société Générale shares under the SG Performance Share Plan. Subject to the terms of the programme, those employees rewarded become owners of the relevant number of SG shares after three years.

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

The structure of remuneration is based on three basic pillars:

### 1. Basic wage for work performed (fixed component)

Wages of all employees are determined in accordance with the sophistication of their positions, particularly in terms of the required knowledge, experience and skills, and the resulting responsibilities.

### 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. As much as the entire variable component can be cancelled in the case of an employee's misconduct or behaviour that is not in accordance with the Compliance rules.

### 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 a choice. The structure and level of benefits are subject to collective bargaining agreements each year. For the year 2019, the structure agreed was as follows:

- Daily meal vouchers worth CZK 100 without the employee's financial participation;
- CZK 6,720/employee/year for recreation, sports, health, culture, and personal development provided via the Cafeteria system;
- CZK 5,000/year for disabled employees and CZK 600/year for employees 55 years of age and older via the Cafeteria system;
- Contribution to supplementary pension insurance and supplementary pension savings at 3% of the wage. The employer's minimum contribution is 1,100 CZK/month;
- Contribution to the purchase of employee shares within the Société Générale Global Stock Exchange Program;
- Premium conditions for retail banking products and services provided by Komerční banka to employees;
- Financial support during long-term illness;
- 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;
- 1 day off with wage compensation for corporate volunteering in areas supported by KB and the Jistota Foundation;
- Career sabbatical;
- Risk life insurance; and
- Extraordinary social assistance.

### Regulatory risk management principles in remuneration

Taking into account risks is part of the basic remuneration principles. It includes in particular the following measures:

- 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.

- 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.
- In the case of an employee's termination of employment, "golden parachute" bonuses are forbidden.
- Assuming there to be no violation of 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.
- Employees with significant influence on the Bank's risk profile (hereinafter referred to as 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.
- 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. At the same time, some ISs are independently rated from a Risk and Compliance perspective.
- 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 (KB quasi-equity/KBPT), and the Remuneration Committee's approval regime.
- 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).
- 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.
- 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.
- Remuneration policy and practice must be verifiable and reviewable for at least 5 years.



# | Risk management

## Risk governance

### Main principles of risk management in KB Group

Risk management at Komerční banka is based on 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.

During 2019, Komerční banka continued in implementing a holistic risk approach. The Risk Management Arm is responsible for managing credit, counterparty, and market risks, for recovery of receivables, and, from 2019, also for managing operational, liquidity, and structural risks (including interest rate risk and foreign exchange risk in the banking book). Management of the related risk information systems that form a part of Komerční banka's agile perimeter is supervised by the Chief Risk Officer. Legal, compliance, reputation, and environmental risks are managed within the Chief Operations Officer unit. The Risk Management Arm co-operates closely with risk management at Komerční banka's subsidiaries and supervises their activities.

### 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 aggregated level all risks that KB Group is ready to accept or intends to avoid and defines a prudent and balanced approach to them.

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

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

## Credit risk

### Credit risk development

Credit risk remained at a low level during 2019. Low credit risk in the Retail segment was positively influenced by the Czech economy's continued favourable environment characterised by sufficient growth, low unemployment, and rising real wages. The Corporate segment remained healthy overall, and the low cost of risk was driven by a low number of new defaults and by recoveries on historical defaulted cases.

The Group's cost of risk remained in negative territory at -9 basis points (net provisions release) in 2019, which was close to the -10 basis points (net release) in 2018. Net provisions releases occurred in both Retail and Corporate segments.

Financial assets at amortised cost grew by 1.3% to CZK 963.4 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 3.6% to CZK 647.3 billion. A 97.9% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.1% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 10.1 billion. Loans and advances to banks decreased by 4.6% to CZK 244.6 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 2.4% and stood at CZK 71.6 billion at the end of the year. The volume of loss allowances created for amounts due from customers came to CZK 10.1 billion.



## Principal activities in 2019

KB Group concentrated during 2019 especially on the following activities in the credit risk area:

- preparation of KB Group for new regulatory requirements (AnaCredit, new definition of default, several 2019 stress test exercises, etc.);
- 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;
- simplification and acceleration of granting processes for individuals and small and medium enterprises, including integration of new internal and external data sources; and
- update of key risk models to reflect the latest observations of portfolio development with the goal of maintaining sufficient margins across the entire business cycle.

## Credit risk management tools

### Credit risk assessment and monitoring

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

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

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

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

### Credit fraud prevention

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

### Staging

Komerční banka allocates its receivables arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 comprises default (non-performing) receivables. The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

## Model Risk Management

Due to its expected growing dependency on models, Komerční Banka established a local expert team (Model Risk Management) to focus on model risk. It provides not only mandated regulatory review of Basel models but also a control mechanism for KB scoring and granting models. With the growing automation, the team will provide support and control for all kinds of KB models.

## Real estate valuation

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

Komerční banka continuously monitors both residential and commercial real estate markets and regularly revalues 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 rental 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 revalued every 3 years.

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

## Recovery activities

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

The inflow of clients into recovery has been relatively stable at rather low levels, influenced especially by good macroeconomic conditions and clients' financial situations. Thanks to the favourable macroeconomic situation and success in recovering default receivables, the non-performing share of the loans portfolio was reduced from 2.7 % to 2.1% during 2019.

Given the size of the portfolio in recovery, Komerční banka continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured and secured retail portfolios to selected qualified investors.

## Credit concentration risk management

Komerční banka's credit concentration risk is actively managed as a part of overall credit risk management and utilising standard tools. The Bank maintains its objective of taking on no

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 (based on exposure and counterparty rating) is established, so that Komerční banka is able to thoroughly monitor concentration risk and comply with the regulatory limits set in respect to concentration risk.

## 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 observed history of defaults and losses and forward-looking adjustments.

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

During 2019, Komerční Banka updated models used for provisioning of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses; (ii) a new macroeconomic forecast, including industry sectors outlook; and (iii) expected changes in the legal environment.

### Stress testing

During 2019, Komerční banka was conducting two fundamental stress-testing activities: Internal capital adequacy assessment process (ICAAP) together with Internal Liquidity Adequacy Assessment process (ILAAP) and CNB Supervisory Stress Test.

Stress-testing exercises provide 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.

Within the ICAAP/ILAAP framework, which is designed by the Bank, the material risks to which the Bank is or might be exposed were covered under three scenarios: baseline, plausible stress, and severe stress.

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

## Market risk

### 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 management methods for 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. The reliability of the VaR model's results is back-tested while checking the daily P&L against the VaR. KB's Board of Directors is regularly informed about the results of the back-testing.
- The impacts of low-probability events not covered by VaR are assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all relevant risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

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

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

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

### Counterparty risk on financial markets activities

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

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

## 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. It also oversees the levels of risk taken on and the proposed hedging transactions that the Bank will execute in managing risk. KB's Asset and Liability Management (ALM) Department defines methodologies for identifying and measuring these risks, subject to approval by the ALCO and Board of Directors. The ALM Department also measures the risk indicators and reports them regularly to the ALCO and Board of Directors. 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, the liquidity risk management has been centralised into the Treasury Department.

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

### Price setting

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

## Interest rate risk in the banking book

Interest rate risk constitutes the risk of possible financial loss or negative changes in the Group's net interest income due to movements in market interest rates. KB Group has divided its business activities according to their nature into the banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations on the interbank market 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 prudent limits. These limits were not exceeded in 2019.

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

As of 31 December 2019, the Group classifies financial assets pursuant to the IFRS 9 Financial Instruments into the following business models: for the banking book – Hold to Collect contractual cash flows (HTC portfolio) and Hold to Collect and Sale (HTCS portfolio) contractual cash flows, and for the trading book – Hold to Sale. The choice of portfolio for holding an investment in the banking book is defined by accounting requirements and the associated internal rules (for classification of securities, the Bank is considering the business model and the nature of the cash flows). Revaluation of the HTCS portfolio to fair value impacts upon regulatory capital through changes in Other Comprehensive Income (OCI). The volume of regulatory capital could be impacted mainly by a worsening in the credit quality of bonds, whereas an impact from movements of market interest rates is substantially limited due to the bonds' interest payments being hedged. Selection of the HTC or HTCS portfolio allows for hedging an investment against interest rate risk.

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

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

## Foreign exchange risk in the banking book of KB Group

Foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the banking book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in Komerční banka itself. The maximum open foreign exchange position of the Group's banking book in 2019 was less than 0.1% 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 2019, the concept of "second-level controls" based on SG Group principles was further developed and significantly strengthened, aiming at independent control over setting up and performing formalised and operational controls. To further strengthen "second-level controls", dedicated teams for Compliance, Risk, and Finance were created and co-ordinated directly by the Chief Operations Officer (COO), Chief Risk Officer (CRO), and Executive Director, Strategy and Finance (CFO). Additional personal resources were allocated to this control layer in 2019. The Bank continuously enhances the effectiveness of individual operational risk management processes, including the collection of information about internal events. In 2019, Komerční banka Group recorded 512 operational risk events in a final amount of CZK 86.4 million. In a year-on-year comparison, this represents a 7.8% increase in the number of losses and a 138% increase in terms of total loss volumes. Even though the final loss volume rose compared to the previous year, the result is still at the seven-year average of declared losses. Regarding net

loss volumes, fraud and other criminal acts constitute the most significant long-term risk category.

KB is participating in the SG Permanent Control Transformation Program, which aims to further streamline operational risk management procedures and strengthen the control environment throughout the SG Group. As part of that programme, the Risk Control Self-Assessment methodology was redesigned to promote a "process" approach and new principles of risk assessment were applied in 2019. To reflect recent regulatory challenges on the SG Group level and in order to mitigate the most significant risks of the group, a review of formalized controls was set up and implementation of new controls in the prioritised areas conducted. Comprehensive review of formalised controls in remaining areas is a task for the upcoming period.

To strengthen KB's "holistic" approach to risk management, the Operational Risk Department was transferred to under the Risk Management Arm in 2019 and thus the department is currently being supervised directly by the Chief Risk Officer. Co-operation within local consolidated KB Group companies in the area of operational risk management has been ensured through regular exchange of information and participation of KB representatives on Operational Risk Committees organised by major Group companies. Within KB Group, the AMA approach is already used in four Group companies. In addition to the Bank itself, these include Modrá pyramida, as well as two non-banking entities, SGEF and ESSOX.

KB devotes considerable effort and resources to the fight against fraud. Within the Bank, there are several teams and systems specifically focused upon preventing and fighting against various types of fraud. In 2018, several fraud prevention teams were partially consolidated through their organisational inclusion into Operational Risks. KB straightened its capability of online fraud detection in 2019, mainly with respect to instant payments. Further development is expected in 2020 and beyond.

## Business continuity

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

## Cyber and information security

Komerční banka treats cyber security as an area that must always be executed in a fundamentally correct way. This means carefully protecting Komerční banka's business – including interactions with our clients – against foreseeable threats originating from the ever-evolving digital environment. KB recognises the risks originating from the external environment, such as risks of fraud, of attacks on KB's clients, of penetrating the Bank's information systems, of losing electronic services availability,



and of illegitimate data exfiltration. Furthermore, Komerční banka does not underestimate threats that originate from inside the Bank's organisation, where the greatest risks are associated with internal fraud, misuse of access rights, and potential leakage of the Bank's confidential information. Therefore, KB's processes focus on ensuring that the key pillars of information security – confidentiality, integrity, availability, and non-repudiation – are properly maintained. Sound management of the mentioned pillars provides adequate security for KB's clients' interactions with the Bank and the Bank's internal environment. Komerční banka continues to keep a low tolerance for risk acceptance in the area of cyber and information security. Therefore, KB constantly monitors the external and internal environments and assesses risks associated with changes in the environment. The Bank also continuously addresses implementation of regulatory requirements for a prudent security setup that strives to set high preventive and control standards so that business is conducted in a secure, controlled, and transparent manner.

Similarly as in the past, Komerční banka faced in 2019 the trend of rising insecurity within the external cyber environment. The Bank came under a small number of cyber attacks in 2019 (distributed denial of service attacks, phishing) that did not cause any significant interruption of KB's services or harm to the Bank's internal environment. The Bank was also exposed to a number of serious publicly announced cyber security threats that had to be addressed immediately because they inherently brought about heightened risk for breach of the Bank's cyber and information security. Those attacks and threats were responded to quickly and mitigated by applying incident response plans or implementing recommended fixes. Throughout the year, KB improved its cyber defence through process improvements in the internal security operations centre, practice rehearsals, and learning from those events experienced. Komerční banka also started to work closely with one of the leading cyber security houses on threats monitoring and response with the aim to achieve higher quality of the internal cyber response know-how.

Proper risk management in cyber and information security is ensured via strict application of preventative security policies. These policies are based on several key foundation sources: Czech and EU laws and regulations, internal Société Générale policies, and the family of ISO/IEC 2700x norms. In adopting the agile@scale way of development, KB embedded IT risk assessment practice straight into the development process of development tribes. During the year, Komerční banka also complemented improved IT risk identification with an updated risk treatment process. The performance of this process is closely monitored, and that speeds execution of risk mitigation actions. Results continue to be fully integrated with overall risk control self-assessment practice.

Komerční banka is continually strengthening security of the internal bank environment. In 2019, the Bank further improved its internal security monitoring system directed to the internal bank technical environment. KB completed implementation of initial steps for data leakage prevention measures and continued to address control over usage of highly privileged technical accounts. Komerční banka moved to designed approaches and procedures of data management that assure GDPR compliance in regular practice. The Bank pursued improved secure behaviour of its employees via continued delivery of an information security awareness programme. KB newly began delivering targeted

education for specific user groups, such as developers. The Bank also strives to keep employees alert by delivering simulations of possible phishing attacks.

With the aim to further mitigate risks associated with client security, Komerční banka continued in rolling out the new secure authentication method called KB Klíč together with a new central client access management solution. Increased adoption of KB Klíč allowed Komerční banka to discontinue renewals of originally used file certificates for signing in to the Mojebanka internet banking application.

Komerční banka continued to pursue its "Securely together" education initiative, whereby it communicates current threats directly to its clients as well as the principles of safe behaviour in the digital world. It offers them guidance in the case of any actual digital emergency.

Furthermore, Komerční banka continued maintaining its dedicated security website (<https://www.kb.cz/security>) and promoting usage of IBM's protective client security tool Trusteer Rapport among clients using 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). Our anti-fraud detection system again helped to save the funds of many of our clients by detecting and blocking suspicious payments initiated in an authorised way by the impacted client but on the basis of an originally fraudulent request.

Komerční banka continually monitored a defined set of key risk indicators, such as number of security exceptions, number and criticality of open vulnerabilities, number of security incidents, and number of open high-risk items. None of the monitored key risk indicators deviated from long-term approved levels in 2019. The Bank neither recorded nor reported any cyber security incident as per the definition included in 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 implementation of the regulations within KB by creating internal policies and procedures. Finally, there is a follow-up that involves inspection and consulting.

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

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

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

## Rules of conduct

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

among KB employees. It is designed for all employees of the Group and focuses on principles of conduct and values for individuals and the Group as a whole.

On a local level, KB has internal policies such as its Code of Ethics, Explanatory Notes to the Code of Ethics, and other internal policies (non-public and intended only for KB employees) encompassing, among others, such areas as anti-discrimination rules, conflict of interest, whistleblowing, anti-corruption and anti-bribery, confidentiality of information, banking secrecy, anti-competitive practices, anti-money laundering, and insider dealing, as well as compliance with local, EU, and international regulations regarding above all environment, health, and safety.

On SG Group level, KB is bound by SG's Code of Conduct, which encompasses all those areas wherein SG has obligations. In addition, Société Générale has specific codes dealing with tax issues and the fight against corruption and influence peddling (please refer to [https://www.societegenerale.com/sites/default/files/documents/Code%20de%20conduite/code\\_of\\_conduct\\_eng.pdf](https://www.societegenerale.com/sites/default/files/documents/Code%20de%20conduite/code_of_conduct_eng.pdf)). These publicly available principles guide the work of the Group across the globe. Therefore, they are applied and promoted also in KB, whose website contains information regarding corporate culture applicable to KB and external partners (please refer to [www.kb.cz/dodavatele](http://www.kb.cz/dodavatele)).

All employees receive training at the beginning of their work relationship, after which they are trained every two years. In addition, there are dedicated KB or group trainings (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.

## 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. The rules and principles of ethical behaviour and professional conduct, including rules adopted to fight corruption and bribery, are anchored in the internal policies and are elements of mandatory training for all employees. To comply with the rules on combating corruption, suppliers and others of KB's business partners also are bound by obligatory contractual clauses. 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 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

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 2019 to industry or trade associations (such as the Czech Banking Association) in the amount of CZK 9 million.

### Whistleblowing

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

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

The process for whistleblowing directly to SG has been modified and widely promoted in 2019 among all SG Group employees, including KB employees. SG has a secured anonymous whistleblowing web tool for exercise of the whistleblowing right.

### Product development and offer

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

## Environmental and social risks

Environmental & Social Risk Management (ESRM) is a system for giving consideration to environmental and social viewpoints in the provision of financing to the Bank's corporate clients. 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, the Group committed to adopting the Equator Principles, a voluntary framework of rules for evaluating environmental and social risks when financing projects. SG Group also is a founding member of UNEP-FI – the United Nations Environmental Programme Financial Initiative and of Equator Principles. In 2019, SG became a signatory to the so-called Principles of Responsible Banking, thereby committing the Group 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 relating to the provision of banking services and products for trading in weapons, ammunition, or other goods and technologies that constitute military material. 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 rules 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 rules cover such areas as palm oil; forestry and forest products; oil and gas; alternative liquid and gaseous fuels; agriculture, fisheries, and foods; civil nuclear power; dams and hydropower; shipping; thermal power; defence; thermal coal; biodiversity; and mining.

In 2019, mining, thermal power, and thermal coal policies were amended. The changes further develop the Group's commitments to reduce its exposure to coal in line with its ambition to contribute to the fight against climate change.

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

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

In all business relationships with its clients and other commercial partners, KB diligently applies the "know-your-client" rules as defined by both local laws and regulations and SG Group policy.

KYC rules are applied accordingly to particular client groups, including natural person, legal entity, and entrepreneur (natural person). Based on client type and existence of defined riskiness criteria, including type of product, business area, country-based risks, and many others, each client is expected to submit a pertinent set of documents when opening an account. A natural person is required to submit mainly documents proving identity and address, tax return, and FATCA questionnaire. In addition to the requirement to submit the same documents as natural persons, entrepreneurs are required to submit the business licence and complete a sanctions questionnaire. Legal persons must always submit documents proving their existence, the identity of the executive directors, ownership and management/control structures, as well as documents showing the income and business activity of the client, tax return, and sanction questionnaire. If explicit or very specific knowledge regarding clients' activities is needed, some other documents are required during the onboarding KYC procedure or during regular verification of KYC validity and accuracy. There are two possibilities for how to proceed with non-face-to-face identification while ensuring the same standard of KYC: by online application or by courier. Both require the client to submit two documents proving identity and other documents relevant for a legal person.

In 2019, KB developed a dedicated KYC project with principal goals to improve efficiency of the whole KYC process within KB, while significantly improving the quality of KYC data across the whole client portfolio. In 2019, this comprised development in digitalisation (digital onboarding) followed by development of an application for AML categorization (kAMiLa v2) regarding SG rules. The binding rules cover all recognised international standards on AML/CFT, as well as reputation and business-ethics risk viewpoints. KB progressively improves and adjusts the processes to reflect the quickly changing regulatory environment, lessons learned from issues of the world banking players, and constantly changing consequences of the sanctions to which KB must react.

During 2019, 7,468 business cases or applications to establish business relationships were further analysed by the Compliance Department. Of these, 499 were recommended to be declined. This significant rise in business cases/requests was due to KB's stricter approach to KYC rules. In contrast to previous years, all sensitive clients are now assessed by the Compliance Department. The most frequent reasons for rejecting business/client requests were incomplete KYC documentation, non-transparent business activities, and the client's unclear/non-transparent ownership structure.

The screening against terrorist financing is performed during an onboarding process and then on a regular basis as part of the KYC procedures.

In case of politically exposed persons, each client is questioned during an onboarding process and then recorded in a special database. The client is then screened regularly. Senior management has delegated its power to sign off on politically exposed persons to the head of the Anti-Money Laundering Unit. Records are kept for 10 years from the end of a relationship with KB. An annual independent assessment of monitoring procedures is conducted.

Employees are trained annually with regards to KB's anti-money laundering and anti-terrorism financing policies. The intranet-based training includes case studies and computer-based training with self-assessment. Face-to-face training by the Compliance Department is mandatory for selected employees.

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

- a) Siron AML, an application used on a daily basis that automatically detects non-standard/risk transactions of clients in the AML/Countering Financing Terrorism area (generating AML alerts); altogether 30 indicators/scenarios of risk behaviour/type of transactions are set up;
- b) AML application is a system providing mutual communication between the AML unit and responsible employees, i.e. distributing alerts, evaluation and recording of feedback, reporting suspicious transactions, etc.

From 1 January 2019 to 31 December 2019, the systems designated to detect non-standard transactions (Siron AML, AMLDW) generated 56,126 alerts (in 2018: 46,707; in 2017: 48,805; in 2016: 38,719). Since June 2019, all alerts have been evaluated and processed by the Compliance AML team.

In 2019, the AML unit:

- investigated 775 cases received from different KB units (in 2018: 815, in 2017: 531, in 2016: 383);
- notified 248 suspicious transactions to the Financial Analysis Unit by the Czech Ministry of Finance (FAU) (in 2018: 212, in 2017: 210, in 2016: 257);
- processed 1,469 inquiries from the FAU (in 2018: 1,503; in 2017: 2004, in 2016: 1,897);
- in 165 cases followed orders for execution deferrals or account/client blocking (in 2018: 293, in 2017: 181, in 2016: 241);
- in 532 cases initiated termination of the existing contractual relationships (in 2018: 559, in 2017: 158, in 2016: 188).

In the area of preventing money laundering and financing of terrorism, the Compliance Department focused during 2019 on adjusting the internal control system following adoption of an amendment to Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism. It also created conditions for updating internal processes and rules in accordance with the project programmes of Société Générale Group.

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

In 2019, KB evaluated 12,348 hits on KB clients with potential risk of breach of sanctions. The vast majority of these hits was evaluated as false. No significant breach of sanctions was detected. Nevertheless, several business relationships with clients did have to be terminated.

In 2019, KB performed deeper analysis of 5,810 foreign transactions in order to eliminate the risk of breach of international sanctions (EU and USD-related sanctions in particular). Of these transactions, 5,443 were held by SG Paris and 367 transactions were held by a correspondent bank of SG New York. In total, 358 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, rational 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 operations are described in a Data Processing Register. Contracts with suppliers (data processors) include GDPR clauses. GDPR governance is systematically defined and set up in KB and the group entities, in particular through roles of the data protection officer (DPO), DPO Office, Data Management Office, and data protection correspondents. Breaches of the privacy policy are notified to and independently evaluated by the DPO, who recommends actions to be taken. Privacy policy is a part of the regular internal audit plan (e.g. audit of GDPR compliance in the human resources area performed in 2019).

All clients are informed about the nature of the information captured, use of collected data, how long the information is kept in corporate files, how the information is protected, and what is the applicable third-party disclosure policy via the Privacy Policy Charter (please refer to <https://www.kb.cz/en/protection-of-personal-data>).

All clients have rights to access their personal data held by KB, have their data transferred to third parties (e.g. other service providers), or request their data be corrected or deleted.

No substantiated complaints were received via the regulator from outside parties concerning breaches of customer privacy in 2019.

### Supplier relationships

In its relationships with suppliers, Komerční banka is committed to honouring all legal obligations, protecting the environment as well as social and human rights, and respecting the principles of sustainable development. KB is implementing those principles common to the Société Générale Group in its purchasing processes. The Bank regards this, too, as an aspect of its responsible approach to risk management.

During 2019, KB strengthened its discovery and evaluation of information on suppliers and potential suppliers (so-called

“Know-Your-Supplier”, or KYS) with the aim of preventing any co-operation with suppliers who violate applicable rules and regulations in the areas of taxation, anti-money laundering, financing of terrorism, and corruption, or who might be involved in other illegal activities. The rules have been tightened for verifying suppliers' governance bodies, beneficial owners, and any politically exposed persons linked to them. Moreover, suppliers are checked against registers such as the EU Sanctions List, sanctions and embargoes of the USA, and lists of the United Nations Security Council.

KYS involves also rules for establishing business relationships with suppliers from sectors sensitive from the perspective of responsible banking (e.g. the energy industry).

### Protecting economic competition

KB had previously introduced an internal directive covering protection of competition based upon both general obligations as established by regulatory provisions and on the standards of SG Group. This regulation describes the regulatory framework, risk areas concerning the banking sector, and behaviour of individual employees in negotiating with third parties and with the regulator so that the employees are sufficiently informed regarding risks and methods for avoiding them. Selected employees also are subject to internal training in this area. Employees negotiating on the Bank's behalf at the level of the Czech Banking Association also undertake to uphold the rules of the Czech Banking Association in this area.

### Governing law

As an issuer of publicly traded securities, during 2019 Komerční banka was governed in its activities particularly by the following laws:

- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives;
- Act No. 257/2016 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act;
- Act No. 170/2018 Coll., on Distribution of Insurance and Reinsurance;
- Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 69/2006 Coll., on Implementation of International Sanctions;
- Act No. 300/2016 Coll., on the Central Register of Accounts;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., the Civil Code;
- Act No. 277/2013, 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

From 12 January 2018 to 11 September 2018, the Banking Supervision Department of the Czech National Bank (CNB) conducted in Komerční banka on-site inspection directed to risk management (credit, market, liquidity, operational, information systems and technologies), the internal control system, procedures and principles of remuneration, provision of investment services, compliance with information obligations of a payment services provider, and performance of depositary activities.

As a result of this inspection, the CNB imposed a fine of CZK 2,000,000 upon Komerční banka for failing to retain all records of telephone calls made by branch network employees with customers or potential customers concerning investment services related to the receipt, transmission, or execution of customer orders for the period from 3 January 2018 to 11 October 2019; due to the fact that its management and control system did not include sound administrative procedures related to the keeping of records of face-to-face meetings with customers and potential customers regarding investment services; and to the fact that it did not keep records of face-to-face meetings with selected customers regarding investment services.

In accordance with these findings, Komerční banka has already launched recording of communication related to the provision of investment services and implemented requirements regarding record-keeping in accordance with the CNB's remedial measures, including to modify Komerční banka's internal rules.

### 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 contract, banking, and corporate law, the main tasks of KB's lawyers during 2019 involved in particular support of KB's agile transformation, implementation of the EU Regulation on fees for cross-border payments and cross-currency conversion, analysis and modification of contractual documentation in relation to

the potential cancellation or replacement of certain interest rate indices, and co-operation on the KYC project.

### 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 2019, KB Group was a party to 8 significant legal proceedings as a plaintiff. The principal that was the subject of these legal proceedings totalled CZK 445.3 million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 14 bankruptcy proceedings. The total of claims filed in relation to these proceedings was CZK 2.6 billion. As of 31 December 2019, KB Group was a party to a total of 9 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 819.3 million.

Information concerning the provisions created for litigations in which the Group is a defendant is stated in the Notes to the Consolidated Financial Statements according to IFRS, Note 37 – "Commitments and contingent liabilities".

### Internal audit

The main tasks of KB Internal Audit include to assess the functionality and effectiveness of risk management, control processes, and the Bank's corporate governance, as well as contribute 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 on the basis of assessments of the risks and priority areas. In 2019, 57 audits were carried out, of which 17 were performed in KB Group subsidiaries and 7 were conducted across the KB Group, including within the Bank itself. Thirty-three audits performed within the Bank covered both the distribution network and head office units. In total, 133 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2019. Of these, 18 were given significant priority. The Bank maintained a low number of long-term unresolved recommendations. As of 31 December 2019, seven recommendations had been outstanding for more than 18 months.

A review of the remuneration system in KB, which focused mainly on the fulfilment of CRD IV requirements, was performed for the eighth time. That review identified no significant shortcomings.

In its regular report to KB's Board of Directors, the Audit Committee, and the Supervisory Board, Internal Audit evaluated the Bank's internal control system and declared it effective.



Using a methodology shared across the entire SG Group, the plan for 2020 draws upon outcomes from a risk assessment, the five-year audit cycle, and regulatory requirements.

## Internal control and approach to risks in the process of accounting and preparing financial statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve preparing the statements and their control.

The tools used for proper recording of transactions, events, trades, and the like in the accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, and managing of access rights to individual systems. Setting up systems, processes, and controls is always formally governed by the Bank's internal regulations.

Compliance of those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing there from, 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 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 number of manually processed transactions or 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 very low risk. The internal control system in the financial reporting area is also regularly evaluated by Internal Audit.

# | Capital and liquidity

## Regulatory framework

Komerční banka is subject to supervision by the Czech National Bank (CNB), and since November 2014 the Société Générale Group has been supervised by the European Central Bank. The regulatory requirements in the European Union are established within the Basel III capital framework through Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or “CRR”) and by Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4, or “CRD IV”). CRD IV was transposed into Czech law by an amendment to the Banking Act and publication of CNB Decree No. 163/2014 Coll. The new regulation establishes, above all, the newly conceived capital ratios as well as more stringent requirements mainly on regulatory capital, liquidity, risk-weighted exposures, and overall corporate governance.

According to the valid Basel III capital rules, an additional Pillar II buffer of 1.6% over the minimum required capital ratio of 8.0% was applied to the Bank in 2019. This brought the required TSCR (i.e. total SREP) capital ratio to 9.6%.

The combined capital buffer of 7.0% was applied on top of the TSCR capital ratio, thus resulting in a required overall capital ratio of 16.6% for 2019. This marked a rise of 0.6% in comparison to the previous year, due to an increase in the additional Pillar 2 buffer. The combined capital buffer consisted of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and a required countercyclical buffer of 1.5% for exposures in the Czech Republic.

Komerční banka's overall capital requirements as of 1 January 2020 reached approximately 17.45% in relation to the consolidated volume of risk-weighted assets. That is higher by 0.85 percentage points in comparison with 2018 due to the rise in the countercyclical buffer for Czech exposures by 0.25 percentage points to 1.75% and increase of additional Pillar 2 buffer to the level of 2.2% (up by 0.6 percentage point).

Furthermore, the countercyclical buffer was expected to be raised by an additional 0.25 percentage point as of 1 July 2020 to the 2.0 % level, but Czech National Bank has on 16 March 2020 decided that it will abstain from this announced increase. The Bank and Group meet the overall capital ratio requirements with adequate reserve, because their respective capital ratios stand well above the minimum required level.

In applying the Basel 3 regulatory framework, the Czech National Bank designated Komerční banka as an Other Systemically Important Institution (O-SII). In 2019, this decision was reaffirmed following the regular regulatory review.

## Consolidated capital and risk-weighted assets

Total shareholders' equity comprises the following main items: share capital, reserve funds, and retained earnings. As of 31 December 2019, total equity grew year to date by 5.1% to CZK 108.6 billion. The growth was due to the creation of net profit, partly offset by payment of dividends. The value of non-controlling interests reached CZK 3.1 billion. As of 31 December 2019, 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 2019. 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 2019, 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 and a call option for the benefit of the Bank after 5 years from issuance, at an interest rate of EURIBOR 3 months plus 1.26%. The subordinated loan is denominated in EUR in order to better align currency structure of KB's regulatory capital with the currency structure of assets. The loan was accepted from Société Générale after the Bank assessed other opportunities available on the market and concluded that the loan from SG provides the most effective option for the Bank. The Bank may in coming years continue gradually to increase the volume of Tier 2 instruments, which according to the regulation may cover up to 2 percentage points of Komerční banka's risk-weighted assets, in order to optimise the structure of its regulatory capital. Actual decisions on potential further Tier 2 reinforcement will reflect the required level of regulatory capital as well as prevailing market conditions.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 86.6 billion as of 31 December 2019 which is 3.9% higher compared to 31 December 2018. This volume of regulatory capital is adjusted for the volume of foreseeable dividend of CZK 11.0 billion, in accordance with the initial proposal of the Board of Directors to the Supervisory Board, published on 6 February 2020, which was subsequently amended on 23 March 2020. The total capital adequacy standards stood at 19.7%. The Tier 1 capital stood at CZK 84.1 billion (increase by 4.1% since end of 2018), and the Tier 1 ratio reached 19.1%, also after adjustment for the foreseeable dividend. Tier 2 capital came to CZK 2.5 billion, or 0.6% of risk-weighted assets.

## KB uses the following approaches for calculating capital requirements related to individual types of risk:

The capital requirement calculation approach for KB Group Companies

KB Group entity	Capital requirement calculation approach			
	Credit risk	Market risk	Operational risk	
KB*	AIRB	STA	AMA	
BASTION			TSA	
Protos				
KB Penzijní společnost				
Modrá pyramida			AMA	
SGEF	STA			
ESSOX				
other entities**		TSA		

AIRB: Advanced Internal Rating-Based Approach.

AMA: Advanced Measurement Approach.

STA/TSA: Standardised Approach.

\* Excluding KB Slovakia.

\*\* Including KB Slovakia.

The volume of the Group's risk-weighted assets (RWA) stood at CZK 439.2 billion as of 31 December 2019, compared to CZK 451.1 billion as of 31 December 2018. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 10%, and market risk 6% of the total RWA. The decline in RWA was driven mainly by decrease in Loss Given Default of sovereigns and financial institutions due to reclassification of the Czech Republic to developed (Sovereign Upper Investment Grade) countries, along with improving risk weight for the residential mortgage portfolio and decline of market RWA (effect of gradual decrease of CO<sub>2</sub> allowances due to limitation of commodity trading). The average risk weight for credit risk stood at 31.4% as of December 2019, down by 70 bps from the 32.1% as of December 2018. The residential mortgages portfolio risk weight decreased to 20.7% as of December 2019 from 22.0% as of December 2018. This change was significantly influenced by the effect of CNB's loan-to-value regulation.

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). Consequently, the risk weighted assets of the Group increased by CZK 2,638 million and the capital adequacy ratio decreased by 12 basis points.

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

## Reconciliation of accounting and regulatory capital

	31 December 2019	31 December 2018	31 December 2017
<b>Items from Statement of Financial Position – Total shareholders' equity</b>	<b>108,635</b>	<b>103,329</b>	<b>100,346</b>
Share capital	19,005	19,005	19,005
Share premium	149	149	148
Other equity	506	478	444
Accumulated Other comprehensive income	682	418	2,327
Retained earnings from previous periods	65,812	61,089	55,751
Reserve funds	5,211	4,671	4,670
Own shares	(726)	(726)	(726)
Net profit for the period	14,901	14,846	14,930
Minority interests	3,095	3,398	3,797
<b>Total adjustments to CET1</b>	<b>(24,573)</b>	<b>(22,541)</b>	<b>(23,821)</b>
Gains/(losses) on hedging instruments (cash flow hedging)	82	87	(118)
Additional value adjustment	(354)	(288)	(159)
Goodwill	(3,752)	(3,752)	(3,752)
Other intangible assets, net of tax	(5,681)	(4,959)	(4,438)
Insufficient coverage of expected credit losses (lack of provisions)	(746)	(581)	(1,239)
Unusable profit	(11,027)	(9,650)	(8,958)
Minority interests	(3,095)	(3,398)	(3,797)
Other transitional adjustments to CET 1		0	(1,360)
<b>Tier 2 capital</b>	<b>2,546</b>	<b>2,578</b>	<b>2,559</b>
Subordinated debt	2,546	2,578	2,559
<b>Total capital</b>	<b>86,608</b>	<b>83,366</b>	<b>79,084</b>
<b>Tier 1 capital</b>	<b>84,062</b>	<b>80,788</b>	<b>76,525</b>
<b>Core Tier 1 (CET1) capital</b>	<b>84,062</b>	<b>80,788</b>	<b>76,525</b>

## Consolidated risk-weighted assets

	31 December 2019	31 December 2018	31 December 2017
<b>Total risk-weighted assets</b>	<b>439,237</b>	<b>451,052</b>	<b>424,566</b>
<b>for credit risk</b>	<b>367,550</b>	<b>375,390</b>	<b>352,930</b>
for credit risk pursuant to the Standardised Approach in IRB	69,030	71,551	64,057
for credit risk pursuant to the IRB Approach	298,520	303,839	288,873
<b>for settlement risk</b>	<b>15</b>	<b>0</b>	<b>0</b>
<b>for position, foreign exchange, and commodity risks</b>	<b>23,630</b>	<b>28,797</b>	<b>24,861</b>
<b>for operational risk</b>	<b>45,142</b>	<b>44,066</b>	<b>43,300</b>
<b>for credit valuation adjustment</b>	<b>2,900</b>	<b>2,799</b>	<b>3,474</b>

## Capital requirements

	31 December 2019	31 December 2018	31 December 2017
<b>Total capital requirements</b>	<b>35,139</b>	<b>36,084</b>	<b>33,965</b>
<b>for credit risk pursuant to the Standardised Approach in IRB</b>	<b>5,522</b>	<b>5,724</b>	<b>5,124</b>
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	15	18	20
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	26	43	29
Exposures to corporates	4,019	4,397	3,914
Retail exposures	1,047	858	774
Exposures secured by real estate	0	0	0
Exposures in default	80	91	78
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	247	0	0
Equity exposure	88	226	236
Other items	0	90	73
<b>for credit risk pursuant to the IRB Approach</b>	<b>24,114</b>	<b>24,531</b>	<b>23,388</b>
Exposures to central governments or central banks	255	970	1,003
Exposures to institutions	1,284	1,371	1,498
Exposures to corporates	14,333	13,994	12,622
Retail exposures	6,867	7,039	7,152
Equity exposure	120	82	57
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligation	1,255	1,075	1,056
<b>for position risk</b>	<b>1,812</b>	<b>2,103</b>	<b>1,896</b>
<b>for large exposures exceeding the limits</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>to currency risk</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>to settlement risk</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>to commodity risk</b>	<b>78</b>	<b>201</b>	<b>93</b>
<b>to operation risk</b>	<b>3,612</b>	<b>3,525</b>	<b>3,464</b>

Information in accordance with Decree  
163/2014 on an individual basis (in CZK million)

Reconciliation of accounting and regulatory capital

	31 December 2019	31 December 2018	31 December 2017
<b>Items from Statement of Financial Position – Total shareholders' equity</b>	<b>98,217</b>	<b>92,721</b>	<b>88,604</b>
Share capital	19,005	19,005	19,005
Share premium	134	134	134
Other equity	454	430	400
Accumulated Other comprehensive income	781	526	2,296
Reserve funds	4,189	4,189	4,189
Retained earnings from previous periods	59,564	53,924	48,392
Own shares	(726)	(726)	(726)
Net profit for the period	14,816	15,238	14,914
<b>Total adjustments to CET 1</b>	<b>(17,235)</b>	<b>(14,952)</b>	<b>(15,982)</b>
Gains/(losses) on hedging instruments (cash flow hedging)	45	22	(488)
Additional value adjustment	(354)	(288)	(159)
Other intangible assets, net of tax	(5,187)	(4,480)	(3,963)
Insufficient coverage of expected credit losses (lack of provisions)	(712)	(557)	(1,173)
Unusable profit	(11,027)	(9,650)	(8,958)
Other transitional adjustments to CET 1	0	0	(1,241)
<b>Tier 2 capital</b>	<b>2,546</b>	<b>2,578</b>	<b>2,560</b>
Subordinated debt	2,546	2,578	2,560
<b>Total capital</b>	<b>83,528</b>	<b>80,347</b>	<b>75,181</b>
<b>Tier 1 capital</b>	<b>80,982</b>	<b>77,769</b>	<b>72,622</b>
<b>Core Tier 1 (CET 1) capital</b>	<b>80,982</b>	<b>77,769</b>	<b>72,622</b>

Risk-weighted assets

	31 December 2019	31 December 2018	31 December 2017
<b>Total risk-weighted assets</b>	<b>395,828</b>	<b>409,958</b>	<b>387,330</b>
<b>for credit risk</b>	<b>329,787</b>	<b>340,108</b>	<b>321,672</b>
for credit risk pursuant to the Standardised Approach in IRB	39,531	38,698	37,435
for credit risk pursuant to the IRB Approach	290,256	301,410	284,236
<b>for settlement risk</b>	<b>15</b>	<b>0</b>	<b>0</b>
<b>for position, foreign exchange, and commodity risks</b>	<b>23,630</b>	<b>28,797</b>	<b>24,861</b>
<b>for operational risk</b>	<b>39,495</b>	<b>38,253</b>	<b>37,323</b>
<b>for credit valuation adjustment</b>	<b>2,901</b>	<b>2,799</b>	<b>3,475</b>

Capital requirements

	31 December 2019	31 December 2018	31 December 2017
<b>Total capital requirements</b>	<b>31,666</b>	<b>32,797</b>	<b>30,986</b>
<b>for credit risk pursuant to the Standardised Approach in IRB</b>	<b>3,162</b>	<b>3,096</b>	<b>2,995</b>
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	15	18	20
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	15	27	10
Exposures to corporates	2,014	1,924	1,670
Retail exposures	0	0	0
Exposures secured by real estate	0	0	0
Exposures in default	0	5	1
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	1,118	1,122	1,294
Other items	0	0	0
<b>for credit risk pursuant to the IRB Approach</b>	<b>23,453</b>	<b>24,337</b>	<b>23,016</b>
Exposures to central governments or central banks	255	954	974
Exposures to institutions	1,449	1,656	1,651
Exposures to corporates	14,691	14,665	13,187
Retail exposures	6,030	6,259	6,432
Equity exposure	119	82	56
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligation	909	721	716
<b>for position risk</b>	<b>1,812</b>	<b>2,103</b>	<b>1,896</b>
<b>for large exposures exceeding the limits</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>to currency risk</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>to settlement risk</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>to commodity risk</b>	<b>78</b>	<b>201</b>	<b>93</b>
<b>to operation risk</b>	<b>3,160</b>	<b>3,060</b>	<b>2,986</b>



## Capital ratios and ratios in %

	31 December 2019	31 December 2018	31 December 2017
Capital ratio for common equity tier 1	20.46	18.97	18.75
Capital ratio of Tier 1 capital	20.46	18.97	18.75
Capital ratio for total capital	21.10	19.60	19.41
Return on average assets (ROAA)	1.38	1.49	1.56
Return on average equity Tier 1 (ROAE)	18.42	20.18	21.25
Assets per employee in CZK thousand	137,809	133,873	122,516
Administrative costs per employee in CZK thousand	1,521	1,499	1,465
Profit or loss after tax per employee in CZK thousand	2,019	2,037	1,931

## Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic developments. Under the applicable Basel III regulation of capital adequacy, in addition to the usual reporting of the capital adequacy ratio (so-called Pillar I), regulatory demands comprise also fulfilling conditions for evaluating required economic capital, stress testing, and capital planning (so-called Pillar II, or the internal capital adequacy assessment process). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar I. That has resulted in there being very similar levels of necessary economic and regulatory capital.

Given the fact that Basel III capital requirements are still being developed (and in future they will transform into regulation termed Basel IV), 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 2018, the Bank met all regulatory requirements. On a regular basis, KB also compiles and reports to the CNB mandatory information regarding its internal system for assessing capital adequacy.

## Stress testing

As an essential part of its risk management under Pillar II, KB regularly simulates hypothetical macroeconomic scenarios involving potential adverse external macroeconomic conditions. On this basis, it estimates impacts upon its financial result and the risk profile of the Bank's 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 2019 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 2019, it had an excellent loan-to-deposit ratio of 79%. KB also would meet by a large margin the 3% required leverage ratio. This indicator confirms Komerční banka's solid position and its adequate room for further business growth.

## Funding of KB Group

Client deposits in the volume of CZK 814 billion (not including Other payables to clients) 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 (71%). 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. Due to its long-term liquidity surplus, Komerční banka did not increase in 2019 the volume of issued debt securities. As of the end of 2019, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 1.0 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 2019 from its internal sources without any problems, and the use of additional secondary funding remained limited. As of 31 December 2019, 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 Basel III regulation, the Bank follows the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are simplified versions similar to those used by KB Group to measure its liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG Group reporting and simultaneously it is reported to the CNB, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.

# | Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited net profit attributable to the Group's equity holders of CZK 14,901 million for 2019 under International Financial Reporting Standards (IFRS). This represents a 0.4% increase in comparison with 2018.

## Statement of Income

*With effect from 1 January 2019, Komerční banka is applying 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). In addition, the nature of expenses related to those leases has changed, because IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. KB followed the modified retrospective approach in adopting the new standard, which means there was no restatement of comparative information.*

Komerční banka's revenues (net operating income) for the full year 2019 improved by 1.1% year on year to reach CZK 32,573 million. This growth was driven by net interest income, even as net fee and commission income diminished slightly and net profit on financial operations was down relative to the high base of the previous year.

Net interest income<sup>1)</sup> was up by 3.9%, at CZK 23,591 million. Although loan and deposit volumes were growing year over year, the low market interest rates caused returns from reinvesting deposits and the Bank's own funds to be lower during most of the year. The product spreads on lending also were compressed due to stiff market competition. The net interest margin for 2019, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.35%. That figure is very close to that of a year earlier.

Net fee and commission income<sup>2)</sup> diminished by a slight 0.7% to CZK 5,983 million. KB recorded higher income from specialised financial services due to improved demand for bank guarantees, more client activity in loan syndications, issuance of trade finance instruments, and advisory. The maintenance fee income

also improved as clients continued switching to better account packages that include wider ranging services. Fees from cross-selling were up slightly thanks to income from life insurance products and mutual funds. This positive development was offset by decline in fees for transactions, mainly caused by inclusion of more transactions into the prices of account packages and despite the rapidly increasing number of transactions (especially those carried out using payment cards). Income from loan services was stable year over year.

Net profit on financial operations decreased by 12.6% to CZK 2,804 million. This drop was influenced by some extraordinarily large hedging transactions developed for clients in the previous year. During 2019, clients' demand for hedging of financial risks was weaker in those periods when CZK exchange and interest rates lacked trends and volatility. On the other hand, the Bank was successful in promoting hedging and trading services also among smaller corporate clients. Net gains on FX payment transactions were higher year on year, reflecting an increase in the volume of these transactions and wider spreads.

Dividend and other income declined by 26.4% to CZK 195 million. This line primarily comprises revenues from property rental and ancillary services. Less business intelligence advisory was provided to external parties in 2019.

Total operating expenses were up by 2.0%, at CZK 14,932 million. Excluding the effects from creating a restructuring reserve and release of over-accrued charges for corporate services, growth in operating expenses reached 2.7%.<sup>3)</sup> Adjusted personnel expenses rose by 2.3% to CZK 7,781 million, reflecting mainly higher remuneration even as the average number of employees declined by 2.9% to 8,167.<sup>4)</sup> Reported personnel expenses, inclusive of the restructuring reserve in the comparative base, were lower by 0.6%. General and administrative expenses (not including contributions to the regulatory funds) were down by 6.7%, at 3,839 million. This line was also influenced in 2018, however, by creation of the restructuring reserve<sup>3)</sup> and in 2019 by implementation of the new IFRS 16 standard that has replaced rent expense with the depreciation expense for rights of use. Adjusted for these extraordinary factors, general and administrative expenses increased by 0.5%, mainly as a result of higher cost for IT support. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 854 million, up 1.8% year on year. Depreciation,

<sup>1)</sup> 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 the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base. The contribution of interest expense on lease liabilities newly charged according to IFRS 16 represented 0.2% of net interest income for 2019.

<sup>2)</sup> 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 the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base.

<sup>3)</sup> In the second quarter of 2018, KB created a restructuring reserve for anticipated costs arising from the KB Change programme. These comprised CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in estimated costs of reducing branch facilities recognised in general and administrative expenses. In the same period of 2018, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group.

<sup>4)</sup> Recalculated to a full-time equivalent number.

amortisation, and impairment of operating assets grew by 32.4% to CZK 2,458 million, including the effect of IFRS 16 implementation. Adjusted depreciation and amortisation charges were higher by 10.0%, driven mainly by new and upgraded software and IT equipment but influenced also by putting of the new headquarters building into use in the last quarter of 2018.

The sum of operating profit (before cost of risk, profit on subsidiaries, and income tax) was up by 0.4%, at CZK 17,641 million. Excluding the contribution of one-off items from the previous year,<sup>1)</sup> gross operating income was stable (–0.2%).

Cost of risk reached a negative CZK 572 million (net release of provisions), which amount is 11.0% smaller than the net release in the full year 2018. This extraordinarily good result reflects overall very low client default rates and very good results from recovery activities. Moreover, in the final quarter, the Bank completed a process resolving an historic large defaulted corporate exposure, leading to a one-off release of the respective credit provisions. The provisioning trend began to normalise in the second half of the year, and particularly in the corporate segments, as some business clients' financial conditions deteriorated in the face of rising wage costs and slowing demand for their production. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the full year 2019 came to –9 basis points.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up 28.6% year on year, at CZK 306 million. The Group booked CZK 55 million in profit attributable to exclusion of companies from consolidation that was from settling the sale price of KB's stake in Komerční pojišťovna agreed in 2006. In 2018, this line had comprised CZK 82 million related to finalising the selling price for KB's stake in Cataps. Net profits on other assets reached CZK 17 million, which amount was linked mainly to sales of buildings in the held-for-sale portfolio. In the previous year, this result had been negative CZK 14 million.

Income tax was higher by 2.1%, at CZK 3,419 million.

KB Group's consolidated net profit for the full year 2019, at CZK 15,172 million, remained essentially at the same level as a year earlier. Of this amount, CZK 271 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (–16.6% year on year).

Reported net profit attributable to the Group's equity holders totalled CZK 14,901 million, which is 0.4% better year on year. Recurring attributable net profit (i.e. excluding one-off effects in 2018 from the restructuring reserve, release of accrual for corporate services, and sale price for Cataps, and in 2019 from settlement of the sale price for Komerční pojišťovna) was stable year on year (at CZK 14,846 million).

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign

exchange, and securities positions, reached CZK 280 million. Consolidated comprehensive income for 2019 totalled CZK 15,452 million, of which CZK 271 million was attributable to owners of non-controlling stakes.

## Statement of financial position

*Unless indicated otherwise, the following text reflects the newly introduced accounting methodology according to IFRS 16.ss.*

### Assets

As of 31 December 2019, KB Group's total assets had risen by 1.6% year to date to CZK 1,077.3 billion.

Cash and current balances with central banks were down by 28.6%, at CZK 17.7 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 3.5% to CZK 23.4 billion. The fair value of hedging financial derivatives declined by 20.4% to CZK 10.0 billion.

Year to date, there was a 43.3% rise in financial assets at fair value through other comprehensive income totalling CZK 36.2 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 1.3% to CZK 963.4 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 3.6% to CZK 647.3 billion. A 97.9% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.1% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 10.1 billion. Loans and advances to banks decreased by 4.6% to CZK 244.6 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 2.4% and reached CZK 71.6 billion at the end of the year.

Revaluation differences on portfolio hedge items totalled CZK –0.4 billion. Current and deferred tax assets stood at CZK 0.1 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, declined overall by 10.0% to CZK 5.2 billion. Assets held for sale diminished by 30.5% to CZK 0.1 billion.

Investments in subsidiaries and associates increased by 10.6% to CZK 1.3 billion.

The net book value of tangible assets rose by 37.2% to CZK 10.5 billion, as rights of use, recognised under IFRS 16, added CZK 3.0 billion to this total. Intangible assets grew by 14.7% to reach CZK 6.0 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 1.3% higher in comparison to the end of 2018 and stood at CZK 968.7 billion.

Financial liabilities at amortised cost went up by 1.6% to CZK 921.7 billion. Within that total, lease liabilities, an item under IFRS 16, amounted to CZK 3.0 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 1.1% to CZK 821.5 billion. This total included CZK 5.2 billion of

<sup>1)</sup> In the second quarter of 2018, KB created a restructuring reserve for anticipated costs arising from the KB Change programme. These comprised CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in estimated costs of reducing branch facilities recognised in general and administrative expenses. In the same period of 2018, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group.

liabilities from repo operations with clients and CZK 7.8 billion of other payables to customers. Amounts due to banks increased in 2019 by 1.4% to CZK 93.6 billion.

The volume of outstanding securities issued was down up 42.6%, at CZK 3.6 billion.

Revaluation differences on portfolios hedge items expanded to CZK –4.1 billion. Current and deferred tax liabilities increased by 30.1% to CZK 1.2 billion. Accruals and other liabilities, which include payables from securities trading and settlement balances, declined by 10.8% to CZK 12.0 billion.

The provisions balance was 27.4% smaller, at CZK 1.3 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.5 billion, was down by 1.2% year over year. Because that debt is issued in euro, the change reflects the strengthening of the Czech crown over the same period.

### Equity

Total equity grew year to date by 5.1% to CZK 108.6 billion. The value of non-controlling interest reached CZK 3.1 billion. As of 31 December 2019, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

## Expenses on research and development

In 2019, Komerční banka had outlays through operating expenses of CZK 120 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

## Financial and non-financial investments

### Financial investments made by the Group (balance as of the end of the year)

IFRS, CZK million	31 December 2019	31 December 2018
Bonds and treasury bills	111,375	98,038
Shares	522	356
Emissions allowances	494	245
Equity investments in subsidiary and associated undertakings*	1,255	1,134
<b>Total</b>	<b>113,646</b>	<b>99,773</b>

\* 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 December 2019	31 December 2018
Tangible fixed assets*	10,528	7,676
Intangible fixed assets*	6,018	5,249
<b>Total tangible and intangible fixed assets</b>	<b>16,546</b>	<b>12,925</b>
Tangible fixed assets held under financial leases**	0	0

\* Both tangible and intangible fixed assets also include the Right-of-use asset; See also Notes to the Consolidated Financial Statements according to IFRS, notes 25 – Intangible fixed assets and 26 – Tangible fixed assets.

\*\* Net book value of investments. See also Notes to the Consolidated Financial Statements according to IFRS, notes 25 – Intangible fixed assets and 26 – Tangible fixed assets.

### Main ongoing investments – excluding financial investments

In 2019, the Bank made non-financial investments in a total CZK 2.5 billion. Most of this amount was invested in the area of information technologies (almost CZK 2.1 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of branch network, real estate owned by the Bank and ATMs. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

### Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2020 should not exceed CZK 2.5 billion. The Bank will continue to invest mainly into maintenance and development of the distribution network, as well as into quality of provided services and operational efficiency, including investments into information technologies. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

## Description of real estate owned by KB Group

Komerční banka Group uses the real estate for conduct of its business activities. The operation of owned or leased buildings by the KB Group does not generate an excessive burden for the environment.

### Summary of the real estate managed by the Group:

As of 31 December 2019	Number	Of which owned by KB	Of which subleased by KB
Buildings in Czech Republic	555	85	470
Buildings in Slovakia	2	0	2
<b>Total</b>	<b>557</b>	<b>85</b>	<b>472</b>

The Komerční banka Group uses the following significant properties with useful floor area in excess of 5,000 square metres.



## Overview of important real estates managed by KB Group:

City	Street	Land Registry Number	Useful floor area
Brno	náměstí Svobody	92	13,869
Kladno	náměstí Starosty Pavla	14	5,072
Ostrava	Nádražní	1698	7,637
Pilsen	Goethova	2704	11,421
Prague 1	Václavské náměstí	796	50,986
Prague 2	Bělehradská	222	7,924
Prague 5	Štefánikova	267	7,568
Prague 5	náměstí Junkových	2772	27,497
Prague 5	náměstí Junkových	2,921	19,969
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 sublicenses

In 2019, 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 187 trademarks. In the case of a further 3 trademarks, a registration process has been initiated but the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within the KB Group, Komerční banka provides some of its subsidiaries with licenses for its trademarks. In some cases, Komerční banka is also a licensee and sub-licensee, typically from providers of IT services.

## Definitions of the mentioned Alternative Performance Measures

**Earnings per share:** 'Net profit attributable to the Group's equity holders' divided by the quantity average number of shares issued without own shares in treasury;

**Return on average equity (ROAE, in consolidated statements):** 'Net profit attributable to the Group's equity holders' divided by the quantity average 'Total equity' less 'Non-controlling interest'; **Average 'Total equity' less 'Non-controlling interest':** (('Total equity' less 'Non-controlling interest' as of the year end X) plus ('Total equity' less 'Non-controlling interest' as of the year end X-1)) divided by 2;

**Average 'Total equity' less 'Non-controlling interest' for the year 2018:** (('Total equity' less 'Non-controlling interest' as of 2018 end) plus ('Total equity' less 'Non-controlling interest' as of the 2018 beginning)) 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;

**Average 'Total equity' for the year 2018:** ('Total equity' as of 2018 end plus 'Total equity' as of 2018 beginning) divided by 2;

**Return on average assets (ROAA, in consolidated statements):**<sup>1)</sup> '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;

**Average total assets for the year 2018:** ('Total assets' as of 2018 end plus 'Total assets' as of 2018 beginning) divided by 2;

**Return on average assets (ROAA, in separate statements):**<sup>1)</sup> '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;

**Average interest-earning assets for the year 2018:** ('Total interest-earning assets' as of 2018 end plus 'Total interest-earning assets' as of 2018 beginning) divided by 2;

**Interest-earning assets (IEA) for 2019 and 2018** 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 at fair value through profit or loss' (debt securities only), 'Financial asset at fair value through other comprehensive income' (debt securities only), and 'Debt securities';

**Interest-earning assets (IEA) for previous years** comprise 'Amounts due from banks', 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' ('Total debt securities' only), 'Available-for-sale financial assets' ('Total debt securities available-for-sale' only), 'Held to maturity investments';

<sup>1)</sup> 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). 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)	FY 2019	FY 2018
<b>Net interest income, year to date</b>	<b>23,591</b>	<b>22,704</b>
Of which:		
Loans and advances at amortised cost	24,270	20,085
Debt securities at amortised cost	1,746	1,922
Other debt securities	587	445
Financial liabilities at amortised cost	(4,193)	(2,361)
Hedging financial derivatives – income	17,403	11,191
Hedging financial derivatives – expense	(16,222)	(8,578)

(source: Balance Sheet)	31 Dec 2019	31 Dec 2018	1 Jan 2018
Cash and current balances with central banks/ Current balances with central banks	7,737	16,347	22,593
Loans and advances to banks	244,561	256,268	222,821
Loans and advances to customers	647,259	624,954	593,639
Financial assets at fair value through profit of loss/ Debt securities	4,112	3,248	1,633
Financial assets at fair value through profit of loss – non SPPI/ Debt securities	0	0	2,694
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	35,682	24,909	23,798
Debt securities	71,581	69,881	70,340
<b>Interest-bearing assets (end of period)</b>	<b>1,010,932</b>	<b>995,607</b>	<b>937,518</b>
<b>Average interest-bearing assets, year to date</b>	<b>1,003,270</b>	<b>966,563</b>	
<b>NIM, year to date, annualised</b>	<b>2.35%</b>	<b>2.35%</b>	

**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 2019

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

## Consolidated Statement of Income for the year ended 31 December 2019

(CZKm)	Note	Restated*	
		2019	2018
Interest income	5	44,006	33,643
Interest expense	5	(20,415)	(10,939)
<b>Net interest income</b>		<b>23,591</b>	<b>22,704</b>
Net fee and commission income	6	5,983	6,025
Net profit/(loss) on financial operations	7	2,804	3,209
Dividend income	8	5	5
Other income	9	190	260
<b>Net operating income</b>		<b>32,573</b>	<b>32,203</b>
Personnel expenses	10	(7,781)	(7,827)
General and administrative expenses	11	(4,693)	(4,952)
Depreciation, amortisation, and impairment of operating assets	12	(2,458)	(1,856)
<b>Total operating expenses</b>		<b>(14,932)</b>	<b>(14,635)</b>
<b>Operating profit</b>		<b>17,641</b>	<b>17,568</b>
Impairment losses	13	53	484
Net gain from loans and advances transferred and written off	13	519	159
<b>Cost of risk</b>		<b>572</b>	<b>643</b>
Income from share of associated undertakings		306	238
Profit/(loss) attributable to exclusion of companies from consolidation		55	82
Gain on a bargain purchase		0	2
Net profits on other assets	14	17	(14)
<b>Profit before income tax</b>		<b>18,591</b>	<b>18,519</b>
Income tax	15	(3,419)	(3,348)
<b>Net profit for the period</b>	16	<b>15,172</b>	<b>15,171</b>
Profit attributable to the Non-controlling owners		271	325
Profit attributable to the Group's equity holders		14,901	14,846
<b>Earnings per share/diluted earnings per share (in CZK)</b>	16	<b>78.90</b>	<b>78.61</b>

\* More information regarding changes in reporting is presented in Note 3.6.3.

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 Consolidated Financial Statements.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

(CZKm)	Note	2019	2018
<b>Net profit for the period</b>	16	<b>15,172</b>	<b>15,171</b>
<b>Items that will not be reclassified to the Statement of Income</b>			
Remeasurement of retirement benefits plan, net of tax	39	(83)	22
Revaluation of equity securities at FVOCI option*, net of tax	40	133	83
<b>Items that may be reclassified subsequently to the Statement of Income</b>			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	41	533	(55)
– Transfer to net profit/(loss), net of tax	41	(528)	(151)
Hedge of a foreign net investment		9	(241)
Foreign exchange difference on translation of a foreign net investment		(12)	241
Revaluation of debt securities at FVOCI**, net of tax	42	212	(376)
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax	24	16	(69)
Other income from associated undertakings		0	0
<b>Other comprehensive income for the period, net of tax</b>		<b>280</b>	<b>(546)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>15,452</b>	<b>14,625</b>
Comprehensive income attributable to the Non-controlling owners		271	328
Comprehensive income attributable to the Group's equity holders		15,181	14,297

\* 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 2019

(CZKm)	Note	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>			
Cash and current balances with central banks	18	17,744	24,851
Financial assets at fair value through profit or loss	19	22,904	22,369
Other assets at fair value through profit or loss	19	494	245
Financial assets at fair value through profit or loss – non-SPPI*	20	0	0
Positive fair value of hedging financial derivatives	43	9,996	12,559
Financial assets at fair value through other comprehensive income	21	36,204	25,265
Financial assets at amortised cost	22	963,401	951,103
Revaluation differences on portfolios hedge items		(374)	(372)
Current tax assets		30	59
Deferred tax assets	33	70	93
Prepayments, accrued income, and other assets	23	5,176	5,753
Investments in associates	24	1,255	1,134
Intangible assets	25	6,018	5,249
Tangible assets	26	10,528	7,676
Goodwill	27	3,752	3,752
Assets held for sale	28	136	196
<b>Total assets</b>		<b>1,077,334</b>	<b>1,059,932</b>

\* Non-SPPI - not solely payments of principal and interest.

(CZKm)	Note	31 Dec 2019	31 Dec 2018
<b>LIABILITIES AND EQUITY</b>			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	29	23,725	21,572
Negative fair value of hedging financial derivatives	43	10,283	9,669
Financial liabilities at amortised cost	30	921,725	907,261
Revaluation differences on portfolios hedge items		(4,105)	(676)
Current tax liabilities		363	160
Deferred tax liabilities	33	840	765
Accruals and other liabilities	31	11,976	13,420
Provisions	32	1,345	1,853
Subordinated debt	34	2,546	2,578
<b>Total liabilities</b>		<b>968,699</b>	<b>956,603</b>
Share capital	35	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		86,535	80,926
Non-controlling interest		3,095	3,398
<b>Total equity</b>		<b>108,635</b>	<b>103,329</b>
<b>Total liabilities and equity</b>		<b>1,077,334</b>	<b>1,059,932</b>

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

## Consolidated Statement of Changes in Equity for the year ended 31 December 2019

(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	Total equity	Non-controlling interest	Total equity, including non-controlling interest
<b>Balance as of 1 Jan 2018</b>	<b>19,005</b>	<b>(577)</b>	<b>74,680</b>	<b>443</b>	<b>(154)</b>	<b>77</b>	<b>119</b>	<b>(7)</b>	<b>864</b>	<b>94,450</b>	<b>3,712</b>	<b>98,162</b>
Treasury shares, other	0	0	81	35	0	0	0	0	0	116	2	118
Payment of dividends	0	0	(8,932)	0	0	0	0	0	0	(8,932)	(644)	(9,576)
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>(8,851)</b>	<b>35</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,816)</b>	<b>(642)</b>	<b>(9,458)</b>
Profit for the period	0	0	14,846	0	0	0	0	0	0	14,846	325	15,171
Other comprehensive income for the period, net of tax	0	0	(69)**	0	22	80	(206)	0	(376)	(549)	3	(546)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>14,777</b>	<b>0</b>	<b>22</b>	<b>80</b>	<b>(206)</b>	<b>0</b>	<b>(376)</b>	<b>14,297</b>	<b>328</b>	<b>14,625</b>
<b>Balance as of 31 Dec 2018</b>	<b>19,005</b>	<b>(577)</b>	<b>80,606</b>	<b>478</b>	<b>(132)</b>	<b>157</b>	<b>(87)</b>	<b>(7)</b>	<b>488</b>	<b>99,931</b>	<b>3,398</b>	<b>103,329</b>
Treasury shares, other	0	0	94	27	0	0	0	0	0	121	2	123
Payment of dividends	0	0	(9,693)	0	0	0	0	0	0	(9,693)	(576)	(10,269)
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>(9,599)</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,572)</b>	<b>(574)</b>	<b>(10,146)</b>
Profit for the period	0	0	14,901	0	0	0	0	0	0	14,901	271	15,172
Other comprehensive income for the period, net of tax	0	0	16**	0	(83)	131	5	(1)	212	280	0	280
<b>Comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>14,917</b>	<b>0</b>	<b>(83)</b>	<b>131</b>	<b>5</b>	<b>(1)</b>	<b>212</b>	<b>15,181</b>	<b>271</b>	<b>15,452</b>
<b>Balance as of 31 Dec 2019</b>	<b>19,005</b>	<b>(577)</b>	<b>85,924</b>	<b>505</b>	<b>(215)</b>	<b>288</b>	<b>(82)</b>	<b>(8)</b>	<b>700</b>	<b>105,540</b>	<b>3,095</b>	<b>108,635</b>

\* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 5,211 million (2018: CZK 4,670 million), net profit from the period in the amount of CZK 14,901 million (2018: CZK 14,846 million), and retained earnings in the amount of CZK 65,812 million (2018: CZK 61,090 million).

\*\* This amount represents gain from revaluation of debt securities due to the consolidation of an associated company using the equity method.

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

## Consolidated Statement of Cash Flows for the year ended 31 December 2019

	Restated*	
(CZKm)	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	18,591	18,519
Non-cash and other adjustments:		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	37	(439)
Depreciation and amortisation expense on tangible and intangible fixed assets	2,451	1,877
Gains/(losses) from the sale of assets	(16)	14
Revaluation of derivatives	1,345	(664)
Accrued interest, amortisation of discount and premium	1,032	458
Profit/(loss) on subsidiaries and associates	(366)	(327)
Foreign exchange differences	183	202
Other changes	(398)	163
<b>Operating profit before change in operating assets and liabilities</b>	<b>22,859</b>	<b>19,803</b>
<b>Changes in assets and liabilities from operating activities after non-cash adjustments:</b>		
Amounts due from banks (received/paid)	12,593	(30,901)
Loans and advances to customers	(23,338)	(30,745)
Debt securities at amortised cost	(2,481)	231
Financial assets at fair value through other comprehensive income	(10,973)	(1,395)
Financial assets and other assets at fair value through profit and loss	(1,108)	(860)
Financial assets at fair value through profit and loss – non-SPPI	0	2,694
Other assets	685	(621)
Amounts due to banks (received/paid)	(1,849)	12,477
Amounts due to customers	9,191	50,566
Financial liabilities at fair value through profit and loss	1,299	571
Other liabilities	(1,293)	(5,727)
<b>Net cash flow from operating assets and liabilities</b>	<b>(17,274)</b>	<b>(3,710)</b>
<b>Net cash flow from operating activities before tax</b>	<b>5,585</b>	<b>16,093</b>
Income tax paid	(3,149)	(3,144)
<b>Net cash flow from operating activities</b>	<b>2,436</b>	<b>12,949</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Dividends received (including associated undertakings)	241	220
Purchase of tangible and intangible assets	(2,820)	(2,825)
Sale of tangible and intangible assets	87	114
Purchase of investments in subsidiaries and associates	(34)	0
Sale/decrease of investments in subsidiaries and associates	55	221
<b>Net cash flow from investment activities</b>	<b>(2,471)</b>	<b>(2,270)</b>

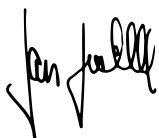
	Restated*	
(CZKm)	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(9,599)	(8,851)
Dividends paid to non-controlling interest	(576)	(644)
Purchase of own shares	0	0
Securities issued	1,068	(2,309)
Securities redeemed	0	0
Lease liabilities	(476)	N/A
Subordinated debt	(33)	14
Increase in minority equity	0	0
<b>Net cash flow from financing activities</b>	<b>(9,616)</b>	<b>(11,790)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(9,651)</b>	<b>(1,111)</b>
Cash and cash equivalents at the beginning of the year	23,247	24,308
Net increase/(decrease) in cash and cash equivalents	(9,651)	(1,111)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(78)	50
Adjustment of cash and cash equivalents at the beginning of the year due to acquisition	0	0
<b>Cash and cash equivalents at the end of the year</b> (refer to Note 36)	<b>13,518</b>	<b>23,247</b>
Interest received	45,027	33,960
Interest paid	(20,404)	(10,798)

\* More information regarding changes in reporting is presented in Note 3.6.3.

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

These Consolidated Financial Statements were approved by the Board of Directors on 11 March 2020.

Signed on behalf of the Board of Directors:



**Jan Juchelka**  
Chairman of the Board of Directors and Chief Executive Officer



**Vladimír Jeřábek**  
Member of the Board of Directors

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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 3 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 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 registered office address of the Bank 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% (2018: 60.35%) of the Bank’s issued share capital.

### *The main activities of the Bank’s subsidiary companies as of 31 December 2019:*

Company’s name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
KB penzijní společnost, a.s.	100.0	100.0	Financial services	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos, uzavřený investiční fond, a.s.	83.65	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels
KB Real Estate, s.r.o.	100.0	100.0	Support services	Prague
STD2, s.r.o.	100.0	100.0	Support services	Prague
VN 42, s.r.o.	100.0	100.0	Support services	Prague
KB SmartSolutions, s.r.o.	100.0	100.0	Support services	Prague
KB Advisory, s. r. o.*	0.0	100.0	Support services	Prague
My Smart Living, s.r.o.*	0.0	100.0	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice
ESSOX FINANCE, s.r.o.	0.0	50.93	Consumer loans, leasing	Bratislava

\* The company is not consolidated due its having not significant impact on the financial statements.

### *The main activities of the Bank’s associated undertakings as of 31 December 2019:*

Company’s name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague
Worldline Czech Republic s.r.o.*	1.0	1.0	Financial services	Prague

\* This is a share in the company’s equity. The Group has 40% of the voting rights and a share in profit of 0.1%.

## 2 Events for the year ended 31 December 2019

### Dividends declared in respect of the year ended 31 December 2018

At the General Meeting held on 24 April 2019, the shareholders approved a dividend for the year ended 31 December 2018 of CZK 51 per share before tax. The dividend was declared in the aggregate amount of CZK 9,693 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns. Moreover, the Group paid out CZK 188 million in dividends to non-controlling owners of ESSOX s.r.o. and CZK 388 million to non-controlling owners of SG Equipment Finance Czech Republic.

### Changes in the Bank's financial group

As of 7 January 2019, KB SmartSolutions, s.r.o. was established as a wholly owned subsidiary of the Bank. The share capital of the company was CZK 100,000 after establishment. During 2019, the Bank increased the equity of the company by CZK 48 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

As of 8 January 2019, My Smart Living, s.r.o. was established as a wholly owned subsidiary of KB SmartSolutions, s.r.o. The share capital of My Smart Living, s.r.o. was CZK 100,000 after establishment. During 2019, KB SmartSolutions, s.r.o. increased the equity of the company by CZK 33 million through a financial contribution into other capital funds. My Smart Living, s.r.o. is currently not consolidated due to its insignificant impact on the financial statements.

Regarding fulfilment of conditions of a share sale agreement in relation to Komerční pojišťovna, a.s. in 2005, financial settlement with Sogecap S.A. was reached during the second quarter of 2019. The Bank received a one-off financial settlement of CZK 55 million.

As of 26 June 2019, Cataps, s.r.o., in which the Bank holds a 1% share, changed its company name to Worldline Czech Republic s.r.o.

As of 29 July 2019, the Bank decided to decrease the share capital of the company VN 42, s.r.o. by CZK 180 million. The capital decrease was effected in December 2019.

As of 16 September 2019, KB Advisory, s. r. o. was established as a wholly owned subsidiary of KB SmartSolutions, s.r.o. The share capital of KB Advisory, s. r. o. was CZK 100,000 after establishment. During 2019, KB SmartSolutions, s.r.o. increased the equity of the company by CZK 1 million through a financial contribution into other capital funds. KB Advisory, s. r. o. is currently not consolidated due to its insignificant impact on the financial statements.

As of 18 December 2019, the Bank increased the shareholder's equity of Bastion European Investments S.A. by EUR 3.2 million (equivalent to CZK 81 million). The increase was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

## 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 2019.

The Consolidated Financial Statements presented for the year ended 31 December 2019 are prepared on the basis of current best estimates. The management of the Group believes that these present a true and fair view of the Group's financial results and financial position using all relevant and available information as of the financial statements date.

## 3.2 Underlying assumptions of the Consolidated Financial Statements

### 3.2.1 Accrual basis

The Consolidated Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Consolidated Financial Statements for the period to which they relate).

An exception is the Consolidated Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

### 3.2.2 Going concern

The Consolidated Financial Statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

### 3.2.3 Reporting period

The Group reports for a 12-month period which is identical to the calendar year.

## 3.3 Basis of preparation

### 3.3.1 Presentation currency

The Consolidated Financial Statements are presented in Czech crowns (hereafter only “CZK”), which constitute the Group’s presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

### 3.3.2 Historical cost

The Consolidated Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives, and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell, or (ii) carrying amount just prior to reclassification into ‘Assets held for sale’.

### 3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Consolidated Financial Statements in accordance with IFRS, it is necessary for the Group’s management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date, and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets, except goodwill (refer to Note 3.5.10);
- The amount of impairment of assets (refer to Notes 3.5.10 and 3.5.11);
- Provisions recognised under liabilities (refer to Note 3.5.12);
- The initial value of goodwill for each business combination (refer to Note 3.5.11);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.8);
- Assessment of the substance of participation interest in Group entities (refer to Note 3.3.4);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current, and prospective data (refer to Note 3.5.5); and
- Lease term for leases of 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 material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

### 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. 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 the associates in the Statement of Financial Position is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

## 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 2019. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

#### IFRS 16 Leases

The most significant change made to the accounting policies arises from the application of the new standard IFRS 16 Leases as from 1 January 2019, superseding the previous standard IAS 17 Leases and related interpretations.

Standard	Impact/Comments
IFRS 16 Leases – new standard	<p>The new standard, superseding IAS 17 Leases and related interpretations, establishes principles for the recognition, measurement, presentation, and disclosure of leases for both the lessee and the lessor.</p> <p>From the lessee's point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.</p> <p>Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. Finance lease receivable (net investment in the lease) and operating lease receivable are subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.</p> <p><b>The Group implemented IFRS 16 Leases with an initial application date of 1 January 2019. As a result, the accounting policies applicable to leases and the related disclosures have been amended as from 1 January 2019. The notes below reflect the new requirements.</b></p> <p><b>The impacts of the first-time application of IFRS 16 are presented in Note 3.6.1.</b></p>

Standard	Impact/Comments
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	<p>The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation.</p> <p>The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.</p>
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that IFRS 9 Financial Instruments (including impairment requirements) shall be applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment, or settlement occurs. Companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
Annual Improvements to IFRS 2015–2017 Cycle	Annual Improvements amend four standards (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs) in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.

### 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 2019 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 with the exception of the amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform, where the Group decided to early-apply the amendments in its 31 December 2019 financial statements.

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
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments whether a transaction should be accounted for as a business combination or as an asset acquisition.	1 January 2020 EU not yet endorsed
Definition of Material (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	<p>The amendments address the pre-replacement issues (Phase 1), i.e. issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative one. Accordingly, some specific hedge accounting requirements are modified to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. This applies for both financial instruments standards: the new one IFRS 9 and the old one IAS 39. Consequently, the amendments to IFRS 7 Financial Instruments: Disclosures require companies to provide additional information about their hedging relationships directly affected by these uncertainties.</p> <p>As a next step of the project, the replacement issues (Phase 2) are currently being considered and discussed by IASB, i.e. issues that might affect financial reporting when an existing interest rate benchmark is actually reformed or replaced.</p>	1 January 2020



Standard	Summarised content	Effective for reporting period beginning on or after
Conceptual Framework for Financial Reporting	The IASB issued a revised <i>Conceptual Framework for Financial Reporting</i> that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework will have to apply the changes from 1 January 2020.	1 January 2020*
Amendments to References to the Conceptual Framework in IFRS Standards	Alongside the revised Conceptual Framework, the IASB published <i>Amendments to References to the Conceptual Framework</i> effective for reporting periods beginning on or after 1 January 2020, updating in most cases references to previous versions with references to the 2018 revised version.	
IFRS 17 Insurance Contracts – new standard	IFRS 17 replaces the current standard for insurance contracts, IFRS 4, and provides uniform recognition, measurement, presentation, and disclosure principles for all issued insurance contracts (including reinsurance contracts). It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts.  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. Requirements in IFRS 17 align the recognition of revenue with that in other industries. Entities will recognise profit allocated to periods when the insurance services are provided rather than when the premiums are received. For a loss-making group of contracts, the loss will be recognised immediately.  As for the presentation in the statement of income, insurance service result (comprising insurance revenue and insurance service expenses) will be presented separately from insurance finance income or expenses.	1 January 2021 (to be extended to 1 January 2022)  EU not yet endorsed
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.	1 January 2022 EU not yet endorsed

\* Only Amendments to References to the Conceptual Framework in IFRS Standards are subject to the EU endorsement process.

## 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 on 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 entities whose functional currency is different from the Group's presentation currency are translated into this currency using the following procedures:

- I. Assets and liabilities are translated using the closing rate (exchange rate announced by the CNB at the end of the reporting period);
- II. Income and expenses recognised in profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by the CNB during the period);
- III. All resulting exchange differences are recognised in other comprehensive income and presented in '*Equity*' in the line '*Hedge of a foreign net investment*'.

### 3.5.2 Recognition of income and expenses

#### 3.5.2.1 Net interest income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines '*Interest income*' and '*Interest expense*' using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the asset, i.e. an amount adjusted for expected credit losses over the life of the asset. Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line '*Interest income*'.

#### 3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line '*Interest income*';
- Fees and commissions for services provided and for the execution of an act, such as deposit service fees, loan service fees, fees income for transaction services provided, commissions income for cross-selling of 3rd party products (such as insurance and investment products where the Group is acting as an agent while not taking over control of the products provided and therefore net approach for revenues reporting), and specialised financial services fees - income from these 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/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/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 maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of

meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

#### **3.5.4 Fair value and hierarchy of fair value**

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1*: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2*: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3*: inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

#### **3.5.5 Financial instruments**

##### **3.5.5.1 Dates of recognition and derecognition**

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending on 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 fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets, the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

### 3.5.5.4 Financial assets and liabilities classification and subsequent measurement

The classification of the Group's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Group are after initial recognition subsequently measured at:

- I. Amortised costs;
- II. Fair value through other comprehensive income; or
- III. Fair value through profit or loss.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Group uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

#### 3.5.5.4.1 Loans and debt instruments

Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based on the evaluation of:

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

#### Description of business models

The business model is determined at a level at which the financial assets are jointly managed to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument, but reflects the way a 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.

The financial assets that fall into the business model “Hold to collect contractual cash flows” include: (i) all loans and advances; (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards, all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

**(ii) “Hold to collect contractual cash flows and sell” business model**

Loans and debt instruments that fall into the business model “Hold to collect contractual cash flows and sell” are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Group’s everyday liquidity needs. The Group expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets. As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Group expects greater frequency and value of sales. Selling financial assets is not an incidental activity, but an integral part of achieving the business model’s objective. There is no threshold for the frequency or value of sales that must occur in this business model, however, as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model “Hold to collect contractual cash flows and sell” include: (i) all EUR-denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards, all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Group’s internal rules.

**(iii) “Held for trading” business model**

Loans and debt instruments that fall into the business model “Held for trading” are held with the objective of realising cash flows through the sale of those assets. The Group makes decisions based on the assets’ fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model “Held for trading” include all other loans and debt instruments that are not part of the business model “Hold to collect contractual cash flows” or “Hold to collect contractual cash flows and sell”.

**Contractual cash flows characteristics test**

Based on the 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 particularly consists of consideration for the time value of money and credit risk, or 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 maturity amount) 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 the 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'*, except for 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 the 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 the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Group classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses as well as realised gains or losses arising from the revaluation of these financial assets, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised.

#### **3.5.5.4.2 Equity instruments**

Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for using 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 the 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 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 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, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

The Group also accounts for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Group applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair values of hedging derivatives classified as cash flow hedges that prove to be highly effective in relation to the hedged risks are recognised in the line '*Cash flow hedging*' in Other Comprehensive Income and are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line '*Net profit/(loss) on financial operations*'.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with the cash flows of selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated, or exercised, then the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

Using foreign currency deposits as the hedging instrument, the Group additionally hedges the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and ESSOX FINANCE, s.r.o. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

#### 3.5.5.4.4 Financial liabilities

The Group classifies financial liabilities into the categories “Financial liabilities at amortised costs” and “Financial liabilities 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 at fair value through profit or loss’*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *‘Net profit/(loss) on financial operations’*.

All other financial liabilities are subsequently after 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 according to 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 the 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 the 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. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

### 3.5.5.9 *Modification of financial assets*

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Group assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of renegotiation 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 it and, where necessary, 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, 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;
- Debt instruments 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 on 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 the absolute criteria, such as days past due and the client's rating.

#### Significant increase in credit risk

At each reporting date, the Group assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Group uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after restructuring a loan.

#### Credit-impaired financial assets

The Group recognises financial assets as credit-impaired when one or more events occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data about 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;
- 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") to the extent of:

- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date) – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Group recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Group reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.

#### Basis for estimating expected losses

Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Group considers reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Group assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

#### Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial assets are accounted for differently because the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

#### Write-off of financial assets

The Group applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon individual assessment of the client 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-off. 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 or financial liabilities 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 the 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 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 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 amount 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 that 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

#### 3.5.9.1 Leases under IFRS 16, policy applicable from 1 January 2019

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.

### The Group as lessor

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 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, as from 1 January 2019, the accounting for leases from the lessee's point of view ceases to distinguish between finance leases and operating leases. The standard newly provides a single on-balance sheet accounting model 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 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 the 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. When 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.

The Group as a lessee recognised in the Statement of Financial Position as of 31 December 2019 right-of-use assets within '*Tangible assets*' in the amount of CZK 3,020 million and lease liabilities within '*Financial liabilities at amortised cost*' in the amount of CZK 3,016 million. Related expenses for the year ended 31 December 2019 recognised in the Statement of Income include a depreciation charge for the right-of-use assets in the amount of CZK 439 million and interest expense on the lease liabilities in the amount of CZK 49 million. For detailed quantitative disclosures, refer to Notes 5, 11, 12, 14, 22, 26, 30, 38, 43(D), 43(E), 43(F), and 43(I). The impacts of the first-time application of IFRS 16 are specified in Note 3.6.1.

#### 3.5.9.2 Leases under IAS 17, policy applicable before 1 January 2019

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.

##### The Group as lessor

###### **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 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 term of the lease, 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

###### **Operating leases**

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line '*General and administrative expenses*'. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

###### **Finance leases**

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Group uses the same accounting policies for these assets as for its own assets presented in the same line as the leased asset. If the legal ownership of the asset held under a finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Group divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as '*Interest expense*'. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

#### 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:*

	2019	2018
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings, and equipment	6	6
Vehicles	5/6	5/6
ATMs	10	10
Selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Right-of-use assets (leases)	According to the lease term	N/A
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licenses – software	5	5
Other intangible assets	According to contract	According to contract

At the end of each reporting period, the Group assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic, or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, amortisation, and impairment of operating assets*'.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

### 3.5.11 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010, it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 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 of the identifiable assets 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 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 an 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 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 accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line '*Provisions*'. The changes in provisions are disaggregated into three components that are presented as follows:

- I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line '*Personnel expenses*';
- II. The interest expense on the net benefit liability is presented in the line '*Personnel expenses*'; and
- III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions on an accrual basis in the line '*Personnel expenses*' (refer to Note 10).

The Group has the following share plans and deferred compensation schemes:

### 3.5.13.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Group implemented a new compensation scheme for employees whose professional activities have a material impact on the Group's risk profile. For employees identified in accordance with the CRD III regulation, 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 3 years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Group's net investment banking operating income be higher than zero.

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 Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of shares granted and it is spread over the vesting period.

The amounts of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention 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, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Group's employees are recognised in the Group's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines '*Personnel expenses*' and '*Share premium, funds, retained earnings, revaluation, and net profit for the period*' under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the '*Personnel expenses*' from the start of the plan are then adjusted accordingly.

### 3.5.14 Share capital

#### *Dividends on ordinary shares*

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

#### *Treasury shares*

When the Group acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line '*Share premium, funds, retained earnings, revaluation, and net profit for the period*' under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line '*Share premium, funds, retained earnings, revaluation, and net profit for the period*'.

### 3.5.15 Contingent assets, contingent liabilities, and off-balance sheet items

In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Group enters into transactions through which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Group's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options, and futures. More information regarding derivative operations is presented in Note 3.5.5.4.3 Derivatives and hedge accounting.

### 3.5.16 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Group).

The Group has the following operating segments:

- *Retail Banking*: includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, building savings, pension insurance, overdrafts, credit card loans, personal loans, and mortgages);
- *Corporate Banking*: includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leases, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking*: involves trading in financial instruments; and
- *Other*: consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Group nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Group is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Group monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Group does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Group's financial accounting records.

The Group has no client or group of related parties for which the income from transactions would account for more than 10% of the Group's total income.

### 3.5.17 Regulatory requirements

The Group is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Group's clients, as well as with its liquidity, interest rate, and foreign currency positions.

## 3.6 Changes in accounting policies

### 3.6.1 First-time application of IFRS 16 Leases

As of 1 January 2019, the Group has applied the new standard IFRS 16 Leases as endorsed by the European Commission in October 2017, superseding the current standard IAS 17 and related interpretations. In compliance with the transitional provisions of IFRS 16, the Group elected the modified retrospective approach, i.e. without restatement of comparative information. Consequently, the accounting principles applicable to leases and the related disclosures presented in the Notes to the Consolidated Financial Statements have been amended as from 1 January 2019. Refer to Note 3.5.9.1 for accounting principles and for quantitative information to Notes 5, 11, 12, 14, 22, 26, 30, 38, 43(D), 43(E), 43(F), and 43(I).

#### Accounting treatment under IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard newly requires lessees to account for leases under a single on-balance sheet model, an approach applicable for almost all leases with the optional exceptions for short-term leases and leases of low-value items. The lessee is required to recognise in the statement of financial position a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its obligation to make lease payments. In its statement of income, the lessee is required to separately recognise the depreciation charge of the right-of-use asset and interest expense on the lease liability.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. A lessor continues to classify leases as operating or finance leases using similar principles as in IAS 17. Therefore, the Group was not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for subleases. Under IFRS 16, the lessor is required to assess the classification of a sublease with reference to the right-of-use asset, not by reference to the underlying asset as was the case under IAS 17. Because of this change, the Group has reclassified certain of its sublease contracts as finance leases.

#### Transition requirements and impacts of the first-time application

The Group applied IFRS 16 using the modified retrospective approach, i.e. without restatement of comparative information. At transition to IFRS 16, for leases previously classified as operating leases, the Group measured lease liabilities at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019, and right-of-use assets at an amount equal to the lease liabilities. When initially applying IFRS 16, the Group made use of some of the practical expedients that the standard allows for leases previously classified as operating leases, in particular the application of a single discount rate to a portfolio of leases with reasonably similar characteristics, the application of the exemption not to recognise lease liabilities and right-of-use assets to leases for which the underlying asset is of low value, and use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The most significant changes from the lessee's point of view arise in respect of leases previously classified as operating leases under IAS 17, where in the context of implementing IFRS 16 the Group recognised as of 1 January 2019 right-of-use assets within '*Tangible assets*' in the amount of CZK 2,780 million and similarly lease liabilities within '*Financial liabilities at amortised cost*' in the amount of CZK 2,724 million. The corresponding weighted-average lessee's incremental borrowing rate as of 1 January 2019 was approximately 1.7%. The first-time application of IFRS 16 had no impact on the amount of the Group shareholders' equity. The vast majority of lease contracts relates to leases of office buildings and branches. The Group uses the option allowed by the standard to not apply the requirements of IFRS 16 to intangible assets.



## Impacts on the Statement of Financial Position balances as of 1 January 2019

(CZKmn)	IAS 17 as of 31 December 2018	IFRS 16 first time application impacts	IFRS 16 as of 1 January 2019
<b>Financial assets at amortised cost</b>	<b>951,103</b>	<b>5</b>	<b>951,108</b>
– Loans and advances to banks	256,268	-	256,268
– Loans and advances to customers	624,954	5	624,959
– Debt securities	69,881	-	69,881
<b>Tangible assets</b>	<b>7,676</b>	<b>2,633</b>	<b>10,309</b>
– Land	350	-	350
– Buildings	5,238	-	5,238
– Fittings, fixtures, and other	1,250	(147)	1,103
– Tangible assets under construction	838	-	838
– Right-of-use assets	N/A	2,780	2,780
<b>Financial liabilities at amortised costs</b>	<b>907,261</b>	<b>2,724</b>	<b>909,985</b>
– Amounts due to banks	92,270	-	92,270
– Amounts due to customers	812,451	-	812,451
– Securities issued	2,540	-	2,540
– Lease liabilities	-	2,724	2,724
<b>Other liabilities and accruals</b>	<b>13,420</b>	<b>(86)</b>	<b>13,334</b>
– Accruals and deferred income	489	-	489
– Other liabilities	12,931	(86)	12,845
<b>Total impact on assets</b>	<b>-</b>	<b>2,638</b>	<b>-</b>
<b>Total impact on liabilities</b>	<b>-</b>	<b>2,638</b>	<b>-</b>

### 3.6.2 Amendments to IFRS 9, IAS 39 and IFRS 7 in the context of the interest rate benchmark reform

In the context of the financial crisis, the inaccuracy and lack of integrity of interest rate benchmarks (EONIA, EURIBOR, LIBOR, etc.) made it necessary to reform their method of determination.

Within the European Union, regulation 2016/1011 (known as the “BMR regulation”) was adopted to implement the principles and recommendations of IOSCO and FSB by creating, as of 1 January 2018, a uniform legal framework regarding the provision of benchmarks. As part of the implementation of this regulation, the administrators of PRIBOR, EONIA, EURIBOR, and LIBOR were required to review and, if necessary, to modify the methodologies used for these indexes in order to make them compliant with the new BMR provisions.

As a result of international and European regulatory development, several reforms have been initiated to set up and promote use of new risk-free overnight rates, termed “risk-free rates” (RFRs), whose determination will now be anchored on actual transactions. These include the €STR (Euro Short-Term Rate) for contracts denominated in EUR, SOFR (Secured Overnight Financing Rate) for contracts denominated in USD, SONIA (Sterling Overnight Index Average) for contracts denominated in GBP, and others.

The development in the local currency, the Czech crown, can be summarised as consisting of improvements in the PRIBOR contribution methodology and process while the risk-free rate concept remains under discussion. The PRIBOR administrator, the Czech Financial Benchmark Facility (CFBF), was officially licensed by the CNB in December 2018.

Since 2 October 2019, €STR has come to replace EONIA. The latter will nevertheless be published until 31 December 2021 by anchoring it upon €STR (EONIA = €STR + 8.5 bps). The reform of EURIBOR was started in December 2018, and this index was declared compliant with BMR regulation on 3 July 2019. The EURIBOR quotation should continue for at least 5 years. The new SOFR and SONIA benchmarks, intended to replace the LIBOR benchmarks, have been published since 2018, but the publication of LIBOR will continue at least until 2021.

The Bank has been monitoring developments in the IBOR reform of interest rate benchmarks in order to anticipate the consequences of transition to the new interest rate benchmarks. The work undertaken aims, on one hand, to limit exposure to the current interbank interest rate benchmarks that might be discontinued in the short to medium term and, on the other hand, to prepare migration of the portfolio of legacy transactions characterised by these current interest rates benchmarks and which will mature after 2021.

Uncertainties about the timing and precise methods of transition between the current benchmarks and the new benchmarks, as well as modifications which could be made to the financial instruments referencing the current benchmarks, may have consequences for accounting treatment related to hedge accounting and to modifications applied to these instruments (following the application of replacement contractual clauses – “fallback” clauses – or following a renegotiation of the contract).

With the aim to limit these accounting consequences, the IASB published in September 2019 amendments to IFRS 9, IAS 39 and IFRS 7 to prevent uncertainties existing before the transition to the new rates from jeopardising the hedge accounting applied for hedging interest rate risk. These amendments introduce reliefs related especially to the compliance with the highly probable nature of the cash flows covered; the compliance with the separately identifiable nature of risk components; and the carrying out of prospective and retrospective effectiveness tests. These reliefs will be applicable until the mentioned uncertainties are eliminated, that is to say until the clauses of those financial instruments concerned are effectively modified.

These amendments were adopted by the European Union on 15 January 2020 and can be early-applied from 2019. The Group decided to early-apply the amendments in its 31 December 2019 financial statements and to use the reliefs provided for hedging relationships affected by the uncertainties at that date, including those linked to the EONIA, EURIBOR, and LIBOR (USD, GBP, CHF, JPY) benchmarks.

IASB is currently studying additional amendments that could be made to the accounting treatment of the contractual modifications that will be made to financial instruments as part of the IBOR reform (replacement of the interest rate benchmark, introduction of new fallback clauses). An exposure draft is expected to be issued at the end of the second quarter of 2020.

The notional amounts of hedging instruments for which the IAS 39 amendment is applied, thus permitting to use exceptions to the hedge accounting requirement in the context of benchmark interest rates reform, are CZK 0 million for instruments identifying EONIA, CZK 179,626 million for instruments identifying EURIBOR, and CZK 19,771 million for instruments identifying LIBOR USD.

### 3.6.3 Other changes in accounting policies

As of 1 January 2019, the Group has changed the reporting of commitment fees – newly recognised in the line '*Interest income*', previously in the line '*Net fee and commission income*'. This reclassification is without any impact on total '*Net profit for the period*'.

(CZKm)	Reported 2018	Restated 2018
Interest income	33,448	33,643
Net fee and commission income	6,220	6,025

## 4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKmn)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	15,426	13,735	6,701	6,258	986	597	478	1,919	23,591	22,509
Net fee and commission income	4,162	4,287	1,882	2,016	(115)	(199)	54	116	5,983	6,220
Net profit/(loss) on financial operations	1,297	1,175	1,710	1,702	(458)	105	255	227	2,804	3,209
Dividend income	0	0	0	0	0	0	5	5	5	5
Other income	119	132	(46)	(24)	242	339	(125)	(187)	190	260
Net operating income	21,004	19,329	10,247	9,952	655	842	667	2,080	32,573	32,203

From 1 January 2019, the Group modified its method of allocating internal interest expense between segments and reflected changes in accounting policies. Comparative information was restated in accordance with the reporting of the current period.

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 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 – nearly 99% (2018: more than 98%) – generated on the territory of the Czech Republic.

## 5 Net interest income

*Net interest income comprises the following:*

(CZKm)	2019	2018
Interest income	44,006	33,643
Interest expense	(20,415)	(10,939)
<b>Net interest income</b>	<b>23,591</b>	<b>22,704</b>
Of which net interest income from		
– Loans and advances at amortised cost	24,270	20,085
– Debt securities at amortised cost	1,746	1,904
– Other debt securities	587	463
– Financial liabilities at amortised cost	(4,193)	(2,361)
– Hedging financial derivatives – income	17,403	11,191
– Hedging financial derivatives – expense	(16,222)	(8,578)
<b>Total</b>	<b>23,591</b>	<b>22,704</b>

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 380 million (2018: CZK 344 million).

In both 2019 and 2018, the Group recorded as part of 'Net interest income' also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

'Interest income' includes interest income on sublease of right-of-use assets in the amount of CZK 1 million (2018: N/A). 'Interest expense' includes interest expense on lease liabilities in the amount of CZK 49 million (2018: N/A).

## 6 Net fee and commission income

*Net fee and commission income comprises the following:*

(CZKm)	2019	2018
Deposit product fee and commission income	910	882
Loan fee and commission income	759	791
Transaction fee and commission income	2,844	2,975
Cross-selling fee income	1,515	1,497
Specialised financial services fee and commission income	950	806
Other fee and commission income	158	200
<b>Total fee and commission income</b>	<b>7,136</b>	<b>7,151</b>
Deposit product fee and commission expense	(120)	(111)
Loan fee and commission expense	(217)	(248)
Transaction fee and commission expense	(446)	(400)
Cross-selling fee expense	(135)	(130)
Specialised financial services fee and commission expense	(147)	(147)
Other fee and commission expense	(88)	(90)
<b>Total fee and commission expenses</b>	<b>(1,153)</b>	<b>(1,126)</b>
<b>Total net fee and commission income</b>	<b>5,983</b>	<b>6,025</b>

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities in the amount of CZK 689 million (2018: CZK 657 million) and fee expense for these services in the amount of CZK 87 million (2018: CZK 83 million).

## 7 Net profit/(loss) on financial operations

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

(CZKm)	2019	2018
Net realised gains/(losses) on securities held for trading*	221	1,974
Net unrealised gains/(losses) on securities held for trading*	(31)	(109)
Net realised gains/(losses) on debt securities at fair value through OCI	0	14
Net realised gains/(losses) on disposal of debt securities at amortised cost	8	6
Net realised and unrealised gains/(losses) on security derivatives**	1	(1,775)
Net realised and unrealised gains/(losses) on interest rate derivatives	(102)	(102)
Net realised and unrealised gains/(losses) on trading commodity derivatives	12	30
Net realised and unrealised gains/(losses) on foreign exchange operations	1,821	2,361
Net realised gains/(losses) on foreign exchange from payments	874	810
<b>Total net profit/(loss) on financial operations</b>	<b>2,804</b>	<b>3,209</b>

\* This line also includes trading with emission allowances.

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

A loss of CZK (3,219) million (2018: gain of CZK 594 million) on the fair value of interest rate swaps for interest rate risk hedging is included in '*Net realised and unrealised gains/(losses) on interest rate derivatives*'. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos, and issued mortgage bonds reported in the same line.

## 8 Dividend income

'*Dividend income*' includes dividends received from equity instruments held in the '*Financial assets at fair value through profit or loss – non-SPPI*' portfolio of CZK 2 million (2018: CZK 2 million) and from equity instruments held in the '*Financial assets at fair value through other comprehensive income*' portfolio of CZK 3 million (2018: CZK 3 million).

## 9 Other income

The Group reports '*Other income*' in the amount of CZK 190 million (2018: CZK 260 million). In both 2019 and 2018, '*Other income*' was predominantly composed of income from services provided to the Société Générale Group entities as well as property rental income.

## 10 Personnel expenses

*Personnel expenses comprise the following:*

(CZKm)	2019	2018
Wages, salaries, and bonuses	5,573	5,655
Social costs	2,208	2,172
<b>Total personnel expenses</b>	<b>7,781</b>	<b>7,827</b>
Physical number of employees at the end of the period*	8,351	8,454
Average recalculated number of employees during the period*	8,167	8,413
<b>Average cost per employee (CZK)</b>	<b>952,725</b>	<b>930,346</b>

\* Calculation according to Czech Statistical Office methodology.

'*Social costs*' include costs of CZK 109 million (2018: CZK 89 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 40 million (2018: CZK 45 million) incurred in contributing to the employees' capital life insurance scheme.

'*Personnel expenses*' include net income of CZK 105 million (2018: net expense of CZK 189 million) due to decrease of provisions for restructuring created in relation to the transformation project "KB Change". These provisions were utilised in the amount of CZK 105 million (2018: CZK 34 million) and charged in the amount of CZK 0 million (2018: CZK 223 million). Further information is presented in Note 32.

## Indexed bonuses

In 2019, the total amount relating to bonuses indexed on the Komerční banka share price recognised in 'Personnel expenses' was CZK 40 million (2018: CZK 42 million) and the total amount of CZK 81 million (2018: CZK 60 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 4 million (2018: CZK 0 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 137,090 shares (2018: 109,224 shares).

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

(in shares)	2019	2018
Balance as of 1 January	109,224	97,167
Paid out during the period	(22,746)	(42,641)
Presumed number of newly guaranteed shares	50,612	54,698
<b>Balance as of 31 December</b>	<b>137,090</b>	<b>109,224</b>

## Free shares and deferred share plans

For 2019, the total amount relating to the free shares programme and deferred share plans recognised in 'Personnel expenses' is CZK 27 million (2018: CZK 38 million).

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

	2019		2018	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	117,888	35.62	122,880	35.4
Granted during the year	52,546	21.4	27,366	39.18
Forfeited during the year	(3,481)	35.62	(4,363)	35.4
Exercised during the year	(64,807)	35.62	(27,995)	35.4
<b>Balance as of 31 December</b>	<b>102,146</b>	<b>30.79</b>	<b>117,888</b>	<b>35.62</b>

## 11 General and administrative expenses

*General and administrative expenses comprise the following:*

(CZKm)	2019	2018
Insurance	72	73
Marketing and representation	584	641
Selling and banking products expenses	315	299
Other employees expenses and travelling	143	165
Real estate expenses*	714	1,090
IT support	1,179	980
Equipment and supplies	127	204
Telecommunications, postage, and data transfer	220	233
External consultancy and other services	420	295
Resolution and similar funds	854	839
Other expenses	65	133
<b>Total general and administrative expenses</b>	<b>4,693</b>	<b>4,952</b>

\* Decrease in Real estate expenses relates to IFRS 16 adoption.

'General administrative expenses' include net income of CZK 12 million (2018: net expense of CZK 41 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 0 million (2018: CZK 71 million) and used in the amount of CZK 12 million (2018: CZK 30 million). Further information is presented in Note 32.

'General administrative expenses' include the expenses related to leases for which the exemptions from IFRS 16 were applied and variable lease payment expenses not included in the lease liabilities.



Lease payment expenses were as follows:

	2019				2018			
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	35	0	18	53	N/A	N/A	N/A	N/A
Low-value assets	0	30	0	30	N/A	N/A	N/A	N/A
Variable lease payment expenses	0	0	0	0	N/A	N/A	N/A	N/A

## 12 Depreciation, amortisation, and impairment of operating assets

Depreciation, amortisation, and impairment of operating assets comprise the following:

(CZKm)	2019	2018
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	2,451	1,877
Impairment of operating assets	7	(21)
<b>Total depreciation, amortisation, and impairment of operating assets</b>	<b>2,458</b>	<b>1,856</b>

The net gain from 'Impairment of operating assets' mainly includes a net gain from impairment reversal on internal projects (SW) and hardware.

Depreciation of right-of-use assets according to the underlying asset:

(CZKm)	2019	2018
Real estate	411	N/A
Hardware	0	N/A
Other	28	N/A
<b>Total depreciation of right-of-use assets</b>	<b>439</b>	<b>N/A</b>

## 13 Cost of risk

The net gain in 'Cost of risk' totalling CZK 572 million (2018: CZK 643 million) includes a net gain from allowances and provisions in the amount of CZK 53 million (2018: CZK 484 million) and a net gain from loans and advances transferred and written off in the amount of CZK 519 million (2018: CZK 159 million).

*The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2019 were as follow:*

(CZK <sub>m</sub> )	As of 1 Jan 2019	Increase due to origin	Decrease due to derecognition	Change of credit risk (net)	Change of estimation (net)	Decrease due to write off	Other	As of 31 Dec 2019
Allowances for financial assets (Stage 1)	(738)	(395)	238	10	73	0	(1)	(813)
– Debt securities	(9)	0	0	2	0	0	0	(7)
– Loans and advances	(729)	(395)	238	8	73	0	(1)	(806)
Allowances for financial assets (Stage 2)	(1,192)	0	98	(164)	112	0	4	(1,142)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(1,192)	0	98	(164)	112	0	4	(1,142)
Allowances for financial assets (Stage 3)	(10,252)	0	2,241	(1,307)	(10)	1,121	18	(8,189)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(10,252)	0	2,241	(1,307)	(10)	1,121	18	(8,189)
<b>Total allowances for financial assets</b> (refer to Notes 22 and 42)	<b>(12,182)</b>	<b>(395)</b>	<b>2,577</b>	<b>(1,461)</b>	<b>175</b>	<b>1,121</b>	<b>21</b>	<b>(10,144)</b>
Provisions for guarantees and other credit-related commitments (Stage 1)	(115)	(102)	245	(155)	10	0	(7)	(124)
Provisions for guarantees and other credit-related commitments (Stage 2)	(85)	0	116	(129)	(1)	0	5	(94)
Provisions for guarantees and other credit-related commitments (Stage 3)	(947)	0	830	(322)	(1)	0	5	(435)
<b>Total provisions for guarantees and other credit-related commitments</b> (refer to Note 32)	<b>(1,147)</b>	<b>(102)</b>	<b>1,191</b>	<b>(606)</b>	<b>8</b>	<b>0</b>	<b>3</b>	<b>(653)</b>

*The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2018 were as follow:*

(CZK <sub>m</sub> )	As of 1 Jan 2018	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 2018
Allowances for financial assets (Stage 1)	(1,010)	(484)	366	161	128	0	101	(738)
– Debt securities	(15)	0	0	6	0	0	0	(9)
– Loans and advances	(995)	(484)	366	155	128	0	101	(729)
Allowances for financial assets (Stage 2)	(1,099)	0	47	71	(162)	0	(49)	(1,192)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(1,099)	0	47	71	(162)	0	(49)	(1,192)
Allowances for financial assets (Stage 3)	(11,487)	0	1,015	(253)	145	396	(68)	(10,252)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(11,487)	0	1,015	(253)	145	396	(68)	(10,252)
<b>Total allowances for financial assets</b> (refer to Notes 22 and 42)	<b>(13,596)</b>	<b>(484)</b>	<b>1,428</b>	<b>(21)</b>	<b>111</b>	<b>396</b>	<b>(16)</b>	<b>(12,182)</b>
Provisions for guarantees and other credit-related commitments (Stage 1)	(154)	(147)	330	(167)	23	0	0	(115)
Provisions for guarantees and other credit-related commitments (Stage 2)	(81)	0	95	(87)	(12)	0	0	(85)
Provisions for guarantees and other credit-related commitments (Stage 3)	(1,206)	0	441	(180)	0	0	(2)	(947)
<b>Total provisions for guarantees and other credit-related commitments</b> (refer to Note 32)	<b>(1,441)</b>	<b>(147)</b>	<b>866</b>	<b>(434)</b>	<b>11</b>	<b>0</b>	<b>(2)</b>	<b>(1,147)</b>

## 14 Net profits on other assets

*Net profits on other assets comprise the following:*

(CZKm)	2019	2018
Net profits/(losses) from sale of buildings	11	11
Net profits/(losses) from impairment on assets held for sale	16	(13)
Net profits/(losses) from sale-and-lease-back transactions	(1)	0
Net profits/(losses) from sale/disposal of other assets	(9)	(12)
<b>Total net profits on other assets</b>	<b>17</b>	<b>(14)</b>

## 15 Income tax

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

(CZKm)	2019	2018
Tax payable – current year, reported in profit or loss	(3,413)	(3,103)
Tax paid – prior year	32	42
Deferred tax (refer to Note 33)	(38)	(287)
<b>Total income tax</b>	<b>(3,419)</b>	<b>(3,348)</b>

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

(CZKm)	2019	2018
<b>Profit before income tax</b>	<b>18,591</b>	<b>18,519</b>
Theoretical tax calculated at a tax rate of 19% (2018: 19%)	3,532	3,519
Tax on pre-tax profit adjustments	34	14
Non-taxable income (tax effect)	(1,206)	(1,499)
Expenses not deductible for tax purposes (tax effect)	1,127	1,163
Use of tax losses carried forward	(1)	(1)
Tax allowance	(3)	(3)
Tax credit	0	0
Movement in deferred tax	38	287
Tax losses	1	0
Other	5	(25)
Impact of various tax rates of subsidiary undertakings	(18)	(20)
Tax effect of share of profits of associated undertakings	(58)	(45)
<b>Income tax expense</b>	<b>3,451</b>	<b>3,390</b>
Prior period tax expense	(32)	(42)
<b>Total income tax</b>	<b>3,419</b>	<b>3,348</b>
Effective tax rate	18.39%	18.08%

Non-taxable income primarily includes dividends, tax-exempt interest income, and 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 2019 is 19% (2018: 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 that it is probable that the relevant authority will accept each tax treatment that the Group used or plans to use in its income tax filing.

As of 31 December 2019, the Group records unused tax losses in the amount of CZK 2 million (2018: CZK 12 million).

*These tax losses can be used in the following time horizon:*

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	1	1	0	0	0

Further information about deferred tax is presented in Note 33.

## 16 Distribution of net profit

For the year ended 31 December 2019, the Group generated a net profit of CZK 15,172 million (2018: CZK 15,171 million). Distribution of profits for the year ended 31 December 2019 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 58 per share (2018: CZK 51 per share), which means a total amount of CZK 11,023 million (2018: CZK 9,693 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 24 April 2019, the aggregate balance of the net profit of CZK 15,171 million for the year ended 31 December 2018 was allocated as follows: CZK 9,693 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 576 million (2018: CZK 644 million), of which CZK 188 million (2018: CZK 189 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 388 million (2018: CZK 455 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic.

## 17 Earnings per share

Earnings per share of CZK 78.90 (2018: CZK 78.61 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 14,901 million (2018: CZK 14,846 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 (2018: 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 2019	31 Dec 2018
Cash and cash values	10,007	8,504
Current balances with central banks	7,737	16,347
<b>Total cash and current balances with central banks</b> (refer to Note 36)	<b>17,744</b>	<b>24,851</b>

Obligatory minimum reserves in the amount of CZK 2,619 million (2018: CZK 11,110 million) are included in 'Current balances with central banks' and they bear interest. As of 31 December 2019, the interest rate was 2.00% (2018: 1.75%) in the Czech Republic and 0.00% (2018: 0.00%) in the Slovak Republic.

## 19 Financial assets and other assets at fair value through profit or loss

*Financial assets and other assets at fair value through profit or loss comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Trading equity securities	0	0
Trading debt securities	4,112	3,248
Trading derivatives	18,792	19,121
<b>Total financial assets at fair value through profit or loss</b>	<b>22,904</b>	<b>22,369</b>
Emission allowances	494	245
<b>Total other assets at fair value through profit or loss</b>	<b>494</b>	<b>245</b>

As of 31 December 2019 and 2018, the *'Financial assets 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 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 2019, the portfolio of trading securities included securities at fair value of CZK 3,963 million (2018: CZK 3,085 million) that are publicly traded on stock exchanges and securities at fair value of CZK 149 million (2018: CZK 163 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

*'Trading debt securities'* include securities used as collateral for borrowing securities at fair value of CZK 2,947 million (2018: CZK 0 million).

*'Trading debt securities'* include securities eligible for refinancing with central banks at fair value of CZK 936 million (2018: CZK 2,995 million).



## 20 Financial assets at fair value through profit or loss – non-SPPI

As of 31 December 2019 and 2018, the Group recorded no financial assets in the 'Financial assets at fair value through profit or loss – non-SPPI' portfolio.

## 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 2019	31 Dec 2018
Equity instruments at FVOCI option	522	356
Debt securities at FVOCI	35,682	24,909
<b>Total financial assets at fair value through other comprehensive income</b>	<b>36,204</b>	<b>25,265</b>

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

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included securities at fair value of CZK 36,204 million (2018: CZK 25,265 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 35,682 million (2018: CZK 24,909 million).

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included bonds at fair value of CZK 897 million (2018: CZK 1,224 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included bonds at fair value of CZK 1,369 million (2018: CZK 1,092 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 related broker.

## 22 Financial assets at amortised cost

*Financial assets at amortised cost comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Loans and advances to banks	244,561	256,268
Loans and advances to customers	647,259	624,954
Debt securities	71,581	69,881
<b>Total financial assets at amortised cost</b>	<b>963,401</b>	<b>951,103</b>

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

As of 31 December 2019, the 'Financial assets at amortised cost' portfolio includes debt securities in the amount of CZK 71,241 million (2018: CZK 69,406 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 340 million (2018: CZK 475 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 67,738 million (2018: CZK 60,961 million).

As of 31 December 2019, '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	198,738	0	0	198,738	0	0	0	0	198,738
General governments	21,648	1,397	14	23,059	(9)	(1)	(12)	(22)	23,037
Credit institutions	45,151	650	23	45,824	0	(1)	0	(1)	45,823
Other financial corporations	32,110	303	59	32,472	(26)	(1)	(24)	(51)	32,421
Non-financial corporations	235,929	16,375	7,466	259,770	(530)	(536)	(4,320)	(5,386)	254,384
Households*	320,692	14,953	6,449	342,094	(241)	(603)	(3,833)	(4,677)	337,417
<b>Total loans</b>	<b>854,268</b>	<b>33,678</b>	<b>14,011</b>	<b>901,957</b>	<b>(806)</b>	<b>(1,142)</b>	<b>(8,189)</b>	<b>(10,137)</b>	<b>891,820</b>
Central banks	0	0	0	0	0	0	0	0	0
General governments	68,482	0	0	68,482	(5)	0	0	(5)	68,477
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,754	0	0	2,754	0	0	0	0	2,754
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>71,586</b>	<b>0</b>	<b>0</b>	<b>71,586</b>	<b>(5)</b>	<b>0</b>	<b>0</b>	<b>(5)</b>	<b>71,581</b>

\* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2018, '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	204,776	0	0	204,776	0	0	0	0	204,776
General governments	23,782	519	342	24,643	(14)	(1)	(33)	(48)	24,595
Credit institutions	50,534	889	71	51,494	(1)	(1)	0	(2)	51,492
Other financial corporations	29,687	344	49	30,080	(29)	0	(8)	(37)	30,043
Non-financial corporations	232,031	15,700	9,810	257,541	(416)	(428)	(5,931)	(6,775)	250,766
Households*	300,860	16,942	7,059	324,861	(269)	(762)	(4,280)	(5,311)	319,550
<b>Total loans</b>	<b>841,670</b>	<b>34,394</b>	<b>17,331</b>	<b>893,395</b>	<b>(729)</b>	<b>(1,192)</b>	<b>(10,252)</b>	<b>(12,173)</b>	<b>881,222</b>
Central banks	0	0	0	0	0	0	0	0	0
General governments	65,520	0	0	65,520	(7)	0	0	(7)	65,513
Credit institutions	1,129	0	0	1,129	0	0	0	0	1,129
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,889	0	0	2,889	0	0	0	0	2,889
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>69,888</b>	<b>0</b>	<b>0</b>	<b>69,888</b>	<b>(7)</b>	<b>0</b>	<b>0</b>	<b>(7)</b>	<b>69,881</b>

\* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2019, the transfers between Stages were as follow:

(CZKm)	Gross carrying value					
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	211	60	0	261	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	225	0	0	33	0	0
Non-financial corporations	6,165	1,265	1,019	124	535	28
Households*	6,634	5,914	821	542	714	119
<b>Total loans</b>	<b>13,235</b>	<b>7,239</b>	<b>1,840</b>	<b>960</b>	<b>1,249</b>	<b>147</b>
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
<b>Total debt securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total guarantees and other credit-related commitments</b>	<b>2,989</b>	<b>912</b>	<b>225</b>	<b>24</b>	<b>120</b>	<b>5</b>

\* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2018, 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	502	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	343	0	0	0	1	0
Non-financial corporations	7,015	954	422	73	1,350	61
Households*	9,493	2,675	728	538	893	91
<b>Total loans</b>	<b>17,353</b>	<b>3,630</b>	<b>1,150</b>	<b>611</b>	<b>2,244</b>	<b>152</b>
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
<b>Total debt securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total guarantees and other credit-related commitments</b>	<b>3,228</b>	<b>1,664</b>	<b>161</b>	<b>51</b>	<b>196</b>	<b>16</b>

\* This item also includes loans granted to individual entrepreneurs.

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

(CZKm)	31 Dec 2019	31 Dec 2018
Agriculture, forestry, and fishing	11,713	11,187
Mining and quarrying	3,072	3,959
Manufacturing	65,801	65,405
Electricity, gas, steam, and air conditioning supply	14,633	15,223
Water supply, sewerage, waste management, and remediation activities	2,395	2,041
Construction	10,561	10,345
Wholesale and retail trade, repair of motor vehicles and motorcycles	43,374	47,776
Transportation and storage	14,404	18,512
Accommodation and food service activities	1,896	1,502
Information and communication	6,271	6,529
Real estate activities	49,701	45,667
Professional, scientific, and technical activities	6,668	5,152
Administrative and support service activities	7,021	6,027
Public administration and defence, compulsory social security	321	347
Education	535	231
Human health and social work activities	2,522	2,065
Arts, entertainment, and recreation	4,109	3,914
Other service activities	14,775	11,659
<b>Total loans and advances to non-financial corporations</b>	<b>259,772</b>	<b>257,541</b>

Exposure to the automotive industry and related suppliers is CZK 20,286 million (2018: CZK 19,564 million).

The majority of loans – more than 97% (2018: more than 96%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2019, loans and advances to customers included accrued interest of CZK 1,255 million (2018: CZK 969 million), of which CZK 346 million (2018: CZK 348 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 198,738 million (2018: CZK 207,905 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 2019	31 Dec 2018
Treasury bills	195,563	201,516
Debt securities issued by state institutions	0	2,496
Emission allowances	0	784
Investment certificates	0	0
<b>Total</b>	<b>195,563</b>	<b>204,796</b>

As of 31 December 2019, loans provided to customers under reverse repurchase transactions in the amount of CZK 2,001 million (2018: CZK 2,008 million) are collateralised by securities with a fair value of CZK 4,040 million (2018: CZK 4,051 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 2019:

(CZKkm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
<b>Loans and advances to customers</b>	<b>246,568</b>	<b>29,747</b>	<b>7,380</b>	<b>22,122</b>	<b>32,013</b>
of which:					
– Other financial corporations	28	1,332	0	855	9,054
– Non-financial corporations	2,570	24,718	1,279	18,126	17,732
– Households**	243,901	3,680	6,074	3,032	638

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes loans granted to individual entrepreneurs.

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 2018:

(CZKkm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
<b>Loans and advances to customers</b>	<b>233,103</b>	<b>27,264</b>	<b>7,837</b>	<b>16,436</b>	<b>24,889</b>
of which:					
– Other financial corporations	54	324	256	476	6,988
– Non-financial corporations	2,112	23,392	1,232	14,992	12,389
– Households**	230,848	3,518	6,312	835	599

\* 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 (2018: 8%).

## Forborne loans and advances to customers

### Forborne loans and advances to customers as of 31 December 2019

(CZKkm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	111	3	946	1,060	531	326
Households*	1,194	134	1,306	2,634	600	1,883
<b>Total</b>	<b>1,305</b>	<b>137</b>	<b>2,252</b>	<b>3,694</b>	<b>1,131</b>	<b>2,209</b>

\* This item also includes loans granted to individual entrepreneurs.

### Forborne loans and advances to customers as of 31 December 2018

(CZKkm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	70	4	2,374	2,448	1,292	564
Households*	1,111	195	1,322	2,628	652	1,892
<b>Total</b>	<b>1,181</b>	<b>199</b>	<b>3,696</b>	<b>5,076</b>	<b>1,944</b>	<b>2,456</b>

\* 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):*

(CZKm)	31 Dec 2019			31 Dec 2018		
	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Other financial corporations	32,454	0	0.00%	30,080	0	0.00%
Non-financial corporations	259,769	1,060	0.41%	257,541	2,448	0.95%
Households*	342,094	2,634	0.77%	324,861	2,628	0.81%
<b>Total</b>	<b>634,317</b>	<b>3,694</b>	<b>0.58%</b>	<b>612,482</b>	<b>5,076</b>	<b>0.83%</b>

\* This item also includes loans granted to individual entrepreneurs.

### Finance lease

Within the Group, ESSOX s.r.o., ESSOX FINANCE, s.r.o., and SG Equipment Finance Czech Republic s.r.o. provide lease services. Assets leased under lease arrangements at ESSOX s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 60 months (2018: 60 months). At ESSOX FINANCE, s.r.o., leased assets primarily include passenger and utility vehicles with an average lease instalment period of 45 months (2018: 46 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors, and buses with an average lease instalment period of 64 months (2018: 64 months), agricultural vehicles and machines with an average lease instalment period of 57 months (2018: 58 months), machine technology with an average lease instalment period of 64 months (2018: 63 months), hardware and software technology with an average lease instalment period of 46 months (2018: 44 months), and real estate with an average lease instalment period of 8 years (2018: 9 years).

### Loans and advances to customers – leasing:

(CZKm)	31 Dec 2019	31 Dec 2018
Due less than 1 year	5,450	5,281
Due from 1 to 2 years	4,182	4,112
Due from 2 to 3 years	2,885	3,138
Due from 3 to 4 years	1,817	1,778
Due from 4 to 5 years	870	733
Due over 5 years	731	553
<b>Total</b>	<b>15,935</b>	<b>15,595</b>

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

(CZKm)	31 Dec 2019	31 Dec 2018
Due less than 1 year	343	328
Due from 1 to 2 years	221	209
Due from 2 to 3 years	129	117
Due from 3 to 4 years	65	56
Due from 4 to 5 years	29	22
Due over 5 years	23	19
<b>Total</b>	<b>810</b>	<b>751</b>

As of 31 December 2019, the provisions recognised against uncollectible lease receivables amount to CZK 337 million (2018: CZK 419 million).

### Loans and advances to customers – subleasing of real estate:

(CZKm)	31 Dec 2019	31 Dec 2018
Due less than 1 year	20	N/A
Due from 1 to 2 years	21	N/A
Due from 2 to 3 years	12	N/A
Due from 3 to 4 years	6	N/A
Due from 4 to 5 years	6	N/A
Due over 5 years	13	N/A
<b>Total</b>	<b>78</b>	<b>N/A</b>

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

(CZKm)	31 Dec 2019	31 Dec 2018
Due less than 1 year	1	N/A
Due from 1 to 2 years	1	N/A
Due from 2 to 3 years	0	N/A
Due from 3 to 4 years	0	N/A
Due from 4 to 5 years	0	N/A
Due over 5 years	0	N/A
<b>Total</b>	<b>2</b>	<b>N/A</b>

## 23 Prepayments, accrued income, and other assets

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

(CZKm)	31 Dec 2019	31 Dec 2018
Prepayments and accrued income	814	746
Settlement balances	287	681
Receivables from securities trading	61	148
Other assets	4,014	4,178
<b>Total prepayments, accrued income, and other assets</b>	<b>5,176</b>	<b>5,752</b>

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 226 million (2018: CZK 223 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 2019	31 Dec 2018
Investments in subsidiary undertakings*	34	0
Investments in associated undertakings	1,221	1,134
<b>Total investments in associates</b>	<b>1,255</b>	<b>1,134</b>

\* My Smart Living, s.r.o. (CZK 33 million) and KB Advisory, s. r. o. (CZK 1 million). These subsidiaries are currently not consolidated due to their having insignificant impact on the financial statements.

In March 2016, the Bank concluded an agreement on sale of its interest in Cataps, s.r.o. with Worldline SA/NV based upon which the Bank transferred its merchant acquiring into Cataps, s.r.o. and subsequently sold its 80% stake in Cataps, s.r.o. Both steps were performed in September 2016. The remaining 20% stake in Cataps, s.r.o., valued at CZK 181 million, was reclassified as 'Assets held for sale' due to expected sale of this company. In February 2018, the Bank sold a 19% stake in the company Cataps, s.r.o. Thereby, the Bank reduced its ownership from 20% to 1%. In June 2019, Cataps, s.r.o. changed its name to Worldline Czech Republic s.r.o.

The following companies were associated undertakings of the Group as of 31 December 2019:

(CZKm)	Associates	%	31 Dec 2019		31 Dec 2018	
			Cost of investment	Share of net assets	Cost of investment	Share of net assets
	Komerční pojišťovna, a.s.	49.00	837	1,219	837	1,132
	CBCB - Czech Banking Credit Bureau, a.s.*	20.00	0	2	0	2
	<b>Total investments in associates</b>		<b>837</b>	<b>1,221</b>	<b>837</b>	<b>1,134</b>
	Associates classified in held for sale portfolio					
	Worldline Czech Republic s.r.o.	1.00	0***	9	0***	9
	<b>Total investments in associates**</b>		<b>837</b>	<b>1,230</b>	<b>837</b>	<b>1,143</b>

\* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

\*\* Including associates classified in held for sale portfolio.

\*\*\* The cost of investment for Worldline Czech Republic s.r.o. is CZK 418 thousand.

(CZKm) Associates	31 Dec 2019			
	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	52,938	50,398	1,213	622
CBCB - Czech Banking Credit Bureau, a.s.	46	27	128	8
Worldline Czech Republic s.r.o.	1,040	535	1,146	(157)

(CZKm) Associates	31 Dec 2018			
	Assets	Liabilities	Operating income	Profit
Associates				
Komerční pojišťovna, a.s.	51,219	48,908	1,010	482
CBCB - Czech Banking Credit Bureau, a.s.	33*	14*	124	9
Worldline Czech Republic s.r.o.	1,090*	488*	1,065*	(53)*

\* Figures for the year 2018 were changed according to the final audited financial statements.

#### Movements in share of associated undertakings:

(CZKm)	Komerční pojišťovna, a.s	CBCB - Czech Banking Credit Bureau, a.s	Worldline Czech Republic s.r.o.	Total
As of 31 December 2017	1,179	2	180	1,361
Dividend payment	(214)	(2)	0	(216)
Share of profit	236	2	0	238
Sale of shares	0	0	(171)	(171)
Revaluation of investment	0	0	0	0
Share of revaluation on debt securities at FVOCI	(69)	0	0	(69)
As of 31 December 2018	1,132	2	9	1,143
Dividend payment	(234)	(2)	0	(236)
Share of profit	305	2	0	307
Sale of shares	0	0	0	0
Revaluation of investment	0	0	0	0
Share of revaluation on debt securities at FVOCI	16	0	0	16
<b>As of 31 December 2019</b>	<b>1,219</b>	<b>2</b>	<b>9</b>	<b>1,230</b>

#### Main financial information about subsidiaries within which the Group holds non-controlling interests:

(CZKm)	31 Dec 2019			31 Dec 2018		
	Assets	Liabilities	Profit	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	30,917	28,089	255	30,290	26,942	277
ESSOX s.r.o.**	16,474	13,023	285	16,713	13,169	375
ESSOX FINANCE, s.r.o.**	2,523	2,283	7	2,361	2,125	4

\* Non-controlling interest in SG Equipment Finance Czech Republic s.r.o. is 49.9%.

\*\* Non-controlling interest in each ESSOX s.r.o. and ESSOX FINANCE, s.r.o. is 49.1%.

**Movements in non-controlling interests:**

(CZKmn)	SG Equipment Finance Czech Republic s.r.o.	ESSOX s.r.o.	PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	ESSOX FINANCE, s.r.o.	Total
As of 31 December 2017	2,032	1,755	20	(10)	3,797
Changes in accounting policies	(44)	(36)	0	(5)	(85)
Merger	0	20	(20)	0	0
As of 1 January 2018	1,988	1,739	–	(15)	3,712
Dividend payment	(455)	(188)	–	0	(643)
Profit / loss	138	184	–	3	325
Share-based payment	0	2	–	0	2
Revaluation of equity securities in equity	0	2	–	0	2
Cash flow hedging	0	0	–	0	0
As of 31 December 2018	1,671	1,739	–	(12)	3,398
Dividend payment	(388)	(188)	–	0	(576)
Profit / loss	128	140	–	3	271
Share-based payment	0	2	–	0	2
Revaluation of equity securities in equity	0	1	–	0	1
Hedge of a foreign net investment	0	0	–	(1)	(1)
Cash flow hedging	0	0	–	0	0
<b>As of 31 December 2019</b>	<b>1,411</b>	<b>1,694</b>	<b>–</b>	<b>(10)</b>	<b>3,095</b>

As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

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
<b>Cost</b>					
As of 1 January 2018	12,616	3,208	29	1,631	17,484
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,417	185	0	1,704	3,306
Disposals/transfers	(185)	(30)	0	(1,599)	(1,814)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	13,848	3,363	29	1,736	18,976
Change in accounting methods (IFRS 16)	0	0	0	0	0
As of 1 January 2019	13,848	3,363	29	1,736	18,976
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	9	0	7	16
Additions	1,759	293	0	2,053	4,105
Disposals/transfers	(195)	(59)	0	(2,053)	(2,307)
Foreign exchange rate difference	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>15,412</b>	<b>3,606</b>	<b>29</b>	<b>1,743</b>	<b>20,790</b>
<b>Accumulated amortisation and allowances</b>					
As of 1 January 2018	(10,190)	(2,580)	(28)	(2)	(12,800)
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	(943)	(203)	0	0	(1,146)
Disposals	174	30	0	0	204
Impairment	11	2	0	2	15
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	(10,948)	(2,751)	(28)	0	(13,727)
Change in accounting methods (IFRS 16)	0	0	0	0	0
As of 1 January 2019	(10,948)	(2,751)	(28)	0	(13,727)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	(1,080)	(212)	0	0	(1,292)
Disposals	195	59	0	0	254
Impairment	0	0	0	(7)	(7)
Foreign exchange rate difference	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>(11,833)</b>	<b>(2,904)</b>	<b>(28)</b>	<b>(7)</b>	<b>(14,772)</b>
<b>Net book value</b>					
As of 31 December 2018	2,900	612	1	1,736	5,249
<b>As of 31 December 2019</b>	<b>3,579</b>	<b>702</b>	<b>1</b>	<b>1,736</b>	<b>6,018</b>

\* Internally generated assets comprise mainly software.

During the year ended 31 December 2019, the Group spent CZK 120 million (2018: CZK 152 million) on research and development through a charge to 'Operating expenses'. As of 31 December 2019, the Group recognised allowances against intangible assets of CZK 28 million (2018: CZK 21 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
<b>Cost</b>						
As of 1 January 2018	366	10,811	5,070	1,365	0	17,612
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(16)	(191)	0	0	0	(207)
Additions	0	1,186	456	1,117	0	2,759
Disposals/transfers	0	(110)	(331)	(1,644)	0	(2,085)
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2018	350	11,696	5,195	838	0	18,079
Change in accounting methods (IFRS 16)	0	0	(214)	0	2,780	2,566
As of 1 January 2019	350	11,695	4,984	837	2,780	20,646
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	0	46	0	0	0	46
Additions	0	602	386	723	829	2,540
Disposals/transfers	0	(325)	(281)	(1,034)	(164)	(1,804)
Foreign exchange rate difference	0	0	0	0	(1)	(1)
<b>As of 31 December 2019</b>	<b>350</b>	<b>12,018</b>	<b>5,089</b>	<b>526</b>	<b>3,444</b>	<b>21,427</b>
<b>Accumulated depreciation and allowances</b>						
As of 1 January 2018	0	(6,276)	(3,930)	(2)	0	(10,208)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	104	0	0	0	104
Additions	0	(392)	(339)	0	0	(731)
Disposals	0	109	315	0	0	424
Impairment	0	(3)	9	2	0	8
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2018	0	(6,458)	(3,945)	0	0	(10,403)
Change in accounting methods (IFRS 16)	0	0	66	0	0	66
As of 1 January 2019	0	(6,457)	(3,881)	0	0	(10,338)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	28	0	0	0	28
Additions	0	(360)	(360)	0	(439)	(1,159)
Disposals	0	279	277	0	15	571
Impairment	0	0	(1)	0	0	(1)
Foreign exchange rate difference	0	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>0</b>	<b>(6,510)</b>	<b>(3,965)</b>	<b>0</b>	<b>(424)</b>	<b>(10,899)</b>
<b>Net book value</b>						
As of 31 December 2018	350	5,238	1,250	838	0	7,676
<b>As of 31 December 2019</b>	<b>350</b>	<b>5,508</b>	<b>1,124</b>	<b>526</b>	<b>3,020</b>	<b>10,528</b>

As of 31 December 2019, the Group recognised allowances against tangible assets of CZK 245 million (2018: CZK 244 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2018: 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).

The net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2019	1 Jan 2019
Real estate	2,867	2,611
Hardware	0	0
Other	153	169
<b>Total net value of right-of-use assets</b>	<b>3,020</b>	<b>2,780</b>

## 27 Goodwill

Goodwill by individual companies as of 31 December 2019 was as follows:

(CZKm)	31 Dec 2019	31 Dec 2018
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
<b>Total goodwill</b>	<b>3,752</b>	<b>3,752</b>

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 2019, the Group reported assets held for sale at a carrying amount of CZK 136 million (2018: CZK 196 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 2019, the Group recognised allowances against assets held for sale of CZK 95 million (2018: CZK 142 million).

As of 31 December 2019, 'Assets held for sale' also included investments in associates classified as assets held for sale at a carrying amount of CZK 0 million (2018: CZK 0 million). For detail, refer to Note 24.

## 29 Financial liabilities at fair value through profit or loss

As of 31 December 2019 and 2018, the 'Financial liabilities 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 at fair value through profit or loss'.

(CZKm)	31 Dec 2019	31 Dec 2018
Short sales	3,543	2,244
Derivative financial instruments	20,182	19,328
<b>Total financial liabilities at fair value through profit or loss</b>	<b>23,725</b>	<b>21,572</b>

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 2019	31 Dec 2018
Amounts due to banks	93,581	92,270
Amounts due to customers	821,507	812,451
Securities issued	3,621	2,540
Lease liabilities	3,016	N/A
<b>Total financial liabilities at amortised cost</b>	<b>921,725</b>	<b>907,261</b>

Total amount of loans from banks and customers received under repurchase transactions was CZK 10,252 million (2018: CZK 23,659 million).

*The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:*

	31 Dec 2019		31 Dec 2018	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	0	0	0	0
Other assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	5,304	5,304	5,377	5,377
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	5,154	5,154	18,362	18,362
<b>Total</b>	<b>10,458</b>	<b>10,458</b>	<b>23,739</b>	<b>23,739</b>

*Amounts due to banks and customers, allocated by sector, comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Central banks	0	0
General governments	91,486	92,651
Credit institutions	93,581	92,270
Other financial corporations	48,958	63,805
Non-financial corporations	277,853	263,470
Households*	403,210	392,525
<b>Total amounts due to banks and customers</b>	<b>915,088</b>	<b>904,721</b>

\* This item also includes amounts due to individual entrepreneurs.

#### Securities issued

*Securities issued comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Mortgage bonds	1,004	1,008
Depository bills of exchange	2,617	1,532
<b>Total securities issued</b>	<b>3,621</b>	<b>2,540</b>

The Group issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2018	Cash flow*	Non-cash changes		31 Dec 2019
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	1,008	(27)	23	0	1,004
Depository bills of exchange	1,532	1,068	17	0	2,617
<b>Total securities issued</b>	<b>2,540</b>	<b>1,041</b>	<b>40</b>	<b>0</b>	<b>3,621</b>

\* The item includes the cash flow on principal and interest paid.

(CZKm)	1 Jan 2018	Cash flow*	Non-cash changes		31 Dec 2018
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	2,762	(1,785)	31	0	1,008
Depository bills of exchange	2,070	(562)	24	0	1,532
<b>Total securities issued</b>	<b>4,832</b>	<b>(2,347)</b>	<b>55</b>	<b>0</b>	<b>2,540</b>

\* 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 2019	31 Dec 2018
In less than one year	0	0
In one to five years	1,004	1,008
In five to ten years	0	0
In ten to twenty years	0	0
More than twenty years	0	0
<b>Total mortgage bonds</b>	<b>1,004</b>	<b>1,008</b>

The securities issued detailed above include the following mortgage bonds issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2019 (CZKm)	31 Dec 2018 (CZKm)
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,004	1,008
<b>Total mortgage bonds</b>					<b>1,004</b>	<b>1,008</b>

## 31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Accruals and deferred income	255	489
Settlement balances and outstanding items	212	85
Payables from securities trading and issues of securities	3,416	3,810
Payables from payment transactions	2,489	3,420
Other liabilities	5,604	5,616
<b>Total accruals and other liabilities</b>	<b>11,976</b>	<b>13,420</b>

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 18 million (2018: CZK 20 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

## 32 Provisions

*Provisions comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Provisions for contracted commitments (refer to Note 37)	579	476
Provisions for other credit commitments (refer to Notes 13 and 37)	653	1,147
Provisions for restructuring	113	230
<b>Total provisions</b>	<b>1,345</b>	<b>1,853</b>

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 2019, the Group created provisions for restructuring related to the transformation project “KB Change” in the amount of CZK 0 million (2018: CZK 294 million) in accordance with estimated redundancy payments, consultancy costs, and other costs necessary in order to implement the detailed restructuring plan of transformation. Provisions are reported in the Income Statement lines ‘*Personnel expenses*’ (refer to Note 10) in the amount of CZK 0 million (2018: CZK 223 million) and ‘*General administrative expenses*’ (refer to Note 11) in the amount of CZK 0 million (2018: CZK 71 million). Use of provisions for restructuring is reported in the Income Statement lines ‘*Personnel expenses*’ (refer to Note 10) in the amount of CZK 105 million (2018: CZK 34 million) and ‘*General administrative expenses*’ (refer to Note 11) in the amount of CZK 12 million (2018: CZK 30 million).

*Movements in the provisions for contracted commitments and for restructuring were as follow:*

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 1 January 2018	368	0	149	0	517
Charge	27	0	91	294	412
Release	(15)	0	(104)	0	(119)
Use	(12)	0	(8)	(64)	(84)
Accrual	6	0	0	0	6
Remeasurement	(27)	0	0	0	(27)
Foreign exchange difference	0	0	1	0	1
Balance as of 31 December 2018	347	0	129	230	706
Charge	27	0	32	0	59
Release	(1)	0	(40)	0	(41)
Use	(11)	0	(12)	(117)	(140)
Accrual	5	0	0	0	5
Remeasurement	103	0	0	0	103
Foreign exchange difference	0	0	0	0	0
<b>Balance as of 31 December 2019</b>	<b>470</b>	<b>0</b>	<b>109</b>	<b>113</b>	<b>692</b>

### 33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised.

*Net deferred tax assets are as follow:*

(CZKm)	31 Dec 2019	31 Dec 2018
Banking provisions and allowances	3	0
Allowances for assets	0	0
Non-banking provisions	63	57
Difference between accounting and tax net book value of assets	(4)	(3)
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)	(1)	3
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	2	(1)
Other temporary differences	7	37
<b>Net deferred tax assets</b>	<b>70</b>	<b>93</b>

*Net deferred tax liabilities are as follow:*

(CZKm)	31 Dec 2019	31 Dec 2018
Banking provisions and allowances	44	144
Allowances for assets	69	78
Non-banking provisions	85	103
Difference between accounting and tax net book value of assets	(1,047)	(1,090)
Leases	(5)	(15)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	51	31
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 40)	(67)	(36)
Revaluation of hedging derivatives – equity impact (refer to Note 41)	13	5
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(164)	(108)
Other temporary differences	181	123
<b>Net deferred tax liabilities</b>	<b>(840)</b>	<b>(765)</b>

*Movements in the net deferred tax assets/(liabilities) were as follow:*

(CZKm)	2019	2018
<b>Balance as of the beginning of the period</b>	<b>(672)</b>	<b>(495)</b>
Effect of acquisition of companies	0	0
Movement in the net deferred tax – profit and loss impact (refer to Note 15)	(38)	(287)
Movement in the net deferred tax – equity impact (refer to Notes 39, 40, 41, and 42)	(60)	110
<b>Balance as of the end of the period</b>	<b>(770)</b>	<b>(672)</b>

### 34 Subordinated debt

As of 31 December 2019, the Bank reports subordinated debt of CZK 2,546 million (2018: CZK 2,578 million). The subordinated debt was received by the Bank in October 2017 and is part of Tier 2 regulatory capital. The nominal value of the subordinated debt is EUR 100 million. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after 5 years.



## 35 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, totals CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the 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 2019:*

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
CHASE NOMINEES LIMITED	5.13%
NORTRUST NOMINEES LIMITED	4.08%
CLEARSTREAM BANKING S.A.	2.40%
GIC PRIVATE LIMITED	1.66%
J.P. MORGAN BANK LUXEMBOURG S.A.	1.44%
STATE STREET BANK AND TRUST COMPANY	1.30%

Société Générale S.A., being the only entity with a qualified holding in the Group, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2019, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2018: 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 1.6% was applied to the Group in 2019 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 9.6% for the year 2019. A combined capital buffer of 7.0% was applied on top of the TSCR capital ratio, thus resulting in the required overall capital ratio (OCR) of approximately 16.60% for the year 2019 (an increase of 0.6 percentage points in comparison with the previous year, mainly due to an increase in the countercyclical capital buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical buffer which reached 1.5% in 2019 for exposures in the Czech Republic. 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) increases for the Group to approximately 17.45% as of 1 January 2020 (a rise of 0.85 percentage points compared to 2019 due mainly to a rise of the additional Pillar 2 buffer by 0.60 percentage points to the level of 2.2% and also an increase of the countercyclical capital buffer in the Czech Republic by 0.25 percentage points to the level of 1.75%). It

increases furthermore to approximately 17.70% as of 1 July 2020 (rising by another 0.25 percentage points due to an increase of the countercyclical capital buffer in the Czech Republic to the level of 2.00%).

The Group manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Group must meet the requirements for evaluating required economic capital, stress testing, and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods mostly close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Group regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's transaction risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Group acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Group's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Group's dividend policy, which is the primary tool for capital adequacy management in such situation that the Group's capital is largely classified as Common Equity Tier 1 capital.

The Group's capital consists principally of the following balances: share capital, reserve funds, retained earnings, and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Group did not purchase its own shares into treasury during 2019. As of 31 December 2019, the Group held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2018: 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 (the capital buffers in particular, typically the countercyclical buffer) 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.

The CNB is also the local resolution authority defining the most suitable crisis resolution strategy for the institutions and it determines, inter alia, the minimum requirement for own funds and eligible liabilities (MREL). The CNB has published its general approach to determining the minimum MREL requirements, but it has not yet established this for the Bank. The Bank expects that CNB will set the MREL during the first half of 2020.

### 36 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2019	31 Dec 2018	Change in the year
Cash and current balances with central banks (refer to Note 18)	17,744	24,851	(7,107)
Loans and advances to banks – current accounts with other banks	1,135	1,381	(246)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts	(5,360)	(2,984)	(2,376)
<b>Cash and cash equivalents at the end of the year</b>	<b>13,518</b>	<b>23,247</b>	<b>(9,729)</b>

The total cash outflow on leases in 2019 was in the amount of CZK 608 million.

## 37 Commitments and contingent liabilities

### Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2019. 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 24 million (2018: CZK 12 million) for these legal disputes (refer to Note 32). The Group has also recorded a provision of CZK 6 million (2018: CZK 3 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2019, the Group conducted a review of legal proceedings it had filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

### Capital commitments

As of 31 December 2019, the Group had capital commitments of CZK 505 million (2018: CZK 704 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 321 million (2018: CZK 597 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 2019, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:*

(CZKm)	Carrying value				Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	17,662	473	0	18,135	6	0	0	6
Credit institutions	3,016	0	0	3,016	0	0	0	0
Other financial corporations	5,362	110	0	5,472	4	0	0	4
Non-financial corporations	103,010	4,180	1,177	108,367	86	71	418	575
Households*	38,952	752	32	39,736	28	23	17	68
<b>Total commitments and contingencies</b>	<b>168,002</b>	<b>5,515</b>	<b>1,209</b>	<b>174,726</b>	<b>124</b>	<b>94</b>	<b>435</b>	<b>653</b>

\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2018, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

(CZKm)	Carrying value				Provisions			
	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	13,872	663	0	14,535	5	0	0	5
Credit institutions	2,691	0	0	2,691	1	0	0	1
Other financial corporations	6,047	108	2	6,157	5	0	0	5
Non-financial corporations	98,470	3,319	1,580	103,369	73	62	933	1,068
Households*	40,913	766	34	41,713	31	23	14	68
<b>Total commitments and contingencies</b>	<b>161,993</b>	<b>4,856</b>	<b>1,616</b>	<b>168,465</b>	<b>115</b>	<b>85</b>	<b>947</b>	<b>1,147</b>

\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Non-payment guarantees including commitments to issued non-payment guarantees	38,447	34,921
Payment guarantees including commitments to issued payment guarantees	18,993	16,718
Committed facilities and unutilised overdrafts	13,710	10,866
Undrawn credit commitments	78,640	77,149
Unutilised overdrafts and approved overdraft loans	14,462	15,756
Unutilised limits under framework agreements to provide financial services	6,371	7,930
Open customer/import letters of credit not covered	464	426
Standby letters of credit not covered	2,907	3,616
Confirmed supplier/export letters of credit	732	1,083
<b>Total commitments and contingencies</b>	<b>174,726</b>	<b>168,465</b>

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 2019, the Group recorded provisions for these risks in the amount of CZK 653 million (2018: CZK 1,147 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 2019	31 Dec 2018
Agriculture, forestry, and fishing	2,813	2,738
Mining and quarrying	1,021	408
Manufacturing	23,620	25,417
Electricity, gas, steam, and air conditioning supply	5,320	5,319
Water supply, sewerage, waste management, and remediation activities	715	835
Construction	34,454	30,067
Wholesale and retail trade, repair of motor vehicles and motorcycles	10,640	10,123
Transportation and storage	5,398	4,980
Accommodation and food service activities	614	219
Information and communication	4,984	3,256
Real estate activities	4,226	8,078
Professional, scientific, and technical activities	9,270	8,640
Administrative and support service activities	888	754
Public administration and defence, compulsory social security	152	252
Education	122	467
Human health and social work activities	454	312
Arts, entertainment, and recreation	796	1,221
Other service activities	2,880	283
<b>Total commitments and contingencies to non-financial corporations</b>	<b>108,367</b>	<b>103,369</b>

Exposure to the automotive industry and related suppliers is CZK 3,894 million (2018: CZK 4,067 million).

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 2019:*

(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 collaterals	Financial guarantees received
<b>Commitments and contingencies</b>	<b>6,249</b>	<b>3,738</b>	<b>2,046</b>	<b>6,365</b>	<b>5,010</b>
of which:					
– Other financial corporations	32	16	0	1,059	391
– Non-financial corporations	525	3,584	1,998	5,148	1,874
– Households**	5,692	138	48	48	34

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

*The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2018:*

(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 collaterals	Financial guarantees received
<b>Commitments and contingencies</b>	<b>7,243</b>	<b>3,281</b>	<b>2,144</b>	<b>9,694</b>	<b>6,958</b>
of which:					
– Other financial corporations	8	3	5	501	1,283
– Non-financial corporations	738	3,189	2,079	8,820	2,283
– Households**	6,496	89	60	87	35

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the “Fund”) created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of capital market developments, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income, results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

## 38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2019, 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 2019, the Group had deposits of CZK 2,116 million (2018: CZK 1,339 million) due to the associate Komerční pojišťovna, a.s. The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. amounted to CZK 928 million (2018: CZK 837 million) and the negative fair value to CZK 61 million (2018: CZK 210 million). The book value of mortgage bonds issued by the Bank was CZK 803 million (2018: CZK 804 million) and interest expense from mortgage bonds amounted to CZK 20 million (2018: CZK 20 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 1,015 million (2018: CZK 743 million) and interest expense on financial derivatives totalled CZK 819 million (2018: CZK 517 million). Interest expense from deposits amounted to CZK 42 million (2018: CZK 15 million), fee income of the Group arising from intermediation totalled CZK 430 million (2018: CZK 420 million), fee expense amounted to CZK 86 million (2018: CZK 79 million), insurance expenses totalled CZK 10 million (2018: CZK 10 million), and other income totalled CZK 21 million (2018: CZK 17 million).

### Amounts due to and from Société Générale Group entities

*Principal balances due from Société Générale Group entities include the following:*

(CZKm)	31 Dec 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	7,753	0	7,100	0
ALD Automotive Slovakia s. r. o.	27	0	74	0
BRD – Groupe Société Générale SA	21	0	17	0
PJSC Rosbank	601	0	193	0
SG Bruxelles	0	0	3	0
SG Expressbank	0	0	48	0
SG Marocaine de Banques	0	0	6	0
SG Zurich	202	0	228	0
SKB Banka D.D. Ljubljana	0	0	1	0
Société Générale China Limited	41	0	41	0
Société Générale International Limited	2	0	2,210	0
Société Générale Londres	16	0		0
Société Générale oddział w Polsce	2	0	0	0
Société Générale Paris	12,397	4,736	14,348	5,733
<b>Total</b>	<b>21,062</b>	<b>4,736</b>	<b>24,269</b>	<b>5,733</b>



**Principal balances owed to Société Générale Group entities include the following:**

(CZKm)	31 Dec 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	370	0	389	0
BRD – Groupe Société Générale	1	0	8	0
Crédit du Nord	75	0	5	0
PEMA Praha, spol. s r.o.	0	0	26	0
PJSC Rosbank	4	0	0	0
SG Amsterdam	20	0	68	0
SG Banques au Liban	1	0	2	0
SG Bruxelles	3	0	9	0
SG Expressbank	0	0	54	0
SG Frankfurt	0	0	45	0
SG ISSUER	1	0	1	0
SG Milan	11	0	2	0
SG Option Europe	1	0	0	0
SG Private Banking (Suisse)	92	0	143	0
SG Zurich	81	0	53	0
SGSS Nantes	3	0	2	0
Société Générale Bank & Trust	64	0	650	0
Société Générale Factoring	774	0	21	0
Société Générale Londres	31	0	88	0
Société Générale New York	10	0	8	0
Société Générale oddział w Polsce	6	0	2	0
Société Générale Paris	53,649	9,208	50,161	8,486
SOGEPROM Česká republika s.r.o., v likvidaci	4	0	5	0
<b>Total</b>	<b>55,201</b>	<b>9,208</b>	<b>51,742</b>	<b>8,486</b>

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 2019, 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 491,189 million (2018: CZK 515,728 million) and CZK 438,112 million (2018: CZK 461,281 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 2019 and 2018, 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 2019, the Group had total income of CZK 33,057 million (2018: CZK 39,157 million) and total expenses of CZK 33,212 million (2018: CZK 37,661 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy, and software services.

**In connection with lease contracts the Group records:**

(CZKm)	31 Dec 2019				1 Jan 2019			
	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.	140	92	26	1	157	93	N/A	N/A
ALD Automotive Slovakia s. r. o.	2	2	1	0	2	2	N/A	N/A
<b>Total</b>	<b>142</b>	<b>94</b>	<b>27</b>	<b>1</b>	<b>159</b>	<b>95</b>	<b>N/A</b>	<b>N/A</b>

As of 31 December 2019, the Group reported a loss of CZK 2 million (2018: N/A) 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)	2019	2018
Remuneration to members of the Board of Directors*	77	64
Remuneration to members of the Supervisory Board**	6	5
<b>Total</b>	<b>83</b>	<b>69</b>

\* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2019 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2019. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement. According to the Articles of Association, the Board of Directors is to have 6 members. While in 2018 one position was not filled for a part of the year, in 2019 all 6 positions of the Board of Directors were filled.

\*\* **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2019 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2019	31 Dec 2018
Number of the Board of Directors members at the end of the period	6**	5*
Number of the Supervisory Board members at the end of the period	9	8

\* During 2018, a total 8 members served on the Board of Directors. According to the Articles of Association, the Board of Directors is to have 6 members. One position on the Board of Directors was vacant for a part of 2018.

\*\* In 2019, all 6 positions of the Board of Directors were filled.

In respect of loans and guarantees as of 31 December 2019, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 21 million (2018: CZK 19 million). During 2019, draw-downs of CZK 1 million (2018: CZK 1 million) were made under the loans granted. Loan repayments during 2019 amounted to CZK 3 million (2018: CZK 1 million). The increase of loans is affected by new members already having loans in the amount of CZK 4 million. Loans to resigning members amounted to CZK 0 million as of 31 December 2018.

## 39 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2019	2018
Remeasurement of retirement benefits plan as of 1 January	(163)	(190)
Deferred tax asset/(liability) as of 1 January	31	36
<b>Balance as of 1 January</b>	<b>(132)</b>	<b>(154)</b>
<b>Movements during the year</b>		
Gains/(losses) from remeasurement of retirement benefits plan	(103)	27
Deferred tax	20	(5)
	<b>(83)</b>	<b>22</b>
Remeasurement of retirement benefits plan as of 31 December	(266)	(163)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	51	31
<b>Balance as of 31 December</b>	<b>(215)</b>	<b>(132)</b>

## 40 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2019	2018
Revaluation of equity securities at FVOCI option as of 1 January	193	95
Deferred tax asset/(liability) as of 1 January	(36)	(18)
<b>Balance as of 1 January</b>	<b>157</b>	<b>77</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	162	98
Deferred tax	(31)	(18)
	<b>131</b>	<b>80</b>
Revaluation of equity securities at FVOCI option as of 31 December	355	193
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(67)	(36)
<b>Balance as of 31 December</b>	<b>288</b>	<b>157</b>

## 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)	2019	2018
Cash flow hedge fair value as of 1 January	(95)	159
Deferred tax asset/(liability) as of 1 January	8	(40)
<b>Balance as of 1 January</b>	<b>(87)</b>	<b>119</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value (refer to Note 43(C))	654	(67)
Deferred tax	(121)	12
	<b>533</b>	<b>(55)</b>
Transferred to interest income/expense	(654)	(179)
Deferred tax	125	34
	<b>(529)</b>	<b>(145)</b>
Transferred to net profit/loss on financial operations	0	(9)
Deferred tax	0	2
	<b>0</b>	<b>(7)</b>
Transferred to personnel expenses	1	1
Deferred tax	0	0
	<b>1</b>	<b>1</b>
Cash flow hedge fair value as of 31 December	(94)	(95)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	12	8
<b>Balance as of 31 December</b>	<b>(82)</b>	<b>(87)</b>

## 42 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2019	2018
Reserve from fair value revaluation as of 1 January	595	1,054
Deferred tax asset/(liability) as of 1 January	(109)	(194)
Impairment as of 1 January	2	4
<b>Balance as of 1 January</b>	<b>488</b>	<b>864</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	265	(459)
Deferred tax	(53)	85
	<b>212</b>	<b>(374)</b>
Impairment	0	(2)
	<b>0</b>	<b>(2)</b>
Reserve from fair value revaluation as of 31 December	860	595
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(162)	(109)
Impairment as of 31 December	2	2
<b>Balance as of 31 December</b>	<b>700</b>	<b>488</b>

## 43 Risk management and financial instruments

### (A) Credit risk

#### **Assessment of borrower's credit rating**

The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Group uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Group's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

The Group focuses on updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Group as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models, and the monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the tested periods and thus optimisation of the Group's credit risk management tools and more accurate estimation of expected future losses.

#### **(a) Business clients and municipalities**

For entrepreneurs, corporate clients, and municipalities, the Group uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating that reflects the quality of available guarantees and collaterals and evaluates the potential loss from counterparty transactions. These models are also used for regular estimation of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and a qualitative rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial and personal data, data on client behaviour within the Group, and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Group (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of a qualitative rating acquired through the assessment of non-financial information relating to a specific municipality.

The Group is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors was validated by the regulator and will be implemented in 2020.

#### **(b) Ratings for banks and sovereigns**

For banks, other financial corporations (namely insurance companies, brokers, and funds) and for sovereigns (central banks and central governments), the Group uses qualitative rating models developed by Société Générale.

#### **(c) Ratings for individual clients**

The Group uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which is derived from an evaluation of clients' personal data, data on the behaviour within the Group, and data available from external credit bureaus; and (2) a behavioural rating that is based on evaluating information on the clients' behaviour within the Group. The application rating is primarily used for active clients' applications for new funding transactions, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Group to its existing clients.

#### **(d) Internal register of negative information**

The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Group from risky entities.

#### **(e) Credit bureaus**

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially in the retail client segments (individuals and small businesses).

**(f) Credit fraud prevention**

The Group uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds are focused mainly on individual clients and the small business segment. The Group began extending this system to the corporate segment during 2019, and this activity will continue through 2020.

**(g) Granting process**

Through 2019, the Group focused on simplification of its processes and increasing rapidity in credit granting to all client segments (while gradually introducing digital processes) and while concentrating especially on corporate clients.

**Credit concentration risk**

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses, and stress testing. The Group maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors, and collateral providers. A system of internal limits has been established so that the Group complies with the regulatory limits set by law in respect of concentration risk. Refer to Notes 22 and 37 for quantitative information about this type of risk.

**The Group's maximum credit exposure as of 31 December 2019:**

(CZKm)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>7,737</b>	<b>x</b>	<b>7,737</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets and other assets at fair value through profit or loss</b>	<b>23,398</b>	<b>x</b>	<b>23,398</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>9,996</b>	<b>x</b>	<b>9,996</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>36,204</b>	<b>x</b>	<b>36,204</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at amortised cost</b>	<b>973,543</b>	<b>164,424</b>	<b>1,137,967</b>	<b>337,830</b>	<b>22,425</b>	<b>360,255</b>
of which: Other financial corporations	32,804	6,168	38,972	11,269	1,498	12,767
Non-financial corporations	262,523	107,130	369,653	64,425	13,128	77,553
Households**	342,094	29,977	372,071	257,325	4,978	262,303
<b>Revaluation differences on portfolios hedge items</b>	<b>(374)</b>	<b>x</b>	<b>(374)</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>1,050,504</b>	<b>164,424</b>	<b>1,214,928</b>	<b>337,830</b>	<b>22,425</b>	<b>360,255</b>

\* 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 2018:*

(CZKm)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>16,347</b>	<b>x</b>	<b>16,347</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets and other assets at fair value through profit or loss</b>	<b>22,614</b>	<b>x</b>	<b>22,614</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>12,559</b>	<b>x</b>	<b>12,559</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>25,265</b>	<b>x</b>	<b>25,265</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at amortised cost</b>	<b>963,283</b>	<b>168,465</b>	<b>1,131,748</b>	<b>309,529</b>	<b>29,320</b>	<b>338,849</b>
of which: Other financial corporations	30,430	7,004	37,434	8,099	1,800	9,899
Non-financial corporations	260,430	103,415	363,845	54,116	17,109	71,225
Households**	324,861	41,713	366,574	242,112	6,767	248,879
<b>Revaluation differences on portfolios hedge items</b>	<b>(372)</b>	<b>x</b>	<b>(372)</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>1,039,696</b>	<b>168,465</b>	<b>1,208,161</b>	<b>309,529</b>	<b>29,320</b>	<b>338,849</b>

\* 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 2019:*

(CZKm)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	4,021	10	4,031	16,834	16,839	33,673	68,470	7	68,477
Credit institutions	77	0	77	0	2,009	2,009	0	0	0
Other financial corporations	3	0	3	0	0	0	350	0	350
Non-financial corporations	1	0	1	0	0	0	2,342	412	2,754
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>4,102</b>	<b>10</b>	<b>4,112</b>	<b>16,834</b>	<b>18,848</b>	<b>35,682</b>	<b>71,162</b>	<b>419</b>	<b>71,581</b>

\* This item also includes individual entrepreneurs.

*The Group's debt securities, allocated by sector and currency, comprised the following as of 31 December 2018:*

(CZKm)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,144	14	3,158	5,402	17,466	22,868	65,503	11	65,514
Credit institutions	77	0	77	0	2,041	2,041	1,128	0	1,128
Other financial corporations	0	0	0	0	0	0	350	0	350
Non-financial corporations	13	0	13	0	0	0	2,437	452	2,889
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>3,234</b>	<b>14</b>	<b>3,248</b>	<b>5,402</b>	<b>19,507</b>	<b>24,909</b>	<b>69,418</b>	<b>463</b>	<b>69,881</b>

\* This item also includes individual entrepreneurs.



### Staging of loans and advances

The Group classifies its loans and advances arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forbore exposures are given default status (i.e. are classified as Stage 3). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

- I. After 12 months, reclassification of the forbore exposures to performing (to Stage 2), and further reclassification to Stage 1 is possible after an additional 12 months based on an analysis of the debtor's financial condition;
- II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

### 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 represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate, and prepayments made.

### Allowances for loans and advances

The Group uses the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile, and characteristics of the loans and advances, allowances are created either: (i) individually (for selected non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on observed history of defaults and losses and forward-looking adjustments. In 2019, the Group updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses, and (ii) the new macroeconomic forecast.

*The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:*

(CZKmn)	31 Dec 2019		31 Dec 2018	
	Individually	Statistical model	Individually	Statistical model
Central banks	0	0	0	0
General governments	12	2	340	2
Credit institutions	23	0	71	0
Other financial corporations	57	2	48	1
Non-financial corporations	5,600	1,866	7,876	1,934
Households*	1,395	5,054	0	7,059
<b>Total</b>	<b>7,087</b>	<b>6,924</b>	<b>8,335</b>	<b>8,996</b>

\* This item also includes loans granted to individual entrepreneurs.

### Loans and advances collateral

The Group uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented within its internal system the rules for assessing collateral's eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014. In compliance with the CNB validation, the Group uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sales process, historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules, and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by the Group's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014.

The Group (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real 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 estates obtained as collaterals for corporate and retail loans and advances are independent from the Group's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts. In 2019, the Group started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2019, together with the principal activity involving real estate valuation, the Group focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

### Recovery of loans and advances from borrowers

The Group responded progressively to the changing legal environment and its influence on the collection of loans and advances and continued to improve the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2019, the Group continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

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

### Credit risk hedging instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Group may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2019, the Group was exposed to credit exposure of CZK 227,116 million (2018: CZK 198,929 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2019 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Group puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Group monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that a limit breach is triggered by the

deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

## **(B) Market risk**

### **Segmentation of the Group's financial operations**

For market risk management purposes, the Group's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

### **Products generating market risk in Market Book**

Products that are traded by the Group and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures, and futures on debt securities), government and corporate bonds, bills of exchange programmes, and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. The market risks associated with these derivatives (e.g. forex risk, interest risk, volatility risk, correlation risk) 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 (13) million as of 31 December 2019 (2018: CZK (33) million). The average VaR was CZK (30) million in 2019 (2018: CZK (22) 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. Actual results should not exceed VaR more frequently than on 1% of the days within a given period.

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate, and CO<sub>2</sub> allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Group complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

## Market risk in the Structural Book

The Group manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Group's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off, and adverse parallel shift of the market yield curve by 0.1% p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2019, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK 2 million (2018: CZK 9 million), the EUR sensitivity was CZK 13 million (2018: CZK (80) million), the USD sensitivity was CZK (1) million (2018: CZK 2 million), and for other currencies it was CZK (0.4) million (2018: CZK (0.2) million).

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

## (C) Financial derivatives

The Group operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

*Financial derivative instruments designated as held for trading are as follow:*

(CZKm)	31 Dec 2019 Nominal value		31 Dec 2018 Nominal value		31 Dec 2019 Fair value		31 Dec 2018 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>								
Interest rate swaps	1,036,587	1,036,587	951,131	951,131	8,349	9,086	7,669	8,201
Interest rate forwards and futures*	224,330	224,330	24,163	24,163	6	28	2	14
Interest rate options	82,428	82,428	40,772	40,772	372	372	122	122
<b>Total interest rate instruments</b>	<b>1,343,345</b>	<b>1,343,345</b>	<b>1,016,066</b>	<b>1,016,066</b>	<b>8,727</b>	<b>9,486</b>	<b>7,793</b>	<b>8,337</b>
<b>Foreign currency instruments</b>								
Currency swaps	363,710	363,726	365,194	365,141	2,645	2,665	1,511	1,471
Cross currency swaps	180,358	180,341	174,577	174,558	4,867	4,400	4,575	4,202
Currency forwards	106,418	108,979	112,795	114,368	406	1,416	954	921
Purchased options	50,723	50,272	66,963	66,780	1,119	0	1,418	0
Sold options	50,271	50,722	66,780	66,963	0	1,119	0	1,418
<b>Total currency instruments</b>	<b>751,480</b>	<b>754,040</b>	<b>786,309</b>	<b>787,810</b>	<b>9,037</b>	<b>9,600</b>	<b>8,458</b>	<b>8,012</b>
<b>Other instruments</b>								
Forwards on emission allowances	3,929	4,004	11,058	11,184	231	305	1,842	1,969
Commodity forwards	1,031	1,031	4,420	4,420	30	29	69	65
Commodity swaps	5,460	5,460	15,891	15,891	767	762	933	919
Purchased commodity options	6	6	377	377	0	0	26	0
Sold commodity options	6	6	377	377	0	0	0	26
<b>Total other instruments</b>	<b>10,432</b>	<b>10,507</b>	<b>32,123</b>	<b>32,249</b>	<b>1,028</b>	<b>1,096</b>	<b>2,870</b>	<b>2,979</b>
<b>Total</b>	<b>2,105,257</b>	<b>2,107,892</b>	<b>1,834,498</b>	<b>1,836,125</b>	<b>18,792</b>	<b>20,182</b>	<b>19,121</b>	<b>19,328</b>

\* 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 2019:

(CZK <sup>m</sup> )	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	206,344	513,135	317,108	1,036,587
Interest rate forwards and futures*	207,800	16,530	0	224,330
Interest rate options	5,937	23,059	53,432	82,428
<b>Total interest rate instruments</b>	<b>420,081</b>	<b>552,724</b>	<b>370,540</b>	<b>1,343,345</b>
<b>Foreign currency instruments</b>				
Currency swaps	355,690	8,020	0	363,710
Cross currency swaps	28,407	114,283	37,668	180,358
Currency forwards	76,853	29,489	76	106,418
Purchased options	22,556	28,167	0	50,723
Sold options	22,311	27,960	0	50,271
<b>Total currency instruments</b>	<b>505,817</b>	<b>207,919</b>	<b>37,744</b>	<b>751,480</b>
<b>Other instruments</b>				
Forwards on emission allowances	3,929	0	0	3,929
Commodity forwards	1,031	0	0	1,031
Commodity swaps	4,653	807	0	5,460
Purchased commodity options	6	0	0	6
Sold commodity options	6	0	0	6
<b>Total other instruments</b>	<b>9,625</b>	<b>807</b>	<b>0</b>	<b>10,432</b>
<b>Total</b>	<b>935,523</b>	<b>761,450</b>	<b>408,284</b>	<b>2,105,257</b>

\* 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 2018:

(CZK <sup>m</sup> )	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	164,464	508,639	278,028	951,131
Interest rate forwards and futures*	23,663	500	0	24,163
Interest rate options	663	26,115	13,994	40,772
<b>Total interest rate instruments</b>	<b>188,790</b>	<b>535,254</b>	<b>292,022</b>	<b>1,016,066</b>
<b>Foreign currency instruments</b>				
Currency swaps	355,782	9,412	0	365,194
Cross currency swaps	31,536	90,282	52,759	174,577
Currency forwards	73,270	39,548	(23)	112,795
Purchased options	26,235	40,728		66,963
Sold options	26,435	40,345		66,780
<b>Total currency instruments</b>	<b>513,258</b>	<b>220,315</b>	<b>52,736</b>	<b>786,309</b>
<b>Other instruments</b>				
Forwards on emission allowances	8,858	2,200	0	11,058
Commodity forwards	4,420	0	0	4,420
Commodity swaps	12,265	3,626	0	15,891
Purchased commodity options	371	6	0	377
Sold commodity options	371	6	0	377
<b>Total other instruments</b>	<b>26,285</b>	<b>5,838</b>	<b>0</b>	<b>32,123</b>
<b>Total</b>	<b>728,333</b>	<b>761,407</b>	<b>344,758</b>	<b>1,834,498</b>

\* 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:*

(CZKm)	31 Dec 2019 Nominal value		31 Dec 2018 Nominal value		31 Dec 2019 Fair value		31 Dec 2018 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Cross currency swaps for cash flows hedging	44,209	42,410	44,754	43,058	1,608	6	1,590	177
Forwards on stocks for cash flow hedging	53	53	53	54	1	0	1	0
Forwards on stocks for fair value hedging	27	27	0	0	0	2	0	0
Interest rate swaps for fair value hedging	1,043,866	1,043,866	910,922	910,923	8,004	10,061	10,538	9,277
Interest rate swaps for portfolio fair value hedging	36,350	36,350	37,100	37,100	383	214	430	215
<b>Total</b>	<b>1,124,505</b>	<b>1,122,706</b>	<b>992,829</b>	<b>991,135</b>	<b>9,996</b>	<b>10,283</b>	<b>12,559</b>	<b>9,669</b>

*Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2019:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	8,369	31,470	4,370	44,209
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	18	9	0	27
Interest rate swaps for fair value hedging	215,529	426,366	401,971	1,043,866
Interest rate swaps for portfolio fair value hedging	5,800	25,000	5,550	36,350
<b>Total</b>	<b>229,737</b>	<b>482,877</b>	<b>411,891</b>	<b>1,124,505</b>

*Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2018:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	11,559	29,396	3,799	44,754
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	0	0	0	0
Interest rate swaps for fair value hedging	103,329	422,717	384,876	910,922
Interest rate swaps for portfolio fair value hedging	3,150	29,200	4,750	37,100
<b>Total</b>	<b>118,059</b>	<b>481,345</b>	<b>393,425</b>	<b>992,829</b>

*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:*

(CZKm)	31 Dec 2019			31 Dec 2018		
	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	704	1,614	104	442	988	18

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 2019, the Group recorded the following hedges:*

1. Interest rate risk hedging:
  - a. The fair values of long-term loans provided and of investments into long-term government securities classified into the "Hold to collect contractual cash flows and sell" business model and investments into long-term securities classified into the "Hold to collect contractual cash flows" business model are hedged by interest rate swaps and cross currency swaps, respectively;
  - b. The fair values of issued long-term mortgage bonds classified into the 'Securities issued' portfolio are hedged by interest rate swaps;
  - c. The fair values of fixed rate deposits, loans taken, or repos are hedged by interest rate swaps;
  - d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
  - e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
  - f. The fair values of a portfolio of current and savings accounts from clients are hedged by a portfolio of interest rate swaps.



2. Foreign exchange risk hedging:
  - 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. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
  - b. The Group hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).
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 2019, the gain from ineffectiveness of hedging relationships was in the amount of CZK 1 million (2018: CZK 0 million).

Further information on hedges is provided in Notes 3, 5, and 7 to these Consolidated Financial Statements.

## **(D) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the 'Undefined' category.

The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	17,744	0	0	0	0	17,744
Financial assets and other assets at fair value through profit or loss	4,111	0	0	0	19,287	23,398
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	69	0	0	9,927	9,996
Financial assets at fair value through other comprehensive income	3,950	2,760	9,206	19,766	522	36,204
Financial assets at amortised cost	483,754	82,031	276,712	93,652	27,252	963,401
– Loans and advances to banks	240,811	1,922	1,451	114	263	244,561
– Loans and advances to customers	240,321	72,556	245,798	61,595	26,989	647,259
– Debt securities	2,622	7,553	29,463	31,943	0	71,581
Revaluation differences on portfolios hedge items	0	0	0	0	(374)	(374)
Current tax assets	0	0	0	0	30	30
Deferred tax assets	0	0	0	0	70	70
Prepayments, accrued income, and other assets	0	0	0	0	5,176	5,176
Investments in subsidiaries and associates	0	0	0	0	1,255	1,255
Intangible assets	0	0	0	0	6,018	6,018
Tangible assets	0	0	0	0	10,528	10,528
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	10	0	0	126	136
<b>Total assets</b>	<b>509,559</b>	<b>84,870</b>	<b>285,918</b>	<b>113,418</b>	<b>83,569</b>	<b>1,077,334</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	3,543	0	0	0	20,182	23,725
Negative fair values of hedging financial derivatives	0	0	0	0	10,283	10,283
Financial liabilities at amortised cost	136,990	27,057	38,322	8,055	711,301	921,725
– Amounts due to banks	58,234	7,491	7,215	3,979	16,662	93,581
– Amounts due to customers	76,778	18,456	28,743	2,891	694,639*	821,507
– Securities issued	1,802	819	1,000	0	0	3,621
– Lease liabilities	176	291	1,364	1,185	0	3,016
Revaluation differences on portfolios hedge items	0	0	0	0	(4,105)	(4,105)
Current tax liabilities	0	0	0	0	363	363
Deferred tax liabilities	0	0	0	0	840	840
Accruals and other liabilities	36	0	0	0	11,940	11,976
Provisions	0	0	0	0	1,345	1,345
Subordinated debt	2,546	0	0	0	0	2,546
<b>Total liabilities</b>	<b>143,116</b>	<b>27,057</b>	<b>38,322</b>	<b>8,055</b>	<b>752,149</b>	<b>968,699</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2019</b>	<b>366,443</b>	<b>57,813</b>	<b>247,596</b>	<b>105,363</b>	<b>(668,580)</b>	<b>108,635</b>
Nominal value of derivatives**	1,067,086	589,772	526,789	464,481	0	2,648,128
<b>Total off-balance sheet assets</b>	<b>1,067,086</b>	<b>589,772</b>	<b>526,789</b>	<b>464,481</b>	<b>0</b>	<b>2,648,128</b>
Nominal value of derivatives**	1,242,225	527,886	577,379	298,822	0	2,646,312
Undrawn portion of loans***	(7,916)	(10,446)	4,877	13,485	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>1,234,309</b>	<b>517,440</b>	<b>582,256</b>	<b>312,307</b>	<b>0</b>	<b>2,646,312</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2019</b>	<b>(167,223)</b>	<b>72,332</b>	<b>(55,467)</b>	<b>152,174</b>	<b>0</b>	<b>1,816</b>
<b>Cumulative interest rate gap as of 31 December 2019</b>	<b>199,220</b>	<b>329,365</b>	<b>521,494</b>	<b>779,031</b>	<b>110,451</b>	<b>x</b>

\* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	24,851	0	0	0	0	24,851
Financial assets and other assets at fair value through profit or loss	1,710	0	0	0	20,904	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	20	0	12,539	12,559
Financial assets at fair value through other comprehensive income	6,648	411	5,960	11,890	356	25,265
Financial assets at amortised cost	490,532	88,668	276,649	77,850	17,404	951,103
– Loans and advances to banks	252,847	1,414	1,507	114	386	256,268
– Loans and advances to customers	232,784	74,792	254,270	46,090	17,018	624,954
– Debt securities	4,901	12,462	20,872	31,646	0	69,881
Revaluation differences on portfolios hedge items	0	0	0	0	(372)	(372)
Current tax assets	0	2	0	0	57	59
Deferred tax assets	0	2	0	0	91	93
Prepayments, accrued income, and other assets	0	0	0	0	5,753	5,753
Investments in subsidiaries and associates	0	0	0	0	1,134	1,134
Intangible assets	0	0	0	0	5,249	5,249
Tangible assets	0	0	0	0	7,676	7,676
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	0	0	0	196	196
<b>Total assets</b>	<b>523,741</b>	<b>89,083</b>	<b>282,629</b>	<b>89,740</b>	<b>74,739</b>	<b>1,059,932</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,250	0	0	0	19,322	21,572
Negative fair values of hedging financial derivatives	0	0	0	0	9,669	9,669
Financial liabilities at amortised cost	143,020	37,270	33,380	4,486	689,105	907,261
– Amounts due to banks	57,958	15,500	4,373	0	14,439	92,270
– Amounts due to customers	84,244	21,048	28,007	4,486	674,666*	812,451
– Securities issued	818	722	1,000	0	0	2,540
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	0	0	0	0	(676)	(676)
Current tax liabilities	0	0	0	0	160	160
Deferred tax liabilities	0	0	0	0	765	765
Accruals and other liabilities	61	0	0	0	13,359	13,420
Provisions	0	0	0	0	1,853	1,853
Subordinated debt	2,578	0	0	0	0	2,578
<b>Total liabilities</b>	<b>147,910</b>	<b>37,270</b>	<b>33,380</b>	<b>4,486</b>	<b>733,557</b>	<b>956,603</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2018</b>						
	<b>375,831</b>	<b>51,813</b>	<b>249,249</b>	<b>85,254</b>	<b>(658,818)</b>	<b>103,329</b>
Nominal value of derivatives**	897,847	316,837	505,361	463,374	0	2,183,419
<b>Total off-balance sheet assets</b>	<b>897,847</b>	<b>316,837</b>	<b>505,361</b>	<b>463,374</b>	<b>0</b>	<b>2,183,419</b>
Nominal value of derivatives**	1,012,026	341,972	554,756	272,951	0	2,181,705
Undrawn portion of loans***	(8,504)	(10,780)	8,771	10,513	0	0
Undrawn portion of revolving loans***	(689)	689	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>1,002,833</b>	<b>331,881</b>	<b>563,527</b>	<b>283,464</b>	<b>0</b>	<b>2,181,705</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2018</b>	<b>(104,986)</b>	<b>(15,044)</b>	<b>(58,166)</b>	<b>179,910</b>	<b>0</b>	<b>1,714</b>
<b>Cumulative interest rate gap as of 31 December 2018</b>	<b>270,845</b>	<b>307,614</b>	<b>498,697</b>	<b>763,861</b>	<b>105,043</b>	<b>x</b>

\* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2019 and 2018 were as follow:

(%)	31 Dec 2019			31 Dec 2018		
	CZK	USD	EUR	CZK	USD	EUR
<b>Assets</b>						
Cash and current balances with central banks	0.24%	x	x	0.87%	x	x
Financial assets at fair value through other comprehensive income	1.99%	x	2.05%	2.12%	x	2.12%
Financial assets at amortised cost	2.51%	2.40%	1.01%	2.30%	2.99%	1.00%
– Loans and advances to banks	1.98%	2.14%	0.19%	1.73%	2.77%	0.23%
– Loans and advances to customers	2.74%	3.20%	1.50%	2.54%	3.76%	1.51%
– Debt securities	2.51%	3.39%	3.98%	2.81%	3.27%	4.03%
<b>Total assets</b>	<b>2.07%</b>	<b>1.92%</b>	<b>1.10%</b>	<b>1.84%</b>	<b>2.07%</b>	<b>1.11%</b>
<b>Total interest-earning assets</b>	<b>2.66%</b>	<b>2.40%</b>	<b>1.12%</b>	<b>2.29%</b>	<b>2.99%</b>	<b>1.12%</b>
<b>Liabilities</b>						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.38%	1.61%	0.05%	0.23%	1.20%	0.04%
– Amounts due to banks	0.04%	2.08%	0.09%	0.14%	2.73%	0.05%
– Amounts due to customers	0.28%	0.59%	0.02%	0.20%	0.66%	0.02%
– Securities issued	2.69%	x	x	2.93%	x	x
– Lease liabilities	1.76%	x	0.69%	N/A	N/A	N/A
Subordinated debt	x	x	0.84%	x	x	0.94%
<b>Total liabilities</b>	<b>0.37%</b>	<b>1.57%</b>	<b>0.05%</b>	<b>0.22%</b>	<b>1.14%</b>	<b>0.04%</b>
<b>Total interest-bearing liabilities</b>	<b>0.38%</b>	<b>1.61%</b>	<b>0.04%</b>	<b>0.23%</b>	<b>1.20%</b>	<b>0.04%</b>
<b>Off-balance sheet assets</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.86%	3.09%	0.41%	1.65%	3.17%	0.56%
Undrawn portion of loans	2.43%	x	1.68%	2.35%	x	1.61%
Undrawn portion of revolving loans	5.73%	2.97%	0.36%	5.65%	3.80%	0.20%
<b>Total off-balance sheet assets</b>	<b>1.96%</b>	<b>3.09%</b>	<b>0.41%</b>	<b>1.77%</b>	<b>3.17%</b>	<b>0.56%</b>
<b>Off-balance sheet liabilities</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.90%	3.00%	0.30%	1.63%	3.09%	0.47%
Undrawn portion of loans	2.43%	x	1.68%	2.35%	x	1.61%
Undrawn portion of revolving loans	5.73%	2.97%	0.36%	5.65%	3.80%	0.20%
<b>Total off-balance sheet liabilities</b>	<b>2.00%</b>	<b>2.99%</b>	<b>0.31%</b>	<b>1.75%</b>	<b>3.09%</b>	<b>0.46%</b>

Note: The table above sets out the average interest rates for December 2019 and 2018 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2019 from 1.75% to 2.00%. Czech crown money market rates (PRIBOR) increased by between 0.07% (12M) and 0.22% (1M). Interest rates swaps increased by between 0.09% (10Y) and 0.32% (2Y).

Euro money market rates decreased during 2019 by 0.07–0.12% (1–12M), and interest rate swaps decreased by from 0.11% (2Y) to as much as 0.55% (10Y).

Dollar money market rates decreased during 2019 by 0.77–1.01% (1–12M), and interest rate swaps decreased by from 0.81% (10Y) to as much as 0.96% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2019				31 Dec 2018			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
<b>Assets</b>								
Cash and current balances with central banks	3,419	2,619	11,706	17,744	4,000	17,917	2,934	24,851
Financial assets and other assets at fair value through profit or loss	3,362	749	19,287	23,398	3,159	89	19,366	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	69	0	9,927	9,996	20	0	12,539	12,559
Financial assets at fair value through other comprehensive income	33,670	2,012	522	36,204	22,865	2,043	357	25,265
Financial assets at amortised cost	508,005	450,773	4,623	963,401	481,470	464,712	4,921	951,103
– Loans and advances to banks	3,587	240,701	273	244,561	4,380	251,658	230	256,268
– Loans and advances to customers	432,837	210,072	4,350	647,259	407,209	213,054	4,691	624,954
– Debt securities	71,581	0	0	71,581	69,881	0	0	69,881
Revaluation differences on portfolios hedge items	0	0	(374)	(374)	0	0	(372)	(372)
<b>Liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	23,725	23,725	0	0	21,572	21,572
Negative fair values of hedging financial derivatives	0	0	10,283	10,283	0	0	9,669	9,669
Financial liabilities at amortised cost	110,356	808,808	2,561	921,725	113,366	791,825	2,070	907,261
– Amounts due to banks	46,920	46,219	442	93,581	54,395	37,669	206	92,270
– Amounts due to customers	59,379	760,009*	2,119	821,507	57,941	752,646*	1,864	812,451
– Securities issued	1,041	2,580	0	3,621	1,030	1,510	0	2,540
– Lease liabilities	3,016	0	0	3,016	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	0	0	(4,105)	(4,105)	0	0	(676)	(676)
Subordinated debt	0	2,546	0	2,546	0	2,578	0	2,578

\* This item 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 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.

(CZKmn)	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
<b>Assets</b>							
Cash and current balances with central banks	7,737	0	0	0	0	10,007	17,744
Financial assets and other assets at fair value through profit or loss	0	31	1,125	317	2,575	19,350	23,398
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	69	0	0	9,927	9,996
Financial assets at fair value through other comprehensive income	2,515	305	4,139	9,486	19,751	8	36,204
Financial assets at amortised cost	122,752	179,524	103,006	263,422	294,697	0	963,401
– Loans and advances to banks	111,211	127,643	3,149	2,409	149	0	244,561
– Loans and advances to customers	11,146	51,547	95,715	222,623	266,228	0	647,259
– Debt securities	395	334	4,142	38,390	28,320	0	71,581
Revaluation differences on portfolios hedge items	0	0	0	0	0	(374)	(374)
Current tax assets	14	0	0	3	0	13	30
Deferred tax assets	20	0	0	1	0	49	70
Prepayments, accrued income, and other assets	5	321	836	0	0	4,014	5,176
Investments in subsidiaries and associates	0	0	0	0	0	1,255	1,255
Intangible assets	0	0	0	0	0	6,018	6,018
Tangible assets	0	0	0	0	0	10,528	10,528
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	136	0	0	0	136
<b>Total assets</b>	<b>133,043</b>	<b>180,181</b>	<b>109,311</b>	<b>273,229</b>	<b>317,023</b>	<b>64,547</b>	<b>1,077,334</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	3,543	0	0	0	0	20,182	23,725
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,283	10,283
Financial liabilities at amortised cost	730,575	98,853	30,931	52,532	8,647	187	921,725
– Amounts due to banks	24,059	32,294	11,441	21,215	4,572	0	93,581
– Amounts due to customers	706,063	64,923	18,491	28,953	2,890	187	821,507
– Securities issued	375	1,538	708	1,000	0	0	3,621
– Lease liabilities	78	98	291	1,364	1,185	0	3,016
Revaluation differences on portfolios hedge items	(3,815)	0	0	0	0	(290)	(4,105)
Current tax liabilities	0	199	149	0	0	15	363
Deferred tax liabilities	202	0	0	0	0	638	840
Accruals and other liabilities	9,746	314	285	0	0	1,631	11,976
Provisions	66	163	540	0	0	576	1,345
Subordinated debt	0	0	0	0	2,546	0	2,546
Equity	0	0	0	0	0	108,635	108,635
<b>Total liabilities</b>	<b>740,318</b>	<b>99,529</b>	<b>31,905</b>	<b>52,532</b>	<b>11,193</b>	<b>141,857</b>	<b>1,077,334</b>
<b>Statement of Financial Position liquidity gap as of 31 Dec 2019</b>	<b>(607,275)</b>	<b>80,652</b>	<b>77,406</b>	<b>220,697</b>	<b>305,830</b>	<b>(77,310)</b>	<b>0</b>
Off-balance sheet assets*	162,899	260,059	150,675	182,689	41,998	0	798,320
Off-balance sheet liabilities*	339,109	260,471	150,647	181,659	41,920	0	973,806
<b>Net off-balance sheet liquidity gap as of 31 Dec 2019</b>	<b>(176,210)</b>	<b>(412)</b>	<b>28</b>	<b>1,030</b>	<b>78</b>	<b>0</b>	<b>(175,486)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.



(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	16,347	0	0	0	0	8,504	24,851
Financial assets and other assets at fair value through profit or loss	0	1	245	836	1,317	20,215	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	0	20	0	12,539	12,559
Financial assets at fair value through other comprehensive income	2,241	0	180	8,602	14,238	4	25,265
Financial assets at amortised cost	128,313	181,029	103,779	253,617	284,352	13	951,103
– Loans and advances to banks	112,303	130,484	2,701	7,072	3,695	13	256,268
– Loans and advances to customers	15,423	50,180	91,570	218,282	249,499	0	624,954
– Debt securities	587	365	9,508	28,263	31,158	0	69,881
Revaluation differences on portfolios hedge items	0	0	0	0	0	(372)	(372)
Current tax assets	0	0	26	2	0	31	59
Deferred tax assets	50	0	0	2	0	41	93
Prepayments, accrued income, and other assets	850	840	358	0	0	3,705	5,753
Investments in subsidiaries and associates	0	0	0	0	0	1,134	1,134
Intangible assets	0	0	0	0	0	5,249	5,249
Tangible assets	0	0	0	0	0	7,676	7,676
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	196	0	0	0	196
<b>Total assets</b>	<b>147,801</b>	<b>181,870</b>	<b>104,784</b>	<b>263,079</b>	<b>299,907</b>	<b>62,491</b>	<b>1,059,932</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	2,250	0	0	0	0	19,322	21,572
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,669	9,669
Financial liabilities at amortised cost	714,645	89,088	36,701	40,852	25,791	184	907,261
– Amounts due to banks	17,832	24,996	16,212	11,925	21,305	0	92,270
– Amounts due to customers	696,676	63,328	19,850	27,927	4,486	184	812,451
– Securities issued	137	764	639	1,000	0	0	2,540
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	(449)	0	0	0	0	(227)	(676)
Current tax liabilities	0	106	49	0	0	5	160
Deferred tax liabilities	0	0	0	0	0	765	765
Accruals and other liabilities	11,140	497	760	0	0	1,023	13,420
Provisions	1,122	0	0	0	0	731	1,853
Subordinated debt	0	0	0	0	2,578	0	2,578
Equity	0	0	0	0	0	103,329	103,329
<b>Total liabilities</b>	<b>728,709</b>	<b>89,691</b>	<b>37,510</b>	<b>40,852</b>	<b>28,369</b>	<b>134,801</b>	<b>1,059,932</b>
<b>Statement of Financial Position liquidity gap as of 31 Dec 2018</b>	<b>(580,908)</b>	<b>92,179</b>	<b>67,274</b>	<b>222,227</b>	<b>271,538</b>	<b>(72,310)</b>	<b>0</b>
Off-balance sheet assets*	57,943	288,240	180,520	249,710	56,535	0	832,948
Off-balance sheet liabilities*	226,365	288,416	180,513	249,546	56,377	0	1,001,217
<b>Net off-balance sheet liquidity gap as of 31 Dec 2018</b>	<b>(168,422)</b>	<b>(176)</b>	<b>7</b>	<b>164</b>	<b>158</b>	<b>0</b>	<b>(168,269)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2019:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	3,543	0	0	0	0	0	3,543
Financial liabilities at amortised cost	730,604	99,478	31,116	53,953	8,958	187	924,296
– Amounts due to banks	24,076	32,488	11,514	21,431	4,619	0	94,128
– Amounts due to customers	706,075	65,279	18,535	30,000	3,087	187	823,163
– Securities issued	375	1,600	742	1,028	0	0	3,745
– Lease liabilities	78	111	325	1,494	1,252	0	3,260
Current tax liabilities	0	199	149	0	0	15	363
Deferred tax liabilities	202	0	0	0	0	638	840
Accruals and other liabilities	9,746	314	285	0	0	1,631	11,976
Provisions	66	163	540	0	0	576	1,345
Subordinated debt	0	0	0	0	2,546	0	2,546
<b>Total non-derivative financial liabilities</b>	<b>744,162</b>	<b>100,154</b>	<b>32,090</b>	<b>53,953</b>	<b>11,504</b>	<b>3,047</b>	<b>944,910</b>
Other loans commitment granted	116,554	0	0	0	0	0	116,554
Guarantee commitments granted	58,172	0	0	0	0	0	58,172
<b>Total contingent liabilities</b>	<b>174,726</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>174,726</b>

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 2018:

(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
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	2,244	0	0	0	0	0	2,244
Financial liabilities at amortised cost	714,655	89,406	37,047	42,329	26,236	184	909,857
– Amounts due to banks	17,832	25,019	16,332	11,999	21,308	0	92,490
– Amounts due to customers	696,685	63,569	20,010	29,055	4,821	184	814,324
– Securities issued	138	818	705	1,275	107	0	3,043
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current tax liabilities	0	106	49	0	0	5	160
Deferred tax liabilities	0	0	0	0	0	765	765
Accruals and other liabilities	11,140	497	760	0	0	1,023	13,420
Provisions	1,122	0	0	0	0	731	1,853
Subordinated debt	0	0	0	0	2,578	0	2,578
<b>Total non-derivative financial liabilities</b>	<b>729,162</b>	<b>90,009</b>	<b>37,856</b>	<b>42,329</b>	<b>28,814</b>	<b>2,708</b>	<b>930,878</b>
Other loans commitment granted	115,743	0	0	0	0	0	115,743
Guarantee commitments granted	52,722	0	0	0	0	0	52,722
<b>Total contingent liabilities</b>	<b>168,465</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>168,465</b>

## (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
<b>Assets</b>					
Cash and current balances with central banks	15,491	1,660	255	338	17,744
Financial assets and other assets at fair value through profit or loss	18,025	5,313	59	1	23,398
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0
Positive fair values of hedging financial derivatives	8,169	1,652	175	0	9,996
Financial assets at fair value through other comprehensive income	16,842	18,849	513	0	36,204
Financial assets at amortised cost	786,326	165,934	9,499	1,642	963,401
– Loans and advances to banks	202,871	34,085	6,658	947	244,561
– Loans and advances to customers	512,293	131,437	2,834	695	647,259
– Debt securities	71,162	412	7	0	71,581
Revaluation differences on portfolios hedge items	(374)	0	0	0	(374)
Current tax assets	16	14	0	0	30
Deferred tax assets	48	22	0	0	70
Prepayments, accrued income, and other assets	4,379	734	61	2	5,176
Investments in subsidiaries and associates	1,255	0	0	0	1,255
Intangible assets	5,984	34	0	0	6,018
Tangible assets	10,471	57	0	0	10,528
Goodwill	3,752	0	0	0	3,752
Assets held for sale	136	0	0	0	136
<b>Total assets</b>	<b>870,520</b>	<b>194,269</b>	<b>10,562</b>	<b>1,983</b>	<b>1,077,334</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	18,918	4,762	44	1	23,725
Negative fair values of hedging financial derivatives	8,555	1,724	4	0	10,283
Financial liabilities at amortised cost	737,171	148,788	32,272	3,494	921,725
– Amounts due to banks	6,529	64,981	22,022	49	93,581
– Amounts due to customers	724,523	83,289	10,250	3,445	821,507
– Securities issued	3,621	0	0	0	3,621
– Lease liabilities	2,498	518	0	0	3,016
Revaluation differences on portfolios hedge items	(5,023)	971	(53)	0	(4,105)
Current tax liabilities	361	2	0	0	363
Deferred tax liabilities	840	0	0	0	840
Accruals and other liabilities	8,603	2,557	536	280	11,976
Provisions	950	311	20	64	1,345
Subordinated debt	0	2,546	0	0	2,546
Equity	108,509	126	0	0	108,635
<b>Total liabilities</b>	<b>878,885</b>	<b>161,787</b>	<b>32,823</b>	<b>3,839</b>	<b>1,077,334</b>
<b>Net FX position as of 31 December 2019</b>	<b>(8,365)</b>	<b>32,482</b>	<b>(22,261)</b>	<b>(1,856)</b>	<b>0</b>
Off-balance sheet assets*	2,135,265	932,508	142,396	22,225	3,232,394
Off-balance sheet liabilities*	2,128,113	964,663	119,970	20,487	3,233,233
<b>Net off-balance sheet FX position as of 31 December 2019</b>	<b>7,152</b>	<b>(32,155)</b>	<b>22,426</b>	<b>1,738</b>	<b>(839)</b>
<b>Total net FX position as of 31 December 2019</b>	<b>(1,213)</b>	<b>327</b>	<b>165</b>	<b>(118)</b>	<b>(839)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	22,691	1,672	238	250	24,851
Financial assets and other assets at fair value through profit or loss	18,911	3,381	318	4	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0
Positive fair values of hedging financial derivatives	11,043	1,454	62	0	12,559
Financial assets at fair value through other comprehensive income	5,408	19,507	350	0	25,265
Financial assets at amortised cost	779,396	156,286	13,670	1,751	951,103
– Loans and advances to banks	210,486	35,098	9,913	771	256,268
– Loans and advances to customers	499,492	120,736	3,746	980	624,954
– Debt securities	69,418	452	11	0	69,881
Revaluation differences on portfolios hedge items	(372)	0	0	0	(372)
Current tax assets	59	0	0	0	59
Deferred tax assets	72	21	0	0	93
Prepayments, accrued income, and other assets	4,084	1,542	21	106	5,753
Investments in subsidiaries and associates	1,134	0	0	0	1,134
Intangible assets	5,239	10	0	0	5,249
Tangible assets	7,672	4	0	0	7,676
Goodwill	3,752	0	0	0	3,752
Assets held for sale	196	0	0	0	196
<b>Total assets</b>	<b>859,285</b>	<b>183,877</b>	<b>14,659</b>	<b>2,111</b>	<b>1,059,932</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	18,144	3,167	257	4	21,572
Negative fair values of hedging financial derivatives	8,013	1,583	73	0	9,669
Financial liabilities at amortised cost	732,259	153,678	17,796	3,528	907,261
– Amounts due to banks	4,584	82,236	5,296	154	92,270
– Amounts due to customers	725,160	71,442	12,475	3,374	812,451
– Securities issued	2,515	0	25	0	2,540
– Lease liabilities	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	(1,288)	814	(202)	0	(676)
Current tax liabilities	140	20	0	0	160
Deferred tax liabilities	765	0	0	0	765
Accruals and other liabilities	10,107	2,574	549	190	13,420
Provisions	1,490	298	10	55	1,853
Subordinated debt	0	2,578	0	0	2,578
Equity	103,037	292	0	0	103,329
<b>Total liabilities</b>	<b>872,668</b>	<b>165,004</b>	<b>18,483</b>	<b>3,777</b>	<b>1,059,932</b>
<b>Net FX position as of 31 December 2018</b>	<b>(13,383)</b>	<b>18,873</b>	<b>(3,824)</b>	<b>(1,666)</b>	<b>0</b>
Off-balance sheet assets*	1,773,930	875,721	148,221	31,457	2,829,329
Off-balance sheet liabilities*	1,761,114	893,896	144,132	29,938	2,829,080
<b>Net off-balance sheet FX position as of 31 December 2018</b>	<b>12,816</b>	<b>(18,175)</b>	<b>4,089</b>	<b>1,519</b>	<b>249</b>
<b>Total net FX position as of 31 December 2018</b>	<b>(567)</b>	<b>698</b>	<b>265</b>	<b>(147)</b>	<b>249</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value 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 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 independently and on a continuous basis reviewed within a so-called second level of controls. The Group is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Group's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in four Group companies, of which two are banking entities (Komerční banka, a.s. and Modrá pyramida stavební spořitelna, a.s.) and two non-banking entities (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.).

## **(H) Legal risk**

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

## **(I) Estimated fair value of assets and liabilities of the Group**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

### **(a) Cash and current balances with central banks**

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

### **(b) Financial assets at amortised cost**

#### **Loans and advances to banks**

The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

#### **Loans and advances to customers**

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

#### **Debt securities**

The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the 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 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:*

(CZKm)	31 Dec 2019		31 Dec 2018	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	17,744	17,744	24,851	24,851
Financial assets at amortised cost	963,401	969,302	951,103	951,518
– Loans and advances to banks	244,561	244,417	256,268	256,169
– Loans and advances to customers	647,259	651,828	624,954	624,334
– Debt securities	71,581	73,057	69,881	71,015
<b>Financial liabilities</b>				
Amounts due to central banks	1	1	1	1
Financial liabilities at amortised cost	921,725	921,386	907,261	906,850
– Amounts due to banks	93,581	93,558	92,270	92,197
– Amounts due to customers	821,507	821,502	812,451	812,446
– Securities issued	3,621	3,310	2,540	2,207
– Lease liabilities	3,016	3,016	N/A	N/A
Subordinated debt	2,546	2,546	2,578	2,578

*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:*

(CZKm)	31 Dec 2019				31 Dec 2018			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Cash and current balances with central banks	17,744	10,007	0	7,737	24,851	8,504	0	16,347
Financial assets at amortised cost	969,302	69,294	3,423	896,585	951,518	66,940	3,600	880,978
– Loans and advances to banks	244,417	0	0	244,417	256,169	0	0	256,169
– Loans and advances to customers	651,828	0	0	651,828	624,334	0	0	624,334
– Debt securities	73,057	69,294	3,423	340	71,015	66,940	3,600	475
<b>Financial liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at amortised cost	921,386	0	0	921,386	906,850	0	0	906,850
– Amounts due to banks	93,558	0	0	93,558	92,197	0	0	92,197
– Amounts due to customers	821,502	0	0	821,502	812,446	0	0	812,446
– Securities issued	3,310	0	0	3,310	2,207	0	0	2,207
– Lease liabilities	3,016	0	0	3,016	N/A	N/A	N/A	N/A
Subordinated debt	2,546	0	0	2,546	2,578	0	0	2,578



## (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 2019	Level 1	Level 2	Level 3	31 Dec 2018	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>								
<b>Financial assets at fair value through profit or loss</b>	<b>22,904</b>	<b>4,114</b>	<b>18,790</b>	<b>0</b>	<b>22,369</b>	<b>4,837</b>	<b>17,532</b>	<b>0</b>
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	4,112	3,883	229	0	3,248	2,995	253	0
– Derivatives	18,792	231	18,561	0	19,121	1,842	17,279	0
<b>Other assets at fair value through profit or loss</b>	<b>494</b>	<b>494</b>	<b>0</b>	<b>0</b>	<b>245</b>	<b>245</b>	<b>0</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>9,996</b>	<b>0</b>	<b>9,996</b>	<b>0</b>	<b>12,559</b>	<b>0</b>	<b>12,559</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>36,204</b>	<b>33,902</b>	<b>1,780</b>	<b>522</b>	<b>25,265</b>	<b>23,101</b>	<b>1,808</b>	<b>356</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(374)</b>	<b>0</b>	<b>(374)</b>	<b>0</b>	<b>(372)</b>	<b>0</b>	<b>(372)</b>	<b>0</b>
<b>Financial assets at fair value</b>	<b>69,224</b>	<b>38,510</b>	<b>30,192</b>	<b>522</b>	<b>60,066</b>	<b>28,183</b>	<b>31,527</b>	<b>356</b>
<b>FINANCIAL LIABILITIES</b>								
<b>Financial liabilities at fair value through profit or loss</b>	<b>23,725</b>	<b>3,848</b>	<b>19,877</b>	<b>0</b>	<b>21,572</b>	<b>4,212</b>	<b>17,360</b>	<b>0</b>
of which:								
– Sold securities	3,543	3,543	0	0	2,244	2,244	0	0
– Derivatives	20,182	305	19,877	0	19,328	1,968	17,360	0
<b>Negative fair value of hedging financial derivatives</b>	<b>10,283</b>	<b>0</b>	<b>10,283</b>	<b>0</b>	<b>9,669</b>	<b>0</b>	<b>9,669</b>	<b>0</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(4,105)</b>	<b>0</b>	<b>(4,105)</b>	<b>0</b>	<b>(676)</b>	<b>0</b>	<b>(676)</b>	<b>0</b>
<b>Financial liabilities at fair value</b>	<b>29,903</b>	<b>3,848</b>	<b>26,055</b>	<b>0</b>	<b>30,565</b>	<b>4,212</b>	<b>26,353</b>	<b>0</b>

Financial assets at fair value – Level 3:

	2019		2018	
(CZKm)	Financial assets at FVOCI option	Total	Financial assets at FVOCI option	Total
<b>Balance as of 1 January</b>	<b>356</b>	<b>356</b>	<b>240</b>	<b>240</b>
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	163	163	101	101
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	3	3	15	15
<b>Balance as of 31 December</b>	<b>522</b>	<b>522</b>	<b>356</b>	<b>356</b>

### 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 2019:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,756	1,968	28,788	19,011	3,630	6,147
Negative fair value of derivatives	32,433	1,968	30,465	19,011	10,435	1,019

\* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2018:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	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	33,707	2,026	31,681	21,566	5,332	4,783
Negative fair value of derivatives	31,023	2,026	28,997	21,566	6,889	542

\* 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:

(CZKm)	31 Dec 2019		31 Dec 2018	
	Cash	Securities	Cash	Securities
Assets in custody	3,410	505,645	3,789	494,486
Assets in custody of KB Penzijní společnost, a.s.	0	63,774	0	58,892
Assets under management	0	3,248	0	3,039

## 46 Post balance sheet events

No significant event occurred after the balance sheet date.

# Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2019

## Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2019

### Separate Statement of Income for the year ended 31 December 2019

(CZKm)	Note	2019	Restated*
Interest income	5	40,173	30,071
Interest expense	5	(19,623)	(10,377)
<b>Net interest income</b>		<b>20,550</b>	<b>19,694</b>
Net fee and commission income	6	5,313	5,390
Net profit/(loss) on financial operations	7	2,802	3,181
Dividend income	8	1,688	2,127
Other income	9	246	315
<b>Net operating income</b>		<b>30,599</b>	<b>30,707</b>
Personnel expenses	10	(6,882)	(6,962)
General and administrative expenses	11	(4,313)	(4,587)
Depreciation, amortisation, and impairment of operating assets	12	(2,233)	(1,606)
<b>Total operating expenses</b>		<b>(13,428)</b>	<b>(13,155)</b>
<b>Operating profit</b>		<b>17,171</b>	<b>17,552</b>
Impairment losses	13	226	408
Net gain from loans and advances transferred and written off	13	499	121
<b>Cost of risk</b>		<b>725</b>	<b>529</b>
Profit/(loss) on subsidiaries and associates	14	55	229
Net profits on other assets	15	16	(14)
<b>Profit before income tax</b>		<b>17,967</b>	<b>18,296</b>
Income tax	16	(3,151)	(3,058)
<b>Net profit for the period</b>	17	<b>14,816</b>	<b>15,238</b>

\* More information regarding changes in reporting is presented in Note 3.6.3.

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 2019

(CZKm)	Note	2019	2018
<b>Net profit for the period</b>	17	<b>14,816</b>	<b>15,238</b>
<b>Items that will not be reclassified to the Statement of Income</b>			
Remeasurement of retirement benefits plan, net of tax	37	(83)	22
Revaluation of equity securities at FVOCI option*, net of tax	38	129	78
<b>Items that may be reclassified subsequently to the Statement of Income</b>			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	39	511	(45)
– Transfer to net profit/(loss), net of tax	39	(534)	(156)
Hedge of a foreign net investment	39	8	(240)
Foreign exchange difference on translation of a foreign net investment		(2)	0
Revaluation of debt securities at FVOCI**, net of tax	40	225	(359)
<b>Other comprehensive income for the period, net of tax</b>		<b>254</b>	<b>(700)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>15,070</b>	<b>14,538</b>

\* 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 2019

(CZKm)	Note	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>			
Cash and current balances with central banks	18	16,870	22,504
Financial assets at fair value through profit or loss	19	23,569	23,035
Other assets at fair value through profit or loss	19	494	245
Positive fair value of hedging financial derivatives	41	9,544	12,108
Financial assets at fair value through other comprehensive income	20	34,599	23,576
Financial assets at amortised cost	21	891,913	888,623
Current tax assets		13	0
Deferred tax assets	31	20	19
Prepayments, accrued income, and other assets	22	3,525	4,027
Investments in subsidiaries and associates	23	17,747	17,798
Intangible assets	24	5,494	4,737
Tangible assets	25	7,613	4,690
Assets held for sale	26	118	142
<b>Total assets</b>		<b>1,011,519</b>	<b>1,001,504</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	24,390	22,239
Negative fair value of hedging financial derivatives	41	10,069	9,454
Financial liabilities at amortised cost	28	868,278	861,745
Revaluation differences on portfolios hedge items		(3,815)	(449)
Current tax liabilities		199	106
Deferred tax liabilities	31	266	24
Accruals and other liabilities	29	10,076	11,269
Provisions	30	1,291	1,816
Subordinated debt	32	2,546	2,578
<b>Total liabilities</b>		<b>913,301</b>	<b>908,783</b>
Share capital	33	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		79,213	73,716
<b>Total equity</b>		<b>98,218</b>	<b>92,721</b>
<b>Total liabilities and equity</b>		<b>1,011,519</b>	<b>1,001,504</b>

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

## Separate Statement of Changes in Equity for the year ended 31 December 2019

(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
<b>Balance as of 1 Jan 2018</b>	<b>19,005</b>	<b>(592)</b>	<b>66,964</b>	<b>400</b>	<b>(154)</b>	<b>77</b>	<b>179</b>	<b>309</b>	<b>(5)</b>	<b>821</b>	<b>87,004</b>
Treasury shares, other	0	0	81	30	0	0	0	0	0	0	111
Payment of dividends	0	0	(8,932)	0	0	0	0	0	0	0	(8,932)
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>(8,851)</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,821)</b>
Profit for the period	0	0	15,238	0	0	0	0	0	0	0	15,238
Other comprehensive income for the period, net of tax	0	0	0	0	22	78	(201)	(240)	0	(359)	(700)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>15,238</b>	<b>0</b>	<b>22</b>	<b>78</b>	<b>(201)</b>	<b>(240)</b>	<b>0</b>	<b>(359)</b>	<b>14,538</b>
<b>Balance as of 31 Dec 2018</b>	<b>19,005</b>	<b>(592)</b>	<b>73,351</b>	<b>430</b>	<b>(132)</b>	<b>155</b>	<b>(22)</b>	<b>69</b>	<b>(5)</b>	<b>462</b>	<b>92,721</b>
Treasury shares, other	0	0	95	25	0	0	0	0	0	0	120
Payment of dividends	0	0	(9,693)	0	0	0	0	0	0	0	(9,693)
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>(9,598)</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,573)</b>
Profit for the period	0	0	14,816	0	0	0	0	0	0	0	14,816
Other comprehensive income for the period, net of tax	0	0	0	0	(83)	129	(23)	8	(2)	225	254
<b>Comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>14,816</b>	<b>0</b>	<b>(83)</b>	<b>129</b>	<b>(23)</b>	<b>8</b>	<b>(2)</b>	<b>225</b>	<b>15,070</b>
<b>Balance as of 31 Dec 2019</b>	<b>19,005</b>	<b>(592)</b>	<b>78,569</b>	<b>455</b>	<b>(215)</b>	<b>284</b>	<b>(45)</b>	<b>77</b>	<b>(7)</b>	<b>687</b>	<b>98,218</b>

\* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,189 million (2018: CZK 4,189 million), net profit from the period in the amount of CZK 14,816 million (2018: CZK 15,238 million), and retained earnings in the amount of CZK 59,564 million (2018: CZK 53,924 million).

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



## Separate Statement of Cash Flows for the year ended 31 December 2019

	Restated*	
(CZKm)	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	17,967	18,296
Non-cash and other adjustments:		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	49	(287)
Depreciation and amortisation expense on tangible and intangible fixed assets	2,226	1,627
Gains/(losses) from the sale of assets	(16)	14
Revaluation of debt securities and derivatives	1,350	(927)
Accrued interest, amortisation of discount and premium	564	39
Profit/(loss) on subsidiaries and associates (including dividends)	(1,743)	(2,356)
Foreign exchange differences	183	223
Other changes	16	620
<b>Operating profit before change in operating assets and liabilities</b>	<b>20,596</b>	<b>17,249</b>
<b>Changes in assets and liabilities from operating activities after non-cash adjustments:</b>		
Amounts due from banks (received/paid)	11,512	(38,193)
Loans and advances to customers	(15,104)	(22,525)
Debt securities at amortised cost	(723)	(1,244)
Financial assets at fair value through other comprehensive income	(10,973)	(1,395)
Financial assets and other assets at fair value through profit and loss	(1,108)	(860)
Other assets	507	(172)
Amounts due to banks (received/paid)	(4,432)	11,095
Amounts due to customers	7,370	52,438
Financial liabilities at fair value through profit and loss	1,299	571
Other liabilities	(1,047)	(5,756)
<b>Net cash flow from operating assets and liabilities</b>	<b>(12,699)</b>	<b>(6,041)</b>
<b>Net cash flow from operating activities before tax</b>	<b>7,897</b>	<b>11,208</b>
Income tax paid	(2,888)	(2,952)
<b>Net cash flow from operating activities</b>	<b>5,009</b>	<b>8,256</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Dividends received	1,688	2,126
Purchase of tangible and intangible assets	(2,547)	(2,200)
Sale of tangible and intangible assets	85	101
Purchase of investments in subsidiaries and associates	(130)	(175)
Sale/decrease of investments in subsidiaries and associates	235	2,526
<b>Net cash flow from investment activities</b>	<b>(669)</b>	<b>2,378</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(9,599)	(8,851)
Securities issued	1,068	0
Securities redeemed	(3,400)	(5,009)
Lease liabilities	(541)	N/A
Subordinated debt	(33)	14
<b>Net cash flow from financing activities</b>	<b>(12,505)</b>	<b>(13,846)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(8,165)</b>	<b>(3,212)</b>

(CZKm)	Restated*	
	2019	2018
Cash and cash equivalents at the beginning of the year	20,809	23,976
Net increase/(decrease) in cash and cash equivalents	(8,165)	(3,212)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(78)	45
<b>Cash and cash equivalents at the end of the year</b> (refer to Note 34)	<b>12,566</b>	<b>20,809</b>
Interest received	41,058	30,383
Interest paid	(19,944)	(10,650)

\* More information regarding changes in reporting is presented in Note 3.6.3.

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

These Separate Financial Statements were approved by the Board of Directors on 11 March 2020.

Signed on behalf of the Board of Directors:



**Jan Juchelka**  
Chairman of the Board of Directors and Chief Executive Officer



**Vladimír Jeřábek**  
Member of the Board of Directors

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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% (2018: 60.35%) of the Bank's issued share capital.

## 2 Events for the year ended 31 December 2019

### Dividends declared in respect of the year ended 31 December 2018

At the General Meeting held on 24 April 2019 the shareholders approved a dividend for the year ended 31 December 2018 of CZK 51 per share before tax. The dividend was declared in the aggregate amount of CZK 9,693 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

### Changes in the Bank's financial group

As of 7 January 2019, KB SmartSolutions, s.r.o. was established as a wholly owned subsidiary of the Bank. The share capital of the company was CZK 100,000 after establishment. During 2019, the Bank increased the equity of the company by CZK 48 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

As of 8 January 2019, My Smart Living, s.r.o. was established as a wholly owned subsidiary of KB SmartSolutions, s.r.o. The share capital of My Smart Living, s.r.o. was CZK 100,000 after establishment. During 2019, KB SmartSolutions, s.r.o. increased the equity of the company by CZK 33 million through a financial contribution into other capital funds. My Smart Living, s.r.o. is currently not consolidated due to its insignificant impact on the financial statements.

Regarding fulfilment of conditions of a share sale agreement in relation to Komerční pojišťovna, a.s. in 2005, financial settlement with Sogecap S.A. was reached during the second quarter of 2019. The Bank received a one-off financial settlement of CZK 55 million.

As of 26 June 2019, Cataps, s.r.o., in which the Bank holds a 1% share, changed its company name to Worldline Czech Republic s.r.o.

As of 29 July 2019, the Bank decided to decrease the share capital of the company VN 42, s.r.o. by CZK 180 million. The capital decrease was effected in December 2019.

As of 16 September 2019, KB Advisory, s. r. o. was established as a wholly owned subsidiary of KB SmartSolutions, s.r.o. The share capital of KB Advisory, s. r. o. was CZK 100,000 after establishment. During 2019, KB SmartSolutions, s.r.o. increased the equity of the company by CZK 1 million through a financial contribution into other capital funds. KB Advisory, s. r. o. is currently not consolidated due to its insignificant impact on the financial statements.

As of 18 December 2019, the Bank increased the shareholder's equity of Bastion European Investments S.A. by EUR 3.2 million (equivalent to CZK 81 million). The increase was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

### 3 Principal accounting policies

These are Separate Financial Statements. The Consolidated Financial Statements are issued as of the same date. As of 31 December 2019, the total consolidated equity was CZK 108,635 million (2018: CZK 103,329 million) and for the year ended 31 December 2019 total consolidated profit was CZK 15,172 million (2018: CZK 15,171 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 2019.

The Separate Financial Statements presented for the year ended 31 December 2019 are prepared on the basis of current best estimates. The management of the Bank believes that these present a true and fair view of the Bank’s financial results and financial position using all relevant and available information as of the financial statements date.

#### 3.2 Underlying assumptions of the Separate Financial Statements

##### 3.2.1 Accrual basis

The Separate Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate).

An exception is the Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

##### 3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

##### 3.2.3 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

#### 3.3 Basis of preparation

##### 3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only “CZK”), which constitute the Bank’s presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

##### 3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives, and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just prior to reclassification into ‘Assets held for sale’.

### 3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Bank's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date, and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets (refer to Note 3.5.10);
- The amount of impairment of assets (refer to Note 3.5.10);
- Provisions recognised under liabilities (refer to Note 3.5.11);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.8);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current, and prospective data (refer to Note 3.5.5); and
- Lease term for leases of 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 material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

### 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. 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 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 2019. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

#### IFRS 16 Leases

The most significant change made to the accounting policies arises from the application of the new standard IFRS 16 Leases as from 1 January 2019, superseding the previous standard IAS 17 Leases and related interpretations.



Standard	Impact/Comments
IFRS 16 Leases – new standard	<p>The new standard, superseding IAS 17 Leases and related interpretations, establishes principles for the recognition, measurement, presentation, and disclosure of leases for both the lessee and the lessor.</p> <p>From the lessee's point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.</p> <p>Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. Finance lease receivable (net investment in the lease) and operating lease receivable are subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.</p> <p><b>The Bank implemented IFRS 16 Leases with an initial application date of 1 January 2019. As a result, the accounting policies applicable to leases and the related disclosures have been amended as from 1 January 2019. The notes below reflect the new requirements.</b></p> <p><b>The impacts of the first-time application of IFRS 16 are presented in Note 3.6.1.</b></p>
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	<p>The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation.</p> <p>The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.</p>
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that IFRS 9 Financial Instruments (including impairment requirements) shall be applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment, or settlement occurs. Companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
Annual Improvements to IFRS 2015–2017 Cycle	Annual Improvements amend four standards (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs) in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.

### 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 2019 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 with the exception of the amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform, where the Bank decided to early-apply the amendments in its 31 December 2019 financial statements.

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
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments whether a transaction should be accounted for as a business combination or as an asset acquisition.	1 January 2020 EU not yet endorsed
Definition of Material (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.	1 January 2020

Standard	Summarised content	Effective for reporting period beginning on or after
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The amendments address the pre-replacement issues (Phase 1), i.e. issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative one. Accordingly, some specific hedge accounting requirements are modified to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. This applies for both financial instruments standards: the new one IFRS 9 and the old one IAS 39. Consequently, the amendments to IFRS 7 Financial Instruments: Disclosures require companies to provide additional information about their hedging relationships directly affected by these uncertainties.  As a next step of the project, the replacement issues (Phase 2) are currently being considered and discussed by IASB, i.e. issues that might affect financial reporting when an existing interest rate benchmark is actually reformed or replaced.	1 January 2020
Conceptual Framework for Financial Reporting  Amendments to References to the Conceptual Framework in IFRS Standards	The IASB issued a revised <i>Conceptual Framework for Financial Reporting</i> that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework will have to apply the changes from 1 January 2020.  Alongside the revised Conceptual Framework, the IASB published <i>Amendments to References to the Conceptual Framework</i> effective for reporting periods beginning on or after 1 January 2020, updating in most cases references to previous versions with references to the 2018 revised version.	1 January 2020*
IFRS 17 Insurance Contracts – new standard	The new Standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts and 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 2021 (to be extended to 1 January 2022)  EU not yet endorsed
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.	1 January 2022 EU not yet endorsed

\* Only Amendments to References to the Conceptual Framework in IFRS Standards are subject to the EU endorsement process.

### 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 on 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 3rd party products (such as insurance and investment products where the Bank is acting as an agent while not taking over control of the products provided and therefore net approach for revenues reporting), and specialised financial services fees - income from these 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/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/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 maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

### **3.5.4 Fair value and hierarchy of fair value**

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1*: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2*: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3*: inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

### 3.5.5 Financial instruments

#### 3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending on 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 fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

### 3.5.5.4 Financial assets and liabilities classification and subsequent measurement

The classification of the Bank's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Bank are after initial recognition subsequently measured at:

- I. Amortised costs;
- II. Fair value through other comprehensive income; or
- III. Fair value through profit or loss.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Bank uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

#### 3.5.5.4.1 Loans and debt instruments

Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based on 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 at a level at which the financial assets are jointly managed to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument, but reflects the way a 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.

The financial assets that fall into the business model “Hold to collect contractual cash flows” include: (i) all loans and advances; (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards, all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

**(ii) “Hold to collect contractual cash flows and sell” business model**

Loans and debt instruments that fall into the business model “Hold to collect contractual cash flows and sell” are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Bank’s everyday liquidity needs. The Bank expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets.

As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Bank expects greater frequency and value of sales.

Selling financial assets is not an incidental activity, but an integral part of achieving the business model’s objective. There is no threshold for the frequency or value of sales that must occur in this business model, however, as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model “Hold to collect contractual cash flows and sell” include: (i) all EUR-denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards, all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Bank’s internal rules.

**(iii) “Held for trading” business model**

Loans and debt instruments that fall into the business model “Held for trading” are held with the objective of realising cash flows through the sale of those assets. The Bank makes decisions based on the assets’ fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model “Held for trading” include all other loans and debt instruments that are not part of the business model “Hold to collect contractual cash flows” or “Hold to collect contractual cash flows and sell”.

Contractual cash flows characteristics test

Based on the 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 particularly consists of consideration for the time value of money and credit risk, or 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 maturity amount) 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 the 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'*, except for 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 the 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 the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Bank classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses as well as realised gains or losses arising from the revaluation of these financial assets, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised.

#### **3.5.5.4.2 Equity instruments**

Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for using 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 the 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 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 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, 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 41(C).

#### 3.5.5.4.4 *Financial liabilities*

The Bank classifies financial liabilities into the categories “Financial liabilities at amortised costs” and “Financial liabilities 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 at fair value through profit or loss’*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *‘Net profit/(loss) on financial operations’*.

All other financial liabilities are subsequently after 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 according to 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 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 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:

- Quoted prices for similar assets or liabilities in active markets;
- 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.);
- Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
- 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 the 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 the 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. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

#### **3.5.5.9 Modification of financial assets**

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Bank assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of renegotiation 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 it and, where necessary, 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, 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;
- Debt instruments 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 on 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 the absolute criteria, such as days past due and the client's rating.

#### Significant increase in credit risk

At each reporting date, the Bank assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Bank uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after restructuring a loan.

#### Credit-impaired financial assets

The Bank recognises financial assets as credit-impaired when one or more events occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data about 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;
- 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") to the extent of:

- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date) – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Bank recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Bank reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.



#### Basis for estimating expected losses

Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Bank considers reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Bank assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Bank applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

#### Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial assets are accounted for differently because the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

#### Write-off of financial assets

The Bank applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon individual assessment of the client 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-off. 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 or financial liabilities 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 the 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 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 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 amount 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 that 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

#### 3.5.9.1 Leases under IFRS 16, policy applicable from 1 January 2019

##### The Bank as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease (as lessee) and the sublease (as lessor) as two separate contracts. The sublease is classified as 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, as from 1 January 2019, the accounting for leases from the lessee's point of view ceases to distinguish between finance leases and operating leases. The standard newly provides a single on-balance sheet accounting model 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 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 the 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. When 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.

The Bank as a lessee recognised in the Statement of Financial Position as of 31 December 2019 right-of-use assets within *'Tangible assets'* in the amount of CZK 3,067 million and lease liabilities within *'Financial liabilities at amortised cost'* in the amount of CZK 3,086 million. Related expenses for the year ended 31 December 2019 recognised in the Statement of Income include a depreciation charge for the right-of-use assets in the amount of CZK 498 million and interest expense on the lease liabilities in the amount of CZK 51 million. For detailed quantitative disclosures, refer to Notes 5, 11, 12, 15, 21, 25, 28, 36, 41(D), 41(E), 41(F), and 41(I). The impacts of the first-time application of IFRS 16 are specified in Note 3.6.1.

#### 3.5.9.2 Leases under IAS 17, policy applicable before 1 January 2019

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.

##### The Bank as lessor

###### *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 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 term of the lease, 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

###### *Operating leases*

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *'General and administrative expenses'*. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

###### *Finance leases*

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own assets presented in the same line as the leased asset. If the legal ownership of the asset held under a finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as *'Interest expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

#### 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:*

	2019	2018
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings, and equipment	6	6
Vehicles	5/6	5/6
ATMs	10	10
Selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Right-of-use assets (leases)	According to the lease term	N/A
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licenses – software	5	5
Other intangible assets	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic, or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, amortisation, and impairment of operating assets*'.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

### 3.5.11 Provisions

The Bank recognises provisions for contracted commitments (principally comprising the provisions for ongoing contracted potential commitments, legal disputes, self-insurance, and the retirement benefits plan) and for restructuring.

Provisions are recognised when and only when:

- The Bank has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

A provision for restructuring is recognised when the Bank has approved a detailed, formal plan for restructuring and the restructuring has either commenced or the main features of the restructuring plan have been announced to those affected before the end of the reporting period. The restructuring provision shall include only the direct expenditures arising from the restructuring which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The Bank also recognises provisions for credit-related commitments into which the Bank enters in the normal course of business. These credit-related commitments do not meet the criteria for recognition in the Statement of Financial Position and are recorded in the off-balance sheet. These commitments primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. The provisions represent impairment based on expected losses from any potential financial liabilities arising from these credit-related commitments. Provisions for credit-related commitments are created on the same basis as are loss allowances for financial assets.

### 3.5.12 Employee benefits

#### 3.5.12.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension, but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line '*Provisions*'. The changes in provisions are disaggregated into three components that are presented as follows:

- I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line '*Personnel expenses*';
- II. The interest expense on the net benefit liability is presented in the line '*Personnel expenses*'; and
- III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions on an accrual basis in the line '*Personnel expenses*' (refer to Note 10).

The Bank has the following share plans and deferred compensation schemes:

#### 3.5.12.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Bank implemented a new compensation scheme for employees whose professional activities have a material impact on the Bank's risk profile. For employees identified in accordance with the CRD III regulation, 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 3 years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Bank's net investment banking operating income be higher than zero.



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 Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of shares granted and it is spread over the vesting period.

The amounts of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention 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, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Bank's employees are recognised in the Bank's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines '*Personnel expenses*' and '*Share premium, funds, retained earnings, revaluation, and net profit for the period*' under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the '*Personnel expenses*' from the start of the plan are then adjusted accordingly.

## **3.5.13 Share capital**

### ***Dividends on ordinary shares***

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

### ***Treasury shares***

When the Bank acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line '*Share premium, funds, retained earnings, revaluation, and net profit for the period*' under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line '*Share premium, funds, retained earnings, revaluation, and net profit for the period*'.

## **3.5.14 Contingent assets, contingent liabilities, and off-balance sheet items**

In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions through which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Bank's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options, and futures. More information regarding derivative operations is presented in Note 3.5.5.4.3 Derivatives and hedge accounting.

### 3.5.15 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:

- *Retail Banking*: includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans, and mortgages);
- *Corporate Banking*: includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking*: involves trading in financial instruments; and
- *Other*: consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Bank nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

### 3.5.16 Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate, and foreign currency positions.

## 3.6 Changes in accounting policies

### 3.6.1 First-time application of IFRS 16 Leases

As of 1 January 2019, the Bank has applied the new standard IFRS 16 Leases as endorsed by the European Commission in October 2017, superseding the current standard IAS 17 and related interpretations. In compliance with the transitional provisions of IFRS 16, the Bank elected the modified retrospective approach, i.e. without restatement of comparative information. Consequently, the accounting principles applicable to leases and the related disclosures presented in the Notes to the Separate Financial Statements have been amended as from 1 January 2019. Refer to Note 3.5.9.1 for accounting principles and for quantitative information to Notes 5, 11, 12, 15, 21, 25, 28, 36, 41(D), 41(E), 41(F), and 41(I).

#### Accounting treatment under IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard newly requires lessees to account for leases under a single on-balance sheet model, an approach applicable for almost all leases with the optional exceptions for short-term leases and leases of low-value items. The lessee is required to recognise in the statement of financial position a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its obligation to make lease payments. In its statement of income, the lessee is required to separately recognise the depreciation charge of the right-of-use asset and interest expense on the lease liability.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. A lessor continues to classify leases as operating or finance leases using similar principles as in IAS 17. Therefore, the Bank was not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for subleases. Under IFRS 16, the lessor is required to assess the classification of a sublease with reference to the right-of-use asset, not by reference to the underlying asset as was the case under IAS 17. Because of this change, the Bank has reclassified certain of its sublease contracts as finance leases.

#### Transition requirements and impacts of the first-time application

The Bank applied IFRS 16 using the modified retrospective approach, i.e. without restatement of comparative information. At transition to IFRS 16, for leases previously classified as operating leases, the Bank measured lease liabilities at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019, and right-of-use assets at an amount equal to the lease liabilities. When initially applying IFRS 16, the Bank made use of some of the practical expedients that the standard allows for leases previously classified as operating leases, in particular the application of a single discount rate to a portfolio of leases with reasonably similar characteristics, the application of the exemption not to recognise lease liabilities and right-of-use assets to leases for which the underlying asset is of low value, and use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The most significant changes from the lessee's point of view arise in respect of leases previously classified as operating leases under IAS 17, where in the context of implementing IFRS 16 the Bank recognised as of 1 January 2019 right-of-use assets within '*Tangible assets*' in the amount of CZK 2,922 million and similarly lease liabilities within '*Financial liabilities at amortised cost*' in the amount of CZK 2,926 million. The corresponding weighted-average lessee's incremental borrowing rate as of 1 January 2019 was 1.7%. The first-time application of IFRS 16 had no impact on the amount of the Group shareholders' equity. The vast majority of lease contracts relates to leases of office buildings and branches. The Bank uses the option allowed by the standard not to apply the requirements of IFRS 16 to intangible assets.

#### Impacts on the Statement of Financial Position balances as of 1 January 2019

(CZKm)	IAS 17 as of 31 December 2018	IFRS 16 first time application impacts	IFRS 16 as of 1 January 2019
<b>Financial assets at amortised cost</b>	<b>888,623</b>	<b>64</b>	<b>888,687</b>
– Loans and advances to banks	270,281	–	270,281
– Loans and advances to customers	553,888	64	553,952
– Debt securities	64,454	–	64,454
<b>Tangible assets</b>	<b>4,690</b>	<b>2,779</b>	<b>7,469</b>
– Land	95	–	95
– Buildings	2,999	–	2,999
– Fittings, fixtures, and other	1,139	(143)	996
– Tangible assets under construction	457	–	457
– Right-of-use assets	N/A	2,922	2,922
<b>Financial liabilities at amortised costs</b>	<b>861,745</b>	<b>2,926</b>	<b>864,671</b>
– Amounts due to banks	76,365	–	76,365
– Amounts due to customers	755,039	–	755,039
– Securities issued	30,341	–	30,341
– Lease liabilities	–	2,926	2,926
<b>Other liabilities and accruals</b>	<b>11,269</b>	<b>(83)</b>	<b>11,186</b>
– Accruals and deferred income	130	–	130
– Other liabilities	11,139	(83)	11,056
<b>Total impact on assets</b>	<b>–</b>	<b>2,843</b>	<b>–</b>
<b>Total impact on liabilities</b>	<b>–</b>	<b>2,843</b>	<b>–</b>

### 3.6.2 Amendments to IFRS 9, IAS 39 and IFRS 7 in the context of the interest rate benchmark reform

In the context of the financial crisis, the inaccuracy and lack of integrity of interest rate benchmarks (EONIA, EURIBOR, LIBOR, etc.) made it necessary to reform their method of determination.

Within the European Union, regulation 2016/1011 (known as the “BMR regulation”) was adopted to implement the principles and recommendations of IOSCO and FSB by creating, as of 1 January 2018, a uniform legal framework regarding the provision of benchmarks. As part of the implementation of this regulation, the administrators of PRIBOR, EONIA, EURIBOR, and LIBOR were required to review and, if necessary, to modify the methodologies used for these indexes in order to make them compliant with the new BMR provisions.

As a result of international and European regulatory development, several reforms have been initiated to set up and promote use of new risk-free overnight rates, termed “risk-free rates” (RFRs), whose determination will now be anchored on actual transactions. These include the €STR (Euro Short-Term Rate) for contracts denominated in EUR, SOFR (Secured Overnight Financing Rate) for contracts denominated in USD, SONIA (Sterling Overnight Index Average) for contracts denominated in GBP, and others.

The development in the local currency, the Czech crown, can be summarised as consisting of improvements in the PRIBOR contribution methodology and process while the risk-free rate concept remains under discussion. The PRIBOR administrator, the Czech Financial Benchmark Facility (CFBF), was officially licensed by the CNB in December 2018.

Since 2 October 2019, €STR has come to replace EONIA. The latter will nevertheless be published until 31 December 2021 by anchoring it upon €STR ( $EONIA = €STR + 8.5 \text{ bps}$ ). The reform of EURIBOR was started in December 2018, and this index was declared compliant with BMR regulation on 3 July 2019. The EURIBOR quotation should continue for at least 5 years. The new SOFR and SONIA benchmarks, intended to replace the LIBOR benchmarks, have been published since 2018, but the publication of LIBOR will continue at least until 2021.

The Bank has been monitoring developments in the IBOR reform of interest rate benchmarks in order to anticipate the consequences of transition to the new interest rate benchmarks. The work undertaken aims, on one hand, to limit exposure to the current interbank interest rate benchmarks that might be discontinued in the short to medium term and, on the other hand, to prepare migration of the portfolio of legacy transactions characterised by these current interest rates benchmarks and which will mature after 2021.

Uncertainties about the timing and precise methods of transition between the current benchmarks and the new benchmarks, as well as modifications which could be made to the financial instruments referencing the current benchmarks, may have consequences for accounting treatment related to hedge accounting and to modifications applied to these instruments (following the application of replacement contractual clauses – “fallback” clauses – or following a renegotiation of the contract).

With the aim to limit these accounting consequences, the IASB published in September 2019 amendments to IFRS 9, IAS 39 and IFRS 7 to prevent uncertainties existing before the transition to the new rates from jeopardising the hedge accounting applied for hedging interest rate risk. These amendments introduce reliefs related especially to the compliance with the highly probable nature of the cash flows covered; the compliance with the separately identifiable nature of risk components; and the carrying out of prospective and retrospective effectiveness tests. These reliefs will be applicable until the mentioned uncertainties are eliminated, that is to say until the clauses of those financial instruments concerned are effectively modified.

These amendments were adopted by the European Union on 15 January 2020 and can be early-applied from 2019. The Bank decided to early-apply the amendments in its 31 December 2019 financial statements and to use the reliefs provided for hedging relationships affected by the uncertainties at that date, including those linked to the EONIA, EURIBOR, and LIBOR (USD, GBP, CHF, JPY) benchmarks.

IASB is currently studying additional amendments that could be made to the accounting treatment of the contractual modifications that will be made to financial instruments as part of the IBOR reform (replacement of the interest rate benchmark, introduction of new fallback clauses). An exposure draft is expected to be issued at the end of the second quarter of 2020.

The notional amounts of hedging instruments for which the IAS 39 amendment is applied, thus permitting to use exceptions to the hedge accounting requirement in the context of benchmark interest rates reform, are CZK 0 million for instruments identifying EONIA, CZK 179,626 million for instruments identifying EURIBOR, and CZK 19,771 million for instrument identifying LIBOR USD.

### 3.6.3 Other changes in accounting policies

As of 1 January 2019, the Bank has changed the reporting of commitment fees – newly recognised in the line ‘Interest income’, previously in the line ‘Net fee and commission income’. This reclassification is without any impact on total ‘Net profit for the period’.

(CZKm)	Reported 2018	Restated 2018
Interest income	29,876	30,071
Net fee and commission income	5,585	5,390

## 4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total
(CZKm)	2019	2018	2019	2018	2019	2018	2019	2018	2018
Net interest income	13,052	11,426	6,157	5,729	986	598	355	1,746	20,550
Net fee and commission income	3,566	3,730	1,799	1,932	(115)	(199)	63	122	5,313
Net profit/(loss) on financial operations	1,297	1,173	1,708	1,691	(458)	105	255	212	2,802
Dividend income	0	0	0	0	0	0	1,688	2,127	1,688
Other income	170	185	(34)	(14)	242	339	(132)	(195)	246
<b>Net operating income</b>	<b>18,085</b>	<b>16,514</b>	<b>9,630</b>	<b>9,338</b>	<b>655</b>	<b>843</b>	<b>2,229</b>	<b>4,012</b>	<b>30,599</b>

From 1 January 2019, the Bank modified its method of allocating internal interest expense between segments and reflected changes in accounting policies. Comparative information was restated in accordance with the reporting of the current period.

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 allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily – nearly 99% (2018: more than 98%) – generated on the territory of the Czech Republic.

## 5 Net interest income

*Net interest income comprises the following:*

(CZKm)	2019	2018
Interest income	40,173	30,071
Interest expense	(19,623)	(10,377)
<b>Net interest income</b>	<b>20,550</b>	<b>19,694</b>
Of which net interest income from:		
– Loans and advances at amortised cost	21,524	17,348
– Debt securities at amortised cost	1,538	1,667
– Other debt securities	571	428
– Financial liabilities at amortised cost	(4,120)	(2,336)
– Hedging financial derivatives – income	16,540	10,628
– Hedging financial derivatives – expense	(15,503)	(8,041)

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 278 million (2018: CZK 231 million).

In both 2019 and 2018, 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 sublease of right-of-use assets in the amount of CZK 1 million (2018: N/A). 'Interest expense' includes interest expense on lease liabilities in the amount of CZK 51 million (2018: N/A).

## 6 Net fee and commission income

*Net fee and commission income comprises the following:*

(CZKm)	2019	2018
Deposit product fee and commission income	767	727
Loan fee and commission income	538	560
Transaction fee and commission income	2,834	2,963
Cross-selling fee income	833	857
Specialised financial services fee and commission income	955	810
Other fee and commission income	153	193
<b>Total fee and commission income</b>	<b>6,080</b>	<b>6,110</b>
Deposit product fee and commission expense	(120)	(112)
Loan fee and commission expense	(78)	(78)
Transaction fee and commission expense	(430)	(384)
Cross-selling fee expense	(12)	(13)
Specialised financial services fee and commission expense	(110)	(114)
Other fee and commission expense	(17)	(19)
<b>Total fee and commission expenses</b>	<b>(767)</b>	<b>(720)</b>
<b>Total net fee and commission income</b>	<b>5,313</b>	<b>5,390</b>

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 168 million (2018: CZK 182 million) and fee expense for these services in the amount of CZK 32 million (2018: CZK 35 million).

## 7 Net profit/(loss) on financial operations

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

(CZKm)	2019	2018
Net realised gains/(losses) on securities held for trading*	221	1,974
Net unrealised gains/(losses) on securities held for trading*	(31)	(109)
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	8	6
Net realised and unrealised gains/(losses) on security derivatives**	1	(1,775)
Net realised and unrealised gains/(losses) on interest rate derivatives	(101)	(102)
Net realised and unrealised gains/(losses) on trading commodity derivatives	12	30
Net realised and unrealised gains/(losses) on foreign exchange operations	1,818	2,348
Net realised gains/(losses) on foreign exchange from payments	874	809
<b>Total net profit/(loss) on financial operations</b>	<b>2,802</b>	<b>3,181</b>

\* This line also includes trading with emission allowances.

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

A loss of CZK (3,188) million (2018: gain of CZK 507 million) on the fair value of interest rate swaps for interest rate risk hedging is included in 'Net realised and unrealised gains/(losses) on interest rate derivatives'. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos, and issued mortgage bonds reported in the same line.

## 8 Dividend income

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,685 million (2018: CZK 2,124 million) and from equity instruments held in the 'Financial assets at fair value through other comprehensive income' portfolio of CZK 3 million (2018: CZK 3 million). Income from hedging financial derivatives used to hedge cash flows from foreign exchange risk for dividends from subsidiaries and associates was CZK 0 million (2018: CZK 8 million).



## 9 Other income

The Bank reports 'Other income' in the amount of CZK 246 million (2018: CZK 315 million). In both 2019 and 2018, 'Other income' was predominantly composed of income from services provided to the Group's companies and the Société Générale Group entities as well as property rental income.

## 10 Personnel expenses

*Personnel expenses comprise the following:*

(CZKm)	2019	2018
Wages, salaries, and bonuses	4,926	5,030
Social costs	1,956	1,932
<b>Total personnel expenses</b>	<b>6,882</b>	<b>6,962</b>
Physical number of employees at the end of the period*	7,340	7,481
Average recalculated number of employees during the period*	7,210	7,458
<b>Average cost per employee (CZK)</b>	<b>954,508</b>	<b>933,494</b>

\* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 97 million (2018: CZK 77 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 39 million (2018: CZK 43 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net income of CZK 105 million (2018: net expense of CZK 189 million) due to decrease of provisions for restructuring created in relation to the transformation project "KB Change". These provisions were utilised in the amount of CZK 105 million (2018: CZK 34 million) and charged in the amount of CZK 0 million (2018: CZK 223 million). Further information is presented in Note 30.

### Indexed bonuses

In 2019, the total amount relating to bonuses indexed on the Komerční banka share price recognised in 'Personnel expenses' was CZK 40 million (2018: CZK 42 million) and the total amount of CZK 81 million (2018: CZK 60 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 4 million (2018: CZK 0 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 137,090 shares (2018: 109,224 shares).

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

(in shares)	2019	2018
<b>Balance as of 1 January</b>	<b>109,224</b>	<b>97,167</b>
Paid out during the period	(22,746)	(42,641)
Presumed number of newly guaranteed shares	50,612	54,698
<b>Balance as of 31 December</b>	<b>137,090</b>	<b>109,224</b>

### Free and deferred share plans

For 2019, the total amount relating to the free shares programme and deferred share plans recognised in 'Personnel expenses' was CZK 23 million (2018: CZK 31 million).

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

	2019		2018	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
<b>Balance as of 1 January</b>	<b>101,430</b>	<b>35.61</b>	<b>104,067</b>	<b>35.38</b>
Granted during the year	45,196	21.4	23,601	39.18
Forfeited during the year	(3,096)	35.61	(2,972)	35.38
Exercised during the year	(56,064)	35.61	(23,266)	35.38
<b>Balance as of 31 December</b>	<b>87,466</b>	<b>30.74</b>	<b>101,430</b>	<b>35.61</b>

## 11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2019	2018
Insurance	63	64
Marketing and representation	464	496
Selling and banking products expenses	291	277
Other employees expenses and travelling	114	130
Real estate expenses*	777	1,223
IT support	1,060	869
Equipment and supplies	110	188
Telecommunications, postage, and data transfer	175	184
External consultancy and other services	390	239
Resolution and similar funds	828	808
Other expenses	41	109
<b>Total general and administrative expenses</b>	<b>4,313</b>	<b>4,587</b>

\* Decrease in Real estate expenses relates to IFRS 16 adoption.

'General administrative expenses' include net income of CZK 12 million (2018: net expense of CZK 41 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 0 million (2018: CZK 71 million) and used in the amount of CZK 12 million (2018: CZK 30 million). Further information is presented in Note 30.

'General administrative expenses' include the expenses related to leases for which the exemptions from IFRS 16 were applied and variable lease payment expenses not included in the lease liabilities.

Lease payment expenses were as follows:

	2019				2018			
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	172	0	12	184	N/A	N/A	N/A	N/A
Low-value assets	0	26	0	26	N/A	N/A	N/A	N/A
Variable lease payment expenses	0	0	0	0	N/A	N/A	N/A	N/A

## 12 Depreciation, amortisation, and impairment of operating assets

Depreciation, amortisation, and impairment of operating assets comprise the following:

(CZKm)	2019	2018
Tangible and intangible assets depreciation and amortisation (refer to Notes 24 and 25)	2,226	1,627
Impairment of operating assets	7	(21)
<b>Total depreciation, amortisation, and impairment of operating assets</b>	<b>2,233</b>	<b>1,606</b>

The net gain from 'Impairment of operating assets' mainly includes a net gain from impairment reversal on internal projects (SW) and hardware.

Depreciation of right-of-use assets according to the underlying asset:

(CZKm)	2019	2018
Real estate	480	N/A
Hardware	0	N/A
Other	18	N/A
<b>Total depreciation of right-of-use assets</b>	<b>498</b>	<b>N/A</b>

## 13 Cost of risk

The net gain in 'Cost of risk' totalling CZK 725 million (2018: CZK 529 million) includes a net gain from allowances and provisions in the amount of CZK 226 million (2018: CZK 408 million) and a net gain from loans and advances transferred and written off in the amount of CZK 499 million (2018: CZK 121 million).

*The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2019 were as follow:*

(CZKm)	As of 1 Jan 2019	Increase due to origin	Decrease due to derecognition	Change of credit risk (net)	Change of estima- tion (net)	Decrease due to write off	Other	As of 31 Dec 2019
Allowances for financial assets (Stage 1)	(598)	(326)	226	11	81	0	(1)	(607)
– Debt securities	(9)	0	0	3	0	0	0	(6)
– Loans and advances	(589)	(326)	226	8	81	0	(1)	(601)
Allowances for financial assets (Stage 2)	(986)	0	101	(181)	112	0	4	(950)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(986)	0	101	(181)	112	0	4	(950)
Allowances for financial assets (Stage 3)	(8,281)	0	2,121	(1,155)	(29)	874	10	(6,460)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(8,281)	0	2,121	(1,155)	(29)	874	10	(6,460)
<b>Total allowances for financial assets</b> (refer to Notes 21 and 40)	<b>(9,865)</b>	<b>(326)</b>	<b>2,448</b>	<b>(1,325)</b>	<b>164</b>	<b>874</b>	<b>13</b>	<b>(8,017)</b>
Provisions for guarantees and other credit-related commitments (Stage 1)	(99)	(93)	238	(157)	10	0	(7)	(108)
Provisions for guarantees and other credit-related commitments (Stage 2)	(77)	0	135	(128)	(2)	0	5	(67)
Provisions for guarantees and other credit-related commitments (Stage 3)	(946)	0	830	(322)	(1)	0	5	(434)
<b>Total provisions for guarantees and other</b> <b>credit-related commitments</b> (refer to Note 30)	<b>(1,122)</b>	<b>(93)</b>	<b>1,203</b>	<b>(607)</b>	<b>7</b>	<b>0</b>	<b>3</b>	<b>(609)</b>

*The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2018 were as follow:*

(CZKm)	As of 1 Jan 2018	Increase due to origin	Decrease due to derecognition	Change of credit risk (net)	Change of estima- tion (net)	Decrease due to write off	Other	As of 31 Dec 2018
Allowances for financial assets (Stage 1)	(865)	(411)	309	141	128	0	101	(597)
– Debt securities	(14)	0	0	6	0	0	0	(8)
– Loans and advances	(851)	(411)	309	135	128	0	101	(589)
Allowances for financial assets (Stage 2)	(865)	0	45	45	(162)	0	(49)	(986)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(865)	0	45	45	(162)	0	(49)	(986)
Allowances for financial assets (Stage 3)	(9,224)	0	932	(197)	145	130	(67)	(8,281)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(9,224)	0	932	(197)	145	130	(67)	(8,281)
<b>Total allowances for financial assets</b> (refer to Notes 21 and 40)	<b>(10,954)</b>	<b>(411)</b>	<b>1,286</b>	<b>(11)</b>	<b>111</b>	<b>130</b>	<b>(15)</b>	<b>(9,864)</b>
Provisions for guarantees and other credit-related commitments (Stage 1)	(136)	(130)	316	(172)	23	0	0	(99)
Provisions for guarantees and other credit-related commitments (Stage 2)	(74)	0	98	(89)	(12)	0	0	(77)
Provisions for guarantees and other credit-related commitments (Stage 3)	(1,206)	0	442	(180)	0	0	(2)	(946)
<b>Total provisions for guarantees and other</b> <b>credit-related commitments</b> (refer to Note 30)	<b>(1,416)</b>	<b>(130)</b>	<b>856</b>	<b>(441)</b>	<b>11</b>	<b>0</b>	<b>(2)</b>	<b>(1,122)</b>

## 14 Profit/(loss) on subsidiaries and associates

Regarding fulfilment of conditions of a share sale agreement in relation to Komerční pojišťovna, a.s. in 2005, financial settlement with Sogecap S.A. was finalised during the second quarter of 2019. The Bank received a one-off financial settlement of CZK 55 million.

In February 2018, the Bank sold a 19% stake in the company Worldline Czech Republic s.r.o., thereby reducing its ownership from 20% to 1%.

## 15 Net profits on other assets

*Net profits on other assets comprise the following:*

(CZKm)	2019	2018
Net profits/(losses) from sale of buildings	11	11
Net profits/(losses) from impairment on assets held for sale	16	(13)
Net profits/(losses) from sale-and-lease-back transactions	(1)	0
Net profits/(losses) from sale/disposal of other assets	(10)	(12)
<b>Total net profits on other assets</b>	<b>16</b>	<b>(14)</b>

## 16 Income tax

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

(CZKm)	2019	2018
Tax payable – current year, reported in profit or loss	(3,031)	(2,881)
Tax paid – prior year	62	41
Deferred tax (refer to Note 31)	(182)	(218)
<b>Total income tax</b>	<b>(3,151)</b>	<b>(3,058)</b>

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

(CZKm)	2019	2018
<b>Profit before income tax</b>	<b>17,967</b>	<b>18,296</b>
Theoretical tax calculated at a tax rate of 19% (2018: 19%)	3,414	3,476
Tax on pre-tax profit adjustments	15	33
Non-taxable income (tax effect)	(1,298)	(1,530)
Expenses not deductible for tax purposes (tax effect)	895	897
Tax allowance	(3)	(3)
Movement in deferred tax	182	218
Other	8	8
<b>Income tax expense</b>	<b>3,213</b>	<b>3,099</b>
Prior period tax expense	(62)	(41)
<b>Total income tax</b>	<b>3,151</b>	<b>3,058</b>
Effective tax rate	17.53%	16.72%

Non-taxable income primarily includes dividends, tax-exempt interest income, and 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 2019 is 19% (2018: 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 that it is probable that the relevant authority will accept each tax treatment that the Bank used or plans to use in its income tax filling.

Further information about deferred tax is presented in Note 31.

## 17 Distribution of net profit

For the year ended 31 December 2019, the Bank generated a net profit of CZK 14,816 million (2018: CZK 15,238 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 58 per share (2018: CZK 51 per share), which means a total amount of CZK 11,023 million (2018: CZK 9,693 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 24 April 2019, the aggregate balance of the net profit of CZK 15,238 million for the year ended 31 December 2018 was allocated as follows: CZK 9,693 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

## 18 Cash and current balances with central banks

*Cash and current balances with central banks comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Cash and cash values	10,007	8,504
Current balances with central banks	6,863	14,000
<b>Total cash and current balances with central banks</b> (refer to Note 34)	<b>16,870</b>	<b>22,504</b>

Obligatory minimum reserves in the amount of CZK 1,746 million (2018: CZK 8,763 million) are included in 'Current balances with central banks' and they bear interest. As of 31 December 2019, the interest rate was 2.00% (2018: 1.75%) in the Czech Republic and 0.00% (2018: 0.00%) in the Slovak Republic.

## 19 Financial assets and other assets at fair value through profit or loss

*Financial assets and other assets at fair value through profit or loss comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Trading equity securities	0	0
Trading debt securities	4,112	3,248
Trading derivatives	19,457	19,787
<b>Total financial assets at fair value through profit or loss</b>	<b>23,569</b>	<b>23,035</b>
Emission allowances	494	245
<b>Total other assets at fair value through profit or loss</b>	<b>494</b>	<b>245</b>

As of 31 December 2019 and 2018, the 'Financial assets 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 at fair value through profit or loss'.

For detailed information on 'Trading debt securities', allocated by sector and currency, refer to Note 41(A).

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 41(C).

As of 31 December 2019, the portfolio of trading securities included securities at fair value of CZK 3,963 million (2018: CZK 3,085 million) that are publicly traded on stock exchanges and securities at fair value of CZK 149 million (2018: CZK 163 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

'Trading debt securities' include securities used as collateral for borrowing securities at fair value of CZK 2,947 million (2018: CZK 0 million).

'Trading debt securities' include securities eligible for refinancing with central banks at fair value of CZK 936 million (2018: CZK 2,995 million).

## 20 Financial assets at fair value through other comprehensive income

*Financial assets at fair value through other comprehensive income comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Equity instruments at FVOCI option	514	351
Debt securities at FVOCI	34,085	23,225
<b>Total financial assets at fair value through other comprehensive income</b>	<b>34,599</b>	<b>23,576</b>

For detailed information on 'Debt securities', allocated by sector and currency, refer to Note 41(A).

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included securities at fair value of CZK 34,599 million (2018: CZK 23,576 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 34,085 million (2018: CZK 23,225 million).

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included bonds at fair value of CZK 897 million (2018: CZK 1,224 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2019, the 'Financial assets at fair value through other comprehensive income' portfolio included bonds at fair value of CZK 1,369 million (2018: CZK 1,092 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 related broker.

## 21 Financial assets at amortised cost

*Financial assets at amortised cost comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Loans and advances to banks	259,681	270,281
Loans and advances to customers	567,805	553,888
Debt securities	64,427	64,454
<b>Total financial assets at amortised cost</b>	<b>891,913</b>	<b>888,623</b>

For detailed information on 'Debt securities', allocated by sector and currency, refer to Note 41(A).

As of 31 December 2019, the 'Financial assets at amortised cost' portfolio includes debt securities in the amount of CZK 64,087 million (2018: CZK 63,979 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 340 million (2018: CZK 475 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 60,584 million (2018: CZK 60,334 million).



As of 31 December 2019, '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	198,738	0	0	198,738	0	0	0	0	198,738
General governments	19,083	1,392	14	20,489	(9)	(1)	(12)	(22)	20,467
Credit institutions	60,271	650	23	60,944	0	(1)	0	(1)	60,943
Other financial corporations	64,981	303	59	65,343	(26)	(1)	(24)	(51)	65,292
Non-financial corporations	201,331	13,687	6,585	221,603	(407)	(462)	(3,874)	(4,743)	216,860
Households*	252,720	11,526	4,134	268,380	(159)	(485)	(2,550)	(3,194)	265,186
<b>Total loans</b>	<b>797,124</b>	<b>27,558</b>	<b>10,815</b>	<b>835,497</b>	<b>(601)</b>	<b>(950)</b>	<b>(6,460)</b>	<b>(8,011)</b>	<b>827,486</b>
Central banks	0	0	0	0	0	0	0	0	0
General governments	61,327	0	0	61,327	(4)	0	0	(4)	61,323
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,754	0	0	2,754	0	0	0	0	2,754
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>64,431</b>	<b>0</b>	<b>0</b>	<b>64,431</b>	<b>(4)</b>	<b>0</b>	<b>0</b>	<b>(4)</b>	<b>64,427</b>

\* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2018, '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	204,776	0	0	204,776	0	0	0	0	204,776
General governments	21,081	519	342	21,942	(14)	(1)	(33)	(48)	21,894
Credit institutions	64,548	889	71	65,508	(1)	(1)	0	(2)	65,506
Other financial corporations	63,835	344	49	64,228	(29)	0	(8)	(37)	64,191
Non-financial corporations	195,813	10,454	8,481	214,748	(339)	(341)	(5,224)	(5,904)	208,844
Households*	245,000	12,952	4,871	262,823	(206)	(643)	(3,016)	(3,865)	258,958
<b>Total loans</b>	<b>795,053</b>	<b>25,158</b>	<b>13,814</b>	<b>834,025</b>	<b>(589)</b>	<b>(986)</b>	<b>(8,281)</b>	<b>(9,856)</b>	<b>824,169</b>
Central banks	0	0	0	0	0	0	0	0	0
General governments	61,121	0	0	61,121	(6)	0	0	(6)	61,115
Credit institutions	100	0	0	100	0	0	0	0	100
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,889	0	0	2,889	0	0	0	0	2,889
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>64,460</b>	<b>0</b>	<b>0</b>	<b>64,460</b>	<b>(6)</b>	<b>0</b>	<b>0</b>	<b>(6)</b>	<b>64,454</b>

\* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2019, the transfers between Stages were as follow:

(CZKm)	Gross carrying value					
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	211	60	0	261	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	225	0	0	33	0	0
Non-financial corporations	5,968	1,170	996	94	510	10
Households*	5,432	5,161	623	358	386	54
<b>Total loans</b>	<b>11,836</b>	<b>6,391</b>	<b>1,619</b>	<b>746</b>	<b>896</b>	<b>64</b>
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
<b>Total debt securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total guarantees and other credit-related commitments</b>	<b>2,989</b>	<b>912</b>	<b>225</b>	<b>24</b>	<b>120</b>	<b>5</b>

\* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2018, 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	502	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	343	0	0	0	1	0
Non-financial corporations	6,889	768	378	67	1,236	46
Households*	8,152	2,282	539	383	607	52
<b>Total loans</b>	<b>15,886</b>	<b>3,051</b>	<b>917</b>	<b>450</b>	<b>1,844</b>	<b>98</b>
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
<b>Total debt securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total guarantees and other credit-related commitments</b>	<b>3,123</b>	<b>1,660</b>	<b>161</b>	<b>51</b>	<b>191</b>	<b>16</b>

\* This item also includes loans granted to individual entrepreneurs.

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

(CZKm)	31 Dec 2019	31 Dec 2018
Agriculture, forestry, and fishing	10,263	9,352
Mining and quarrying	2,742	3,673
Manufacturing	54,704	55,632
Electricity, gas, steam, and air conditioning supply	14,153	14,792
Water supply, sewerage, waste management, and remediation activities	1,550	1,828
Construction	7,509	7,403
Wholesale and retail trade, repair of motor vehicles and motorcycles	38,336	40,038
Transportation and storage	6,938	8,743
Accommodation and food service activities	1,743	1,278
Information and communication	5,536	6,256
Real estate activities	49,744	45,335
Professional, scientific, and technical activities	6,314	4,829
Administrative and support service activities	6,155	5,829
Public administration and defence, compulsory social security	25	2
Education	515	209
Human health and social work activities	1,788	1,424
Arts, entertainment, and recreation	4,072	3,882
Other service activities	9,516	4,243
<b>Total loans and advances to non-financial corporations</b>	<b>221,603</b>	<b>214,748</b>

Exposure to the automotive industry and related suppliers is CZK 14,875 million (2018: CZK 15,489 million).

The majority of loans – more than 92% (2018: more than 91%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2019, loans and advances to customers included accrued interest of CZK 1,033 million (2018: CZK 757 million), of which CZK 235 million (2018: CZK 234 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 198,738 million (2018: CZK 207,905 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 2019	31 Dec 2018
Treasury bills	195,563	201,516
Debt securities issued by state institutions	0	2,496
Emission allowances	0	784
Investment certificates	0	0
<b>Total</b>	<b>195,563</b>	<b>204,796</b>

As of 31 December 2019, loans provided to customers under reverse repurchase transactions in the amount of CZK 2,001 million (2018: CZK 2,008 million) are collateralised by securities with a fair value of CZK 4,040 million (2018: CZK 4,051 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 2019:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
<b>Loans and advances to customers</b>	<b>208,144</b>	<b>29,747</b>	<b>1,396</b>	<b>19,163</b>	<b>26,927</b>
of which:					
– Other financial corporations	28	1,332	0	3,406	9,048
– Non-financial corporations	2,447	24,718	1,146	15,233	12,783
– Households**	205,601	3,680	222	417	507

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes loans granted to individual entrepreneurs.

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 2018:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
<b>Loans and advances to customers</b>	<b>199,800</b>	<b>27,217</b>	<b>1,629</b>	<b>18,662</b>	<b>24,697</b>
of which:					
– Other financial corporations	54	324	256	3,177	6,988
– Non-financial corporations	1,968	23,345	1,099	14,990	12,298
– Households**	197,690	3,518	237	361	498

\* 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 9% of total pledges on real estate (2018: 9%).

## Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2019:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	44	2	896	942	499	321
Households*	1,001	72	961	2,034	487	1,489
<b>Total</b>	<b>1,045</b>	<b>74</b>	<b>1,857</b>	<b>2,976</b>	<b>986</b>	<b>1,810</b>

\* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 31 December 2018:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	13	0	2,243	2,256	1,223	559
Households*	942	139	960	2,041	489	1,470
<b>Total</b>	<b>955</b>	<b>139</b>	<b>3,203</b>	<b>4,297</b>	<b>1,712</b>	<b>2,029</b>

\* 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):*

(CZKm)	31 Dec 2019			31 Dec 2018		
	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Other financial corporations	65,344	0	0.00%	64,228	0	0.00%
Non-financial corporations	221,603	942	0.43%	214,748	2,256	1.05%
Households*	268,380	2,034	0.76%	262,823	2,041	0.78%
<b>Total</b>	<b>555,327</b>	<b>2,976</b>	<b>0.54%</b>	<b>541,799</b>	<b>4,297</b>	<b>0.79%</b>

\* 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 2019	31 Dec 2018
Due less than 1 year	17	N/A
Due from 1 to 2 years	17	N/A
Due from 2 to 3 years	8	N/A
Due from 3 to 4 years	2	N/A
Due from 4 to 5 years	2	N/A
Due over 5 years	6	N/A
<b>Total</b>	<b>52</b>	<b>N/A</b>

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

(CZKm)	31 Dec 2019	31 Dec 2018
Due less than 1 year	1	N/A
Due from 1 to 2 years	1	N/A
Due from 2 to 3 years	0	N/A
Due from 3 to 4 years	0	N/A
Due from 4 to 5 years	0	N/A
Due over 5 years	0	N/A
<b>Total</b>	<b>2</b>	<b>N/A</b>

## 22 Prepayments, accrued income, and other assets

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

(CZKm)	31 Dec 2019	31 Dec 2018
Prepayments and accrued income	582	557
Settlement balances	287	680
Receivables from securities trading	61	148
Other assets	2,595	2,642
<b>Total prepayments, accrued income, and other assets</b>	<b>3,525</b>	<b>4,027</b>

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 217 million (2018: CZK 215 million), and in particular also advances provided and receivables for other debtors.

## 23 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Investments in subsidiary undertakings	16,910	16,961
Investments in associated undertakings	837	837
<b>Total investments in subsidiaries and associates</b>	<b>17,747</b>	<b>17,798</b>

### Subsidiary undertakings

The following companies were subsidiary undertakings of the Bank as of 31 December 2019:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	649	0	649
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.	100	100	Financial services	Prague	550	0	550
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
KB SmartSolutions, s.r.o.	100	100	Support services	Prague	48	0	48
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
Protos, uzavřený investiční fond, a.s.	83.65	100	Financial services	Prague	5,032	0	5,032
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,850	0	1,850
STD2, s.r.o.	100	100	Support services	Prague	358	0	358
VN 42, s.r.o.	100	100	Support services	Prague	684	0	684
<b>Total</b>					<b>16,910</b>	<b>0</b>	<b>16,910</b>

### Associated undertakings

The following companies were associated undertakings of the Bank as of 31 December 2019:

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	20	Collection of data for evaluating credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	0	837
<b>Total</b>					<b>837</b>	<b>0</b>	<b>837</b>

\* 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 2019:

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	1	Financial services	Prague	0*	0	0
<b>Total</b>					<b>0</b>	<b>0</b>	<b>0</b>

\* 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 2019	Additions	Decreases	Reclassification	Cost of investment as of 31 Dec 2019
Bastion European Investments S.A. <sup>4)</sup>	568	81	0	0	649
ESSOX s.r.o.	1,165	0	0	0	1,165
Factoring KB, a.s.	1,190	0	0	0	1,190
KB Penzijní společnost, a.s.	550	0	0	0	550
KB Real Estate, s.r.o.	511	0	0	0	511
KB SmartSolutions, s.r.o. <sup>1)</sup>	0	48	0	0	48
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. <sup>3)</sup>	864	0	(180)	0	684
<b>Total subsidiaries</b>	<b>16,961</b>	<b>129</b>	<b>(180)</b>	<b>0</b>	<b>16,910</b>
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	0	837
<b>Total associates</b>	<b>837</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>837</b>
Worldline Czech Republic s.r.o. <sup>2)</sup>	0**	0	0	0	0**
<b>Total as assets held for sale</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* 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 2019

- As of 7 January 2019, KB SmartSolutions, s.r.o. was established as a wholly owned subsidiary of the Bank. The share capital of the company was CZK 100,000 after establishment. During 2019, the Bank increased the equity of the company by CZK 48 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.
- As of 26 June 2019, Cataps, s.r.o., in which the Bank holds a 1% share, changed its company name to Worldline Czech Republic s.r.o.
- As of 29 July 2019, the Bank decided to decrease the share capital of the company VN 42, s.r.o. by CZK 180 million. The capital decrease was carried out in December 2019.
- As of 18 December 2019, the Bank increased the shareholder's equity of Bastion European Investments S.A. by EUR 3.2 million (equivalent to CZK 81 million). The increase was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

## 24 Intangible assets

Movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
<b>Cost</b>					
As of 1 January 2018	12,617	1,898	14	1,506	16,035
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,417	85	0	1,573	3,075
Disposals/transfers	(186)	(30)	0	(1,502)	(1,718)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	13,848	1,953	14	1,577	17,392
Change in accounting methods (IFRS 16)	0	0	0	0	0
As of 1 January 2019	13,848	1,953	14	1,577	17,392
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,759	52	0	1,929	3,740
Disposals/transfers	(195)	(53)	0	(1,811)	(2,059)
Foreign exchange rate difference	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>15,412</b>	<b>1,952</b>	<b>14</b>	<b>1,695</b>	<b>19,073</b>
<b>Accumulated amortisation and allowances</b>					
As of 1 January 2018	(10,190)	(1,640)	(14)	(2)	(11,846)
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	(943)	(85)	0	0	(1,028)
Disposals	174	30	0	0	204
Impairment	11	2	0	2	15
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	(10,948)	(1,693)	(14)	0	(12,655)
Change in accounting methods (IFRS 16)	0	0	0	0	0
As of 1 January 2019	(10,948)	(1,693)	(14)	0	(12,655)
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	(1,079)	(86)	0	0	(1,165)
Disposals	195	53	0	0	248
Impairment	0	0	0	(7)	(7)
Foreign exchange rate difference	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>(11,832)</b>	<b>(1,726)</b>	<b>(14)</b>	<b>(7)</b>	<b>(13,579)</b>
<b>Net book value</b>					
As of 31 December 2018	2,900	260	0	1,577	4,737
<b>As of 31 December 2019</b>	<b>3,580</b>	<b>226</b>	<b>0</b>	<b>1,688</b>	<b>5,494</b>

\* Internally generated assets comprise mainly software.

During the year ended 31 December 2019, the Bank spent CZK 120 million (2018: CZK 152 million) on research and development through a charge to 'Operating expenses'. As of 31 December 2019, the Bank recognised allowances against intangible assets of CZK 24 million (2018: CZK 17 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

## 25 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
<b>Cost</b>						
As of 1 January 2018	111	7,512	4,583	680	0	12,886
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(16)	(191)	0	0	0	(207)
Additions	0	459	402	641	0	1,502
Disposals/transfers	0	(110)	(327)	(864)	0	(1,301)
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2018	95	7,670	4,658	457	0	12,880
Change in accounting methods (IFRS 16)	0	0	(205)	0	2,922	2,717
As of 1 January 2019	95	7,670	4,453	457	2,922	15,597
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	0	46	0	0	0	46
Additions	0	146	367	583	800	1,896
Disposals/transfers	0	(110)	(273)	(559)	(170)	(1,112)
Foreign exchange rate difference	0	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>95</b>	<b>7,752</b>	<b>4,547</b>	<b>481</b>	<b>3,552</b>	<b>16,427</b>
<b>Accumulated depreciation and allowances</b>						
As of 1 January 2018	0	(4,589)	(3,532)	0	0	(8,121)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	104	0	0	0	104
Additions	0	(292)	(307)	0	0	(599)
Disposals	0	109	311	0	0	420
Impairment	0	(3)	9	0	0	6
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2018	0	(4,671)	(3,519)	0	0	(8,190)
Change in accounting methods (IFRS 16)	0	0	62	0	0	62
As of 1 January 2019	0	(4,671)	(3,457)	0	0	(8,128)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	28	0	0	0	28
Additions	0	(235)	(327)	0	(499)	(1,061)
Disposals	0	64	270	0	14	348
Impairment	0	0	(1)	0	0	(1)
Foreign exchange rate difference	0	0	0	0	0	0
<b>As of 31 December 2019</b>	<b>0</b>	<b>(4,814)</b>	<b>(3,515)</b>	<b>0</b>	<b>(485)</b>	<b>(8,814)</b>
<b>Net book value</b>						
As of 31 December 2018	95	2,999	1,139	457	0	4,690
<b>As of 31 December 2019</b>	<b>95</b>	<b>2,938</b>	<b>1,032</b>	<b>481</b>	<b>3,067</b>	<b>7,613</b>

As of 31 December 2019, the Bank recognised allowances against tangible assets of CZK 245 million (2018: CZK 244 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2018: 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).

The net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2019	1 Jan 2019
Real estate	2,934	2,774
Hardware	0	0
Other	133	148
<b>Total net value of right-of-use assets</b>	<b>3,067</b>	<b>2,922</b>

## 26 Assets held for sale

As of 31 December 2019, the Bank reported assets held for sale at a carrying amount of CZK 118 million (2018: CZK 142 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 2019, the Bank recognised allowances against assets held for sale of CZK 95 million (2018: CZK 142 million).

As of 31 December 2019, '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 (2018: CZK 0 million). For detail, refer to Note 23.

## 27 Financial liabilities at fair value through profit or loss

As of 31 December 2019 and 2018, the 'Financial liabilities 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 at fair value through profit or loss'.

(CZKm)	31 Dec 2019	31 Dec 2018
Short sales	3,543	2,244
Derivative financial instruments	20,847	19,995
<b>Total financial liabilities at fair value through profit or loss</b>	<b>24,390</b>	<b>22,239</b>

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 41(C).

## 28 Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Amounts due to banks	75,071	76,365
Amounts due to customers	762,157	755,039
Securities issued	27,964	30,341
Lease liabilities	3,086	0
<b>Total financial liabilities at amortised cost</b>	<b>868,278</b>	<b>861,745</b>

Total amount of loans from banks and customers received under repurchase transactions was CZK 10,252 million (2018: CZK 23,659 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

(CZKm)	31 Dec 2019		31 Dec 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	0	0	0	0
Other assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	5,304	5,304	5,377	5,377
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	5,154	5,154	18,362	18,362
<b>Total</b>	<b>10,458</b>	<b>10,458</b>	<b>23,739</b>	<b>23,739</b>

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Central banks	0	0
General governments	91,485	92,651
Credit institutions	75,071	76,365
Other financial corporations	52,559	68,944
Non-financial corporations	276,691	262,627
Households*	341,422	330,817
<b>Total amounts due to banks and customers</b>	<b>837,228</b>	<b>831,404</b>

\* This item also includes amounts due to individual entrepreneurs.

## Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2019	31 Dec 2018
Mortgage bonds	25,347	28,809
Depository bills of exchange	2,617	1,532
<b>Total securities issued</b>	<b>27,964</b>	<b>30,341</b>

The Bank issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2018	Cash flow*	Non-cash changes		31 Dec 2019
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	28,809	(4,250)	803	(15)	25,347
Depository bills of exchange	1,532	1,068	17	0	2,617
<b>Total securities issued</b>	<b>30,341</b>	<b>(3,182)</b>	<b>820</b>	<b>(15)</b>	<b>27,964</b>

\* The item includes the cash flow on principal and interest paid.

(CZKm)	1 Jan 2018	Cash flow*	Non-cash changes		31 Dec 2018
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	33,268	(5,443)	916	68	28,809
Depository bills of exchange	2,070	(562)	24	0	1,532
<b>Total securities issued</b>	<b>35,338</b>	<b>(6,005)</b>	<b>940</b>	<b>68</b>	<b>30,341</b>

\* 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 2019	31 Dec 2018
In less than one year	0	1,022
In one to five years	4,781	3,849
In five to ten years	5,127	5,338
In ten to twenty years	15,439	18,600
More than twenty years	0	0
<b>Total mortgage bonds</b>	<b>25,347</b>	<b>28,809</b>

The securities issued detailed above include the following mortgage bonds issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2019 (CZKm)	31 Dec 2018 (CZKm)
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	0	1,022
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first 12 annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	0	2,423
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	1,944	1,923
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,490	3,454
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	5,074	5,055
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	4,931	4,962
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,011	3,014
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	858	863
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,219	1,231
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	940	944
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	830	835
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	748	759
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	757	766
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	769	775
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	776	783
<b>Total mortgage bonds</b>					<b>25,347</b>	<b>28,809</b>

\* 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 2019 was 222 bps (2018: 207 bps). The value of the interest rate swap CZK sale average for 5 years as of 31 December 2019 was 208 bps (2018: 182 bps). The value of the interest rate swap CZK sale average for 10 years as of 31 December 2019 was 174 bps (2018: 176 bps).



## 29 Accruals and other liabilities

*Accruals and other liabilities comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Accruals and deferred income	116	130
Settlement balances and outstanding items	210	80
Payables from securities trading and issues of securities	3,416	3,810
Payables from payment transactions	2,453	3,359
Other liabilities	3,881	3,890
<b>Total accruals and other liabilities</b>	<b>10,076</b>	<b>11,269</b>

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 18 million (2018: CZK 20 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

## 30 Provisions

*Provisions comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Provisions for contracted commitments (refer to Note 35)	569	464
Provisions for other credit commitments (refer to Notes 13 and 35)	609	1,122
Provisions for restructuring	113	230
<b>Total provisions</b>	<b>1,291</b>	<b>1,816</b>

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 2019, the Bank created provisions for restructuring related to the transformation project "KB Change" in the amount of CZK 0 million (2018: CZK 294 million) in accordance with estimated redundancy payments, consultancy costs, and other costs necessary in order to implement the detailed restructuring plan of transformation. Provisions are reported in the Income Statement lines 'Personnel expenses' (refer to Note 10) in the amount of CZK 0 million (2018: CZK 223 million) and 'General administrative expenses' (refer to Note 11) in the amount of CZK 0 million (2018: CZK 71 million). Use of provisions for restructuring is reported in the Income Statement lines 'Personnel expenses' (refer to Note 10) in the amount of CZK 105 million (2018: CZK 34 million) and 'General administrative expenses' (refer to Note 11) in the amount of CZK 12 million (2018: CZK 30 million).

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 1 January 2018	365	140	0	505
Charge	26	89	294	409
Release	(15)	(103)	0	(118)
Use	(12)	(6)	(64)	(82)
Accrual	6	0	0	6
Remeasurement	(27)	0	0	(27)
Foreign exchange difference	0	1	0	1
Balance as of 31 December 2018	343	121	230	694
Charge	25	30	0	54
Release	0	(35)	0	(35)
Use	(11)	(12)	(117)	(140)
Accrual	5	0	0	5
Remeasurement	103	0	0	104
Foreign exchange difference	0	0	0	0
<b>Balance as of 31 December 2019</b>	<b>465</b>	<b>104</b>	<b>113</b>	<b>682</b>

### 31 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 2019	31 Dec 2018
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	19	18
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 37)	0	0
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 38)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 39)	0	0
Revaluation of debt securities at FVOCI – equity impact (refer to Note 40)	0	0
Other temporary differences	0	0
<b>Net deferred tax assets</b>	<b>20</b>	<b>19</b>

*Net deferred tax liabilities are as follow:*

(CZKm)	31 Dec 2019	31 Dec 2018
Banking provisions and allowances	44	144
Allowances for assets	69	78
Non-banking provisions and allowances	24	49
Difference between accounting and tax net book value of assets	(431)	(364)
Leases	3	0
Remeasurement of retirement benefits plan – equity impact (refer to Note 37)	51	31
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 38)	(67)	(36)
Revaluation of hedging derivatives – equity impact (refer to Note 39)	10	5
Revaluation of debt securities at FVOCI – equity impact (refer to Note 40)	(161)	(108)
Other temporary differences	192	177
<b>Net deferred tax liabilities</b>	<b>(266)</b>	<b>(24)</b>

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)	2019	2018
<b>Balance as of the beginning of the period</b>	<b>(5)</b>	<b>104</b>
Effect of acquisition of companies	0	0
Movement in the net deferred tax – profit and loss impact (refer to Note 16)	(182)	(218)
Movement in the net deferred tax – equity impact (refer to Notes 37, 38, 39, and 40)	(59)	109
<b>Balance as of the end of the period</b>	<b>(246)</b>	<b>(5)</b>

## 32 Subordinated debt

As of 31 December 2019, the Bank reports subordinated debt of CZK 2,546 million (2018: CZK 2,578 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.

## 33 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, totals CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the 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 2019:*

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
CHASE NOMINEES LIMITED	5.13%
NORTRUST NOMINEES LIMITED	4.08%
CLEARSTREAM BANKING S.A.	2.40%
GIC PRIVATE LIMITED	1.66%
J.P. MORGAN BANK LUXEMBOURG S.A.	1.44%
STATE STREET BANK AND TRUST COMPANY	1.30%

Société Générale S.A., being the only entity with a qualified holding in the Bank, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2019, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2018: 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 1.6% was applied to the Bank in 2019 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 9.6% for the year 2019. A combined capital buffer of 7.0% was applied on top of the TSCR capital ratio, thus resulting in the required overall capital ratio (OCR) of approximately 16.60% for the year 2019 (an increase of 0.6 percentage points in comparison with the previous year, mainly due to an increase in the countercyclical capital buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical buffer which reached 1.5% in 2019 for exposures in the Czech Republic. 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) increases for the Bank to approximately 17.45% as of 1 January 2020 (a rise of 0.85 percentage points compared to 2019 due mainly to a rise of the additional Pillar 2 buffer by 0.60 percentage points to the level of 2.2% and also an increase of the countercyclical capital buffer in the Czech Republic by 0.25 percentage points to the level of 1.75%). It increases furthermore to approximately 17.70% as of 1 July 2020 (rising by another 0.25 percentage points due to an increase of the countercyclical capital buffer in the Czech Republic to the level of 2.00%).

The Bank manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Bank must meet the requirements for evaluating required economic capital, stress testing, and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods mostly close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Bank regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's transaction risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Bank acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is largely classified as Common Equity Tier 1 capital.

The Bank's capital consists principally of the following balances: share capital, reserve funds, retained earnings, and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Bank did not purchase its own shares into treasury during 2019. As of 31 December 2019, the Bank held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2018: 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 (the capital buffers in particular, typically the countercyclical buffer) 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.

The CNB is also the local resolution authority defining the most suitable crisis resolution strategy for the institutions and it determines, inter alia, the minimum requirement for own funds and eligible liabilities (MREL). The CNB has published its general approach to determining the minimum MREL requirements, but it has not yet established this for the Bank. The Bank expects that CNB will set the MREL during the first half of 2020.

### 34 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2019	31 Dec 2018	Change in the year
Cash and current balances with central banks (refer to Note 18)	16,870	22,504	(5,634)
Loans and advances to banks – current accounts with other banks	1,061	1,292	(231)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts	(5,364)	(2,986)	(2,378)
<b>Cash and cash equivalents at the end of the year</b>	<b>12,566</b>	<b>20,809</b>	<b>(8,243)</b>

The total cash outflow on leases in 2019 was in the amount of CZK 802 million.

### 35 Commitments and contingent liabilities

#### Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2019. 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 19 million (2018: CZK 5 million) for these legal disputes (refer to Note 30). The Bank has also recorded a provision of CZK 6 million (2018: CZK 3 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2019, the Bank conducted a review of legal proceedings it had filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

#### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

## Capital commitments

As of 31 December 2019, the Bank had capital commitments of CZK 505 million (2018: CZK 704 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 321 million (2018: CZK 597 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 2019, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:*

(CZKm)	Carrying value				Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	17,661	473	0	18,134	6	0	0	6
Credit institutions	3,015	0	0	3,015	0	0	0	0
Other financial corporations	6,058	110	0	6,168	4	0	0	4
Non-financial corporations	102,008	3,947	1,175	107,130	83	51	418	552
Households*	29,369	584	24	29,977	15	16	16	47
<b>Total commitments and contingencies</b>	<b>158,111</b>	<b>5,114</b>	<b>1,199</b>	<b>164,424</b>	<b>108</b>	<b>67</b>	<b>434</b>	<b>609</b>

\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

*As of 31 December 2018, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:*

(CZKm)	Carrying value				Provisions			
	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	13,872	663	0	14,535	5	0	0	5
Credit institutions	2,691	0	0	2,691	1	0	0	1
Other financial corporations	6,894	108	2	7,004	5	0	0	5
Non-financial corporations	97,294	3,151	1,579	102,024	72	60	932	1,064
Households*	28,944	616	25	29,585	16	17	14	47
<b>Total commitments and contingencies</b>	<b>149,695</b>	<b>4,538</b>	<b>1,606</b>	<b>155,839</b>	<b>99</b>	<b>77</b>	<b>946</b>	<b>1,122</b>

\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.



*Financial commitments and contingencies comprise the following:*

(CZKm)	31 Dec 2019	31 Dec 2018
Non-payment guarantees including commitments to issued non-payment guarantees	38,447	34,921
Payment guarantees including commitments to issued payment guarantees	19,624	17,337
Committed facilities and unutilised overdrafts	10,176	7,330
Undrawn credit commitments	71,241	67,440
Unutilised overdrafts and approved overdraft loans	14,462	15,756
Unutilised limits under framework agreements to provide financial services	6,371	7,930
Open customer/import letters of credit not covered	464	426
Standby letters of credit not covered	2,907	3,616
Confirmed supplier/export letters of credit	732	1,083
<b>Total commitments and contingencies</b>	<b>164,424</b>	<b>155,839</b>

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 2019, the Bank recorded provisions for these risks in the amount of CZK 609 million (2018: CZK 1,122 million). Refer to Note 30.

*Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:*

(CZKm)	31 Dec 2019	31 Dec 2018
Agriculture, forestry, and fishing	2,753	2,688
Mining and quarrying	1,002	408
Manufacturing	22,894	24,916
Electricity, gas, steam, and air conditioning supply	5,320	5,318
Water supply, sewerage, waste management, and remediation activities	707	835
Construction	34,288	29,839
Wholesale and retail trade, repair of motor vehicles and motorcycles	10,439	9,935
Transportation and storage	5,354	4,811
Accommodation and food service activities	614	219
Information and communication	4,984	3,256
Real estate activities	4,225	8,069
Professional, scientific, and technical activities	9,270	8,640
Administrative and support service activities	887	754
Public administration and defence, compulsory social security	152	252
Education	122	467
Human health and social work activities	444	312
Arts, entertainment, and recreation	796	1,221
Other service activities	2,879	84
<b>Total commitments and contingencies to non-financial corporations</b>	<b>107,130</b>	<b>102,024</b>

Exposure to the automotive industry and related suppliers is CZK 3,415 million (2018: CZK 3,763 million).

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 2019:*

(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 collaterals	Financial guarantees received
<b>Commitments and contingencies</b>	<b>5,293</b>	<b>3,738</b>	<b>2,019</b>	<b>6,365</b>	<b>5,010</b>
of which:					
– Other financial corporations	32	16	0	1,059	391
– Non-financial corporations	525	3,584	1,997	5,148	1,874
– Households**	4,736	138	22	48	34

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

*The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2018:*

(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 collaterals	Financial guarantees received
<b>Commitments and contingencies</b>	<b>6,250</b>	<b>3,281</b>	<b>2,103</b>	<b>9,694</b>	<b>6,958</b>
of which:					
– Other financial corporations	8	3	5	501	1,283
– Non-financial corporations	732	3,189	2,079	8,820	2,283
– Households**	5,510	89	19	87	35

\* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

\*\* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the “Fund”) created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of capital market developments, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income, results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

## 36 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 2019, 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 2019	31 Dec 2018
Bastion European Investments S.A.	2,550	2,701
ESSOX s.r.o.	12,272	12,439
ESSOX FINANCE, s.r.o.	2,243	2,104
Factoring KB, a.s.	6,912	6,833
KB Real Estate, s.r.o.	392	422
Modrá pyramida stavební spořitelna, a.s.	15,842	14,973
SG Equipment Finance Czech Republic s.r.o.	8,880	10,071
STD2, s.r.o.	365	377
<b>Total loans</b>	<b>49,456</b>	<b>49,920</b>
Bastion European Investment S.A.	604	530
ESSOX s.r.o.	763	990
ESSOX FINANCE, s.r.o.	0	2
Factoring KB, a.s.	23	30
KB Penzijní společnost, a.s.	634	439
KB Real Estate, s.r.o.	39	47
KB SmartSolutions, s.r.o.	9	0
Modrá pyramida stavební spořitelna, a.s.	4	2
Protos, uzavřený investiční fond, a.s.	161	1,684
SG Equipment Finance Czech Republic s.r.o.	1,416	1,463
STD2, s.r.o.	23	0
VN 42, s.r.o.	31	194
<b>Total deposits</b>	<b>3,707</b>	<b>5,381</b>

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 2019	31 Dec 2018
Modrá pyramida stavební spořitelna, a.s.	214	215
Protos, uzavřený investiční fond, a.s.	0	0
SG Equipment Finance Czech Republic s.r.o.	0	0
<b>Total positive fair value of financial derivatives</b>	<b>214</b>	<b>215</b>
Modrá pyramida stavební spořitelna, a.s.	382	431
Protos, uzavřený investiční fond, a.s.	68	20
SG Equipment Finance Czech Republic s.r.o.	0	1
<b>Total negative fair value of financial derivatives</b>	<b>450</b>	<b>452</b>

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 23,200 million (2018: CZK 26,600 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 500 million (2018: CZK 500 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2018: CZK 417 million).

As of 31 December 2019 and 2018, other amounts due to and from the Group subsidiaries were not significant.

*Interest income from loans granted to the Group subsidiaries:*

(CZKm)	2019	2018
Bastion European Investments S.A.	101	106
ESSOX s.r.o.	200	118
ESSOX FINANCE, s.r.o.	9	9
Factoring KB, a.s.	83	49
KB Real Estate, s.r.o.	13	14
Modrá pyramida stavební spořitelna, a.s.	290	158
SG Equipment Finance Czech Republic s.r.o.	114	93
STD2, s.r.o.	7	3
<b>Total interest from loans granted by the Bank</b>	<b>817</b>	<b>550</b>

*In connection with lease contracts the Bank records:*

(CZKm)	31 Dec 2019					1 Jan 2019				
	Right-of-use assets	Sublease receivables	Lease liabilities	Depreciation expense	Interest expense	Right-of-use assets	Sublease receivables	Lease liabilities	Depreciation expense	Interest expense
ESSOX s.r.o.	(10)	10	0	(3)	0	(12)	12	0	N/A	N/A
Factoring KB, a.s.	(6)	7	0	(2)	0	(9)	9	0	N/A	N/A
KB Penzijní společnost, a.s.	(11)	11	0	(4)	0	(15)	15	0	N/A	N/A
KB Real Estate, s.r.o.	153	0	154	63	4	210	0	210	N/A	N/A
Modrá pyramida stavební spořitelna, a.s.	1	0	1	0	0	1	0	1	N/A	N/A
SG Equipment Finance Czech Republic s.r.o.	(18)	18	0	(6)	0	(23)	23	0	N/A	N/A
STD2, s.r.o.	82	0	83	41	2	123	0	123	N/A	N/A
<b>Total</b>	<b>191</b>	<b>46</b>	<b>238</b>	<b>89</b>	<b>6</b>	<b>275</b>	<b>59</b>	<b>334</b>	<b>N/A</b>	<b>N/A</b>

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2019 amounted to CZK 444 million (2018: CZK 359 million) and total expenses other than depreciation and interest expenses related to lease contracts amounted to CZK 1,389 million (2018: CZK 1,507 million), mainly represented by financial derivatives transactions.

As of 31 December 2019, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 696 million (2018: CZK 847 million).

**Amounts due to and from Société Générale Group entities**

*Principal balances due from Société Générale Group entities include the following:*

(CZKm)	31 Dec 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	7,753	0	7,100	0
ALD Automotive Slovakia s. r. o.	27	0	74	0
BRD – Groupe Société Générale	21	0	17	0
Komerční pojišťovna, a.s.	999	928	911	837
PJSC Rosbank	601	0	193	0
SG Expressbank	0	0	48	0
SG Marocaine de Banques	0	0	6	0
SG Zurich	202	0	228	0
SKB Banka D.D. Ljubljana	0	0	1	0
Société Générale Londres	16	0	0	0
Société Générale China	41	0	41	0
Société Générale International Limited	2	0	2,210	0
Société Générale Paris	11,772	4,736	13,488	5,733
Société Générale oddział w Polsce	2	0	0	0
<b>Total</b>	<b>21,436</b>	<b>5,664</b>	<b>24,317</b>	<b>6,570</b>

*Principal balances owed to Société Générale Group entities include the following:*

(CZKm)	31 Dec 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	370	0	389	0
BRD – Groupe Société Générale	1	0	8	0
Crédit du Nord	75	0	5	0
Komerční pojišťovna, a.s.	2,984	61	2,357	210
PEMA Praha, spol. s r. o.	0	0	26	0
PJSC Rosbank	4	0	0	0
SG Amsterdam	20	0	68	0
SG Banques au Liban	1	0	2	0
SG Bruxelles	3	0	9	0
SG Express Bank	0	0	54	0
SG ISSUER	1	0	1	0
SG Frankfurt	0	0	45	0
Société Générale Londres	31	0	88	0
SG Milan	11	0	2	0
Société Générale New York	10	0	8	0
SG Option Europe	1	0	0	0
SG Private Banking (Suisse)	92	0	143	0
SG Zurich	81	0	53	0
SGSS Nantes	3	0	2	0
Société Générale Bank & Trust	52	0	627	0
Société Générale Factoring	774	0	21	0
Société Générale Paris	50,472	9,208	49,663	8,486
Société Générale oddział w Polsce	6	0	2	0
SOGEPROM Česká republika s.r.o., v likvidaci	4	0	5	0
<b>Total</b>	<b>54,996</b>	<b>9,269</b>	<b>53,578</b>	<b>8,696</b>

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 2019, 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 510,909 million (2018: CZK 524,031 million) and CZK 455,891 million (2018: CZK 479,410 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 2019 and 2018, 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 2019, the Bank had total income of CZK 34,457 million (2018: CZK 40,228 million) and total expenses of CZK 34,157 million (2018: CZK 38,259 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy, and software services.

*In connection with lease contracts the Bank records:*

(CZKm)	31 Dec 2019				1 Jan 2019			
	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.	122	74	17	1	137	78	N/A	N/A

As of 31 December 2019, the Bank reported a loss of CZK 2 million (2018: N/A) 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)	2019	2018
Remuneration to members of the Board of Directors*	77	64
Remuneration to members of the Supervisory Board**	6	5
<b>Total</b>	<b>83</b>	<b>69</b>

\* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2019 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2019. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement. According to the Articles of Association, the Board of Directors is to have 6 members. While in 2018 one position was not filled for a part of the year, in 2019 all 6 positions of the Board of Directors were filled.

\*\* **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2019 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2019	31 Dec 2018
Number of the Board of Directors members at the end of the period	6**	5*
Number of the Supervisory Board members at the end of the period	9	8

\* During 2018, a total 8 members served on the Board of Directors. According to the Articles of Association, the Board of Directors is to have 6 members. One position on the Board of Directors was vacant for a part of 2018.

\*\* In 2019, all 6 positions of the Board of Directors were filled.

In respect of loans and guarantees as of 31 December 2019, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 21 million (2018: CZK 19 million). During 2019, draw-downs of CZK 1 million (2018: CZK 1 million) were made under the loans granted. Loan repayments during 2019 amounted to CZK 3 million (2018: CZK 1 million). The increase of loans in 2019 is affected by new members already having loans in the amount of CZK 4 million. Loans to resigning members amounted to CZK 0 million as of 31 December 2018.

## 37 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2019	2018
Remeasurement of retirement benefits plan as of 1 January	(163)	(190)
Deferred tax asset/(liability) as of 1 January	31	36
<b>Balance as of 1 January</b>	<b>(132)</b>	<b>(154)</b>
<b>Movements during the year</b>		
Gains/(losses) from remeasurement of retirement benefits plan	(103)	27
Deferred tax	20	(5)
	<b>(83)</b>	<b>22</b>
Remeasurement of retirement benefits plan as of 31 December	(266)	(163)
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	51	31
<b>Balance as of 31 December</b>	<b>(215)</b>	<b>(132)</b>

## 38 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2019	2018
Revaluation of equity securities at FVOCI option as of 1 January	191	95
Deferred tax asset/(liability) as of 1 January	(36)	(18)
<b>Balance as of 1 January</b>	<b>155</b>	<b>77</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	160	96
Deferred tax	(31)	(18)
	<b>129</b>	<b>78</b>
Revaluation of equity securities at FVOCI option as of 31 December	351	191
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	(67)	(36)
<b>Balance as of 31 December</b>	<b>284</b>	<b>155</b>



### 39 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)	2019	2018
Cash flow hedge fair value as of 1 January	(27)	222
Deferred tax asset/(liability) as of 1 January	5	(43)
Hedge of foreign currency risk of foreign net investment	69	309
<b>Balance as of 1 January</b>	<b>47</b>	<b>488</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value (refer to Note 41(C))	631	(56)
Deferred tax	(120)	11
	<b>511</b>	<b>(45)</b>
Transferred to interest income/expense	(660)	(185)
Deferred tax	125	35
	<b>(535)</b>	<b>(150)</b>
Transferred to net profit/loss on financial operations	0	(8)
Deferred tax	0	2
	<b>0</b>	<b>(6)</b>
Transferred to personnel expenses	1	0
Deferred tax	0	0
	<b>1</b>	<b>0</b>
Change in the hedge of foreign currency risk of foreign net investment	8	(240)
	<b>8</b>	<b>(240)</b>
Cash flow hedge fair value as of 31 December	(55)	(27)
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	10	5
Hedge of foreign currency risk of foreign net investment	77	69
<b>Balance as of 31 December</b>	<b>32</b>	<b>47</b>

### 40 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2019	2018
Reserve from fair value revaluation as of 1 January	568	1,010
Deferred tax asset/(liability) as of 1 January	(108)	(192)
Impairment as of 1 January	2	3
<b>Balance as of 1 January</b>	<b>462</b>	<b>821</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	278	(442)
Deferred tax	(53)	84
	<b>225</b>	<b>(358)</b>
Impairment	0	(1)
	<b>0</b>	<b>(1)</b>
Reserve from fair value revaluation as of 31 December	846	568
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	(161)	(108)
Impairment as of 31 December	2	2
<b>Balance as of 31 December</b>	<b>687</b>	<b>462</b>

## 41 Risk management and financial instruments

### (A) Credit risk

#### **Assessment of borrower's credit rating**

The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Bank uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Bank's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

The Bank focuses on updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Bank as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models, and the monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the tested periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

#### **(a) Business clients and municipalities**

For entrepreneurs, corporate clients, and municipalities, the Bank uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating that reflects the quality of available guarantees and collaterals and evaluates the potential loss from counterparty transactions. These models are also used for regular estimation of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and a qualitative rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial and personal data, data on client behaviour within the Bank, and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Bank (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of a qualitative rating acquired through the assessment of non-financial information relating to a specific municipality.

The Bank is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors was validated by the regulator and will be 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 from risky entities.

#### **(e) Credit bureaus**

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially in the retail client segments (individuals and small businesses).

**(f) Credit fraud prevention**

The Bank uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds are focused mainly on individual clients and the small business segment. The Bank began extending this system to the corporate segment during 2019, and this activity will continue through 2020.

**(g) Granting process**

Through 2019, the Bank focused on simplification of its processes and increasing rapidity in credit granting to all client segments (while gradually introducing digital processes) and while concentrating especially on corporate clients.

**Credit concentration risk**

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses, and stress testing. The Bank maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors, and collateral providers. A system of internal limits has been established so that the Bank complies with the regulatory limits set by law in respect of concentration risk. Refer to Notes 21 and 35 for quantitative information about this type of risk.

**The Bank's maximum credit exposure as of 31 December 2019:**

(CZKm)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>6,863</b>	<b>x</b>	<b>6,863</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets and other assets at fair value through profit or loss</b>	<b>24,063</b>	<b>x</b>	<b>24,063</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>9,544</b>	<b>x</b>	<b>9,544</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>34,599</b>	<b>x</b>	<b>34,599</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at amortised cost</b>	<b>899,928</b>	<b>164,424</b>	<b>1,064,352</b>	<b>285,377</b>	<b>22,425</b>	<b>307,802</b>
of which:						
– Other financial corporations	65,693	6,168	76,021	13,814	1,498	15,312
– Non-financial corporations	224,357	107,130	327,075	56,327	13,128	69,455
– Households**	268,380	29,977	298,357	210,427	4,978	215,405
<b>Revaluation differences on portfolios hedge items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>974,997</b>	<b>164,424</b>	<b>1,139,421</b>	<b>285,377</b>	<b>22,425</b>	<b>307,802</b>

\* 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 2018:*

(CZK)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>14,000</b>	<b>x</b>	<b>14,000</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets and other assets at fair value through profit or loss</b>	<b>23,280</b>	<b>x</b>	<b>23,280</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>12,108</b>	<b>x</b>	<b>12,108</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>23,576</b>	<b>x</b>	<b>23,576</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at amortised cost</b>	<b>898,485</b>	<b>155,839</b>	<b>1,054,324</b>	<b>272,005</b>	<b>28,286</b>	<b>300,291</b>
of which:						
– Other financial corporations	64,578	7,004	71,582	10,800	1,800	12,600
– Non-financial corporations	217,637	102,070	319,707	53,700	17,103	70,803
– Households**	262,823	29,585	292,408	202,303	5,740	208,043
<b>Revaluation differences on portfolios hedge items</b>	<b>0</b>	<b>x</b>	<b>0</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>971,449</b>	<b>155,839</b>	<b>1,127,288</b>	<b>272,005</b>	<b>28,286</b>	<b>300,291</b>

\* 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 2019:*

(CZK)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	4,021	10	4,031	16,834	15,242	32,076	61,316	7	61,323
Credit institutions	77	0	77	0	2,009	2,009	0	0	0
Other financial corporations	3	0	3	0	0	0	350	0	350
Non-financial corporations	1	0	1	0	0	0	2,342	412	2,754
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>4,102</b>	<b>10</b>	<b>4,112</b>	<b>16,834</b>	<b>17,251</b>	<b>34,085</b>	<b>64,008</b>	<b>419</b>	<b>64,427</b>

\* This item also includes individual entrepreneurs.

*The Bank's debt securities, allocated by sector and currency, comprised the following as of 31 December 2018:*

(CZK)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,144	14	3,158	5,402	15,782	21,184	61,104	11	61,115
Credit institutions	77	0	77	0	2,041	2,041	100	0	100
Other financial corporations	0	0	0	0	0	0	350	0	350
Non-financial corporations	13	0	13	0	0	0	2,437	452	2,889
Households*	0	0	0	0	0	0	0	0	0
<b>Total debt securities</b>	<b>3,234</b>	<b>14</b>	<b>3,248</b>	<b>5,402</b>	<b>17,823</b>	<b>23,225</b>	<b>63,991</b>	<b>463</b>	<b>64,454</b>

\* This item also includes individual entrepreneurs.

### Staging of loans and advances

The Bank classifies its loans and advances arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forbore exposures are given default status (i.e. are classified as Stage 3). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

- I. After 12 months, reclassification of the forbore exposures to performing (to Stage 2), and further reclassification to Stage 1 is possible after an additional 12 months based on an analysis of the debtor's financial condition;
- II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

### 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 represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate, and prepayments made.

### Allowances for loans and advances

The Bank uses the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile, and characteristics of the loans and advances, allowances are created either: (i) individually (for selected non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on observed history of defaults and losses and forward-looking adjustments. In 2019, the Bank updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses; and (ii) the new macroeconomic forecast.

*The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:*

	31 Dec 2019		31 Dec 2018	
(CZKmn)	Individually	Statistical model	Individually	Statistical model
Central banks	0	0	0	0
General governments	12	2	340	2
Credit institutions	23	0	71	0
Other financial corporations	57	2	48	1
Non-financial corporations	4,719	1,866	6,548	1,933
Households*	0	4,134	0	4,871
<b>Total</b>	<b>4,811</b>	<b>6,004</b>	<b>7,007</b>	<b>6,807</b>

\* This item also includes loans granted to individual entrepreneurs.

### Loans and advances collateral

The Bank uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented within its internal system the rules for assessing collateral's eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sales process, historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules, and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by the Bank's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014.

The Bank (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

### **Real estate collateral valuation**

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans and advances are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts. In 2019, the Bank started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2019, 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 estates, adjustment is performed regularly.

### **Recovery of loans and advances from borrowers**

The Bank responded progressively to the changing legal environment and its influence on the collection of loans and advances and continued to improve the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2019, the Bank continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

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

### **Credit risk hedging instruments**

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### **Credit risk of financial derivatives**

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2019, the Bank was exposed to credit exposure of CZK 226,854 million (2018: CZK 198,929 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2019 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 Market Book**

Products that are traded by the Bank and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures, and futures on debt securities), government and corporate bonds, bills of exchange programmes, and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. The market risks associated with these derivatives (e.g. forex risk, interest risk, volatility risk, correlation risk, etc.) arises between closing transactions with Société Générale and client transactions, where we either do not have a CSA collateral agreement with the particular client or the collateral currency differs from the agreed collateral currency under the CSA agreement with Société Générale.

### **Market risk management in the Market Book**

The Bank has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as a whole, the Bank has been measuring and limiting the market risks for the trading and treasury activities separately.

The Bank monitors compliance with all limits on a daily basis. If these are exceeded, the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Bank uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK (13) million as of 31 December 2019 (2018: CZK (33) million). The average VaR was CZK (30) million in 2019 (2018: CZK (22) 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. Actual results should not exceed VaR more frequently than on 1% of the days within a given period.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate, and CO<sub>2</sub> allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Bank complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

## Market risk in the Structural Book

The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off, and adverse parallel shift of the market yield curve by 0.1% p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2019, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK 3 million (2018: CZK 21 million), the EUR sensitivity was CZK 7 million (2018: CZK (72) million), the USD sensitivity was CZK (1) million (2018: CZK 1 million), and for other currencies it was CZK (0.3) million (2018: 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 into securities or a favourable selection of interest rate parameters for other assets and liabilities.

## (C) Financial derivatives

The Bank operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

*Financial derivative instruments designated as held for trading are as follow:*

(CZKm)	31 Dec 2019 Nominal value		31 Dec 2018 Nominal value		31 Dec 2019 Fair value		31 Dec 2018 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>								
Interest rate swaps	1,109,287	1,109,287	1,025,331	1,025,331	8,946	9,681	8,315	8,848
Interest rate forwards and futures*	224,330	224,330	24,163	24,163	6	28	2	14
Interest rate options	82,428	82,428	40,772	40,772	372	372	122	122
<b>Total interest rate instruments</b>	<b>1,416,045</b>	<b>1,416,045</b>	<b>1,090,266</b>	<b>1,090,266</b>	<b>9,324</b>	<b>10,081</b>	<b>8,439</b>	<b>8,984</b>
<b>Foreign currency instruments</b>								
Currency swaps	363,710	363,726	365,194	365,141	2,645	2,665	1,510	1,471
Cross currency swaps	183,506	183,489	177,743	177,725	4,935	4,469	4,595	4,221
Currency forwards	106,471	109,035	112,909	114,484	406	1,417	955	922
Purchased options	50,723	50,272	66,963	66,780	1,119	0	1,418	0
Sold options	50,271	50,722	66,780	66,963	0	1,119	0	1,418
<b>Total currency instruments</b>	<b>754,681</b>	<b>757,244</b>	<b>789,589</b>	<b>791,093</b>	<b>9,105</b>	<b>9,670</b>	<b>8,478</b>	<b>8,032</b>
<b>Other instruments</b>								
Forwards on emission allowances	3,929	4,004	11,058	11,184	231	305	1,842	1,969
Commodity forwards	1,031	1,031	4,420	4,420	30	29	69	65
Commodity swaps	5,460	5,460	15,891	15,891	767	762	933	919
Purchased commodity options	6	6	377	377	0	0	26	0
Sold commodity options	6	6	377	377	0	0	0	26
<b>Total other instruments</b>	<b>10,432</b>	<b>10,507</b>	<b>32,123</b>	<b>32,249</b>	<b>1,028</b>	<b>1,096</b>	<b>2,870</b>	<b>2,979</b>
<b>Total</b>	<b>2,181,158</b>	<b>2,183,796</b>	<b>1,911,978</b>	<b>1,913,608</b>	<b>19,457</b>	<b>20,847</b>	<b>19,787</b>	<b>19,995</b>

\* 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 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	217,944	563,135	328,208	1,109,287
Interest rate forwards and futures*	207,800	16,530	0	224,330
Interest rate options	5,937	23,059	53,432	82,428
<b>Total interest rate instruments</b>	<b>431,681</b>	<b>602,724</b>	<b>381,640</b>	<b>1,416,045</b>
<b>Foreign currency instruments</b>				
Currency swaps	355,690	8,020	0	363,710
Cross currency swaps	31,555	114,283	37,668	183,506
Currency forwards	76,860	29,535	76	106,471
Purchased options	22,556	28,167	0	50,723
Sold options	22,311	27,960	0	50,271
<b>Total currency instruments</b>	<b>508,972</b>	<b>207,965</b>	<b>37,744</b>	<b>754,681</b>
<b>Other instruments</b>				
Forwards on emission allowances	3,929	0	0	3,929
Commodity forwards	1,031	0	0	1,031
Commodity swaps	4,653	807	0	5,460
Purchased commodity options	6	0	0	6
Sold commodity options	6	0	0	6
<b>Total other instruments</b>	<b>9,625</b>	<b>807</b>	<b>0</b>	<b>10,432</b>
<b>Total</b>	<b>950,278</b>	<b>811,496</b>	<b>419,384</b>	<b>2,181,158</b>

\* 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 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	170,764	567,039	287,528	1,025,331
Interest rate forwards and futures*	23,663	500	0	24,163
Interest rate options	663	26,115	13,994	40,772
<b>Total interest rate instruments</b>	<b>195,090</b>	<b>593,654</b>	<b>301,522</b>	<b>1,090,266</b>
<b>Foreign currency instruments</b>				
Currency swaps	355,782	9,412	0	365,194
Cross currency swaps	31,536	93,448	52,759	177,743
Currency forwards	73,342	39,567	0	112,909
Purchased options	26,235	40,728	0	66,963
Sold options	26,435	40,345	0	66,780
<b>Total currency instruments</b>	<b>513,330</b>	<b>223,500</b>	<b>52,759</b>	<b>789,589</b>
<b>Other instruments</b>				
Forwards on emission allowances	8,858	2,200	0	11,058
Commodity forwards	4,420	0	0	4,420
Commodity swaps	12,265	3,626	0	15,891
Purchased commodity options	371	6	0	377
Sold commodity options	371	6	0	377
<b>Total other instruments</b>	<b>26,285</b>	<b>5,838</b>	<b>0</b>	<b>32,123</b>
<b>Total</b>	<b>734,705</b>	<b>822,992</b>	<b>354,281</b>	<b>1,911,978</b>

\* 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:

(CZKm)	31 Dec 2019 Nominal value		31 Dec 2018 Nominal value		31 Dec 2019 Fair value		31 Dec 2018 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for fair value hedging	1,043,866	1,043,866	910,923	910,923	8,004	10,061	10,538	9,277
Cross currency swaps for cash flows hedging	42,586	40,885	43,131	41,514	1,539	6	1,569	177
Forwards on stocks for cash flow hedging	53	53	53	54	1	0	1	0
Forwards on stocks for fair value hedging	27	27	0	0	0	2	0	0
<b>Total</b>	<b>1,086,532</b>	<b>1,084,831</b>	<b>954,107</b>	<b>952,491</b>	<b>9,544</b>	<b>10,069</b>	<b>12,108</b>	<b>9,454</b>

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	215,529	426,366	401,971	1,043,866
Cross currency swaps for cash flows hedging	6,746	31,470	4,370	42,586
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	18	9	0	27
<b>Total</b>	<b>222,314</b>	<b>457,877</b>	<b>406,341</b>	<b>1,086,532</b>

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	103,330	422,717	384,876	910,923
Cross currency swaps for cash flows hedging	11,559	27,773	3,799	43,131
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	0	0	0	0
<b>Total</b>	<b>114,910</b>	<b>450,522</b>	<b>388,675</b>	<b>954,107</b>

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:

(CZKm)	31 Dec 2019			31 Dec 2018		
	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	704	1,614	104	442	988	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 2019, the Bank recorded the following hedges:***

1. Interest rate risk hedging:
  - a. The fair values of long-term loans provided and of investments into long-term government securities classified into the “Hold to collect contractual cash flows and sell” business model and investments into long-term securities classified into the “Hold to collect contractual cash flows” business model are hedged by interest rate swaps and cross currency swaps, respectively;
  - b. The fair values of issued long-term mortgage bonds classified into the ‘Securities issued’ portfolio are hedged by interest rate swaps;
  - c. The fair values of fixed rate deposits, loans taken, or repos are hedged by interest rate swaps;
  - d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank’s Statement of Income on an ongoing basis);
  - e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank’s Statement of Income on an ongoing basis);
  - f. The fair values of a portfolio of current accounts from clients are hedged by a portfolio of interest rate swaps.
2. Foreign exchange risk hedging:
  - a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank’s contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
  - b. The Bank hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).
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 2019, the gain from ineffectiveness of hedging relationships was in the amount of CZK 1 million (2018: CZK 0 million).

Further information on hedges is provided in Notes 3, 5, and 7 to these Financial Statements.

## **(D) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client’s level can be applied with the objective of maintaining accordance between a transaction’s contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Bank’s clients when market interest rates fluctuate. It is the policy of the Bank’s management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank’s interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the ‘Undefined’ category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	16,870	0	0	0	0	16,870
Financial assets and other assets at fair value through profit or loss	4,112	0	0	0	19,951	24,063
Positive fair values of hedging financial derivatives	0	0	0	0	9,544	9,544
Financial assets at fair value through other comprehensive income	3,950	1,163	9,206	19,766	514	34,599
Financial assets at amortised cost	480,460	76,296	252,739	82,418	0	891,913
– Loans and advances to banks	240,859	4,222	10,600	4,000	0	259,681
– Loans and advances to customers	236,981	66,179	215,187	49,458	0	567,805
– Debt securities	2,620	5,895	26,952	28,960	0	64,427
Current tax assets	0	0	0	0	13	13
Deferred tax assets	0	0	0	0	20	20
Prepayments, accrued income, and other assets	0	0	0	0	3,525	3,525
Investments in subsidiaries and associates	0	0	0	0	17,747	17,747
Intangible assets	0	0	0	0	5,494	5,494
Tangible assets	0	0	0	0	7,613	7,613
Assets held for sale	0	0	0	0	118	118
<b>Total assets</b>	<b>505,392</b>	<b>77,459</b>	<b>261,945</b>	<b>102,184</b>	<b>64,539</b>	<b>1,011,519</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	3,543	0	0	0	20,847	24,390
Negative fair values of hedging financial derivatives	0	0	0	0	10,069	10,069
Financial liabilities at amortised cost	113,470	25,471	24,763	10,043	694,531	868,278
– Amounts due to banks	56,385	7,491	7,215	3,980	0	75,071
– Amounts due to customers	52,463	14,414	749	0	694,531*	762,157
– Securities issued	4,428	3,219	15,400	4,917	0	27,964
– Lease liabilities	194	347	1,399	1,146	0	3,086
Revaluation differences on portfolios hedge items	0	0	0	0	(3,815)	(3,815)
Current tax liabilities	0	0	0	0	199	199
Deferred tax liabilities	0	0	0	0	266	266
Accruals and other liabilities	0	0	0	0	10,076	10,076
Provisions	0	0	0	0	1,291	1,291
Subordinated debt	2,546	0	0	0	0	2,546
<b>Total liabilities</b>	<b>119,560</b>	<b>25,471</b>	<b>24,763</b>	<b>10,043</b>	<b>733,464</b>	<b>913,301</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2019</b>						
	<b>385,832</b>	<b>51,988</b>	<b>237,182</b>	<b>92,141</b>	<b>(668,925)</b>	<b>98,218</b>
Nominal value of derivatives**	1,071,985	601,798	545,939	466,281	0	2,686,003
<b>Total off-balance sheet assets</b>	<b>1,071,985</b>	<b>601,798</b>	<b>545,939</b>	<b>466,281</b>	<b>0</b>	<b>2,686,003</b>
Nominal value of derivatives**	1,255,875	542,609	583,229	302,572	0	2,684,285
Undrawn portion of loans***	(7,916)	(10,446)	4,877	13,485	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>1,247,959</b>	<b>532,163</b>	<b>588,106</b>	<b>316,057</b>	<b>0</b>	<b>2,684,285</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2019</b>	<b>(175,974)</b>	<b>69,635</b>	<b>(42,167)</b>	<b>150,224</b>	<b>0</b>	<b>1,718</b>
<b>Cumulative interest rate gap as of 31 December 2019</b>	<b>209,858</b>	<b>331,481</b>	<b>526,496</b>	<b>768,861</b>	<b>99,936</b>	<b>x</b>

\* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.



(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	22,504	0	0	0	0	22,504
Financial assets and other assets at fair value through profit or loss	1,711	0	0	0	21,569	23,280
Positive fair values of hedging financial derivatives	0	0	0	0	12,108	12,108
Financial assets at fair value through other comprehensive income	6,648	412	4,275	11,890	351	23,576
Financial assets at amortised cost	490,047	83,697	241,765	73,114	0	888,623
– Loans and advances to banks	254,270	6,369	9,642	0	0	270,281
– Loans and advances to customers	230,876	65,943	214,338	42,731	0	553,888
– Debt securities	4,901	11,385	17,785	30,383	0	64,454
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	19	19
Prepayments, accrued income, and other assets	0	0	0	0	4,027	4,027
Investments in subsidiaries and associates	0	0	0	0	17,798	17,798
Intangible assets	0	0	0	0	4,737	4,737
Tangible assets	0	0	0	0	4,690	4,690
Assets held for sale	0	0	0	0	142	142
<b>Total assets</b>	<b>520,910</b>	<b>84,109</b>	<b>246,040</b>	<b>85,004</b>	<b>65,441</b>	<b>1,001,504</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,250	0	0	0	19,989	22,239
Negative fair values of hedging financial derivatives	0	0	0	0	9,454	9,454
Financial liabilities at amortised cost	120,685	35,212	21,845	7,817	676,186	861,745
– Amounts due to banks	56,492	15,500	4,373	0	0	76,365
– Amounts due to customers	63,101	15,580	172	0	676,186*	755,039
– Securities issued	1,092	4,132	17,300	7,817	0	30,341
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	0	0	0	0	(449)	(449)
Current tax liabilities	0	0	0	0	106	106
Deferred tax liabilities	0	0	0	0	24	24
Accruals and other liabilities	0	0	0	0	11,269	11,269
Provisions	0	0	0	0	1,816	1,816
Subordinated debt	2,578	0	0	0	0	2,578
<b>Total liabilities</b>	<b>125,514</b>	<b>35,212</b>	<b>21,845</b>	<b>7,817</b>	<b>718,395</b>	<b>908,783</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2018</b>						
	<b>395,396</b>	<b>48,897</b>	<b>224,195</b>	<b>77,187</b>	<b>(652,954)</b>	<b>92,721</b>
Nominal value of derivatives**	902,747	326,187	529,755	463,374	0	2,222,063
<b>Total off-balance sheet assets</b>	<b>902,747</b>	<b>326,187</b>	<b>529,755</b>	<b>463,374</b>	<b>0</b>	<b>2,222,063</b>
Nominal value of derivatives**	1,024,276	355,722	562,729	277,701	0	2,220,428
Undrawn portion of loans***	(8,504)	(10,780)	8,771	10,513	0	0
Undrawn portion of revolving loans***	(689)	689	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>1,015,083</b>	<b>345,631</b>	<b>571,500</b>	<b>288,214</b>	<b>0</b>	<b>2,220,428</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2018</b>	<b>(112,336)</b>	<b>(19,444)</b>	<b>(41,745)</b>	<b>175,160</b>	<b>0</b>	<b>1,635</b>
<b>Cumulative interest rate gap as of 31 December 2018</b>	<b>283,060</b>	<b>312,513</b>	<b>494,963</b>	<b>747,310</b>	<b>94,356</b>	<b>x</b>

\* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2019 and 2018 were as follow:

(%)	31 Dec 2019			31 Dec 2018		
	CZK	USD	EUR	CZK	USD	EUR
<b>Assets</b>						
Cash and current balances with central banks	0.24%	x	x	0.87%	x	x
Financial assets at fair value through other comprehensive income	1.99%	x	2.05%	2.12%	x	2.12%
Financial assets at amortised cost	2.49%	2.40%	1.01%	2.30%	2.99%	1.00%
– Loans and advances to banks	1.98%	2.14%	0.19%	1.73%	2.77%	0.23%
– Loans and advances to customers	2.74%	3.20%	1.50%	2.52%	3.76%	1.51%
– Debt securities	2.51%	3.39%	3.98%	2.81%	3.27%	4.03%
<b>Total assets</b>	<b>2.02%</b>	<b>1.92%</b>	<b>1.10%</b>	<b>1.84%</b>	<b>2.07%</b>	<b>1.11%</b>
<b>Total interest-earning assets</b>	<b>2.66%</b>	<b>2.40%</b>	<b>1.12%</b>	<b>2.29%</b>	<b>2.99%</b>	<b>1.12%</b>
<b>Liabilities</b>						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.31%	1.61%	0.05%	0.23%	1.20%	0.04%
– Amounts due to banks	0.04%	2.08%	0.09%	0.14%	2.73%	0.05%
– Amounts due to customers	0.21%	0.59%	0.02%	0.11%	0.66%	0.02%
– Securities issued	2.69%	x	x	2.93%	x	x
– Lease liabilities	1.76%	x	0.69%	N/A	N/A	N/A
Subordinated debt	x	x	0.84%	x	x	0.94%
<b>Total liabilities</b>	<b>0.30%</b>	<b>1.57%</b>	<b>0.05%</b>	<b>0.22%</b>	<b>1.14%</b>	<b>0.04%</b>
<b>Total interest-bearing liabilities</b>	<b>0.31%</b>	<b>1.61%</b>	<b>0.04%</b>	<b>0.23%</b>	<b>1.20%</b>	<b>0.04%</b>
<b>Off-balance sheet assets</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.86%	3.09%	0.41%	1.65%	3.17%	0.56%
Undrawn portion of loans	2.43%	x	1.68%	2.35%	x	1.61%
Undrawn portion of revolving loans	5.73%	2.97%	0.36%	5.65%	3.80%	0.20%
<b>Total off-balance sheet assets</b>	<b>1.96%</b>	<b>3.09%</b>	<b>0.41%</b>	<b>1.77%</b>	<b>3.17%</b>	<b>0.56%</b>
<b>Off-balance sheet liabilities</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.90%	3.00%	0.30%	1.63%	3.09%	0.47%
Undrawn portion of loans	2.43%	x	1.68%	2.35%	x	1.61%
Undrawn portion of revolving loans	5.73%	2.97%	0.36%	5.65%	3.80%	0.20%
<b>Total off-balance sheet liabilities</b>	<b>2.00%</b>	<b>2.99%</b>	<b>0.31%</b>	<b>1.75%</b>	<b>3.09%</b>	<b>0.46%</b>

Note: The table above sets out the average interest rates for December 2019 and 2018 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2019 from 1.75% to 2.00%. Czech crown money market rates (PRIBOR) increased by between 0.07% (12M) and 0.22% (1M). Interest rates swaps increased by between 0.09% (10Y) and 0.32% (2Y).

Euro money market rates decreased during 2019 by 0.07–0.12% (1–12M), and interest rate swaps decreased by from 0.11% (2Y) to as much as 0.55% (10Y).

Dollar money market rates decreased during 2019 by 0.77–1.01% (1–12M), and interest rate swaps decreased by from 0.81% (10Y) to as much as 0.96% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2019				31 Dec 2018			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
<b>Assets</b>								
Cash and current balances with central banks	3,419	1,746	11,705	16,870	4,000	15,570	2,934	22,504
Financial assets and other assets at fair value through profit or loss	3,363	749	19,951	24,063	3,159	89	20,032	23,280
Positive fair values of hedging financial derivatives	0	0	9,544	9,544	0	0	12,108	12,108
Financial assets at fair value through other comprehensive income	32,072	2,013	514	34,599	21,182	2,043	351	23,576
Financial assets at amortised cost	437,611	449,728	4,574	891,913	421,962	461,866	4,795	888,623
– Loans and advances to banks	18,605	240,814	262	259,681	16,939	253,125	217	270,281
– Loans and advances to customers	354,579	208,914	4,312	567,805	340,569	208,741	4,578	553,888
– Debt securities	64,427	0	0	64,427	64,454	0	0	64,454
<b>Liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	24,390	24,390	0	0	22,239	22,239
Negative fair values of hedging financial derivatives	0	0	10,069	10,069	0	0	9,454	9,454
Financial liabilities at amortised cost	43,215	822,611	2,452	868,278	50,707	808,326	2,712	861,745
– Amounts due to banks	29,626	45,005	440	75,071	39,491	36,662	212	76,365
– Amounts due to customers	558	759,587*	2,012	762,157	200	752,339*	2,500	755,039
– Securities issued	9,945	18,019	0	27,964	11,016	19,325	0	30,341
– Lease liabilities	3,086	0	0	3,086	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	0	0	(3,815)	(3,815)	0	0	(449)	(449)
Subordinated debt	0	2,546	0	2,546	0	2,578	0	2,578

\* This item 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.

(CZKmn)	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
<b>Assets</b>							
Cash and current balances with central banks	6,863	0	0	0	0	10,007	16,870
Financial assets and other assets at fair value through profit or loss	0	31	1,125	317	2,575	20,015	24,063
Positive fair values of hedging financial derivatives	0	0	0	0	0	9,544	9,544
Financial assets at fair value through other comprehensive income	2,515	305	2,541	9,487	19,751	0	34,599
Financial assets at amortised cost	122,857	175,681	93,668	242,632	257,075	0	891,913
– Loans and advances to banks	111,262	127,619	5,326	11,439	4,035	0	259,681
– Loans and advances to customers	11,199	47,729	85,859	198,089	224,929	0	567,805
– Debt securities	396	333	2,483	33,104	28,111	0	64,427
Current tax assets	13	0	0	0	0	0	13
Deferred tax assets	20	0	0	0	0	0	20
Prepayments, accrued income, and other assets	5	6	0	0	0	3,514	3,525
Investments in subsidiaries and associates	0	0	0	0	0	17,747	17,747
Intangible assets	0	0	0	0	0	5,494	5,494
Tangible assets	0	0	0	0	0	7,613	7,613
Assets held for sale	0	0	118	0	0	0	118
<b>Total assets</b>	<b>132,273</b>	<b>176,023</b>	<b>97,452</b>	<b>252,436</b>	<b>279,401</b>	<b>73,934</b>	<b>1,011,519</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	3,543	0	0	0	0	20,847	24,390
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,069	10,069
Financial liabilities at amortised cost	731,494	71,591	22,532	17,118	25,543	0	868,278
– Amounts due to banks	24,062	29,696	7,063	10,270	3,980	0	75,071
– Amounts due to customers	707,111	39,883	14,414	749	0	0	762,157
– Securities issued	244	1,895	708	4,700	20,417	0	27,964
– Lease liabilities	77	117	347	1,399	1,146	0	3,086
Revaluation differences on portfolios hedge items	(3,815)	0	0	0	0	0	(3,815)
Current tax liabilities	0	199	0	0	0	0	199
Deferred tax liabilities	266	0	0	0	0	0	266
Accruals and other liabilities	9,745	0	0	0	0	331	10,076
Provisions	66	163	540	0	0	522	1,291
Subordinated debt	0	0	0	0	2,546	0	2,546
Equity	0	0	0	0	0	98,218	98,218
<b>Total liabilities</b>	<b>741,300</b>	<b>71,953</b>	<b>23,072</b>	<b>17,118</b>	<b>28,089</b>	<b>129,987</b>	<b>1,011,519</b>
<b>Statement of Financial Position liquidity gap as of 31 December 2019</b>							
Off-balance sheet assets*	(609,027)	104,070	74,380	235,318	251,312	(56,053)	0
Off-balance sheet liabilities*	162,899	260,065	152,201	182,735	41,998	0	799,898
Off-balance sheet liabilities*	328,807	260,477	152,272	181,708	41,920	0	965,184
<b>Net off-balance sheet liquidity gap as of 31 December 2019</b>	<b>(165,908)</b>	<b>(412)</b>	<b>(71)</b>	<b>1,027</b>	<b>78</b>	<b>0</b>	<b>(165,286)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	14,000	0	0	0	0	8,504	22,504
Financial assets and other assets at fair value through profit or loss	0	1	280	1,124	1,660	20,215	23,280
Positive fair values of hedging financial derivatives	0	0	0	0	0	12,108	12,108
Financial assets at fair value through other comprehensive income	2,241	0	180	6,917	14,238	0	23,576
Financial assets at amortised cost	129,726	184,795	93,661	234,327	246,114	0	888,623
– Loans and advances to banks	113,719	130,484	7,528	14,968	3,582	0	270,281
– Loans and advances to customers	15,419	53,946	77,703	194,182	212,638	0	553,888
– Debt securities	588	365	8,430	25,177	29,894	0	64,454
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	19	0	0	0	0	0	19
Prepayments, accrued income, and other assets	850	6	0	0	0	3,171	4,027
Investments in subsidiaries and associates	0	0	0	0	0	17,798	17,798
Intangible assets	0	0	0	0	0	4,737	4,737
Tangible assets	0	0	0	0	0	4,690	4,690
Assets held for sale	0	0	142	0	0	0	142
<b>Total assets</b>	<b>146,836</b>	<b>184,802</b>	<b>94,263</b>	<b>242,368</b>	<b>262,012</b>	<b>71,223</b>	<b>1,001,504</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	2,250	0	0	0	0	19,989	22,239
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,454	9,454
Financial liabilities at amortised cost	716,060	66,239	30,719	20,143	28,584	0	861,745
– Amounts due to banks	17,833	22,904	12,532	2,329	20,767	0	76,365
– Amounts due to customers	698,206	42,170	14,149	514	0	0	755,039
– Securities issued	21	1,165	4,038	17,300	7,817	0	30,341
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	(449)	0	0	0	0	0	(449)
Current tax liabilities	0	106	0	0	0	0	106
Deferred tax liabilities	24	0	0	0	0	0	24
Accruals and other liabilities	11,139	0	0	0	0	130	11,269
Provisions	1,122	0	0	0	0	694	1,816
Subordinated debt	0	0	0	0	2,578	0	2,578
Equity	0	0	0	0	0	92,721	92,721
<b>Total liabilities</b>	<b>730,147</b>	<b>66,345</b>	<b>30,719</b>	<b>20,143</b>	<b>31,162</b>	<b>122,988</b>	<b>1,001,504</b>
<b>Statement of Financial Position liquidity gap as of 31 December 2018</b>	<b>(583,311)</b>	<b>118,457</b>	<b>63,544</b>	<b>222,225</b>	<b>230,850</b>	<b>(51,765)</b>	<b>0</b>
Off-balance sheet assets*	57,943	288,307	180,525	251,273	56,558	0	834,606
Off-balance sheet liabilities*	213,739	288,484	180,518	251,189	56,401	0	990,331
<b>Net off-balance sheet liquidity gap as of 31 December 2018</b>	<b>(155,796)</b>	<b>(177)</b>	<b>7</b>	<b>84</b>	<b>157</b>	<b>0</b>	<b>(155,725)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2019:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	3,543	0	0	0	0	0	3,543
Financial liabilities at amortised cost	731,524	72,868	22,967	18,351	25,849	0	871,559
– Amounts due to banks	24,079	29,878	7,105	10,432	4,025	0	75,519
– Amounts due to customers	707,124	40,170	14,415	754	0	0	762,463
– Securities issued	244	2,690	1,063	5,631	20,611	0	30,239
– Lease liabilities	77	130	384	1,534	1,213	0	3,338
Current tax liabilities	0	199	0	0	0	0	199
Deferred tax liabilities	266	0	0	0	0	0	266
Accruals and other liabilities	9,745	0	0	0	0	331	10,076
Provisions	66	163	540	0	0	522	1,291
Subordinated debt	0	0	0	0	2,546	0	2,546
<b>Total non-derivative financial liabilities</b>	<b>745,145</b>	<b>73,230</b>	<b>23,507</b>	<b>18,351</b>	<b>28,395</b>	<b>853</b>	<b>889,481</b>
Other loans commitment granted	105,621	0	0	0	0	0	105,621
Guarantee commitments granted	58,803	0	0	0	0	0	58,803
<b>Total contingent liabilities</b>	<b>164,424</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>164,424</b>

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 2018:

(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
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	2,244	0	0	0	0	0	2,244
Financial liabilities at amortised cost	716,069	66,631	31,581	22,095	29,209	0	865,585
– Amounts due to banks	17,832	22,906	12,531	2,329	20,767	0	76,365
– Amounts due to customers	698,216	42,345	14,344	518	0	0	755,423
– Securities issued	21	1,380	4,706	19,248	8,442	0	33,797
– Lease liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Current tax liabilities	0	106	0	0	0	0	106
Deferred tax liabilities	24	0	0	0	0	0	24
Accruals and other liabilities	11,139	0	0	0	0	130	11,269
Provisions	1,122	0	0	0	0	694	1,816
Subordinated debt	0	0	0	0	2,578	0	2,578
<b>Total non-derivative financial liabilities</b>	<b>730,599</b>	<b>66,737</b>	<b>31,581</b>	<b>22,095</b>	<b>31,787</b>	<b>824</b>	<b>883,623</b>
Other loans commitment granted	102,498	0	0	0	0	0	102,498
Guarantee commitments granted	53,341	0	0	0	0	0	53,341
<b>Total contingent liabilities</b>	<b>155,839</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>155,839</b>



## (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
<b>Assets</b>					
Cash and current balances with central banks	14,617	1,660	255	338	16,870
Financial assets and other assets at fair value through profit or loss	18,690	5,313	59	1	24,063
Positive fair values of hedging financial derivatives	7,718	1,652	174	0	9,544
Financial assets at fair value through other comprehensive income	16,834	17,252	513	0	34,599
Financial assets at amortised cost	733,398	147,976	8,929	1,610	891,913
– Loans and advances to banks	218,023	34,053	6,657	948	259,681
– Loans and advances to customers	451,368	113,511	2,264	662	567,805
– Debt securities	64,007	412	8	0	64,427
Current tax assets	0	13	0	0	13
Deferred tax assets	0	20	0	0	20
Prepayments, accrued income, and other assets	3,078	391	54	2	3,525
Investments in subsidiaries and associates	17,098	649	0	0	17,747
Intangible assets	5,465	29	0	0	5,494
Tangible assets	7,572	41	0	0	7,613
Assets held for sale	118	0	0	0	118
<b>Total assets</b>	<b>824,588</b>	<b>174,996</b>	<b>9,984</b>	<b>1,951</b>	<b>1,011,519</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	19,583	4,762	44	1	24,390
Negative fair values of hedging financial derivatives	8,340	1,724	5	0	10,069
Financial liabilities at amortised cost	701,398	131,662	31,759	3,459	868,278
– Amounts due to banks	5,662	47,849	21,512	48	75,071
– Amounts due to customers	665,144	83,355	10,247	3,411	762,157
– Securities issued	27,964	0	0	0	27,964
– Lease liabilities	2,628	458	0	0	3,086
Revaluation differences on portfolios hedge items	(4,733)	971	(53)	0	(3,815)
Current tax liabilities	199	0	0	0	199
Deferred tax liabilities	266	0	0	0	266
Accruals and other liabilities	7,108	2,214	474	280	10,076
Provisions	897	310	20	64	1,291
Subordinated debt	0	2,546	0	0	2,546
Equity	98,211	7	0	0	98,218
<b>Total liabilities</b>	<b>831,270</b>	<b>144,196</b>	<b>32,249</b>	<b>3,804</b>	<b>1,011,519</b>
<b>Net FX position as of 31 December 2019</b>	<b>(6,682)</b>	<b>30,800</b>	<b>(22,265)</b>	<b>(1,853)</b>	<b>0</b>
Off-balance sheet assets*	2,171,615	934,086	142,396	22,225	3,270,322
Off-balance sheet liabilities*	2,166,143	964,663	119,969	20,487	3,271,262
<b>Net off-balance sheet FX position as of 31 December 2019</b>	<b>5,472</b>	<b>(30,577)</b>	<b>22,427</b>	<b>1,738</b>	<b>(940)</b>
<b>Total net FX position as of 31 December 2019</b>	<b>(1,210)</b>	<b>223</b>	<b>162</b>	<b>(115)</b>	<b>(940)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZK)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	20,344	1,672	238	250	22,504
Financial assets and other assets at fair value through profit or loss	19,577	3,381	318	4	23,280
Positive fair values of hedging financial derivatives	10,592	1,454	62	0	12,108
Financial assets at fair value through other comprehensive income	5,404	17,822	350	0	23,576
Financial assets at amortised cost	732,624	141,384	12,901	1,714	888,623
– Loans and advances to banks	224,526	35,073	9,912	770	270,281
– Loans and advances to customers	444,107	105,859	2,978	944	553,888
– Debt securities	63,991	452	11	0	64,454
Current tax assets	0	0	0	0	0
Deferred tax assets	0	19	0	0	19
Prepayments, accrued income, and other assets	2,961	947	13	106	4,027
Investments in subsidiaries and associates	17,231	567	0	0	17,798
Intangible assets	4,733	4	0	0	4,737
Tangible assets	4,687	3	0	0	4,690
Assets held for sale	142	0	0	0	142
<b>Total assets</b>	<b>818,295</b>	<b>167,253</b>	<b>13,882</b>	<b>2,074</b>	<b>1,001,504</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	18,811	3,167	257	4	22,239
Negative fair values of hedging financial derivatives	7,798	1,583	73	0	9,454
Financial liabilities at amortised cost	701,680	139,434	17,139	3,492	861,745
– Amounts due to banks	3,810	67,757	4,644	154	76,365
– Amounts due to customers	667,554	71,677	12,470	3,338	755,039
– Securities issued	30,316	0	25	0	30,341
– Lease liabilities	N/A	N/A	N/A	N/A	N/A
Revaluation differences on portfolios hedge items	(1,061)	814	(202)	0	(449)
Current tax liabilities	88	18	0	0	106
Deferred tax liabilities	24	0	0	0	24
Accruals and other liabilities	8,541	2,111	427	190	11,269
Provisions	1,453	298	10	55	1,816
Subordinated debt	0	2,578	0	0	2,578
Equity	92,714	7	0	0	92,721
<b>Total liabilities</b>	<b>830,049</b>	<b>150,010</b>	<b>17,704</b>	<b>3,741</b>	<b>1,001,504</b>
<b>Net FX position as of 31 December 2018</b>	<b>(11,754)</b>	<b>17,243</b>	<b>(3,822)</b>	<b>(1,667)</b>	<b>0</b>
Off-balance sheet assets*	1,811,093	877,316	148,221	31,457	2,868,087
Off-balance sheet liabilities*	1,799,890	893,959	144,132	29,938	2,867,919
<b>Net off-balance sheet FX position as of 31 December 2018</b>	<b>11,203</b>	<b>(16,643)</b>	<b>4,089</b>	<b>1,519</b>	<b>168</b>
<b>Total net FX position as of 31 December 2018</b>	<b>(551)</b>	<b>600</b>	<b>267</b>	<b>(148)</b>	<b>168</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value 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 independently and on a continuous basis reviewed within a so-called second level of controls. The Bank is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Bank's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

## **(H) Legal risk**

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

## **(I) Estimated fair value of assets and liabilities of the Bank**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

### **(a) Cash and current balances with central banks**

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

### **(b) Financial assets at amortised cost**

#### **Loans and advances to banks**

The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

#### **Loans and advances to customers**

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

#### **Debt securities**

The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

### **(c) Amounts due to central banks**

The reported values of amounts due to central banks are generally deemed to approximate their fair value.

### **(d) Financial liabilities at amortised cost**

#### **Amounts due to banks and Amounts due to customers**

The fair value of deposits repayable on demand is represented by the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

## Securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

### (e) Subordinated debt

The fair value of subordinated debt is estimated using a discounted cash flow analysis.

### (f) Lease liabilities

The reported values of lease liabilities are deemed to approximate their fair value.

*The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:*

(CZKm)	31 Dec 2019		31 Dec 2018	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	16,870	16,870	22,504	22,504
Financial assets at amortised cost	891,913	897,685	888,623	888,823
– Loans and advances to banks	259,681	259,536	270,281	270,182
– Loans and advances to customers	567,805	572,374	553,888	553,267
– Debt securities	64,427	65,775	64,454	65,374
<b>Financial liabilities</b>				
Amounts due to central banks	1	1	1	1
Financial liabilities at amortised cost	868,278	868,217	861,745	861,722
– Amounts due to banks	75,071	75,048	76,365	76,292
– Amounts due to customers	762,157	762,153	755,039	755,033
– Securities issued	27,964	27,930	30,341	30,397
– Lease liabilities	3,086	3,086	N/A	N/A
Subordinated debt	2,546	2,546	2,578	2,578

*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 2019				31 Dec 2018			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Cash and current balances with central banks	16,870	10,007	0	6,863	22,504	8,504	0	14,000
Financial assets at amortised cost	897,685	62,012	3,423	832,250	888,823	61,299	3,600	823,924
– Loans and advances to banks	259,536	0	0	259,536	270,182	0	0	270,182
– Loans and advances to customers	572,374	0	0	572,374	553,267	0	0	553,267
– Debt securities	65,775	62,012	3,423	340	65,374	61,299	3,600	475
<b>Financial liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at amortised cost	868,217	0	0	868,217	861,722	0	0	861,722
– Amounts due to banks	75,048	0	0	75,048	76,292	0	0	76,292
– Amounts due to customers	762,153	0	0	762,153	755,033	0	0	755,033
– Securities issued	27,930	0	0	27,930	30,397	0	0	30,397
– Lease liabilities	3,086	0	0	3,086	N/A	N/A	N/A	N/A
Subordinated debt	2,546	0	0	2,546	2,578	0	0	2,578

## (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):

(CZKml)	31 Dec 2019	Level 1	Level 2	Level 3	31 Dec 2018	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>								
<b>Financial assets at fair value through profit or loss</b>	<b>23,569</b>	<b>4,114</b>	<b>19,455</b>	<b>0</b>	<b>23,035</b>	<b>4,837</b>	<b>18,198</b>	<b>0</b>
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	4,112	3,883	229	0	3,248	2,995	253	0
– Derivatives	19,457	231	19,226	0	19,787	1,842	17,945	0
<b>Other assets at fair value through profit or loss</b>	<b>494</b>	<b>494</b>	<b>0</b>	<b>0</b>	<b>245</b>	<b>245</b>	<b>0</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>9,544</b>	<b>0</b>	<b>9,544</b>	<b>0</b>	<b>12,108</b>	<b>0</b>	<b>12,108</b>	<b>0</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>34,599</b>	<b>32,305</b>	<b>1,780</b>	<b>514</b>	<b>23,576</b>	<b>21,417</b>	<b>1,808</b>	<b>351</b>
<b>Financial assets at fair value</b>	<b>68,206</b>	<b>36,913</b>	<b>30,779</b>	<b>514</b>	<b>58,964</b>	<b>26,499</b>	<b>32,114</b>	<b>351</b>
<b>FINANCIAL LIABILITIES</b>								
<b>Financial liabilities at fair value through profit or loss</b>	<b>24,390</b>	<b>3,848</b>	<b>20,542</b>	<b>0</b>	<b>22,239</b>	<b>4,212</b>	<b>18,027</b>	<b>0</b>
of which:								
– Sold securities	3,543	3,543	0	0	2,244	2,244	0	0
– Derivatives	20,847	305	20,542	0	19,995	1,968	18,027	0
<b>Negative fair value of hedging financial derivatives</b>	<b>10,069</b>	<b>0</b>	<b>10,069</b>	<b>0</b>	<b>9,454</b>	<b>0</b>	<b>9,454</b>	<b>0</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(3,815)</b>	<b>0</b>	<b>(3,815)</b>	<b>0</b>	<b>(449)</b>	<b>0</b>	<b>(449)</b>	<b>0</b>
<b>Financial liabilities at fair value</b>	<b>30,644</b>	<b>3,848</b>	<b>26,796</b>	<b>0</b>	<b>31,244</b>	<b>4,212</b>	<b>27,032</b>	<b>0</b>

Financial assets at fair value – Level 3:

	2019		2018	
(CZKml)	Financial assets at FVOCI option	Total	Financial assets at FVOCI option	Total
<b>Balance as of 1 January</b>	<b>351</b>	<b>351</b>	<b>240</b>	<b>240</b>
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	160	160	96	96
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	3	3	15	15
<b>Balance as of 31 December</b>	<b>514</b>	<b>514</b>	<b>351</b>	<b>351</b>

### 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.

## 42 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 2019:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,969	1,968	29,001	19,067	3,630	6,304
Negative fair value of derivatives	32,884	1,968	30,916	19,067	10,489	1,360

\* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2018:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	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	33,921	2,026	31,895	21,781	5,332	4,782
Negative fair value of derivatives	31,475	2,026	29,449	21,781	6,889	779

\* This item includes also counterparties with only positive or negative fair value of derivatives.

## 43 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

(CZKm)	31 Dec 2019		31 Dec 2018	
	Cash	Securities	Cash	Securities
Assets in custody	3,410	539,075	3,789	531,523
Assets under management	0	3,248	0	3,039

Assets in custody include securities in the amount of CZK 33,430 million (2018: CZK 37,037 million) of Group subsidiaries.

## 44 Post balance sheet events

No significant event occurred after the balance sheet date.



# | 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.

	2019	2018	2017	2016	2015
Number of shares issued <sup>1)</sup>	190,049,260	190,049,260	190,049,260	190,049,260	38,009,852
Number of outstanding shares <sup>1)</sup>	188,855,900	188,855,900	188,855,900	188,855,900	37,771,180
Market capitalisation (CZK billion)	156.7	160.0	172.8	167.1	187.0
Earnings per share (CZK) <sup>2)</sup>	78.9	78.6	79.1	72.5	337.8
Dividend per share for the year (CZK) <sup>3)</sup>	0 <sup>4)</sup>	51.0	47.0	40.0	310.0
Dividend payout ratio (%) <sup>5)</sup>	0 <sup>4)</sup>	64.9	59.5	55.5	92.4
Book value per share (CZK) <sup>6)</sup>	558.8	529.1	511.2	537.8	2,711.4
Share price (CZK)					
closing price at year-end	829.5	847.0	915.0	885.0	4,950.0
maximum	962.0	965.0	1,010.0	1,091.0	5,667.0
minimum	737.0	847.0	881.0	818.0	4,590.0

<sup>1)</sup> Values from 2016 reflect the effect of 1-to-5 split of KB shares implemented in April 2016. Nominal value of each share is CZK 100. Before the split of KB shares, the nominal value was CZK 500.

<sup>2)</sup> Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated).

<sup>3)</sup> 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.

<sup>4)</sup> According to the proposal of the Board of Directors amended in compliance with stabilisation measures of the CNB adopted in connection with the coronavirus epidemic. Distribution of profit is subject to a vote of the General Meeting.

<sup>5)</sup> Dividend per share / Earning per share.

<sup>6)</sup> 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, and with the Bank's Articles of Association as approved by the General Meeting. Shareholders' voting rights are governed by the nominal value of their shares. Each CZK 100 of nominal share value is equivalent to one vote.

Each shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors based on fulfilment of the terms and conditions specified by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting which approved the share of the profit to be distributed among shareholders. The share in profit shall become payable upon the lapse of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

The right to claim payment of the dividend shall lapse 3 years from the day when the shareholder learnt of the payment date for payment of the share in profit or when he or she could or should have learnt this, but in no case later than within 10 years of the payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not assert the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment.

After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to assert the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

## Stock exchange listing

As of 31 December 2019, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and were traded at RM-SYSTEM Czech Stock Exchange. The average daily trading volume of KB shares on the PSE of CZK 116.0 million (EUR 4.6 million) was the highest<sup>1)</sup> among shares traded on the exchange and represented 26.9% of the exchange turnover.

## Stock market performance

Global equity markets returned to their long-term rising trend in 2019. The S&P 500 Index added 28.9% in USD terms (29.7% in CZK terms), and the Dow Jones Industrial Average increased by 22.3% (23.2% in CZK terms). The technology-heavy NASDAQ index grew by 35.2% (36.1% in CZK terms). At the beginning of the year, equity markets recuperated from losses incurred at the end of 2018 and reconfirmed their growth potential based on expected good corporate earnings. This occurred despite flashing signs of economic cooling. Occasional flaring up of the trade disputes between the USA and China had only temporary effects, as the two sides worked to reach consensus. The trade disputes also did not influence other indices. The MSCI ACWI index of 46 developed and emerging markets rose by 24.0% in USD terms (24.9% in CZK terms). The MSCI index of European equity markets (including the Czech Republic's) increased by 22.2% in EUR terms (20.7% in CZK terms). European equity markets were influenced by the Brexit talks, which created further uncertainty in Europe. The PX index of the Prague Stock Exchange nevertheless managed to gain 11.7% during 2019.

The STOXX Europe 600 Banks index grew at a slower pace as compared to general indices, gaining 8.2% in EUR terms (6.9% in CZK terms). The low interest rate environment constrained interest income, and rapid technological advances in financial services pressed down fee income. The implementation of various regulatory measures also had generally negative impacts on banks' profitability.

## KB share price development

The KB shares closed out trading in 2019 at a price of CZK 829.5, down 2.1% from the closing price of the previous year. As of 31 December 2019, Komerční banka's market capitalisation stood at CZK 157.6 billion (EUR 6.2 billion), ranking KB in third place by capitalisation among the shares listed on the PSE's Prime Market.

KB's share price started out the year at CZK 862.5, rose continuously throughout the first two months to surpass CZK 950, then steadied around that level until the end of the first quarter. The share price reached its highest closing value for the year on 7 March. The market then corrected and the decline was magnified in the case of KB's share price by talk in the pre-election period of introducing a banking sector tax. KB's share price essentially returned to its level at the start of 2019. Generally positive market sentiment helped lift the share price back to the CZK 900 level, where it stayed during June and July. From the beginning of August, the price began to slip as concerns arose over automotive production in the region, the outlook for interest rates, and heightened sensitivity over European regulation of cross-border payments. KB's share price hit its low for the year of CZK 737 on 14 October. As some risks appeared to be mitigated, the price followed an upward trajectory through the rest of the year to close out 2019 at CZK 829.5 (down 2.1%).

## 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.

The gross dividend of CZK 51 per share paid out in 2019 represented 63.6% of KB Group's attributable net profit for 2018. The corresponding gross dividend yield based on 2018's closing share price was 6.1%.

The total return from holding KB shares in 2019 was 2.9%, assuming reinvestment of the net dividend on the payment day.

## Dialogue with shareholders and the capital market

Apart from the 60.4% 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

<sup>1)</sup> Source: Prague Stock Exchange; <https://www.pse.cz/en/market-data/statistics/issues-volume-summary>.

individuals. From the total of more than 50,000 shareholders as of 31 December 2019, individuals resident in the Czech Republic numbered more than 45,000.

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 2019, Komerční banka management participated in a few less than 100 investor meetings involving around 100 institutions in Prague, London, New York, Boston, Toronto, and Warsaw.

More than 20 financial firms regularly publish their investment research reports on Komerční banka.

### **Acquisition of treasury shares in 2019**

Komerční banka held 1,193,360 of its own shares as of 31 December 2019. 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 2019, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares. In 2019, Komerční banka intermediated buy and sell transactions in KB shares for its clients through its own account in the amount of 90,391 shares.

Based upon the consent of the General Meetings convened on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions during 2019:

- 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 five 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 § 301 (b) and (c) and § 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**

### **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 that are negotiable promissory bonds) are made out to the bearer. All bonds are denominated in CZK.

All bonds were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30 Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act, and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if required by law, by the Czech National Bank.

### **Public tradability and transferability**

Transferability of the bonds is not limited. HZL ISIN CZ0002002801 was admitted for trading on the Regulated Market of the Prague Stock Exchange.

List of bonds issued by Komerční banka (as of 31 December 2019)

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
1	HZL 2007/2037	CZ0002001324 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note A	stated
2	HZL 2007/2037	CZ0002001332 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note A	stated
3	HZL 2007/2037	CZ0002001340 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note B	stated
4	HZL 2007/2037	CZ0002001357 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	500,000,000	5	Note B	stated
5	HZL 2007/2037	CZ0002001365 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
6	HZL 2007/2037	CZ0002001373 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
7	HZL 2007/2037	CZ0002001381 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
8	HZL 2007/2037	CZ0002001399 <sup>2)</sup>	16 Nov 2007	16 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
9	HZL 2007/2037	CZ0002001431 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
10	HZL 2007/2037	CZ0002001449 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
11	HZL 2007/2037	CZ0002001456 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
12	HZL 2007/2037	CZ0002001464 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
13	HZL 2007/2037	CZ0002001472 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
14	HZL 2007/2037	CZ0002001480 <sup>2)</sup>	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15	HZL 2007/2037	CZ0002001498 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	500,000,000	5	RS minus 0.20% p.a.	stated
16	HZL 2007/2037	CZ0002001506 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	700,000,000	7	RS minus 0.20% p.a.	stated
17	HZL 2007/2037	CZ0002001514 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
18	HZL 2007/2037	CZ0002001522 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
19	HZL 2007/2037	CZ0002001530 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
20	HZL 2007/2037	CZ0002001548 <sup>2)</sup>	7 Dec 2007	7 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
21	HZL 2007/2037	CZ0002001555 <sup>2)</sup>	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
22	HZL 2007/2037	CZ0002001563 <sup>2)</sup>	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
23	HZL 2007/2037	CZ0002001571 <sup>2)</sup>	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24	HZL 2007/2037	CZ0002001589 <sup>2)</sup>	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25	HZL 2007/2037	CZ0002001753 <sup>1)</sup>	21 Dec 2007	21 Dec 2037	10,330,000,000	1,033	RS plus 1.5% p.a.	yearly
26	HZL 2007/2037	CZ0002001746 <sup>1)</sup>	28 Dec 2007	28 Dec 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
27	HZL 2012/2022	CZ0002002801 <sup>1)</sup>	21 Dec 2012	21 Dec 2022	3,000,000,000	300,000	2.55% p.a.	yearly
28	HZL 2014/2022	CZ0002003379 <sup>1)</sup>	30 Jan 2014	30 Apr 2022	800,000,000	80,000	3.00% p.a.	yearly
29	HZL 2014/2024	CZ0002003361 <sup>1)</sup>	30 Jan 2014	30 Jan 2024	900,000,000	90,000	3.00% p.a.	yearly
30	HZL 2014/2025	CZ0002003353 <sup>1)</sup>	31 Jan 2014	31 Jan 2025	1,117,000,000	111,700	3.50% p.a.	yearly
31	HZL 2014/2026	CZ0002003346 <sup>1)</sup>	31 Jan 2014	31 Jan 2026	800,000,000	80,000	3.50% p.a.	yearly
32	HZL 2014/2026	CZ0002003742 <sup>2)</sup>	18 Nov 2014	18 Nov 2026	750,000,000	75,000	2.00% p.a.	yearly
33	HZL 2014/2028	CZ0002003767 <sup>2)</sup>	20 Nov 2014	20 Nov 2028	750,000,000	75,000	2.20% p.a.	yearly
34	HZL 2014/2027	CZ0002003759 <sup>2)</sup>	24 Nov 2014	24 Nov 2027	750,000,000	75,000	2.10% p.a.	yearly
35	HZL 2014/2029	CZ0002003775 <sup>2)</sup>	27 Nov 2014	27 Nov 2029	750,000,000	75,000	2.30% p.a.	yearly

<sup>1)</sup> dematerialised bonds

<sup>2)</sup> bonds in paper form

Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.  
HZL = mortgage bond, RS = reference rate

Note A: 5.06% p.a. for the first twelve annual periods, afterwards the relevant RS minus 0.20% p.a.

Note B: 5.02% p.a. for the first eleven annual periods, afterwards the relevant RS minus 0.20% p.a.

## 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 2019:*

Type of service – CZK thousand, excl. VAT	Deloitte		EY		Total	
	KB	KB Group	KB	KB Group	KB	KB Group
Audit services	17,677	21,619	0	3,983	17,677	25,602
Tax advisory	0	0	0	0	0	0
Non-audit services*	927	927	1,480	1,480	2,407	2,407
<b>Total</b>	<b>18,604</b>	<b>22,546</b>	<b>1,480</b>	<b>5,463</b>	<b>20,084</b>	<b>28,009</b>

\* Non-audit services include training, allowed IT services, compliance audit.

## Information on the base used in calculating the contribution to the Investor Compensation Fund (in the Czech Republic)

Pursuant to § 129, para. 1 of the Act on Capital Market Undertakings, the annual contribution of a securities dealer to the Investor Compensation Fund shall be calculated as 2% of the volume of revenues from fees and commissions for investment services provided in the previous calendar year. In 2019, the base for calculating the volume of the contribution was CZK 701 million (2018: CZK 707 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 2019 came to CZK 14 million (2018: CZK 14 million)..

# Report on Relations among Related Entities

for the year ended 31 December 2019

(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, § B, File 1360, (hereinafter “KB” or “Komerční banka”), is part of a business group (holding company) where the following relations exist between KB and its controlling entity and further between KB and other entities controlled by the same controlling entities (hereinafter the “related entities”).

This Report on Relations was compiled in accordance with § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Business Corporations Act) for the year ended 31 December 2019, that is, from 1 January 2019 to 31 December 2019 (hereinafter the “reporting period”).

## I. Introduction

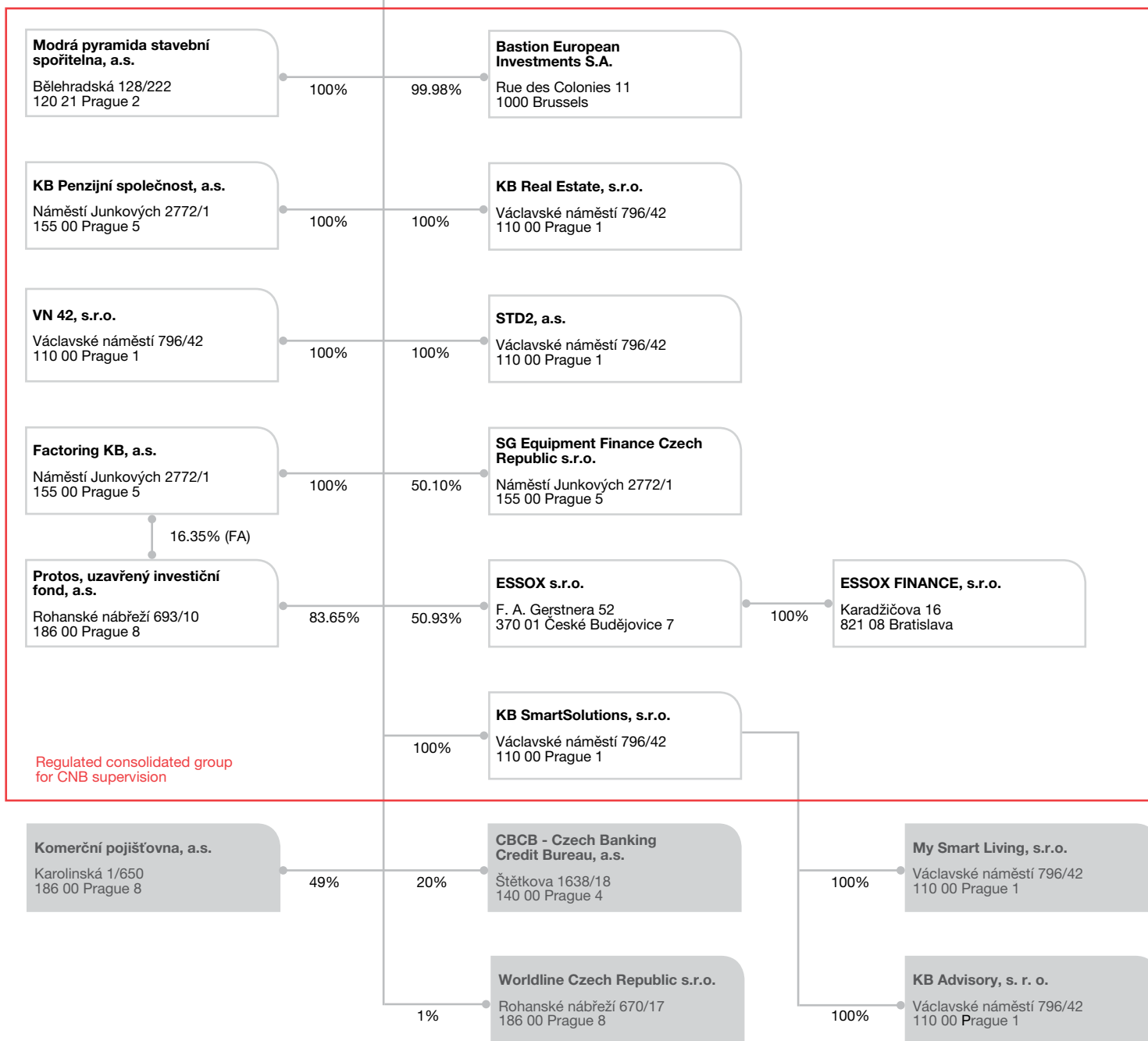
### **Structure of relations among entities within the business group:**

In the period from 1 January 2019 to 31 December 2019, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter “SG” or “SG Paris”). The structure of relations within the KB Group is shown below and the structure of relations within the whole SG Group is shown in the annex:



## Komerční banka, a.s.

Na Příkopě 33/969  
114 07 Prague 1



During the 2019 reporting period, KB had business relationships with the following related entities:

a) **SG head office and branches**

Company	Registered office
SG Paris*	29, Boulevard Haussmann, Paris, France
SG London	House 41 Tower Hill 99132, EC3N 4SG, London, Great Britain
SG New York	245 Park Avenue, 10167 New York, NY, USA
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat.9 ETILER 80600 Istanbul, Turkey
SG Zürich	Sihlquai 253, 8031 Zürich, Switzerland
SG Warszawa	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, Germany
SG Bruxelles	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Wien	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Hong Kong	Level 34, Three Pacific Place 1, Queen's Road East, Hong Kong
SG EN Espana	Plaza de Pablo Ruiz Picasso, 1 28020, Madrid, Spain
SG Seoul	D1 D-Tower, 17, Jongno 3-Gil, Jongno-gu, 03155, Seoul, South Korea
SG Singapore	8 Marina Boulevard, 018981, Singapore
SG Mumbai	Ganapatrao Kadam Marg, Lowe Parel, 400013, Bombay, India
SG Tokyo	Palace Building, 1-1-1 Marunouchi, Chiyoda-ku, 100-8206 Tokyo, Japan

\* including branches

## b) SG subsidiaries

Company	Registered office	SG's share in voting rights
ALD Automotive Slovakia s. r. o.	Panónska cesta 47, 851 01 Bratislava, Slovakia	100
ALD Automotive s. r. o.	U Stavoservisu 527/1, 108 00 Prague 10, Czech Republic	100
ALD Automotive Eesti AS	Sõpruse pst. 145, 13424 Tallinn, Estonia	75.01
Banca Romana Pentru Devzoltare (B.R.D.)	Boulevard Ion Mihalache No. 1-7, sector I, Bucharest, Romania	100
Crédit du Nord	28 Place Rihour, 59800 Lille, France	100
GEFA BANK GmbH	Robert-Daum-Platz 1, 42117 Wuppertal, Germany	100
Komerční pojišťovna, a.s.	Karolinská 1/650, 186 00 Prague, Czech Republic	100
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100
OHRIDSKA BANKA AD SKOPJE <sup>1)</sup>	ul. Orce Nikolov br. 54, 1000 Skopje, Macedonia	75.38
PEMA Praha, spol. s r. o. <sup>1)</sup>	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	99.97
SG Algerie	Résidence EL KERMA, 16 105 Gué de Konstantine, Djasr Kasentina, Algeria	100
SG Bank & Trust (SGBT)	11-13 Avenue Emile Reuter L-2420 Luxembourg City, Luxembourg	100
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100
SG Global Solution Centre Pvt. Ltd.	Voyager Building 10F, ITPB, Whitefield Road, 560 066 Bangalore, India	100
SG Hambros	8 St James's Square, London, Great Britain	100
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Beijing, China	100
SG Issuer S.A.	15 Boulevard du Prince Henri Luxembourg, 1724, Luxembourg	100
SG Marocaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	57.58
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France	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
SG Sucursal en Espana	Genova 26, Madrid, Spain	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 International Ltd.	Lyxor SG House, 41 Tower Hill London, EC3N 4SG, Great Britain	100
SOCIETE GENERALE SENEGAL	19 Avenue Senghor, Dakar, Senegal	64.87
SOGECAP S.A.	50 avenue du Général de Gaulle, 92093 Paris, La Défense CEDEX, France	100
SOGEPROM Česká republika s.r.o., v likvidaci	Legerova 802/64, 120 00 Prague 2 – Vinohrady, Czech Republic	100
UNION INTERNATIONALE DE BANQUES	65 avenue Habib Bourguiba 1000, Tunis, Tunisia	52.34

<sup>1)</sup> As of 31 December 2019, these companies were no longer part of the SG Group; SG's share in voting rights was zero

## c) KB subsidiaries

Company	Registered office	SG's share in voting rights
Factoring KB, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128/222, 120 21 Prague 2, Czech Republic	100
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Protos, uzavřený investiční fond, a. s.	Rohanské nábřeží 693/10, 186 00 Prague 8 – Karlín, Czech Republic	100
BASTION EUROPEAN INVESTMENTS S.A.	Rue des Colonies 11, 1000 Brussels, Belgium	100
SG Equipment Finance Czech Republic s. r. o.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
KB Advisory, s. r. o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
KB Real Estate, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
My Smart Living, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
VN 42, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
STD2, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
KB SmartSolutions, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
ESSOX s.r.o.	F. A. Gerstnera č. ev. 52, 370 01 České Budějovice 7, České Budějovice, Czech Republic	100
ESSOX FINANCE s.r.o.	Karadžičova 16, 821 08 Bratislava, Slovak Republic	100

### Role of Komerční banka within the Group:

Komerční banka is the parent company of the KB Group and is part of the international financial group of Société Générale (hereinafter “SG Group”). KB is a universal bank offering a wide range of services in the areas of retail, corporate, and investment banking on the territory of the Czech Republic. KB operates on the territory of the Slovak Republic through its branch abroad and there it focuses on serving large and medium-sized enterprises. The KB Group companies offer additional specialised services, including pension savings, building society schemes, leasing, factoring, consumer financing, and insurance. As a part of the KB Group, the Bank provides certain subsidiaries with trademark licences. Within KB Group, Komerční banka provides certain IT services, services and advisory in the area of human resources, as well as advisory in the areas of compliance, operational risks, and insurance within the SG Group. The products of KB’s subsidiaries are sold using the Komerční banka’s sales network. Komerční banka offers some of its products using, inter alia, the network of Modrá pyramida stavební spořitelna, a.s.

KB creates and collects data on the whole control and management system and also provides these data, including data on KB, to SG (the data include, inter alia, budgets, business plans, business continuity and crisis management plans, and anti-money laundering measures).

KB intermediates SG’s control over KB’s subsidiaries and participates in the creation of group policies on the territory of the Czech Republic and Slovakia.

### Manner and means of control

Société Générale, as the majority shareholder, exerts its influence on KB’s activity through 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 six such employees in KB.

In accordance with § 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 exists in the form of consultancy within individual areas of KB’s activity.

The intermediation of SG’s control over KB’s subsidiaries is formally represented by the implementation of KB’s methodologies in the subsidiaries’ internal regulations, and informal control takes the form of consultancy in individual areas of activity.

## II. Relations within the Group

### A. Important actions adopted in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity in respect of assets exceeding 10% of the controlled entity’s equity

Komerční banka made bank transactions which were subject to banking secrecy and which, separately or cumulatively, exceeded 10% of the equity of Komerční banka with its subsidiaries ESSOX, Modrá pyramida, SGEF, and SG Paris.

## **B. Overview of mutual contracts between the controlled entity and the controlling entity or among controlled entities**

### **Banking transactions**

During the reporting period, Komerční banka entered into the relationships stated below that are subject to bank secrecy with the controlled entities in the areas listed below.

#### ***Deposit arrangements***

In the deposit segment, KB had entered into arrangements with 25 branches and subsidiaries of SG Group as of the end of the reporting period. As of 31 December 2019, KB maintained a total of 59 accounts, of which 21 were loro accounts for branches and subsidiaries of SG Group, 33 were current accounts, and 5 were overdraft accounts opened for non-banking entities of SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 131.9 million; the average monthly credit balance (deposit) was CZK 203.5 million. In the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 626.3 million; the average monthly overdraft balance on these accounts was CZK 251.8 million. In the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 6.3 million; income from fees associated with the maintenance of accounts and related transactions amounted to CZK 7.3 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris; B.R.D. Groupe Société Générale, Bucharest; SG New York; SG Warszawa; SG Express Bank, Varna; Rosbank, Moscow, and SG China, Beijing. In the reporting period, KB's average monthly deposit on nostro accounts with SG was CZK 325.8 million; the average monthly overdraft balance on nostro accounts was CZK 54.9 million. Interest income on nostro accounts for the reporting period was CZK 0.135 million; interest expenses amounted to CZK 2.147 million. KB's expenses arising from maintenance fees and transactions on nostro accounts for the reporting period were CZK 17.3 million; fee income (i.e. discounts provided on credit operations on nostro accounts) amounted to CZK 3.3 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.9 million. Interest expenses paid by KB on loro accounts amounted to CZK 172 thousand and interest income totalled CZK 3.2 million in the reporting period.

Seven subsidiaries of SG Group held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 47,044 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 43.8 million for the reporting period.

Nostro, loro, current, term, and overdraft accounts of related entities were maintained under standard terms and conditions.

#### ***Loan arrangements***

In the loan segment, KB provided loans during 2019 to two of the SG Group subsidiaries. These totalled 264 loans in the aggregate amount of CZK 7,469.3 million. The average monthly balance of loans in the reporting period was CZK 7,186.8 million. The aggregate amount of interest income from loans and overdraft accounts was CZK 110.086 million.

As of the end of the reporting period, KB had provided nine entities of SG Group with bank guarantees (payment, non-payment) in the amount of CZK 1,996 million.

As of the end of the reporting period, KB had received guarantees from three entities of SG Group as collateral for loans provided to clients in the aggregate amount of CZK 9,124 million. The aggregate amount of fees for guarantees received in the reporting period amounted to CZK 6.96 million.

#### ***Investment banking arrangements***

In the investment banking segment, KB carried out transactions with 16 branches and subsidiaries within SG Group. The total number of transactions was 39,927 (2,511 balance sheet transactions and 37,416 off-balance sheet transactions) in the aggregate nominal value of CZK 3,764,086 million. The income from the investment banking transactions amounted to CZK 33,263 million and the costs totalled CZK 33,662 million.

The aggregate nominal value of balance sheet transactions was CZK 2,152,250 million and consisted of the following:

- Depository transactions – a total of 1,876 transactions in the aggregate amount of CZK 2,104,133 million; and
- Securities held for trading – a total of 635 transactions in the aggregate amount of CZK 48,117 million.

The aggregate nominal value of off-balance sheet transactions was CZK 1,611,836 million and consisted of the following:

- Foreign currency transactions (spots, forwards, swaps) totalling 25,982 in aggregate nominal value of CZK 855,326 million;
- Interest rate derivative transactions (interest rate swaps and futures) totalling 946 in aggregate nominal value of CZK 505,858 million;
- Option transactions with currency instruments totalling 6,142 in aggregate nominal value of CZK 122,343 million;
- Commodity transactions carried out only with SG Paris and SG London totalling 4,105 in aggregate amount of CZK 15,727 million;
- Emission allowance transactions totalling 206 in aggregate amount of CZK 6,189 million with SG Paris; and
- Repo transactions totalling 35 in aggregate nominal value of CZK 106,393 million with SG Paris.

All of the banking products were provided under standard terms and conditions, in accordance with KB's price list, and while taking into consideration the creditworthiness of individual clients under arm's length conditions in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of the banking transactions concluded in the reporting period.

### Other mutual contracts

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement on the organisation of periodic control	ALD Automotive Eesti AS	27 May 2019
Co-operation agreement – Jobs	ALD Automotive s. r. o.	9 Jun 2010
Framework service agreement (IT area)	ALD Automotive s. r. o.	31 Aug 2010
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	ALD Automotive s. r. o.	16 Aug 2011
Framework agreement to lease a vehicle	ALD Automotive s. r. o.	7 Jan 2015
		31 Oct 2003
		30 Mar 2004
		7 Dec 2004
		15 Feb 2012
Lease of non-residential premises – Ostrava + 4 amendments	ALD Automotive s. r. o.	1 Apr 2019
Lease of non-residential premises and movable property – České Budějovice + 1 amendment	ALD Automotive s. r. o.	27 Nov 2003
		1 Apr 2019
Lease of non-residential premises and payment of related services – Pilsen + 1 amendment	ALD Automotive s. r. o.	30 Sep 2015
		8 Apr 2019
		29 Mar 2013
		7 Dec 2015
Co-operation agreement + 2 amendments	ALD Automotive s. r. o.	19 Oct 2018
Lease of non-residential premises – Hradec Králové + amendment dated 13 Feb 2015	ALD Automotive s. r. o.	1 Feb 2013
		1 Apr 2013
Agreement – outsourcing of HR services + Amendment no. 1	ALD Automotive s. r. o.	31 Mar 2016
Framework agreement for full-service leasing and finance leasing with subsequent purchase + Amendment no. 1	ALD Automotive s. r. o.	22 May 2013
		31 May 2016
Agreement for co-operation in performance of the contract for employee group risk insurance	ALD Automotive s. r. o.	29 Oct 2013
Service contract – Lease of a mailing machine, provision of postal services	ALD Automotive s. r. o.	17 Jul 2014
Agreement for co-operation in performance of the 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	ALD Automotive s. r. o.	29 Dec 2014
Non-disclosure agreement	ALD Automotive s. r. o.	9 Jul 2010
Lease of non-residential premises and payment of related services – Brno + 1 amendment	ALD Automotive s. r. o.	31 Dec 2016
		1 Apr 2019
Separate agreement no. 3 – Provision of technical infrastructure services, Physical Housing of Equipment	ALD Automotive s. r. o.	30 Jun 2017
Service contract – Outsourcing (HR services)	ALD Automotive s. r. o.	21 Dec 2017
Agreement on services: eDoceo	ALD Automotive s. r. o.	1 Apr 2018
Lease of non-residential premises, movable property and payment of related services – Ústí nad Labem	ALD Automotive s. r. o.	3 Jun 2019
Agreement – outsourcing of DPO services	ALD Automotive s. r. o.	18 May 2018
Network package	ALD Automotive s. r. o.	1 Nov 2012
Separate agreement no. 1 – Provision of services for technical infrastructure, voice over IP (VoIP)	ALD Automotive s. r. o.	6 Oct 2011
Service contract – access to C4M	ALD Automotive s. r. o.	14 Sep 2018
		3 Aug 2011
Separate agreement no. 1 - VOI services + 1 amendment	ALD Automotive s. r. o.	1 Sep 2019
Separate agreement no. 2 - Provision of technical infrastructure services – Connectivity services + amendment	ALD Automotive s. r. o.	1 Nov 2012
		17 May 2018
1x Contract of lease of movable property	ALD Automotive s. r. o.	7 Oct 2011
6x Contract of lease of movable property	ALD Automotive s. r. o.	8 Aug 2012
6x Contract of lease of movable property	ALD Automotive s. r. o.	10 Oct 2012



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
1x Contract of lease of movable property	ALD Automotive s. r. o.	29 Apr 2013
3x Contract of lease of movable property	ALD Automotive s. r. o.	9 Jul 2013
5x Contract of lease of movable property	ALD Automotive s. r. o.	10 Jul 2013
9x Contract of lease of movable property	ALD Automotive s. r. o.	25 Jul 2013
1x Contract of lease of movable property	ALD Automotive s. r. o.	1 Aug 2013
1x Contract of lease of movable property	ALD Automotive s. r. o.	18 Sep 2013
29x Contract of lease of movable property	ALD Automotive s. r. o.	8 Jan 2014
1x Contract of lease of movable property	ALD Automotive s. r. o.	4 Feb 2014
13x Contract of lease of movable property	ALD Automotive s. r. o.	2 Apr 2014
1x Contract of lease of movable property	ALD Automotive s. r. o.	7 May 2014
1x Contract of lease of movable property	ALD Automotive s. r. o.	4 Jul 2014
38x Contract of lease of movable property	ALD Automotive s. r. o.	3 Oct 2014
1x Contract of lease of movable property	ALD Automotive s. r. o.	2 Dec 2014
16x Contract of lease of movable property	ALD Automotive s. r. o.	7 Apr 2015
21x Contract of lease of movable property	ALD Automotive s. r. o.	2 Jun 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	9 Jun 2015
11x Contract of lease of movable property	ALD Automotive s. r. o.	4 Aug 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	11 Aug 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	1 Oct 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	6 Oct 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	14 Oct 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	2 Nov 2015
1x Contract of lease of movable property	ALD Automotive s. r. o.	1 Apr 2016
1x Contract of lease of movable property	ALD Automotive s. r. o.	11 Apr 2016
1x Contract of lease of movable property	ALD Automotive s. r. o.	30 Jun 2016
1x Contract of lease of movable property	ALD Automotive s. r. o.	1 Oct 2016
89x Contract of lease of movable property	ALD Automotive s. r. o.	14 Nov 2016
1x Contract of lease of movable property	ALD Automotive s. r. o.	29 Nov 2016
4x Contract of lease of movable property	ALD Automotive s. r. o.	2 Dec 2016
24x Contract of lease of movable property	ALD Automotive s. r. o.	9 Dec 2016
8x Contract of lease of movable property	ALD Automotive s. r. o.	13 Jan 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	18 Jan 2017
17x Contract of lease of movable property	ALD Automotive s. r. o.	23 Jan 2017
5x Contract of lease of movable property	ALD Automotive s. r. o.	24 Jan 2017
2x Contract of lease of movable property	ALD Automotive s. r. o.	13 Feb 2017
2x Contract of lease of movable property	ALD Automotive s. r. o.	3 Apr 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	9 Jun 2017
21x Contract of lease of movable property	ALD Automotive s. r. o.	11 Jul 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	17 Jul 2017
2x Contract of lease of movable property	ALD Automotive s. r. o.	4 Sep 2017
18x Contract of lease of movable property	ALD Automotive s. r. o.	2 Oct 2017
17x Contract of lease of movable property	ALD Automotive s. r. o.	3 Oct 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	4 Oct 2017
3x Contract of lease of movable property	ALD Automotive s. r. o.	25 Oct 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	1 Nov 2017
1x Contract of lease of movable property	ALD Automotive s. r. o.	22 Nov 2017
8x Contract of lease of movable property	ALD Automotive s. r. o.	1 Apr 2018
33x Contract of lease of movable property	ALD Automotive s. r. o.	24 Apr 2018
1x Contract of lease of movable property	ALD Automotive s. r. o.	18 May 2018
1x Contract of lease of movable property	ALD Automotive s. r. o.	19 Jun 2018
2x Contract of lease of movable property	ALD Automotive s. r. o.	3 Oct 2018
1x Contract of lease of movable property	ALD Automotive s. r. o.	16 Oct 2018
2x Contract of lease of movable property	ALD Automotive s. r. o.	12 Dec 2018

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
12x Contract of lease of movable property	ALD Automotive s. r. o.	1 Feb 2019
7x Contract of lease of movable property	ALD Automotive s. r. o.	25 Feb 2019
26x Contract of lease of movable property	ALD Automotive s. r. o.	2 Apr 2019
2x Contract of lease of movable property	ALD Automotive s. r. o.	25 Apr 2019
6x Contract of lease of movable property	ALD Automotive s. r. o.	26 Apr 2019
2x Contract of lease of movable property	ALD Automotive s. r. o.	7 May 2019
Non-disclosure agreement	ALD Automotive Slovakia s. r. o.	19 Oct 2015
Service agreement – outsourcing (HR services)	ALD Automotive Slovakia s. r. o.	1 Jan 2016
Framework agreement – Full-service leasing, finance lease	ALD Automotive Slovakia s. r. o.	8 Jun 2016
Agreement for co-operation in performance of group insurance agreement of work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka/Société Générale no. 334000000	ALD Automotive Slovakia s. r. o.	4 Aug 2016
Co-operation agreement	ALD Automotive Slovakia s. r. o.	19 Oct 2018
Co-operation agreement	ALD Automotive Slovakia s. r. o.	28 Mar 2013
Agreement – outsourcing of HR services (excluding Payroll)	ALD Automotive Slovakia s. r. o.	30 Dec 2016
Agreement – outsourcing of DPO services	ALD Automotive Slovakia s. r. o.	20 Feb 2019
Custodian services agreement	B.R.D.	20 Oct 2011
Service level agreement	B.R.D.	20 Oct 2011
EUR account agreement	B.R.D.	3 Dec 2015
RON account agreement – nostro	B.R.D.	16 Oct 2019
Framework agreement – financial services	ESSOX FINANCE, s.r.o.	30 Jun 2016
Service framework agreement	ESSOX FINANCE, s.r.o.	15 Feb 2017
Service agreement – outsourcing (HR services)	ESSOX FINANCE, s.r.o.	2 Jan 2017
Agreement – outsourcing of DPO services	ESSOX FINANCE, s.r.o.	24 May 2018
Non-disclosure agreement	ESSOX FINANCE, s.r.o.	29 Nov 2016
Agreement for co-operation in performance of group risk insurance agreement for employees	ESSOX FINANCE, s.r.o.	31 Mar 2017
Co-operation agreement	ESSOX FINANCE, s.r.o.	27 Jun 2018
Separate agreement no. 3: Technical infrastructure services, connectivity	ESSOX FINANCE, s.r.o.	16 Jan 2018
Separate agreement no. 2: Technical infrastructure services, identity and access	ESSOX FINANCE, s.r.o.	28 Dec 2017
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	ESSOX FINANCE, s.r.o.	14 Sep 2016
Service agreement (client)	ESSOX s.r.o.	21 Sep 2005
Mutual co-operation agreement + 1 amendment (recipient)	ESSOX s.r.o.	1 Aug 2007
Co-operation agreement	ESSOX s.r.o.	17 Sep 2008
Co-branded cards distribution agreement + 1 amendment	ESSOX s.r.o.	16 Jan 2009
Framework agreement for financial market trading	ESSOX s.r.o.	16 Apr 2009
Co-operation agreement + 1 amendment	ESSOX s.r.o.	20 Oct 2009
Non-disclosure agreement	ESSOX s.r.o.	9 Jul 2010
Individual pricing agreement	ESSOX s.r.o.	30 May 2018
Agreement on the organisation of periodic control + 1 amendment (client)	ESSOX s.r.o.	28 Feb 2011
Personal data processing framework agreement (administrator)	ESSOX s.r.o.	12 Apr 2011
Contract – soft collection	ESSOX s.r.o.	29 Apr 2015
Service contract – outsourcing + 5 amendments (provider)	ESSOX s.r.o.	15 Dec 2009
Service contract – outsourcing (HR services) + 1 amendment	ESSOX s.r.o.	21 Dec 2011
Framework agreement for the provision of financial services + 3 amendments (client)	ESSOX s.r.o.	31 Jul 2014
Framework agreement for the provision of financial services + 1 amendment	ESSOX s.r.o.	31 Jan 2018
Service level agreement	ESSOX s.r.o.	25 Nov 2014
Agreement – outsourcing of DPO services	ESSOX s.r.o.	11 May 2018
Agreement on services: eDoceo	ESSOX s.r.o.	31 Mar 2018
Co-operation agreement + 2 amendments	ESSOX s.r.o.	1 Aug 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service agreement + 1 amendment	ESSOX s.r.o.	3 Jan 2017
Memorandum of understanding – project AS/400 Lifecycle Renewal	ESSOX s.r.o.	3 Apr 2017
Distribution agreement for product "Corporate Car Loans" + 1 amendment	ESSOX s.r.o.	1 Aug 2012
Co-branded cards co-operation agreement	ESSOX s.r.o.	28 Dec 2012
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 contract – C4M access + 1 amendment (client)	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
Separate agreement no. 2 – Provision of technical infrastructure services, service hosting + 1 amendment	ESSOX s.r.o.	29 Aug 2014
Non-disclosure agreement	ESSOX s.r.o.	10 May 2010
Agreement to use KB eTrading	ESSOX s.r.o.	24 Jun 2016
Agreement to use a safe box	ESSOX s.r.o.	18 Jan 2017
Group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale	ESSOX s.r.o.	14 Jul 2016
Contract for the payment of insurance premium and of insurance broker's commission	ESSOX s.r.o.	23 Aug 2016
Agreement for framework insurance contract	ESSOX s.r.o.	10 Feb 2014
Lease of non-residential premises and payment of related services + 6 amendments (lessee)	ESSOX s.r.o.	8 Mar 2006
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
Lease of non-residential premises and payment of related services + 2 amendments	ESSOX s.r.o.	10 Jan 2017
Lease of parking places + 1 amendment	ESSOX s.r.o.	9 Mar 2017
Sublease agreement	ESSOX s.r.o.	9 May 2017
Purchase agreement for the sale of movable property	ESSOX s.r.o.	25 Mar 2019
Agreement on assignment of rights and obligations arising from the license agreement and licenses assignment agreement	ESSOX s.r.o.	7 Mar 2019
Service level agreement	European Fund Services S. A.	12 Nov 2008
Framework agreement for the rental of employee-driven motor vehicles	Factoring KB, a.s.	22 Sep 2014
Service contract for the provision of postal services and duplicate documentation shredding + 1 amendment	Factoring KB, a.s.	31 Oct 2013 22 Dec 2017
		18 Jun 2008 19 Dec 2011 30 Sep 2015 1 Apr 2017 14 Dec 2017 27 Mar 2019 1 Apr 2019 3 Apr 2019
Lease of non-residential premises, movable assets, and payment of related services (4) + amendments (5)	Factoring KB, a.s.	30 Aug 2012 30 Dec 2014 21 Feb 2017 4 May 2017 28 Dec 2017 26 Mar 2018 29 Apr 2019
		28 Aug 2012 1 Jan 2013 23 Mar 2015 21 Feb 2017 28 Dec 2017 17 Sep 2019
Lease of garage parking places (3) + amendments (5)	Factoring KB, a.s.	20 Dec 2004 29 Jan 2015
License agreement – LOGO + amendment (1)	Factoring KB, a.s.	

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the payment of insurance premium and of insurance broker's commission	Factoring KB, a.s.	20 Mar 2018
Agreement for co-operation in performance of contract for employee group risk insurance no. 3280000000	Factoring KB, a.s.	24 Aug 2012
Service contract – BI services	Factoring KB, a.s.	27 Dec 2012
Framework agreement for the provision of IT infrastructure services	Factoring KB, a.s.	8 Sep 2010
Database usage license agreement	Factoring KB, a.s.	1 Apr 2011
IT – Separate agreement no. 1: Connectivity services, provision of technical infrastructure solution services + 1 amendment	Factoring KB, a.s.	1 Dec 2012 9 Jan 2019
IT – Separate agreement no. 2: Physical hosting of equipment, provision of technical infrastructure solution services + 2 amendments	Factoring KB, a.s.	1 Dec 2012 25 Oct 2016 21 Nov 2019
IT – Separate agreement no. 3: IT infrastructure hosting, provision of technical infrastructure solution services + 1 amendment	Factoring KB, a.s.	1 Dec 2012
IT – Separate agreement no. 4: VoIP, provision of technical infrastructure solution services	Factoring KB, a.s.	31 Dec 2012
IT – Separate agreement no. 5: E-mail, provision of technical infrastructure solution services	Factoring KB, a.s.	25 May 2015
IT – Separate agreement no. 6: Fileshare, provision of technical infrastructure solution services	Factoring KB, a.s.	29 Feb 2016
IT – Separate agreement no. 7: End-user workplace (EUW), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 8: Service desk (SD), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 9: Identity and access, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 10: Platform hosting, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 11: DR (disaster recovery), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 12: Vulnerability detection (VD), provision of technical infrastructure solution services	Factoring KB, a.s.	28 Aug 2017
Service contract – information security services	Factoring KB, a.s.	27 Oct 2015
Co-operation agreement no. 0000020447/0000 + 2 amendments	Factoring KB, a.s.	31 Dec 2012 23 May 2018
Agreement on services – eDoceo	Factoring KB, a.s.	1 Apr 2018
Contract for the provision of supplementary service – Profi Merlin – PO (1) + termination notice (1)	Factoring KB, a.s.	8 Jan 2016 6 Feb 2019
Agreement – outsourcing of HR services + 1 amendment	Factoring KB, a.s.	4 Jan 2010 1 Apr 2016
Framework agreement – personal data processing	Factoring KB, a.s.	1 Dec 2008
Confidentiality agreement	Factoring KB, a.s.	9 Aug 2010
Service agreement – CAM access + 1 amendment	Factoring KB, a.s.	24 May 2011 29 May 2012
Service agreement – occupational health and safety, environmental protection and fire protection + 1 amendment	Factoring KB, a.s.	30 Jan 2015 22 Dec 2017
Service level agreement – co-operation in the area of reporting and accounting	Factoring KB, a.s.	26 Nov 2014
Sublease agreement	Factoring KB, a.s.	26 Apr 2018
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
Agreement – outsourcing of HR services (excluding Payrol)	Factoring KB, a.s.	1 Jan 2013 1 Oct 2013 31 Mar 2016
Cooperation agreement – posts (filling of posts)	Factoring KB, a.s.	28 Apr 2010
Distribution agreement	Factoring KB, a.s.	1 Dec 2008 10 Jan 2013 26 Feb 2019

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Rules for cooperation between KB and members of the group in the field of sourcing and purchasing	Factoring KB, a.s.	4 Oct 2010
Agreement on the organisation of periodic control	Factoring KB, a.s.	5 May 2011
	Factoring KB, a.s.	26 Apr 2018
Agreement for the rental of motor vehicles	KB Advisory s.r.o.	15 Nov 2019
Personal data processing framework agreement	KB Penzijní společnost, a.s.	11 Aug 2006
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	6 May 2009
Co-operation agreement – Jobs	KB Penzijní společnost, a.s.	28 Apr 2010
Confidentiality 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
Notification service contract (Contract no. 1 relating to Framework Agreement)	KB Penzijní společnost, a.s.	10 Jun 2011
Contract for the provision of technical infrastructure services – Connectivity services (Contract no. 2 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Dec 2012
Contract for the provision of technical infrastructure services – Voice over IP (Contract no. 5 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Dec 2012
Contract for the provision of technical infrastructure services – Fileshare service (Contract no. 6 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Smartphone service (Contract no. 7 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – EUW service (Contract no. 8 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Service desk (Contract no. 9 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – E-mail service (Contract no. 10 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
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
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 and user accounts – Small application operation (Contract no. 14 relating to Framework Agreement)	KB Penzijní společnost, a.s.	16 Feb 2017
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
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
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
Agreement on the organisation of periodic control + Amendment no. 1 dated 30 Dec 2011	KB Penzijní společnost, a.s.	21 Jan 2011
Compliance service agreement	KB Penzijní společnost, a.s.	1 Dec 2011
Agreement for co-operation in performance of 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
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	20 Mar 2013
Framework agreement for financial market trading	KB Penzijní společnost, a.s.	22 Mar 2013
Confidentiality agreement	KB Penzijní společnost, a.s.	12 Aug 2013
Contract for issue of payment place mandate	KB Penzijní společnost, a.s.	1 Oct 2013
Contract for personal data processing (in connection with contract for issue of payment place mandate)	KB Penzijní společnost, a.s.	1 Oct 2013
Service contract – outsourcing – BI services	KB Penzijní společnost, a.s.	1 Nov 2013
Agreement to enter into framework insurance agreement	KB Penzijní společnost, a.s.	11 Feb 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

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
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
Purchase agreement	KB Penzijní společnost, a.s.	7 Mar 2016
Contract for the payment of insurance premium and of insurance broker's commission	KB Penzijní společnost, a.s.	17 Jun 2016
Agreement for co-operation in performance of 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/Société Générale No. 334000000	KB Penzijní společnost, a.s.	12 Sep 2016
Service contract – information security services	KB Penzijní společnost, a.s.	16 Sep 2016
Framework agreement to provide electronic communication mobile services	KB Penzijní společnost, a.s.	28 Dec 2017
Contract for the payment of insurance premium and of insurance broker's commission	KB Penzijní společnost, a.s.	21 Mar 2018
Parking place sublease agreement no. 21866 – rent adjustment	KB Penzijní společnost, a.s.	26 Mar 2018
Sublease	KB Penzijní společnost, a.s.	27 Mar 2018
Service agreement – eDoceo	KB Penzijní společnost, a.s.	31 Mar 2018
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	24 Apr 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
Framework agreement for financial market trading	KB Penzijní společnost, a.s.	6 Jun 2018
Purchase contract – movable assets	KB Penzijní společnost, a.s.	20 Jun 2018
Service agreement – outsourcing (accounting services)	KB Penzijní společnost, a.s.	31 Dec 2018
Parking place sublease agreement no. 20391 – rent adjustment	KB Penzijní společnost, a.s.	1 Mar 2019
Parking place sublease agreement no. 21866 – rent adjustment	KB Penzijní společnost, a.s.	28 Mar 2019
Distribution agreement for products “Pension Saving Plan – Pillar II” and “Supplementary Pension Saving Plan with a State Contribution – Pillar III” + Amendment no. 1 dated 28 Dec 2019	KB Penzijní společnost, a.s.	18 Jul 2019
		4 Jun 2012
		26 Sep 2012
		4 Sep 2013
		14 Dec 2013
		31 Dec 2014
		31 Dec 2015
		31 Dec 2016
		31 Dec 2017
		31 Dec 2018
Lease of real estate + 8 amendments	KB Real Estate, s.r.o.	31 Dec 2018
Service agreement – outsourcing (accounting services)	KB Real Estate, s.r.o.	1 Apr 2015
Service agreement – outsourcing (support services)	KB Real Estate, s.r.o.	3 Nov 2015
Contract for the payment of insurance premium and of insurance broker's commission	KB Real Estate, s.r.o.	12 Apr 2018
Contract of co-operation in connection with the use of real estate, Amendment no. 1 to Contract of co-operation in connection with the use of real estate	KB Real Estate, s.r.o.	1 Sep 2012
		31 Oct 2018
Group co-operation agreement under Sec. 5a of VAT Act no. 235/2004 Coll.	KB SmartSolutions, s.r.o.	7 Mar 2019
Oral agreement – outsourcing of accounting services and payroll (to be replaced with an agreement in writing)	KB SmartSolutions, s.r.o.	31 Jan 2019
Supplementary payment agreement	KB SmartSolutions, s.r.o.	7 Jan 2019
Supplementary payment agreement	KB SmartSolutions, s.r.o.	1 Oct 2019
Co-operation agreement	Komerční pojišťovna, a.s.	27 Dec 2000
Contract for individual group risk insurance + 8 amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework co-operation agreement between KP and KB – Spektrum insurance programme (dated 28 Jan 2003) no. 3010000235 including 3 amendments	Komerční pojišťovna, a.s.	28 Jan 2003
Lease of non-residential premises – Jihlava + 8 amendments	Komerční pojišťovna, a.s.	31 Jan 2003
Contract for Patron collective insurance + 1 amendment	Komerční pojišťovna, a.s.	25 Aug 2003
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000 + 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2004
License agreement + 1 amendment	Komerční pojišťovna, a.s.	20 Dec 2004



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Lease of non-residential premises – Brno	Komerční pojišťovna, a.s.	31 May 2005
Co-operation agreement	Komerční pojišťovna, a.s.	30 Apr 2019
Framework agreement for personal data processing between KB and KP	Komerční pojišťovna, a.s.	22 Sep 2005
Contract to arrange “PATRON”	Komerční pojišťovna, a.s.	24 Mar 2006
Contract to arrange “PROFI PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “PROFI MERLIN” including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “MERLIN” including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Adherence letter (from 3.7.2013)	Orange Business Czech Republic, s.r.o., Komerční pojišťovna, a.s.	3 Jul 2013
Contract to arrange “VITAL AND VITAL PLUS PROGRAM” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “VITAL GRANT” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 2006
Contract to arrange “TRAVEL INSURANCE” + 3 amendments	Komerční pojišťovna, a.s.	14 Jun 2006
Contract to provide direct banking with client's identification number	Komerční pojišťovna, a.s.	31 Aug 2006
Contract to arrange sale of VITAL INVEST + 38 amendments	Komerční pojišťovna, a.s.	4 Oct 2006
TVIS/STVIS and spot transactions contract	Komerční pojišťovna, a.s.	7 Dec 2006
Agreement for the provision of 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 contract + 1 amendment	Komerční pojišťovna, a.s.	22 Jun 2007
Contract for collective insurance of consumer loans no. 3010000000 + 6 amendments	Komerční pojišťovna, a.s.	1 Aug 2007
Mutual co-operation agreement + 1 amendment	Komerční pojišťovna, a.s.	1 Aug 2007
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000 + 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2007
Agreement to terminate the contract for connection to KB's voice information system	Komerční pojišťovna, a.s.	10 Apr 2008
Fees clearing agreement	Komerční pojišťovna, a.s.	1 Oct 2008
Contract for collective insurance of payment cards no. 2149500001 + 11 amendments	Komerční pojišťovna, a.s.	26 Jan 2009
Contract to arrange “VITAL PLUS” + 4 amendments	Komerční pojišťovna, a.s.	14 Apr 2009
Contract for collective insurance of loans no. 3140000000 + 2 amendments	Komerční pojišťovna, a.s.	5 May 2009
Contract for collective insurance for product “MERLIN” and “PROFI MERLIN” no. 3170000000 + 8 amendments	Komerční pojišťovna, a.s.	5 Oct 2009
VITAL INVEST FORTE custody agreement including 2 amendments	Komerční pojišťovna, a.s.	6 Oct 2009
Contract for collective insurance of purchases of goods relating to KB credit cards no. 3190000000	Komerční pojišťovna, a.s.	29 Oct 2009
Agreement to co-operate in portfolio valuation	Komerční pojišťovna, a.s.	9 Dec 2009
Contract for acceptance of electronic payments made through Moje platba	Komerční pojišťovna, a.s.	14 Dec 2009
Call centre service contract	Komerční pojišťovna, a.s.	31 Dec 2009
Service contract – outsourcing (HR services) + 1 amendment	Komerční pojišťovna, a.s.	21 Apr 2010
Custody agreement + 2 amendments (securities management)	Komerční pojišťovna, a.s.	7 Jul 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 Jul 2010
IT service framework agreement	Komerční pojišťovna, a.s.	14 Sep 2010
Contract for two types of collective insurance of the “A KARTA” and “LADY” credit cards of Komerční banka, a.s., no. 3230000000 + 1 amendment	Komerční pojišťovna, a.s.	1 Apr 2011
Lease of non-residential premises, movable assets, and payment of related services – Hradec Králové + 3 amendments	Komerční pojišťovna, a.s.	29 Aug 2011
Contract for collective insurance of “Profi pojištění plateb” no. 3250000000 + 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract for collective insurance of “Moje pojištění plateb” no. 3240000000 + 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Separate agreement no. 1 relating to framework IT services agreement dated 14 Sep 2010	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement no. 2 relating to framework IT services agreement dated 14 Sep 2010 + 2 amendments	Komerční pojišťovna, a.s.	22 Feb 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
		22 Feb 2012
Separate agreement no. 3 relating to framework IT services agreement dated 14 Sep 2010 + 3 amendments	Komerční pojišťovna, a.s.	31 Aug 2015
		6 Aug 2017
		21 Feb 2019
Separate agreement no. 7: Technical infrastructure services, SDC – vulnerability detection (VD)	Komerční pojišťovna, a.s.	1 Apr 2017
Contract for employee group risk insurance no. 3280000000 + 8 amendments	Komerční pojišťovna, a.s.	29 Feb 2012
Agreement for co-operation of 29 June 2012 in performance of the contract for employee group risk insurance no. 3280000000 in the wording of amendment no. 1 of 29 June 2012	Komerční pojišťovna, a.s.	29 Feb 2012
Individual pricing agreement + 1 amendment	Komerční pojišťovna, a.s.	11 Apr 2018
Agreement – outsourcing of DPO Services	Komerční pojišťovna, a.s.	24 May 2018
Individual pricing agreement + 4 amendments	Komerční pojišťovna, a.s.	30 Aug 2012
Framework agreement for financial market trading + 1 amendment	Komerční pojišťovna, a.s.	5 Nov 2014
Contract to arrange Vital Premium in EUR + 2 amendments	Komerční pojišťovna, a.s.	23 Nov 2012
co-operation agreement + 4 amendments	Komerční pojišťovna, a.s.	21 Dec 2012
Contract for collective insurance of corporate cards and golden corporate cards no. 3290000000	Komerční pojišťovna, a.s.	21 Jan 2013
Administration order	Komerční pojišťovna, a.s.	13 Feb 2014
Minutes of the agreement not to provide a discount on administrative costs on expiration of Vital Plus contracts	Komerční pojišťovna, a.s.	7 Apr 2014
Separate agreement no. 6 – Provision of WEBEX technical infrastructure services no. 0000021303/0000	Komerční pojišťovna, a.s.	1 Aug 2014
Administration order	Komerční pojišťovna, a.s.	25 Aug 2014
Administration order	Komerční pojišťovna, a.s.	17 Oct 2014
Service level agreement – co-operation in the area of accounting and reporting	Komerční pojišťovna, a.s.	1 Jan 2015
Distribution agreement for product VITAL PREMIUM in USD	Komerční pojišťovna, a.s.	31 Mar 2015
Agreement to provide fictive cash-pooling for a separate legal entity	Komerční pojišťovna, a.s.	23 Jun 2015
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	31 Jul 2018
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	1 Oct 2015
Administration order	Komerční pojišťovna, a.s.	1 Oct 2015
Service contract – Outsourcing – BI services + 1 amendment	Komerční pojišťovna, a.s.	10 Dec 2015
Administration order	Komerční pojišťovna, a.s.	22 Dec 2015
Administration order	Komerční pojišťovna, a.s.	14 Apr 2016
Separate Distribution agreement for product "MojePojištění majetku" + 1 amendment	Komerční pojišťovna, a.s.	25 Apr 2016
Administration order	Komerční pojišťovna, a.s.	7 Jul 2016
Work-related accident and occupational disease insurance for members of the governing bodies of KB/SG Group no. 334000000 + 1 amendment	Komerční pojišťovna, a.s.	13 Jul 2016
Agreement for co-operation in performance of group insurance agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of the Financial Group of Komerční banka and Société Générale no. 334000000	Komerční pojišťovna, a.s.	4 Aug 2016
Administration order	Komerční pojišťovna, a.s.	30 Aug 2016
Administration order	Komerční pojišťovna, a.s.	22 Nov 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.	10 May 2017
Administration order	Komerční pojišťovna, a.s.	16 Jun 2017
Service contract – Bagman application	Komerční pojišťovna, a.s.	19 Feb 2019
Agreement – outsourcing of DPO services	Komerční pojišťovna, a.s.	24 May 2018
Framework agreement for financial market trading	Komerční pojišťovna, a.s.	3 Oct 2011
Power of attorney	Komerční pojišťovna, a.s.	29 Sep 2016
Contract of co-operation – distribution of KP products by Komerční banka	Komerční pojišťovna, a.s.	2 Nov 2018
Co-operation agreement	Komerční pojišťovna, a.s.	31 Aug 2018
Administration order	Komerční pojišťovna, a.s.	26 Nov 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Administration order	Komerční pojišťovna, a.s.	12 Dec 2014
Administration order	Komerční pojišťovna, a.s.	20 Oct 2017
Administration order (setup and change of authorisation to use direct banking services)	Komerční pojišťovna, a.s.	27 Dec 2017
Administration order (users authorised to use direct banking services)	Komerční pojišťovna, a.s.	15 Jan 2018
Administration order (person updates in account administration order)	Komerční pojišťovna, a.s.	28 Mar 2018
Administration order (persons updates in respect of account administration)	Komerční pojišťovna, a.s.	3 Jul 2018
Administration order (person updates)	Komerční pojišťovna, a.s.	14 Aug 2018
Administration order	Komerční pojišťovna, a.s.	1 Oct 2018
Security interest registration order	Komerční pojišťovna, a.s.	31 Oct 2014
Security interest registration order	Komerční pojišťovna, a.s.	26 Nov 2014
Security interest registration order	Komerční pojišťovna, a.s.	26 Jan 2015
Debit card agreement + 1 amendment	Komerční pojišťovna, a.s.	16 Nov 2016
Contract to arrange the purchase or sale of securities + 1 amendment	Komerční pojišťovna, a.s.	12 May 2016
		22 Feb 2012
		20 Aug 2012
Contract for the provision of technical infrastructure services – IT infrastructure hosting + 3 amendments	Komerční pojišťovna, a.s.	21 Mar 2017
		21 Feb 2019
Assets – Insurance contract no. 7001217150	Komerční pojišťovna, a.s.	18 Mar 2019
Separate agreement no. 9 – technical infrastructure services – identity & access	Komerční pojišťovna, a.s.	1 Jan 2019
Commitment agreement – Protective 6 EMTN	Komerční pojišťovna, a.s.	7 Feb 2019
Agreement on services: eDoceo	Komerční pojišťovna, a.s.	21 May 2019
Agreement – documents archiving outsourcing services	Komerční pojišťovna, a.s.	2 Jan 2019
Commitment agreement – Protective 7	Komerční pojišťovna, a.s.	16 Jul 2019
Co-operation agreement – client prospecting	Komerční pojišťovna, a.s.	1 Dec 2019
Contract for individual group risk insurance + 8 amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework co-operation agreement no. 3010000235 – Spektrum insurance programme + 5 amendments	Komerční pojišťovna, a.s.	28 Jan 2003
Lease of non-residential premises – Jihlava + 10 amendments	Komerční pojišťovna, a.s.	31 Jan 2003
Service agreement (license agreement) + 1 amendment	Komerční pojišťovna, a.s.	20 Dec 2004
Lease of non-residential premises – Brno + 2 amendments	Komerční pojišťovna, a.s.	31 May 2005
Contract to distribute “PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “PROFI PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “RISK LIFE FOR MORTGAGE LOANS” + 5 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “PROFI MERLIN” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “MERLIN” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “VITAL PROGRAM” and “VITAL PLUS PROGRAM” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “VITAL GRANT” + 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “VITAL” + 5 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 2006
Contract to distribute “TRAVEL INSURANCE” + 3 amendments	Komerční pojišťovna, a.s.	14 Jul 2006
Contract to distribute “VITAL INVEST” + 38 amendments	Komerční pojišťovna, a.s.	4 Oct 2006
Contract to distribute “VITAL PREMIUM” + 8 amendments	Komerční pojišťovna, a.s.	18 Dec 2006
Contract for acceptance of payment cards – internet + 1 amendment	Komerční pojišťovna, a.s.	29 Mar 2007
Agreement for the provision of 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 contract + 1 amendment	Komerční pojišťovna, a.s.	22 Jun 2007
Contract for the collective insurance of consumer loans no. 3010000000 + 6 amendments	Komerční pojišťovna, a.s.	1 Aug 2007
Contract for collective insurance of credit cards no. 3040000000 + 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2007
Fees clearing agreement	Komerční pojišťovna, a.s.	1 Oct 2008
Contract of group co-operation in VAT registration + 2 amendments	Komerční pojišťovna, a.s.	21 Nov 2008

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for collective insurance of payment cards no. 2149500001 + 9 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
Contract for collective insurance of business loans no. 3140000000 + 1 amendment	Komerční pojišťovna, a.s.	5 May 2009
Distribution agreement for product "Brouček" + 5 amendments	Komerční pojišťovna, a.s.	15 Jun 2009
Contract for collective insurance for product "MERLIN" and "PROFI MERLIN" + 8 amendments	Komerční pojišťovna, a.s.	5 Oct 2009
VITAL INVEST FORTE custody agreement + 2 amendments	Komerční pojišťovna, a.s.	6 Oct 2009
Service agreement – eDoceo	Komerční pojišťovna, a.s.	21 May 2019
Agreement to provide call centre services	Komerční pojišťovna, a.s.	31 Dec 2009
Service agreement – outsourcing (HR services)	Komerční pojišťovna, a.s.	21 Apr 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 Jul 2010
Framework service agreement no. 2040/2010/0000008044/0000 + 8 separate agreements + 9 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 for two types of collective insurance of the "A KARTA" and "LADY" credit cards of Komerční banka, a.s., no. 3230000000 + 2 amendments	Komerční pojišťovna, a.s.	31 Mar 2011
Contract for collective insurance of "Profi pojištění plateb" no. 3250000000 + 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract for collective insurance of "Moje pojištění plateb" no. 3240000000 + 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract for employee group risk insurance no. 3280000000 + 1 agreement + 8 amendments	Komerční pojišťovna, a.s.	29 Feb 2012
co-operation agreement no. 000020484/0000 + 5 amendments	Komerční pojišťovna, a.s.	21 Dec 2012
Contract for collective insurance of corporate cards and golden corporate cards no. 3290000000	Komerční pojišťovna, a.s.	2 Jan 2013
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	21 Jan 2013
Framework agreement for financial market trading – special provisions	Komerční pojišťovna, a.s.	8 Apr 2013
Contract to distribute the "MOJE JISTOTA" risk life insurance + 2 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
Service contract – Outsourcing – BI services	Komerční pojišťovna, a.s.	10 Dec 2015
Distribution agreement for product "MojePojištění majetku"	Komerční pojišťovna, a.s.	25 Apr 2016
Contract to arrange the purchase or sale of securities + 2 amendments	Komerční pojišťovna, a.s.	12 May 2016
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
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
Administration order	Komerční pojišťovna, a.s.	1 Oct 2018
Agreement of co-operation between Expert Centres	Komerční pojišťovna, a.s.	2 Nov 2018
Agreement for the provision of a chip card reader	Komerční pojišťovna, a.s.	14 Nov 2018
Administration order	Komerční pojišťovna, a.s.	8 Jan 2019
Debit card agreement (Červenková, Dybová, Roučková)	Komerční pojišťovna, a.s.	9 Jan 2019
Distribution agreement for product "Vital Platinum Private"	Komerční pojišťovna, a.s.	1 Feb 2019
Amendment no. 5 to the co-operation Agreement	Komerční pojišťovna, a.s.	29 Apr 2019
Co-operation agreement – client prospecting (MutuMutu)	Komerční pojišťovna, a.s.	1 Dec 2019
Administration order 9 Feb 2012 - KB Bratislava [id:2888 documentID:XE2011001902]	Komerční pojišťovna, a.s.	6 Mar 2012
Commercial Framework Agreement	Komerční pojišťovna, a.s., ECS Int. CZ s.r.o.	21 Dec 2005
Administration order	Komerční pojišťovna, a.s. a Komerční pojišťovna, a.s. Slovensko	9 Feb 2012
Commitment Letter – Accumulator Note in CZK	Komerční pojišťovna, a.s. & Societe Generale SA	25 Apr 2015
Commitment Letter for Certus 6	Komerční pojišťovna, a.s., SG	8 Mar 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Commitment Letter for Certus 7	Komerční pojišťovna, a.s., SG	18 Aug 2016
Commitment Letter for Certus 9	Komerční pojišťovna, a.s., SG	11 Aug 2017
Commitment agreement – Protectiv EMTN	Komerční pojišťovna, a.s., SG	1 Dec 2017
Commitment agreement – Protectiv 2 EMTN	Komerční pojišťovna, a.s., SG	19 Mar 2018
		15 Feb 2008
		6 Oct 2009
Distribution agreement + 2 amendments	LIAM	23 Dec 2010
		25 Feb 2008
		6 Oct 2009
Contact bank agreement + 2 amendments	LIAM	23 Dec 2010
ATM placement contract no. 2004/2011/9526 – FT	Modrá pyramida stavební spořitelna, a.s.	3 Oct 2011
ATM placement contract no. 20076/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	27 Feb 2012
ATM placement contract no. 20162/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	2 Apr 2012
Service level agreement – co-operation in the area of accounting and reporting – FT	Modrá pyramida stavební spořitelna, a.s.	10 Dec 2014 with effect from 1 Jan 2015
Cost-re-invoicing agreement (from KB to MPSS) – FT	Modrá pyramida stavební spořitelna, a.s.	per year 2019
		1 Mar 2005
		Amendments
		no. 1 of 12 Jun 2009
		no. 2 of 30 Sep 2010
		no. 3 of 1 Oct 2011
		no. 4 of 30 Apr 2014
		no. 5 of 30 Jan 2015
Contract for the use of KB's sales network – PO (products and customer intelligence)	Modrá pyramida stavební spořitelna, a.s.	
Framework agreement for personal data processing (KB as administrator, MPSS as processor) – PCI	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
		30 May 2009
Framework agreement for personal data processing (MPSS as administrator, KB as processor) including Amendment no. 1 – PCI	Modrá pyramida stavební spořitelna, a.s.	Amendment no. 1 of 12 Sep 2011
		1 Jan 2010
Agreement on KB call centre services including cost re-invoicing from KB to MPSS in 2014 – MARK	Modrá pyramida stavební spořitelna, a.s.	Amendment no. 1 of 1 Sep 2016
		1 Apr 2011
		Amendments
		no. 1 of 31 Jan 2013
		no. 2 of 21 Jan 2014
		no. 3 of 29 May 2014
Separate distribution agreement (Perfektní půjčka) including amendments nos.1, 2 and 3 – PCI	Modrá pyramida stavební spořitelna, a.s.	
		1 Apr 2011
		Amendments
		no. 1 of 27 Apr 2012
		no. 2 of 31 Jan 2013
		no. 3 of 29 May 2014
		no. 4 of 29 May 2014
		no. 5 of 21 Oct 2014
		no. 6 of 10 Nov 2015
		no. 7 of 30 Nov 2015
		no. 8 of 15 Aug 2016
		no. 9 of 30 Dec 2016
		no. 10 of 22 Oct 2018
		no. 11 of 22 Oct 2018
Separate distribution agreement (MůjÚčet, G2.2) + amendments nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 – PCI	Modrá pyramida stavební spořitelna, a.s.	
		1 Apr 2011
		Amendments
		no. 1 of 31 Jan 2013
		no. 2 of 21 Jan 2014
		no. 3 of 29 May 2014
		no. 4 of 10 Nov 2015
Separate distribution agreement (A karta, Lady karta, Kreditní karta VISA Elektron) including amendments nos.1, 2, 3 and 4 – PCI	Modrá pyramida stavební spořitelna, a.s.	

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
		9 Sep 2011 Amendments no. 1 of 19 Dec 2011 no. 2 of 31 Jan 2013 no. 3 of 10 Nov 2015 no. 4 of 1 Apr 2016 no. 5 of 12 Jan 2017, terminated as of 22 Oct 2018 by Contract of commercial representation consumer credit for housing
Separate distribution agreement (mortgage and pre-mortgage loans) + amendments nos. 1, 2, 3, 4 and 5 – PCI	Modrá pyramida stavební spořitelna, a.s.	
Sales representation contract – housing consumer loan – PCI	Modrá pyramida stavební spořitelna, a.s.	22 Oct 2018
		1 Nov 2013 Amendments no. 1 of 10 Oct 2017 no. 2 of 18 May 2018
Framework agreement for the provision of better conditions to KB and SG Group employees – MPSS building savings plan holders + amendment no. 1 – SPD (strategic distribution support)	Modrá pyramida stavební spořitelna, a.s.	
		1 Nov 2013 Amendment no. 1 of 10 Nov 2015
Distribution agreement for products “Loans to housing co-operatives and apartment owners associations” + Amendment no. 1 – PCI	Modrá pyramida stavební spořitelna, a.s.	
		1 Jan 2018, 31 Jan 2019 replaced by a written contract
Oral agreement for online services outsourcing (replaced with an Agreement for online services outsourcing)	Modrá pyramida stavební spořitelna, a.s.	
Confidentiality agreement relating to “HP OV SD license agreement” – IT	Modrá pyramida stavební spořitelna, a.s.	9 Feb 2009
		28 May 2009 Amendment no. 1 of 11 Feb 2010, extended orally
Agreement to reimburse costs of license use (replacing the 2007 oral agreement to reimburse costs of license use) + Amendment no. 1 – IT	Modrá pyramida stavební spořitelna, a.s.	
		31 Oct 2011 Amendments no. 1 of 22 Dec 2016 no. 2 of 19 Dec 2019
Separate agreement no. 2 under IT service framework agreement of 24 Jan 2011 + Amendments nos. 1 and 2 – IT	Modrá pyramida stavební spořitelna, a.s.	
		31 Oct 2011 Amendments no. 1 and 2 of 15 Feb 2017
Separate agreement no. 3 under IT service framework agreement of 24 Jan 2011 + Amendments nos. 1 and 2 – IT	Modrá pyramida stavební spořitelna, a.s.	
		31 Oct 2011 Amendments no. 1 of 5 Oct 2012 no. 2 of 29 Dec 2017 no. 3 of 19 Dec 2019 no. 4 of 27 Dec 2019
Separate agreement no. 4 under IT service framework agreement of 24 Jan 2011 + Amendment no. 1 – IT	Modrá pyramida stavební spořitelna, a.s.	
		30 Nov 2011 Amendments no. 1 of 5 Oct 2012 no. 2 of 1 Jan 2014
Separate agreement no. 1 under IT service framework agreement of 24 Jan 2011 + Amendments nos. 1, 2, 3 and 4 – IT	Modrá pyramida stavební spořitelna, a.s.	
		29 Jun 2012 Amendment no. 1 of 7 May 2018
Separate agreement no. 5 relating to the IT service framework agreement of 24 Jan 2011 + Amendment no. 1 – IT	Modrá pyramida stavební spořitelna, a.s.	
Assignment and confirmation of user rights expiration (ORACLE) – IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Memorandum of understanding – ORACLE license transfers – IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Separate agreement no. 6 under IT service framework agreement of 24 Jan 2011 – IT	Modrá pyramida stavební spořitelna, a.s.	15 Feb 2017
Outsourcing agreement – data warehouse – IT	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2017
Separate agreement no. 7 under IT service framework agreement of 24 Jan 2011 – IT	Modrá pyramida stavební spořitelna, a.s.	16 Feb 2018
Separate agreement no. 8 under IT service framework agreement of 24 Jan 2011 – IT	Modrá pyramida stavební spořitelna, a.s.	7 May 2018
Separate agreement no. 12 under IT service framework agreement of 24 Jan 2011 – IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2019
Oral agreement: Identity and access (I&A) - licence for MP operators (to be replaced with an agreement in writing) – IT	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2019



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Oral agreement: VoIP and VOR services - echange transfer and call recording (to be replaced with an agreement in writing) – IT	Modrá pyramida stavební spořitelna, a.s.	24 Apr 2019
Oral agreement: MP HOME implementation (CAAS) (to be replaced with an agreement in writing) – IT	Modrá pyramida stavební spořitelna, a.s.	1 Oct 2019
Outsourcing agreement: Assessment of real-estate-development-related risks for MPSS in KB-RISK system	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2011
SLA – Agreement on Scoring Calculator for MPSS-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 data administration and delivery for claim 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
Agreement - Services PD/LGD Models for RWA calculation – RISK	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
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 FG in mass claim assignment – RISK	Modrá pyramida stavební spořitelna, a.s.	3 Mar 2016
Framework contract for employee temporary assignment + Amendment no. 1 – HR	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2006 Amendment no. 1 of 31 Jul 2007
Mutual co-operation agreement of 31 Aug 2007 including Amendment no. 1 – HR	Modrá pyramida stavební spořitelna, a.s.	1 Aug 2007 Amendment no. 1 of 1 Jul 2010
Confidentiality agreement relating to “Outsourcing agreement (HR services)”	Modrá pyramida stavební spořitelna, a.s.	27 Apr 2010
Outsourcing agreement (HR services) including Amendments nos. 1 and 2 – HR	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2010 Amendments no. 1 of 20 Dec 2013 no. 2 of 21 Oct 2019
Agreement – Outsourcing of HR services (excluding payroll) – HR	Modrá pyramida stavební spořitelna, a.s.	29 Jan 2016
Service agreement – eDoceo – HR	Modrá pyramida stavební spořitelna, a.s.	12 Jun 2018
Co-operation agreement + Amendment no. 1 – TTS	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2013 Amendments no. 1 of 16 May 2015 no. 2 of 12 Jun 2018
Lease of garage parking places including Amendment no. 1 – support services team	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2007 Amendment no. 1 of 30 Apr 2013
Lease of non-residential premises and payment of related services (Uherský Brod) – support services team	Modrá pyramida stavební spořitelna, a.s.	20 Nov 2008 Amendment no. 1 of 29 Mar 2019
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 financial group members in the area of sourcing and procurement – support services team	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2010
Agreement on the organisation of periodic control + Amendment no. 1	Modrá pyramida stavební spořitelna, a.s.	24 Jan 2011 Amendment no. 1 of 11 Oct 2011
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
Sublease of non-residential premises and payment of related services – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Lease of non-residential premises and payment of related services (Antala Staška 2059, Prague 4) + Amendment no. 1 – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2014 Amendment no. 1 of 30 Dec 2016
Insurance contract no. 7720935797 – Property risk insurance – support services team	Modrá pyramida stavební spořitelna, a.s.	Attachment no. 6 from 1 Jan 2018 to 31 Dec 2020
Contract for the payment of insurance premium and of insurance broker's commission – support services team	Modrá pyramida stavební spořitelna, a.s.	11 Apr 2018 Amendment no. 1 of 5 Apr 2019, validity of 31 Dec 2020

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Confidentiality agreement - quadrilateral agreement – support services team (team of the corporate secretary)	Modrá pyramida stavební spořitelna, a.s. BHW Holding AG a Česká pojišťovna, a.s.	11 Aug 2006
Agreement on the organisation of periodic control + Amendment no. 1 – support services team	Modrá pyramida stavební spořitelna, a.s. a Société Générale S.A.	17 Dec 2010 Amendment of 6 Dec 2012
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. a Société Générale S.A.	27 Sep 2016, insurance periods 1 Jul 2018 - 30 Jun 2019, 1 Jul 2019 - 30 Jun 2020
Contract for collective whole-life co-insurance of VSSKB clients to secure loan no. 37-9861 – PCI	Modrá pyramida stavební spořitelna, a.s.	5 Dec 1995 (terminated as of 30 Jun 2007, effective from 1 Jan 2008, individual cases settled according to the contract)
Separate distribution agreement for product "MOUDRÉ POJIŠTĚNÍ PYRAMIDA RISK LIFE INSURANCE" + Amendments nos. 1 and 2 – PCI	Modrá pyramida stavební spořitelna, a.s.	15 Oct 2012 Amendments no. 1 of 19 Dec 2012 no. 2 of 10 Jan 2017
Separate Distribution agreement for product "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE" + Amendments nos. 1, 2 and 3 – PCI	Modrá pyramida stavební spořitelna, a.s.	15 Oct 2012 Amendments no. 1 of 19 Dec 2012 no. 2 of 10 Jan 2017 no. 3 of 6 Apr 2017
Management agreement to secure collective co-insurance of VSSKB clients; Česká pojišťovna, a.s., Komerční pojišťovna, a.s. – PCI	Modrá pyramida stavební spořitelna, a.s., Česká pojišťovna, a.s.	5 Dec 1995 (terminated as of 30 Jun 2007, effective from 1 Jan 2008, individual cases settled under contract yet)
Contract of co-operation in the area of supplementary pension plan with a state contribution – PCI	Modrá pyramida stavební spořitelna, a.s.	6 May 2005
Confidentiality Agreement / - four-party contract-TTS (company secretary team)	Modrá pyramida stavební spořitelna, a.s.	11 Aug 2006
Agreement for co-operation in performance of contract for employee group risk insurance no. 3280000000 in the wording of Amendment no. 1 dated 29 Jun 2012 – support services team	Modrá pyramida stavební spořitelna, a.s., Komerční pojišťovna a.s.	10 Sep 2012
Global terms of business	Newedge Group (Frankfurt branch)	31 Dec 2010
Agreement + Application for Client + Representation Letter	NewEdge; Eurex Clearing AG (Frankfurt)	26 Jun 2014
Agreement on consultancy services (cash management)	OHRIDSKA BANKA AD SKOPJE	1 Jan 2016
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	PEMA Praha, spol.s r.o.	20 Oct 2010
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 KB/SG no. 333000000	PEMA Praha, spol.s r.o.	25 Mar 2015
Confidentiality agreement	PEMA Praha, spol.s r.o.	20 Oct 2010
Agreement on the organisation of periodic control + 1 amendment	PEMA Praha, spol.s r.o.	11 Mar 2011
Mutual co-operation agreement	PEMA Praha, spol.s r.o.	3 Jan 2011
Agreement on the organisation of periodic control + 1 amendment	PEMA Slovakia s.r.o.	11 Mar 2011
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 opening and maintaining correspondent account of non-resident credit institution in the currency of the Russian Federation + amendments	Rosbank	15 Jun 2011 1 Nov 2011
ISDA Master Agreement (framework agreement to make FX transactions)	SG Bank & Trust (SGBT)	7 May 2010
Sub-Custody & Brokerage Service Agreement	SG Bank & Trust (SGBT)	1 Apr 2011
Agreement on consultancy services (cash management)	SG Banka Srbija	2 Dec 2016
Agreement on the organisation of periodic control + 1 amendment	SG Equipment Finance Czech Republic s.r.o. + SOCIÉTÉ GÉNÉRALE	26 Jan 2011
Agreement on consultancy services (cash management)	SG Expressbank AD	5 Dec 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Lease of non-residential premises and payment of related services + 6 amendments	SG Equipment Finance Czech Republic s.r.o.	1 Nov 2012
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Lease of non-residential premises and payment of related services – Ostrava + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2014
Lease of non-residential premises, movable assets, and payment of related services – Prague + 5 amendments	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2013
Lease of non-residential premises and payment of related services – Pilsen + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Sep 2015
Lease of non-residential premises, movable assets, and payment of related services – Ústí nad Labem + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	28 Jan 2016
Lease of non-residential premises and payment of related services – České Budějovice + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	27 May 2011
Lease of garage parking places – Prague + 2 amendments	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Lease of non-residential premises and payment of related services – Bratislava + 6 amendments	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2012
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2014
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2006
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	27 Jun 2014
Framework agreement for financial services (7181080BE0000) + 11 amendments	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2010
Framework service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	14 Dec 2010
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 + 2 amendments	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
co-operation agreement – Jobs (vacancies staffing)	SG Equipment Finance Czech Republic s.r.o.	14 Apr 2010
Service agreement – CAM access	SG Equipment Finance Czech Republic s.r.o.	12 Oct 2011
Agreement on reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 Dec 2013
Service level agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2014
Service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Service agreement – outsourcing (HR services)	SG Equipment Finance Czech Republic s.r.o.	15 Jun 2011
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
Personal data processing framework agreement made between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	30 Jun 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
Agreement for co-operation in performance of contract for employee group risk insurance	SG Equipment Finance Czech Republic s.r.o.	20 Aug 2012
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	9 Jul 2010
Agreement on framework insurance agreement no. 7720802024 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	10 Feb 2014
Data processing and service agreement	SG Equipment Finance Czech Republic s.r.o.	18 Feb 2010
Lease of land + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	19 Mar 2015
Lease of parking places + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Dec 2014
Framework agreement – financial services 06/15/BA	SG Equipment Finance Czech Republic s.r.o.	21 Apr 2015
Co-operation agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Service agreement – occupational health and safety, environmental protection and fire protection + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Feb 2016
Letter of guarantee no. 06/16/BA	SG Equipment Finance Czech Republic s.r.o.	1 Apr 2016
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	14 Jun 2016
Agreement – outsourcing of HR services (excluding payroll)	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Database usage license agreement	SG Equipment Finance Czech Republic s.r.o.	29 Jun 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service agreement – BI services + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2016
Contract for negative information exchange within KB/SG FG 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 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 4: Provision of technical infrastructure solution services – VoIP	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 7: Provision of technical infrastructure solution services – Fileshare + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	21 Jun 2017
Letter of guarantee no. 43/16/BA	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2016
Letter of guarantee no. 44/16/BA	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2016
Letter of guarantee no. 13/17/BA	SG Equipment Finance Czech Republic s.r.o.	1 Jul 2017
Framework agreement for the rental of employee-driven motor vehicles – Bratislava	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Framework agreement to lease a vehicle	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2017
Separate agreement no. 11: Provision of technical infrastructure solution services – identity and access	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	28 Mar 2018
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. 9: Provision of technical infrastructure solution services – End user support	SG Equipment Finance Czech Republic s.r.o.	1 Jan 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
Separate agreement no. 5: Provision of technical infrastructure solution services – HW lease	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018
Terms for business for treasury equities, derivatives and fixed income products	SG London	4 Oct 2007
Appointment of process agent for Komerční banka, a.s	SG London	6 May 2011
Appointment of process agent for Komerční banka, a.s	SG London	14 Sep 2011
Appointment of process agent for Komerční banka, a.s.	SG London	23 Jan 2013
Custody contract	SG Montenegro	2 Dec 2014
Agreement on consultancy services (cash management)	SG Montenegro	2 Dec 2016
Appointment of process agent for Komerční banka a.s. + 1 amendment	SG New York	12 Jan 2004
USD Clearing Services Agreement for KOMERCNI BANKA + Amendment no. 1	SG New York	24 Aug 2015
SOGE USD_Clearing Services Agreement	SG New York	5 Sep 2006
Service level agreement	SG New York	16 Sep 2003
Amendment to service level agreement	SG New York	15 Sep 2017
Uncommitted Overdraft Service Agreement	SG New York	30 Aug 2019
T3C AGREEMENT FOR SERVICES PROVIDED BY THE THIN CLIENT COMPETENCY CENTER (TC3) HOSTED BY KB AT PRAGUE + amendment	SG Paris	22 Dec 2010 30 Jun 2015
6x Sending reports to SG Economic, Equity and Strategy Research	SG Paris	2002
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	2002
Exchange of opinions on the macroeconomic situation	SG Paris	2002
Exchange of opinions on economic development with SG analysts	SG Paris	2002
Exchange of opinions on financial markets development	SG Paris	2002
Revisions of texts written in English	SG Paris	2012
Sending reports to SG Thematic Research	SG Paris	2012
Inserting KB's analytical reports, economic and strategic analyses in SG's database of analyses	SG Paris	2002
ISDA master agreement (intermediation of transactions with all types of derivatives on the interbank market)	SG Paris	23 Nov 1998
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 + 1 amendment	SG Paris	9 Nov 2012
Amendment to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Credit support annex to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017
TBMA/ISMA Global master Repurchase Agreement (framework agreement to close repo and buy-sell-back deals)	SG Paris	4 Nov 2003
Contract on the provisions of services relating to securities (custody contract)	SG Paris	19 Jul 2004
General terms and conditions for use of e-confirmation	SG Paris	10 Feb 2005
Sub-custodian service agreement	SG Paris	16 Sep 2005
Sub-custodian service agreement	SG Paris	12 Dec 2005
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	22 Dec 2006
Agreement relating to the use of the Glass Custody Tool	SG Paris	8 Mar 2007
Custodian services agreement	SG Paris	8 Mar 2007
ISDA Master Agreement (emission allowances)	SG Paris	23 Nov 2007
Co-operation agreement (framework conditions of co-operation in the area of internal audit)	SG Paris	31 Mar 2008
		20 Jul 2008
Service level agreement on Credit RWA Calculation + Amendment no. 1	SG Paris	18 Dec 2013
Credit support annex (financial collateral transactions)	SG Paris	27 Oct 2009
Custody contract	SG Paris	19 Feb 2010
Intra-group corporate services fees agreement	SG Paris	11 Jun 2010
Co-operation agreement	SG Paris	31 Mar 2008
Intra-group IT services fees agreement	SG Paris	11 Jun 2010
Bi-Lateral Agreement on Rate Reset and Payment Notices produced by the ISDA Operations Committee	SG Paris	6 Oct 2010
SOGE Deposit Account Agreement	SG Paris	2 Apr 2009
SOGE Swiftnet Network	SG Paris	10 May 2004
SOGE EURO Account Maintenance and Clearing Service Agreement	SG Paris	16 Jan 2008
EUR Account Maintenance & Clearing Service Agreement (dated 7 Nov 2005) – an update of the pricelist and commercial terms	SG Paris	10 Mar 2010 11 Aug 2010
SG Paris - Sure Pay dated 8 Feb 2006 – an update	SG Paris	22 Oct 2009
CZK Account Maintenance & Clearing Service Agreement dated 13 Jan 2006 – an update	SG Paris	10 Aug 2009
Contingency agreement	SG Paris	17 Oct 2008
Cash letter service agreement	SG Paris	11 Aug 2008
Service level agreement	SG Paris	3 Apr 2008
SG Paris – Pay Away	SG Paris	10 Feb 2006
SG Paris – Word Pay	SG Paris	14 Jun 2006
Service Agreement (SoGePass)	SG Paris	26 Apr 2006
MT101 Agreement	SG Paris	14 Feb 2003
		11 Jun 2004
STEP2 service level agreement, STEP2 Indirect participant notification	SG Paris	10 Dec 2007
FileAct SLA agreement for SEPA transfers	SG Paris	4 Mar 2008
Amendment to service level agreement (backup procedure conditions)	SG Paris	13 Mar 2013
Amendment for incoming or outgoing XML SEPA Credit Transfer and SEPA Direct Debit messages - Euro Account Maintenance & Clearing Service Agreement	SG Paris	30 Dec 2013
IT services agreement + 2 amendments	SG Paris	21 Dec 2015
Amendment for incoming or outgoing XML SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) messages	SG Paris	13 Jan 2014
Master agreement relating to financial instruments	SG Paris	1 Oct 2018
Convention (Purchase and SW maintenance of the EMC documentum licences)	SG Paris	28 Dec 2012
Transfer pricing agreement for advisory business	SG Paris	1 Jan 2013
Transfer pricing agreement (TPA)	SG Paris	1 Apr 2017
Service level agreement (SGCIB Global Applications)	SG Paris	7 Aug 2014
Consent form (derivatives trade reporting)	SG Paris	30 Sep 2015
SLA custody	SG Paris	27 Oct 2016



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement relating to the use of SGSS Gallery for custody reports	SG Paris	21 Oct 2015
International Sogexpress Agreement	SG Paris	24 Jun 2016
Service level agreement	SG Paris	27 Oct 2016
Master agreement – access to the Swiftnet Network and related service	SG Paris	14 Sep 2012
Service level agreement (SLA) for SWIFTNET and associated services	SG Paris	29 Mar 2017
Client service agreement – regulatory capital calculation and allocation of operational risk	SG Paris	25 May 2017
SLA for provision of domestic/international cash concentration Sogecash (International) Pooling by SG to SG Group Banks + 3 amendments	SG Paris	1 Jul 2009
Service level agreement (SLA) for GTB platform	SG Paris	28 Aug 2017
Market activities business – ECM transfer pricing agreement	SG Paris	1 Apr 2017
Credit support annex for variation margin (2x)	SG Paris	4 Jul 2017
Collateral transfer agreement (4x)	SG Paris	4 Jul 2017
Euroclear security agreement (2x)	SG Paris	4 Jul 2017
Clearstream security agreement (2x)	SG Paris	4 Jul 2017
Framework agreement for the distribution of primary market transactions (2x)	SG Paris	10 Apr 2017
Work order (2x)	SG Paris	2002
Risk-participation agreement	SG Paris	6 Nov 2017
Consultancy services related to the transformation of KB model.	SG Paris	20 Nov 2017
SLA for the provision of Sogecash Intraday Sweeping by SG to KB	SG Paris	1 Jul 2015
CSA for Sogecash International SFTP	SG Paris	1 Aug 2018
Master Service Agreement IBFS.C0131	SG Paris	28 Nov 2018
Client Service Agreement IBFS.C0132	SG Paris	27 Nov 2018
Agreement – consultancy services	SG Paris	6 Dec 2018
Agreement for employee temporary assignment + 2 agreements to amend the agreement	SG Paris	1 Apr 2015
Amendment to ISDA Master Agreement	SG Paris	29 Oct 2018
Work order	SG Paris	5 Jun 2017
Work order	SG Paris	16 Nov 2017
Customer service agreement for the provision of Sogecash Web services (SGWeb – multibank internet banking for corporate clients)	SG Paris	1 Jun 2018
Provision of research services	SG Paris	3 Jan 2018
Hosting xontract + 7 amendments	SG Paris	30 Dec 2011
KB data processing (KBI task – former DI) in SoGe	SG Paris	3 Mar 2010
Service level agreement: E-Trading	SG Paris	1 Jun 2014
Report sending – SG Thematic Research	SG Paris	2002
Supplemental agreement	SG Paris	22 Feb 2018
Consent letter	SG Paris	8 Oct 2019
Framework agreement for the marketing and placing of primary market transactions	SG Paris	24 Apr 2017
Master service agreement	SG Paris	23 Apr 2019
Client service agreement	SG Paris	23 Apr 2019
Software as a Service Agreement Loansat - Covtrack	SG Paris	9 Jul 2019
Master service agreement	SG Paris	5 Sep 2019
Client service agreement (Swiftnet Services)	SG Paris	5 Sep 2019
Client service agreement (SFTP Services)	SG Paris	5 Sep 2019
Client service agreement (Global Cash)	SG Paris	5 Sep 2019
Customer service agreement GTB – CSA GTB	SG Paris	28 Nov 2019
Agreement on the organisation of periodic control + 1 amendment	SG Paris, ALD Automotive SIA	23 May 2011 30 Nov 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, ALD Automotive UAB	17 May 2011 5 Dec 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, ALD EESTI AS	6 Jun 2011 2 Dec 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, ALD Automotive Hungary	28 Feb 2011



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 + 1 amendment	SG Paris, ALD Automotive Polska	28 Mar 2011 8 Mar 2012
Agreement on the organisation of periodic control + 1 amendment	SG Paris, ALD Automotive s. r. o.	19 Apr 2011 17 Dec 2012
Agreement on the organisation of periodic control	SG Paris, Komerční pojišťovna, a.s.	24 Jun 2013
Agreement on the organisation of periodic control + 1 amendment	SG Paris, PEMA Polska	14 Feb 2011 15 Feb 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, PEMA Praha	11 Mar 2011 15 Dec 2012
Agreement on the organisation of periodic control + 1 amendment	SG Paris, PEMA Slovakia	11 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, SG Equipment Leasing Hungary	29 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, SG Equipment Leasing Polska	13 Sep 2011 27 Jun 2012
Agreement on the organisation of periodic control + 1 amendment	SG Paris, SG Vehicle Finance Hungary Plc.	29 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control	SG Paris, SG Warszawa	30 Dec 2011
Agreement on the organisation of periodic control + 1 amendment	SG Paris, SGEF Hungary Plc.	29 Mar 2011 30 Dec 2011
Contact bank agreement	SG Private Wealth Management S.A.	29 Apr 2016
Distribution agreement	SG Private Wealth Management S.A.	29 Apr 2016
Custody contract	SG Securities Services	8 Mar 2011
Local JV agreement relating to securities activities	SG Securities Services, SG International Retail Banking	15 Mar 2012
Service level agreement (custody services)	SG Warszawa	13 Nov 2009
Brokerage conformity agreement (distribution agreement)	SGAM AI	10 Jul 2004
Introduction broker agreement (SGAM funds purchase brokerage)	SGAM AI	19 Feb 2007
EURO Medium Term Note Master Purchase Agreement (securities trading)	SGAM Banque	13 Jul 2007
Novation agreement (revision of securities trading conditions)	SGAM Banque	29 Mar 2010
Agreement on contact bank + 2 amendments	SGAM, SGAM Fund	23 Feb 2004 14 Mar 2005 21 Dec 2005
Custody contract	SKB Banka	28 May 2015
Custody agreement	SKB Banka	14 Sep 2016
Service level agreement	SKB Banka	30 Sep 2016
Agreement on consultancy services (cash management)	SKB Banka	1 Jan 2016
Agreement on the organisation of periodic control	SKB Banka, SG	15 Nov 2017
Cross-border RMB agent settlement agreement	Société Générale (China) Limited	5 Jul 2011
EORS acceptance letter	Société Générale (NewEdge)	2 Apr 2015
Transfer of futures accounts	Société Générale International Limited	26 Jun 2009
Clearing agreement (Appendix 4 – FOA Clearing Module)	Société Générale International Limited	23 Apr 2015
Novation agreement	Société Générale International Limited	7 Oct 2011
Novation agreement	Société Générale International Limited	30 Jan 2019
Newedge EMIR Reporting Services Agreement	Société Générale International Limited	3 Feb 2014
Inter-company agreement	Société Générale International Mobility	20 Mar 2019
Commitment letter	Société Générale S.A.	29 Jul 2009
Commitment letter Forte 3 (dated 30 April 2010)	Société Générale S.A.	30 Apr 2010
Commitment letter – Forte 2 (dated 12 November 2009) + 1 amendment	Société Générale S.A.	12 Nov 2009
Commitment Letter Forte 4	Société Générale S.A.	7 Sep 2010
Commitment letter – Optimo 6Y EMTN in CZK	Société Générale S.A. and Komerční pojišťovna, a.s.	20 Sep 2011
Commitment letter (Optimo Commodity II)	Société Générale S.A. and Komerční pojišťovna, a.s.	24 Apr 2012
Commitment letter – Forte 9	Société Générale S.A. and Komerční pojišťovna, a.s.	21 Jul 2011

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Commitment letter – Certus and Certus 2 in CZK	Société Générale S.A. and Komerční pojišťovna, a.s.	14 Jan 2013
Commitment letter – Certus 5 Note	Société Générale S.A. and Komerční pojišťovna, a.s.	12 Jan 2016
Agreement relating to a financial instrument – Commitment letter Certus 8	Société Générale S.A. and Komerční pojišťovna, a.s.	3 Feb 2017
Commitment letter – Participation note on SGI Harmonia CZK Index	Société Générale S.A. and Komerční pojišťovna, a.s.	26 Oct 2015
Amendment to custody account agreement	SOCIETE GENERALE Spółka Akcyjna Oddział w Polsce	15 Jun 2015
Service agreement – outsourcing (accounting services)	STD2, s.r.o.	1 Nov 2017
Lease of real estate + 1 amendment	STD2, s.r.o.	31 Aug 2018 5 Dec 2018
Service agreement – technical facility management, energy etc.	STD2, s.r.o.	29 Jun 2018
Co-operation agreement in respect of real estate usage	STD2, s.r.o.	31 Oct 2018
Agreement of contract assignment	STD2, s.r.o., Arcadis Czech Republic s.r.o.	1 Nov 2017
		18 Nov 2013
		14 Dec 2013
		22 Dec 2014
		19 Feb 2015
		31 Dec 2015
Lease of non-residential premises and payment of related services + 6 amendments	VN 42, s.r.o.	1 Mar 2017 17 Nov 2018
		18 Nov 2013
Service agreement – outsourcing (support services) + 1 amendment	VN 42, s.r.o.	5 Sep 2017
Service agreement – outsourcing (accounting services)	VN 42, s.r.o.	3 Nov 2014
Contract to use KB eTrading	VN 42, s.r.o.	6 Oct 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 2019
Service agreement (support services by KB SuSe regarding technical facility management, energy, fire protection, OHS etc.)	VN 42, s.r.o.	1 Jul 2019

### C. Assessment of advantages and disadvantages arising from the relations within the Group and assessment of detriment

#### Advantages and disadvantages arising from the relations within the Group

The SG Group is diversified and provides universal banking services. The entire Group takes advantage of mutual synergistic effects, including product pooling, a strong international brand, and SG's know-how. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payments area and uses SG's wide network. Thanks to the Group, it is possible for KB to use global cash pooling network, offer transnational solutions in the cash management area, and offer SG products. KB benefits from SG's global experience in the Global Finance Platform area. The advantages from KB's integration into the SG Group contribute to KB's positive financial results.

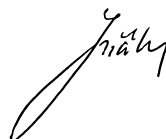
#### Assessment of detriment

KB's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2019 reporting period and states that KB incurred no detriment as a result of any contracts, agreements, or any other legal acts made or adopted by the Company or as a result of any other influence otherwise exerted by SG in the reporting period.

In Prague on 11 March 2020



**Jan Juchelka**  
Chairman of the Board of Directors  
Komerční banka, a.s.

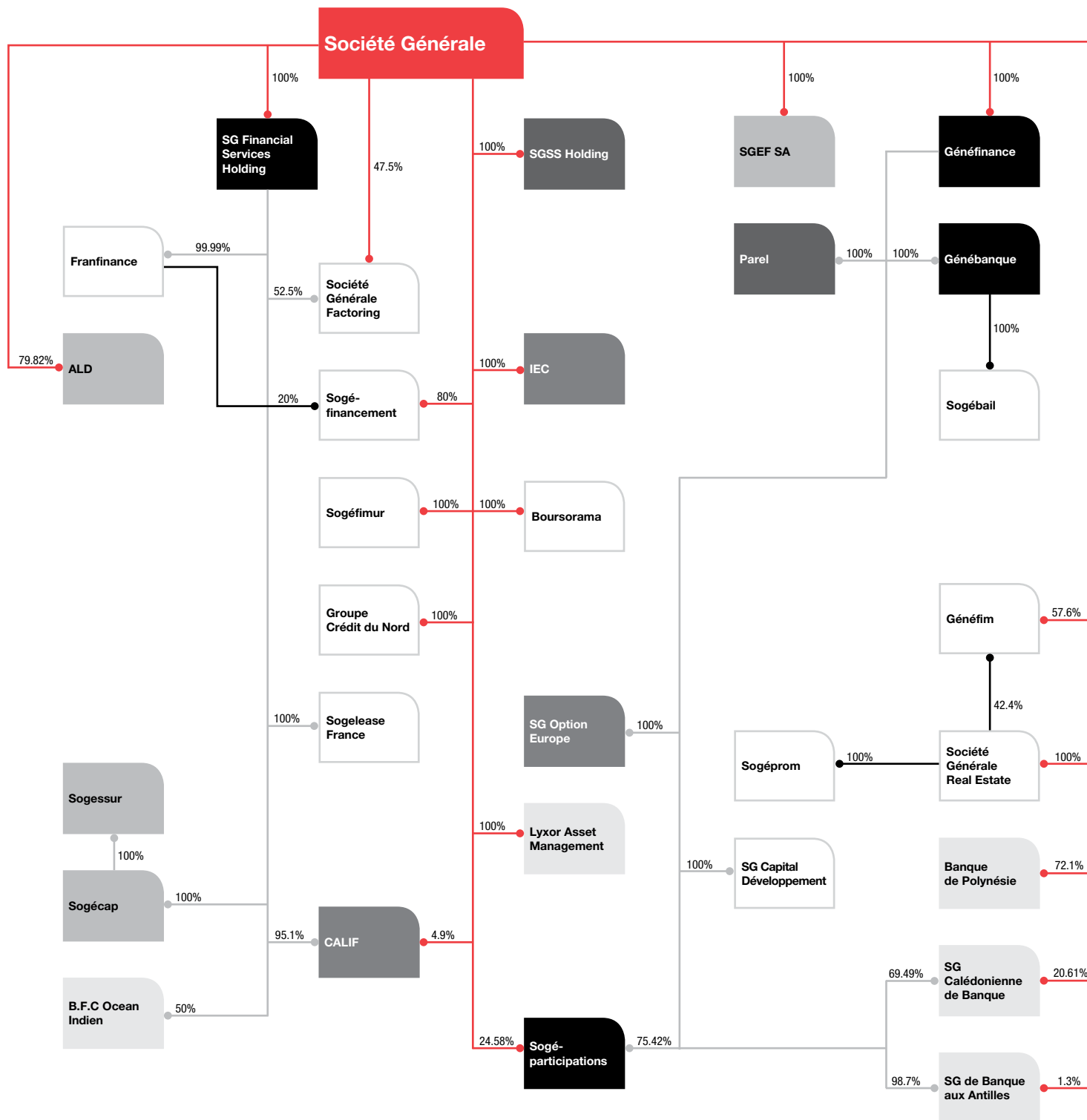


**Vladimír Jeřábek**  
Member of the Board of Directors  
Komerční banka, a.s.

# The structure of relationships SG Group

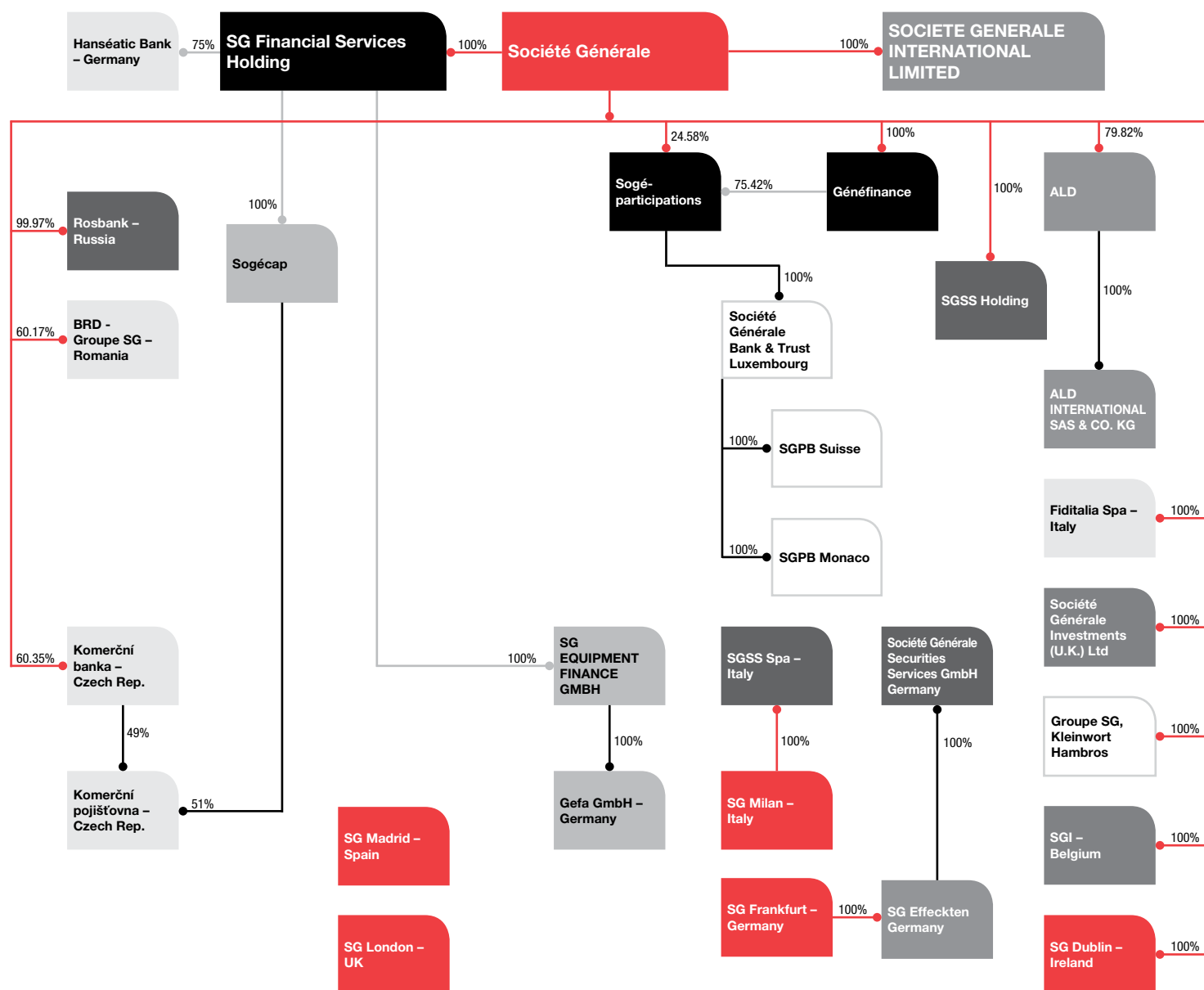
% of the voting interest

## FRANCE

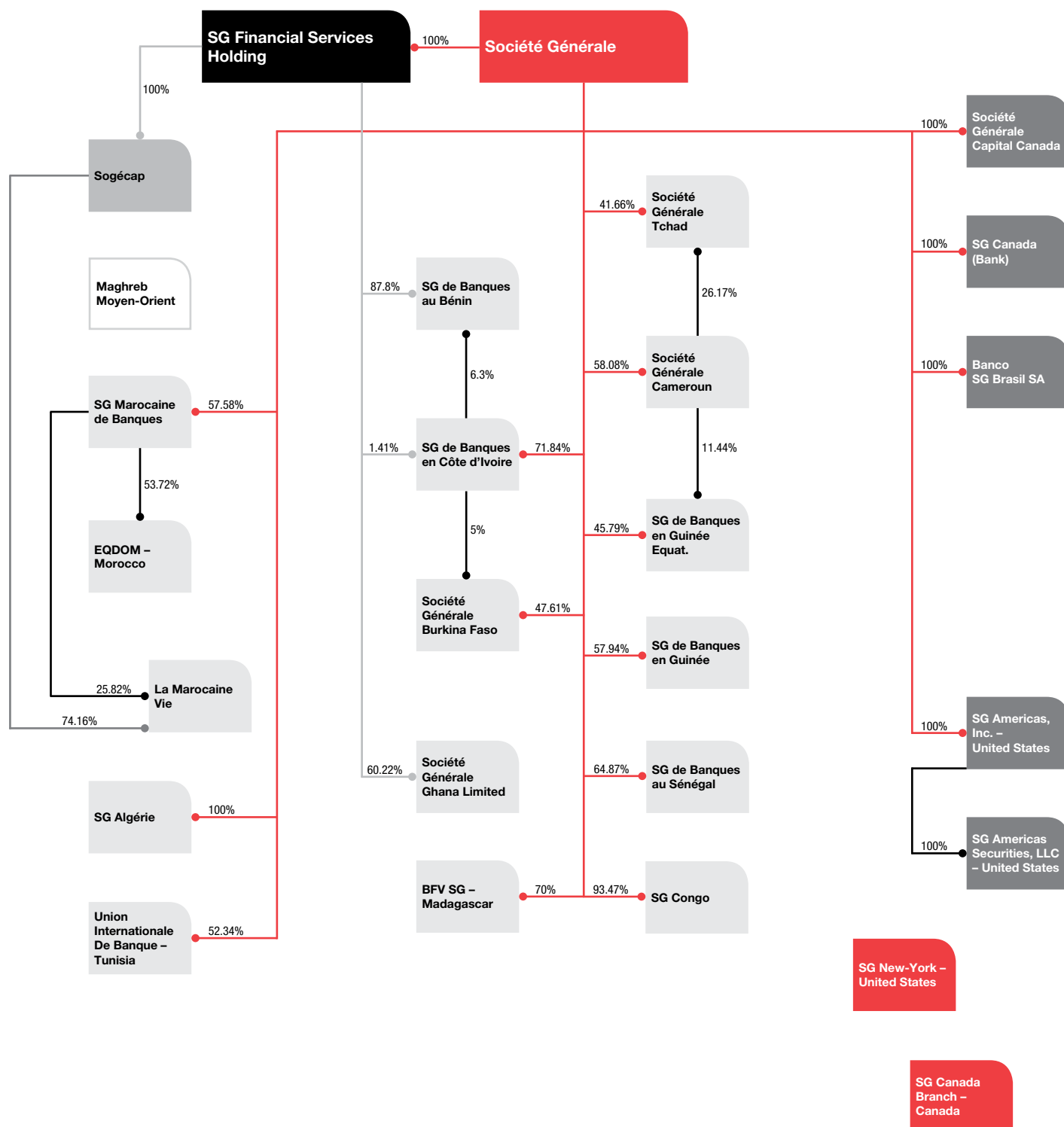


Note: Share capital and voting rights may differ.

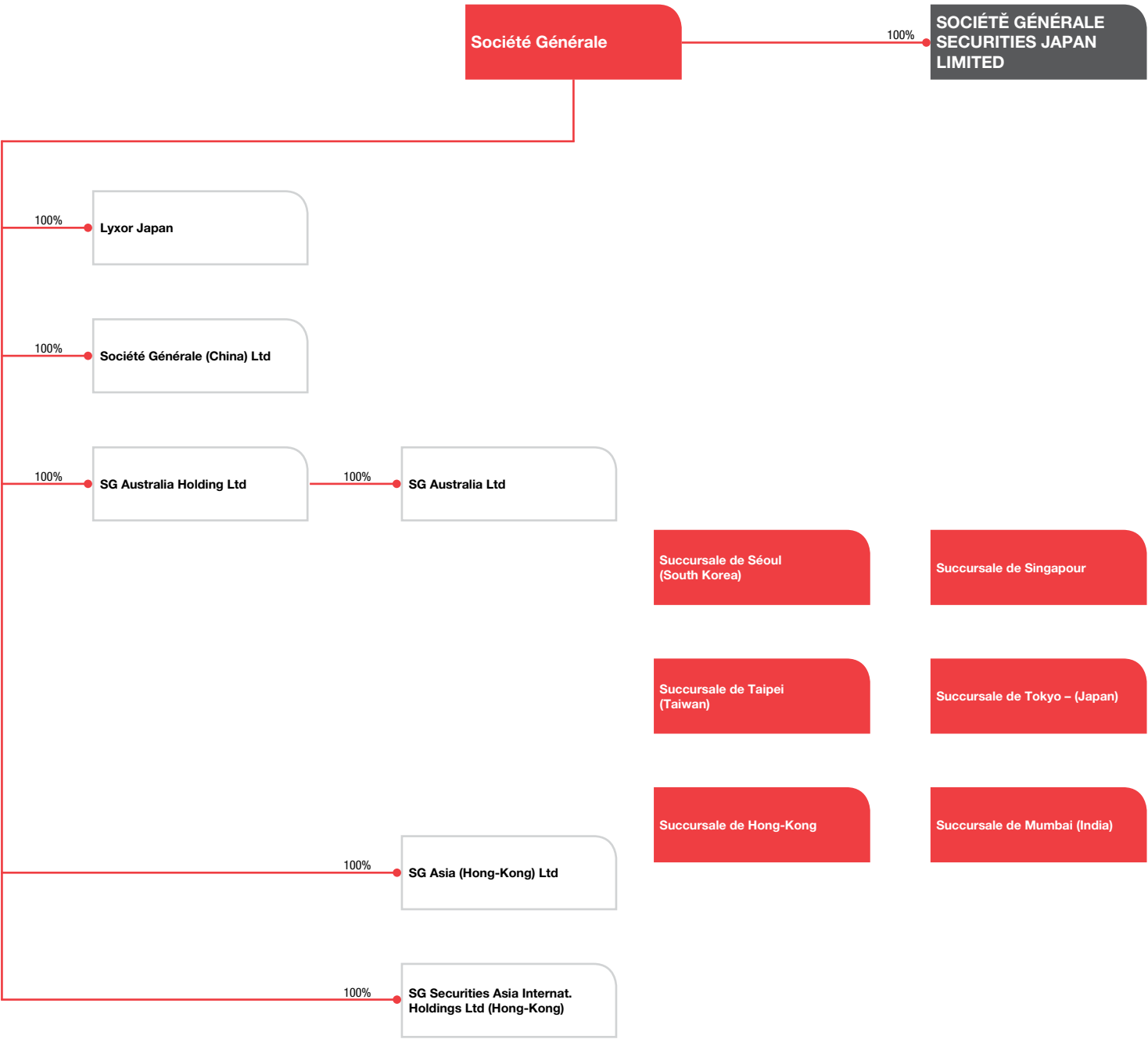
## EUROPE



Note: Share capital and voting rights may differ.



Note: Share capital and voting rights may differ.



Note: Share capital and voting rights may differ.



## Report of the Supervisory Board

Throughout 2019, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system, and made its regular assessments.

Having checked the Bank's annual (separate) and consolidated financial statements for the period from 1 January 2019 to 31 December 2019, the Supervisory Board reports that the accounts and financial documents were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and financial documents show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements prepared on their basis give a true and fair view of the Bank's and Group's accounting and financial situation.

The Supervisory Board recommends that the general meeting approve the annual (separate) and consolidated financial statements and the distribution of profit for the year 2019 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2019, drawn up under § 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2019 to 31 December 2019, Komerční banka, a.s. did not suffer any harm resulting from the contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 24 March 2020

On behalf of the Supervisory Board of Komerční banka, a.s.:



**Jean-Luc Parer**  
Chairman

## Management affidavit

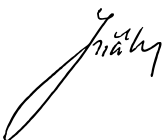
To the best of our knowledge, we believe that this annual report gives a true and fair view of the Bank's and Group's financial position, their business activities and results from the year 2019, as well as the outlook for the development of the Bank's and Group's financial situation, business activities, and results.

Prague, 25 March 2020

Signed on behalf of the Board of Directors:



**Jan Juchelka**  
Chairman of the Board of Directors and Chief Executive Officer



**Vladimír Jeřábek**  
Member of the Board of Directors

# Independent Auditor's Report

to the Shareholders of Komerční banka, a.s.

## INDEPENDENT AUDITOR'S REPORT To the Shareholders of Komerční banka a.s.

Having its registered office at: Na Příkopě 33 č.p. 969, 114 07, Prague 1

### Report on the Audit of the Consolidated and Separate Financial Statements

#### Opinion

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of Komerční banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 2019, 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 2019, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key audit matter

## Related audit procedures

### Allowances for the loans and advances

At 31 December 2019, gross loans to and advances to customers, banks (hereinafter "loans") amounted to CZK 901,957 million and CZK 835,497 million for the Group and the Company, respectively, against which allowances for loans to customers and banks (hereinafter "allowances") of CZK 10,137 million and CZK 8,011 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.

The most significant judgements are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Timely identification of exposures with a significant increase in credit risk (Stage 2) and non-performing exposures (Stage 3).
- Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures.

*The management provided further information about loan impairment in Note 3.5.5.11, Note 22 and Note 43A to the Consolidated Financial Statements and in Note 3.5.5.11, Note 21 and Note 41A 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.

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 all relevant risks, were relevant in the light of historical experience and future outlook, economic climate and the circumstances of customers. We evaluated the appropriateness of risk parameters used in the calculation of allowances. On a selected sample, we recalculated certain risk parameters and performed analytical procedures.

#### 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 assumptions used for staging models and we recalculated the staging on a portfolio basis.

We tested a sample of loans and advances (including loans that had not been classified by the management as Stage 3) to make our own assessment as to whether impairment had occurred and to assess whether impairment had been identified in a timely manner.

#### Allowances for individually assessed credit-impaired loans

We tested controls of the regular assessment and approval of allowances by the management.

We selected a sample of loans and, where we deemed them impaired, tested the estimated future cash flows from customers including from the realisation of the collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral and to assess the estimate of future cash flows.

## Key audit matter

## Related audit procedures

### Interest and fee income recognition

For the year ended 31 December 2019 the gross interest income amounted to CZK 44,006 million and CZK 40,173 million for the Group and the Company, respectively. Total fee and commission income for the same period amounted to CZK 7,136 million and CZK 6,080 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 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 for the details.*

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.

### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the Consolidated and Separate Financial Statements does not cover the other information. In connection with our audit of the Consolidated and Separate Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate Financial Statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Report on Relations among Related Entities (the "Report on Relations")**

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of Komerční banka, a.s. for the year ended 31 December 2019 which is included in this annual report on pages 267 to 297. 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 2019 contains material factual misstatements.

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

## **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

### Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 24 April 2019 and our total uninterrupted engagement including previous renewals has lasted for 5 years.

### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2020 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

## Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

In Prague on 25 March 2020

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079

The Deloitte logo, consisting of the word "Deloitte" in a stylized, cursive script.

Statutory auditor:

Daniela Hynštová  
registration no. 2235

A handwritten signature in blue ink, appearing to read "Daniela Hynštová".











