ANNUAL REPORT 2020

Československá obchodní banka, a. s.

Business name	**Československá obchodní banka, a. s.**
Registered office	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status	Joint-stock company
Registration	Registered in the Commercial Registry of the Municipal Court in Prague, Section B XXXVI, Entry 46
Date of registration	21 December 1964
Business activities	bank pursuant to the Act No. 21/1992 Coll., on banks
ID No.	00001350
Tax registr. No.	CZ699000761 (for VAT) CZ00001350 (for other taxes)
Bank code	0300
SWIFT	CEKOCZPP
Data box	8qvdk3s
Telephone	+420 224 111 111
Internet address	https://www.csob.cz
E-mail	info@csob.cz
Supervisory body	Czech National Bank (CNB) Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

Year-on-year percentage changes are computed on a mathematical basis from non-rounded figures.

KEY FIGURES

Consolidated, EU IFRS	2020	2019	2018
Financial Statements Figures			
Balance sheet at the year end *(CZKm)*			
Total assets[1]	1,756,440	1,630,597	1,377,568
Financial assets at amortised cost/Loans and receivables	1,579,942	1,459,211	1,223,433
Deposits received from other than credit institutions	1,072,771	957,221	792,625
Debt securities in issue	425,293	415,818	365,311
Shareholders' equity[1, 2]	106,992	98,678	92,016
Statement of income *(CZKm)*			
Operating income	35,251	42,404	37,102
– of which Net interest income	26,102	32,004	26,016
– of which Net fee and commission income	7,591	8,518	8,022
Operating expenses	19,252	19,034	17,769
Impairment on financial assets at amortised cost /loans and receivables	5,556	313	214
Profit before tax	10,030	23,185	18,931
Profit for the year[2]	8,488	19,691	15,757
Ratios *(%)*			
Return on average equity (ROAE)[9]	8.2	20.7	17.5
Return on average assets (ROAA)[9]	0.49	1.20	1.07
Cost / income ratio[9]	54.6	44.9	47.9
Capital adequacy ratio[3, 9]	24.2	19.2	18.0
Leverage ratio[4, 9]	5.02	4.04	4.26
Net stable funding ratio[4, 9]	170.6	161.5	161.4
Loan-to-deposit ratio[9]	71.6	79.4	76.3
General Information (as at 31 December 2020)			
Number of employees – the ČSOB group	8,349	8,626	8,318
Number of clients – the ČSOB group (in millions)[5]	4.231	4.240	4.267
Number of branches – the Bank[6]	212	225	235
Number of ATMs[7]	1,025	1,068	1,063

ČSOB's Credit Rating[8] (as at 31 December 2020)

Rating Agency	Long-term Rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's	A1	stable	P-1	21 November 2018
Standard & Poor's	A+	stable	A-1	30 July 2018

1) Figures for 2018 and 2019 recalculated retrospectively, more information in chapter 2.5 Comparatives.
2) Attributable to equity holders of the Bank.
3) According to CRR rules as at the year end. End of period regulatory capital (ratios) does reflect retained earnings. Value for 2019 was influenced by KBC Bank initiative to centralize ČSOB's trading activities to the Central European Financial Markets. The value for 2020 was affected by the retention of profit for 2019 and 2020 and the postponement of the payment of dividends.
4) According to CRR rules; for definition please refer to page 23.
5) Includes all clients of ČSOBS. Figures for 2018 were retrospectively recalculated.
6) Includes ČSOB branches and PSB financial centers, i.e. without approximately 2,500 post offices.
7) Including ATMs of cooperating banks.
8) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.
9) Values for 2019 were influenced by one-off transactions (acquisition of remaining 45% share in ČSOBS and sale of share in ČSOB Asset Management).

OPENING STATEMENT

Dear Friends, Trading Partners and Colleagues,

The past year was very challenging for all of us and has left a significant mark on our personal and professional lives. Almost from the very start of the COVID-19 pandemic, the ČSOB Group has focused hard on helping all groups of clients and ensuring the availability of services both at branches and online. We approved almost 65,000 loan deferrals and even after the end of the moratorium, we individually assisted clients struggling with loan repayments. The long-term gradual shift of customers to digital and online services has significantly accelerated and for many clients, digital services have become the main gateway to our company. Proof of this is the fact that the number of active mobile Smartbanking users increased by 34% year-on-year, while the number of transactions grew by as much as 48%.

Last year, we looked for ways to help and get involved in what was happening around us. Since the 2020 spring lockdown, we have donated over 2,000 pieces of IT equipment to 68 non-profit organisations. We also support residents of homes for the elderly with donated IT equipment to help them stay in contact with their families when visits were forbidden, as is still the case. We currently support a total of 90 young people with disabilities, from orphanages or socially marginalised families from the Education Fund. In the spring and autumn, we dedicated 30 telephone operators to help with Smart Quarantine tracing.

Despite the difficult period last year, employees at the branches continued to serve and help clients even in the face of various measures and restrictions. This part of services also played an important role in winning the prestigious Best Bank and Client-Friendly Bank awards. This is recognition of the work of the entire ČSOB Group, our investment in innovation and client services, and it is encouragement in the difficult times ahead. The ČSOB Group has further increased its capital adequacy and remains the strongest player on the market in terms of the volume of loans provided to individuals and companies.

In addition to the aforementioned increase in the number of Smartbanking users, I am also very pleased with the large number of ČSOB Drobné users and the great interest in special internet risk insurance, which is only available from a mobile phone. And of course we haven't forgotten about the environment – I am also delighted with the large number of clients to whom we have already issued our recycled cards. I always take pleasure in being the first in something, and that's the story of recycled cards and our digital voice assistant Kate, which we introduced at the end of last year.

In conclusion, I would like to thank all the employees and partners for their commitment in this difficult time, for the results we have achieved together and for the care they have all given to our clients. Thanks also go to the clients themselves for the trust they place in us, inspiring us and providing motivation to come up with a wide range of new services. I thank them for their trust in our products and services and in us.

I believe that by following the rules, and especially by participating in the vaccination drive, we will soon be back to normal.

I wish you a successful year in 2021.

John Arthur Hollows
President of BoD and CEO of ČSOB Group

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CZECH ECONOMY

General Economic and Market Indicators

The ČSOB group's business is conducted in the Czech Republic and is, therefore, influenced by prevailing macroeconomic trends in the country.

The development of the Czech economy in 2020 was significantly affected by the gradual expansion of the coronavirus, which required a state of emergency and its associated set of restrictions focused primarily on services in the spring. However, issues surfaced in the biggest domestic sector – manufacturing industry – as well. During the first phase of the corona crisis, it had to face the disintegration of its foreign supply chains. Therefore, even in this part of the economy, the companies initiated voluntary production shutdowns. The shutdowns, combined with the reduction of services, negatively impacted the economy's overall performance. The economy thus experienced a recession in the first half of the year, from which, however, it began to recover very quickly after the restrictions were lifted. The summer boom offset a part of the previous decline in the sector of the most affected services, including tourism, as well. However, due to the summer easing of the anti-pandemic measures, a second autumn wave of infections hit. Since October, the economy has been operating in its emergency mode again, and a number of service sectors have been virtually closed for most of the time. However, this time, industry, including the automotive industry, was largely spared the consequences of the pandemic and continued growing, thanks to which the Czech economy avoided another potential slump at the end of the year.

Despite the record economic downturn in 2020, there has been no significant rise in unemployment and loss of purchasing power, as in the global financial recession twelve years ago. The high employment or relatively low unemployment were maintained mainly thanks to the government support measures (Antivirus program) and thanks to the flexibility of the Czech labour market. It was able to offer the unemployed people opportunities in developing e-commerce and related services. Compensations paid from public budgets, together with significantly lower tax collection due to the recession, were automatically reflected in a relatively high public budget deficit and public debt increase. Nevertheless, the Czech Republic remained in the group of the least indebted EU countries. In the first half of the year, the coronavirus pandemic resulted in increased risk aversion and contributed to the koruna weakening by 10%. However, at the end of the year, the Czech currency gradually offset a significant part of last year's loss.

The CNB reacted to the extraordinary economic situation by raising its prime rate to 2.25% for the last time in February 2020, but lowering it to the final 0.25% in three steps after the pandemic outbreak. In addition, the central bank relaxed its requirements for providing mortgages and significantly cut the countercyclical capital add-on for the banking sector. In addition, a moratorium on client loan repayments began to apply in the second quarter, which further boosted the liquidity of the non-financial sector and households. Overall, the credit market grew in 2020, mainly due to the ongoing mortgage boom. And the deposit market recorded a significant increase as well, partly due to trade restrictions.

The following table sets out key Czech macroeconomic indicators for the periods indicated.

Indicator[1]	Measurement Unit	2020	2019	2018	2017	2016
Nominal GDP	CZKbn	5,652	5,749	5,410	5,111	4,797
Real GDP growth	% change, Y / Y	(5.6)	2.2	3.2	5.4	2.4
Real GDP per capita	CZKths	464.6	493.6	484.4	471.0	448.9
Real GDP growth per capita	% change, Y / Y	(5.9)	1.9	2.8	4.9	2.3
Inflation rate (CPI)	%, year end	2.3	3.2	2.0	2.4	2.0
Unemployment rate	%, average	2.6	2.1	2.3	2.9	4.0
General government budget balance / Nominal GDP[3]	%	(6.2)	0.3	0.9	1.5	0.7
General government debt[3]	CZKbn	2,153	1,740	1,735	1,750	1,755
General government debt / Nominal GDP[3]	%	38.1	30.3	32.1	34.2	36.6
Exports of goods and services[2]	% change, Y / Y	(5.5)	2.7	3.1	6.4	1.8
Imports of goods and services[2]	% change, Y / Y	(7.1)	2.3	5.1	6.6	(0.6)
Trade balance / Nominal GDP[2]	%	5.0	4.2	3.7	5.1	5.4
Interest rate (three month PRIBOR)[2]	%, average	0.9	2.1	1.3	0.4	0.3
CZK / EUR exchange rate[2]	average	26.4	25.7	25.6	26.3	27.0

Source:
1) CZSO, unless stated otherwise.
2) CNB.
3) Eurostat, CZSO.

REPORT OF THE BOARD OF DIRECTORS

Highlights and Main Events

The terms used in this section are defined and further discussed below.

Key Figures of the ČSOB Group in 2020

- The net profit of ČSOB reached CZK 8.5 billion (down 57% year-on-year).
- The volume of loans increased to CZK 792 billion (+2% year-on-year).
- The volume of deposits grew to CZK 1,073 billion (+12% year-on-year).
- The total volume of assets under management increased to CZK 253 billion (+5% year-on-year).
- Operating income decreased to CZK 35.3 billion (-17% year-on-year).
- Operating expenses amounted to CZK 19.3 billion (+1% year-on-year). Staff expenses decreased by 1% year-on-year.
- Loan loss provisions increased to CZK 5.6 billion attributable mainly to collective COVID-19 expected credit losses (of which CZK 4.2bn management overlay in accordance with IFRS 9). Credit cost ratio for the full year 2020 reached 0.67%. The loan portfolio quality remained stable. The ratio of non-performing loans remained at low 2.26%.
- The loan-to-deposit ratio decreased year on year to 71.6%. The net stable funding ratio (NSFR) was 170.6%. Tier 1 (CET 1) ratio improved to 23.7%. Robust liquidity and capital buffers allow ČSOB to face today's challenges with high confidence.

Corporate Social Responsibility and Sustainability

We substantially reduce our own environmental footprint. We have cut our GHG emissions to 42% compared to 2015. In 2020, we saved over 552 tons of paper thanks to biometric signatures and electronic storage of client documentation. We dramatically reduced coal-related finance. Clients increasingly opt for our green solutions, such as green mortgage and housing loan for energy-efficient homes, green car loan for alternative-fuel vehicles and Socially Responsible Investment options.

Corporate Social Responsibility and Sustainability is discussed in more detail in Chapter Corporate Social Responsibility and Sustainability.

Dividends Paid

It is expected that COVID-19 crisis will hit the banking sector materially. As a result, national regulator recommended not to pay any dividends from 2019 profits to the shareholders. The bank decided to fully follow this recommendation and strengthened its capital for expected portfolio worsening. Full profit of 2019, amounting to CZK 19,691m was retained.

The decision of a profit allocation for 2020 has not been taken before the date of issue of the Annual Report. Regarding the payment of dividends for 2020, the ČSOB Group will follow the recommendations of the Czech National Bank.

Changes to Scope of Consolidation and Business Combinations

Acquisition of Bankovní identita

In 2020, ČSOB, jointly with Česká spořitelna, a.s. and Komerční banka, a.s. established the company Bankovní identita, a.s. Founding companies held a share on equity of Bankovní identita of 33.33%. In April 2021, another 7 Czech banks became shareholders of the Banking Identity. ČSOB now has a share on equity and voting rights of 17%.

Changes in ČSOB's Managing and Supervisory Bodies

No changes in managing and supervisory bodies of ČSOB occurred in 2020. Petr Hutla, Marcela Suchánková and Jan Sadil were re-elected for the new term of office beginning on 2 March 2021.

The appointment of Ján Lučan as the new Senior Executive Officer - Relationship Banking was announced, replacing Petr Knapp who is leaving the Board of Directors after 25 years. It is anticipated that Ján Lučan will join the Board of Directors from June 2021.

Distribution Platform and Client Base

As at 31 December 2020, the ČSOB group had **4.2 million clients in the Czech Republic**. The client base comprises of 4.1 million group retail clients, 5.1 thousand corporate clients, 134.6 thousand SME clients and 9.3 thousand private banking clients in the Czech Republic.

The total number of clients decreased year on year, however **the number of active clients** (Group Primary Clients) **increased +66 ths year on year**.

	2020	2019	Y/Y change (%)
Clients of ČSOB group (mil.)	4.231	4.240	(0.2)

Clients benefit from ČSOB's **wide sales network** of 190 retail or shared retail / SME branches, approximately 2,500 outlets of the Czech Post network (230 have specialized banking counters) and additional approximately 700 Czech Post franchise outlets.

Clients can use a wide network of 1,025 ATMs, including 601 contactless, 267 enabling cash deposits and 995 customized for visually impaired clients.

The ČSOB group has a network of 31 SME branches, 10 regional branches devoted to serving corporate clients and 11 branches for private banking clients. Next to these, there are also 2 specialized branches for the Financial and Public Sector and for Bank Relations located centrally in Prague.

ČSOB ensures the availability of financial and insurance services, in both physical and online worlds. ČSOB invests in digital solutions to make financial services accessible to all.

Innovation Leadership

As of 31 December 2020, the number of **mobile banking** active users rose +34% year on year, the number of **internet banking** active users increased +1% year on year. The number of transactions entered via **mobile banking** increased +48% year on year, while number of transactions via **internet banking** grew +1% year on year.

Active users (ths)	2020	2019	Y/Y change (%)
Internet banking	1,030	1,018	1.2
Mobile banking	511	381	34.1

Transactions (ths)	2020	2019	Y/Y change (%)
Internet banking	36,363	35,966	1.1
Mobile banking	17,881	12,068	48.2

Transactions include only retail and private banking clients, transactions by companies are excluded.

In 2020 almost 29 thousand **consumer loans** were initiated online, up +36% year on year. Online sales of **travel insurance** decreased -58.4% year on year due to COVID-19 restrictions.

Online initiated new sales (ths)	2020	2019	Y/Y change (%)
Consumer finance	28,900	21,246	36.0
Travel insurance	23,617	56,773	(58.4)

ČSOB group's services also include comparator website "Ušetřeno.cz" and insurance comparator "Top-Pojištění.cz". In 2020, they were used by 128 ths clients, the decrease is directly linked to lower sales of travel insurance.

	2020	2019	Y/Y change (%)
Clients of Ušetřeno.cz and Top-Pojištění.cz (ths)	128	173	(26.0)

Innovation Achievements in 2020

- ČSOB introduced **Kate** - virtual assistant powered by artificial intelligence. Kate is available in DoKapsy app, she is able to communicate via app, voice, written text or action buttons. So far, Kate can assist with payment card delivery, arrange pet insurance or loyalty program activation.
- Mobile application **ČSOB Drobné** is a spare change investing service offering customers the option to round up their transactions and put the difference into ČSOB Bohatství mutual fund. Over 36ths clients signed up for the service in 2020.
- ČSOB offers all payment and loyalty cards in a single app. **DoKapsy** app also provides discounts and special offers from the World of Rewards, Find&pay for parking spot and virtual assistant Kate. 27ths clients were active in the app at the end of 2020, they saved 58ths loyalty cards and activated almost 19ths payment cards in Google Pay.
- Patria Finance, member of the ČSOB group and largest online broker in the Czech Republic, has launched **indigo** – a revolutionary roboadvisory and automated investment platform. By the end of 2020, it was used by 4ths investors with total invested amount of CZK 141m.

- ČSOB as one of the first banks in the Czech Republic launched **banking identity service** with the option of logging in to the State Administration Portals. Currently, clients via **ČSOB Identity** can, for example, verify the validity of their documents, look into the driver's points system, pick up an e-recipe or create a data box.
- ČSOB's joint-venture with Mall Group, **MALL Pay** continued successfully in 2020. At the end of December 60ths clients were active and realized 130ths payments. MALL Pay cooperated with more than 160 e-shops.

Awards

On the competitive Czech banking market, the quality of ČSOB's products and services was acknowledged by various awards:

- "Client-friendly bank" and "Best Bank" (Hospodářské noviny)
- "Best Bank in the Czech Republic" and "Best Private Bank in the Czech Republic" (Euromoney)
- "Best Bank in the Czech Republic" and "Best Sub-Custodian in the Czech Republic" (Global Finance)
- ČSOB Private Banking: "Best Private Bank in the Czech Republic" (PWM – The Banker)
- "Best Bank in the Czech Republic" (EMEA Finance)
- "Big Step Forward" and "LGBT Hero" (Pride Business Forum)

For a full list of awards won by the ČSOB group, please go to www.csob.cz.

The Board of Directors' Assessment of 2020

The performance of the Czech banking sector in 2020 was heavily influenced by the COVID-19 crisis, which broke out in the Czech Republic in March. The restrictions imposed in the face of the pandemic hit the service sector particularly hard. By contrast, the biggest domestic sector – manufacturing industry – proved to be largely immune to this wave of the pandemic. The banking sector maintained resilience during the COVID-19 crisis. The volume of total bank loans and deposits increased. The level of non-performing loans remained relatively subdued, although risk provisioning as buffer against expected credit losses increased. The capital position and liquidity of the domestic banking sector remained robust, although the profitability of the sector strongly decreased.

The government introduced a number of measures to support affected companies and entrepreneurs. In addition, a moratorium was introduced for the repayment of bank loans, as well as a temporary moratorium on rent payments. The Czech National Bank also responded to the exceptional economic situation by cutting its main interest rate by 200 basis points, relaxing mortgage lending criteria and lowering the countercyclical capital buffer for the banking sector. The Czech National Bank recommended banks not to pay dividends from 2019 profits to the shareholders.

ČSOB bank-insurance franchise performed without interruptions. ČSOB services operated smoothly and remained physically accessible in nearly all branches. Digital interactions have accelerated as more clients prefer to use our solutions online and through mobile. ČSOB introduced several measures to protect clients and staff against the COVID-19 crisis. ČSOB has been supporting customers impacted by COVID-19 by efficiently implementing various relief measures, including loan deferrals. ČSOB also helped firms and entrepreneurs with financing under the COVID loan guarantee programs. Total approved volume financed through programs COVID II, Prague, III and Plus amounted to CZK10.3bn at the end of December 2020. ČSOB also helped with the staffing of a call centre and with the national contact tracing operation.

The net profit of ČSOB group decreased year on year. This was mainly driven by a sharp increase in impairments and lower operating income due to lower net interest income and higher base in 2019 due to one-off gains from revaluation of 55% share in ČSOBS[1)] and the sale of ČSOB Asset Management. In contrast, staff expenses decreased year on year and general administrative expenses remained stable. The ČSOB group recorded growth in volumes of deposits, loans and assets under management and increased its market share in total deposits, consumer finance, pension funds and insurance.

The COVID-19 pandemic continues to be the main driver of the global economy and ČSOB operating environment. However, the rollout of the different vaccines will support the economic recovery in the medium term. The strength and/or timing of the recovery is country-specific and subject to significant uncertainty. Also, the possible resurgence of virus outbreaks remains a concern and is forcing many countries to maintain or even extend specific lockdown measures.

Strategy of the ČSOB Group and its Business Model

The ČSOB group is one of the three largest financial services groups in the Czech Republic and the market leader in mortgages, building savings and private banking. ČSOB group serves its clients through multiple brands and distribution channels and operates a portfolio of businesses that have a different stage of maturity and market position. The management continuously evaluates strategic choices and manages the ČSOB group's business portfolio. Key resources (human capital, equity, liquidity and IT create capacity) are allocated to areas of the best fit with the strategic ambitions.

ČSOB Group more specifically aims to:

- Retain the reference position in banking and insurance services by offering retail, SME and mid-cap clients a hassle-free, no-frills customer experience and delivering strong and sustainable performance
- Unlock business potential through advanced use of data, AI and digital lead management to offer personalised solutions proactively to the clients, including via Kate, personalised digital assistant.
- Leverage the position as market leader in home finance and focus even more strongly on growing the volume and profitability of insurance.
- Continue further in digitalisation of services and introduce new and innovative products and services, including open bank-insurance solutions aimed at boosting the financial well-being of clients.
- Concentrate on rolling out straight-through processing and further simplifying the products, head office, distribution model and branding, in order to operate even more cost-effectively.

The ČSOB group operates according to high ethical standards. Our corporate sustainability and responsibility focus on expected needs of the present without compromising expectations of future generations. Responsible behavior is included in our sustainability concept that is composed of four areas: longevity, environmental responsibility, entrepreneurship and financial literacy.

Our HR policy is focused on fair reward, diversity, and creation of flexible and inspiring work environment. The PEARL culture is the foundation of the ČSOB group's business strategy. It is guided by five imperatives: Performance, Empowerment, Accountability, Responsiveness and Local embeddedness. PEARL+ symbolizes the way we cooperate across KBC group, encouraging the 'smart copy' international approach which, in today's fast-changing digital world, is an exceptional advantage.

1) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2020 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Financial Ratios

	2020 (%)	2019 (%)	Y/Y change (pp)
Return on average equity (ROAE)	8.2	20.7	(12.5)
Return on average assets (ROAA)	0.49	1.20	(0.71)
Net interest margin	2.31	3.02	(0.71)
Cost / income ratio	54.6	44.9	9.7
Credit cost ratio	0.04	0.67	0.63

	31. 12. 2020 (%)	31. 12. 2019 (%)	Y/Y change (pp)
Loan-to-deposit ratio	71.6	79.4	(7.8)
Capital adequacy ratio	24.2	19.2	5.0
Leverage ratio	5.02	4.04	0.98
Net stable funding ratio	170.6	161.5	9.1

Note:

Capital adequacy ratio, leverage ratio and Net stable funding ratio according to CRR rules.

pp = percentage point

Values for 2019 were influenced by one-off transactions (acquisition of remaining 45% share in ČSOBS and sale of share in ČSOB Asset Management) or by KBC Bank initiative to centralize ČSOB's trading activities to the Central European Financial Markets.

For definitions and glossary of financial ratios please refer to the end of the Report of the Board of Directors.

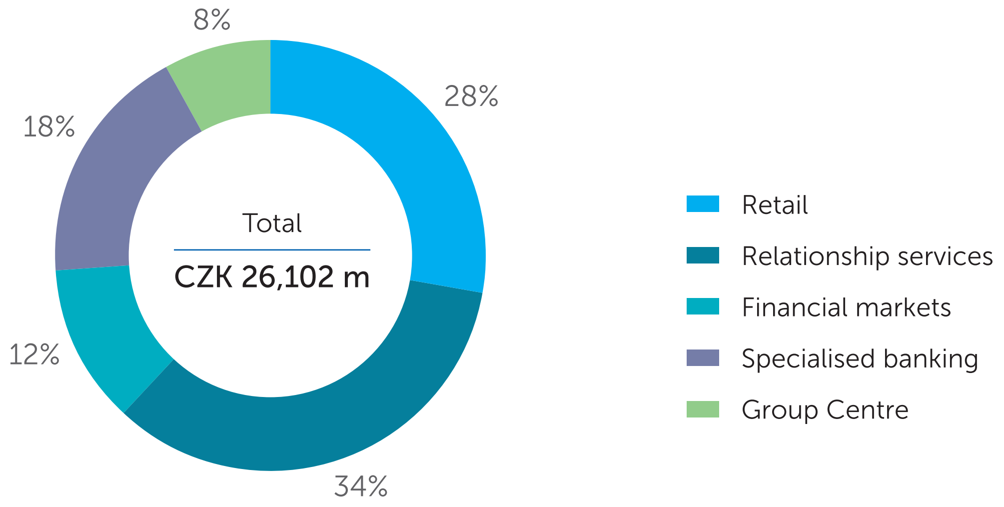
Consolidated Statement of Income

(CZKm)	2020	2019	Y/Y change (%)
Interest income calculated using the effective interest rate method	33,490	45,337	(26.1)
Other similar income	2,190	1,483	47.7
Interest expense calculated using the effective interest rate method	(7,275)	(12,781)	(43.1)
Other similar expense	(2,303)	(2,035)	13.2
Net interest income	**26,102**	**32,004**	(18.4)
Fee and commission income	11,933	12,374	(3.6)
Fee and commission expense	(4,342)	(3,856)	12.6
Net fee and commission income	**7,591**	**8,518**	(10.9)
Dividend income	15	12	25.0
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	180	(2,213)	-/+
Net realised gains on financial instruments at fair value through other comprehensive income	14	1	>100%
Income from operating lease	1,967	2,620	(24.9)
Expense from operating lease	(1,839)	(2,467)	(25.5)
Other net income	1,221	3,929	(68.9)
Operating income	**35,251**	**42,404**	(16.9)
Staff expenses	(9,254)	(9,333)	(0.8)
General administrative expenses	(7,843)	(7,445)	5.3
Depreciation and amortisation	(2,155)	(2,256)	(4.5)
Operating expenses	**(19,252)**	**(19,034)**	1.1
Impairment losses	**(5,926)**	**(403)**	>100%
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)	(5,556)	(313)	>100%
on other financial and non-financial assets	(370)	(90)	>100%
Share of profit of associates and joint ventures	(43)	218	+/-
Profit before tax	**10,030**	**23,185**	(56.7)
Income tax expense	(1,542)	(3,494)	(55.9)
Profit for the year	**8,488**	**19,691**	(56.9)
Attributable to:			
Owners of the parent	8,488	19,691	(56.9)
Non-controlling interests	-	-	n/a

Discussion of the Statement of Income Main Items

With a 74% share, the net interest income (NII) is the largest part of the operating income. The ČSOB group's NII decreased -18.4% year on year. The decrease was driven by NII from deposits, other NII partly compensated by the impact of consolidation of ČSOBS. NII decreased in all segments. Adjusted for the impact of ČSOBS consolidation, NII would decline -20.6% year on year. The net interest margin (NIM) fell to 2.31% in 2020 from 3.02% in 2019, mainly due to the pressure on deposit margins.

Net interest income by reported segments



The net fee and commission income (NFCI) represented 22% of operating income. In 2020, NFCI declined -10.9% year on year as a result of lower fees on foreign payments due to regulation, lower fees from loans, accounts, domestic payments and payment cards, linked to lower economic activity due to COVID-19 pandemic. Adjusted for the impact of ČSOBS consolidation, NFCI would decrease -11.9% year on year.

All other income items of the Statement of Income combined represented 4% of 2020 operating income and declined -17.2% year on year. Lower other income was influenced by one-off gains from ČSOBS revaluation and the sale of ČSOB Asset Management in 2019 and by valuation adjustments partly compensated by short term operations at financial markets and sale of bonds.

Staff expenses represented 48% of the ČSOB group's operating expenses in 2020. Staff expenses decreased -0.8% year on year. Increased costs attributable to consolidation of ČSOBS were compensated by lower accruals for bonuses and lower number of FTEs. Adjusted for the impact of ČSOBS consolidation, staff expenses would decrease -3.0% year on year.

General administrative expenses (GAE) contributed 41% to the ČSOB group's operating expenses in 2020 and increased +5.3% year on year driven mainly by ČSOBS consolidation, change in capitalization policy and higher ICT costs, partly compensated by lower marketing and other costs. Adjusted for the impact of ČSOBS consolidation and excluding banking taxes, GAE would remain stable year on year.

Information technologies related expenses increased +15.0% year on year and remained the largest part of GAE (40%). Banking taxes, including deposit insurance premium, Securities Traders Guarantee Fund and contribution to the Single Resolution Mechanism increased (14% of GAE; +10.0% year on year). Marketing expenses contributed 8% to total GAE and decreased -21.7% year on year.

Depreciation and amortization decreased -4.5% year on year.

Impairment losses rose to 5,926m in 2020. Loan loss provisions increased due to collective COVID-19 expected credit losses (4.2bn management overlay in accordance with IFRS 9) and higher impairments in corporate segment and Hypoteční banka. Increase in other impairments was impacted by modification loss related to deferred installments under loan moratoria in 2Q and software impairment in 4Q.

As a result of the trends described above, the **2020 net profit attributable to owners of the parent equaled CZK 8,488 m**, which is -56.9% lower than the figure for 2019. Adjusted for the impact of full consolidation of ČSOBS and one-off gains in 2019, the net profit would decrease -50.6% year on year.

Consolidated Statement of Financial Position

(Excerpt)

(CZKm)	2020	2019	Y/Y change (%)
ASSETS			
Financial assets at amortised cost	1,566,492	1,443,445	8.5
Total assets	**1,756,440**	**1,630,597**	7.7
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost	1,557,853	1,423,115	9.5
Total liabilities	**1,649,448**	**1,532,389**	7.6
Total equity	**106,992**	**98,208**	8.9
Total liabilities and equity	**1,756,440**	**1,630,597**	7.7

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB group increased +7.7% year on year.

Financial assets at amortised cost, the largest item thereof with 89% share, increased +8.5% year on year. Without impairments, the increase would be higher.

Total consolidated liabilities of ČSOB group grew +7.6% year on year.

Financial liabilities at amortised cost, the largest item thereof with 94% share, increased +9.5% year on year.

Total equity grew +8.9% year on year.

No treasury shares were held by the ČSOB group at 31 December 2020 and 2019.

Regulatory Capital Adequacy

The primary objectives of ČSOB's capital management are to ensure that it complies with externally and internally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The ČSOB group manages its capital structure in the light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

Consolidated, CZKm unless indicated otherwise	2020	2019	Y/Y change (%)
Total regulatory capital	**99,075**	**75,117**	31.9
– (Common Equity) Tier 1 Capital	97,191	75,117	29.4
– Tier 2 Capital	1,884	0	n/a
Total risk weighted assets	**410,027**	**391,461**	4.7
– Credit risk	342,805	321,481	6.6
– Market risk	423	633	(33.2)
– Operational risk	66,799	69,347	(3.7)
(Common Equity) Tier 1 ratio	**23.7%**	**19.2%**	4.5pp
Total capital ratio	**24.2%**	**19.2%**	5.0pp

Calculation is based on CRR rules.

End of period regulatory capital (and the respective ratios) reflects retained earnings.

Note: pp = percentage point.

The year on year increase of (Common Equity) Tier 1 capital was due to inclusion of full 2019 and 2020 profit. Increase in Tier 2 capital was caused by an excess of provisions (related to COVID) over expected losses.

Total RWA increased year on year. The increase of credit risk was driven by methodology changes and RWA add-ons for anticipated PD-migrations.

Credit Rating

ČSOB has been assigned credit ratings from agencies:

Rating agency	Long-term rating	Outlook	Short-term Rating
Moody's Investors Service Ltd. ("Moody's")	A1	Stable	P-1
S&P Global Ratings Europe Limited ("S&P")	A+	Stable	A-1

Both rating agencies were registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies. While choosing rating agencies, ČSOB proceeded according to the obligations laid down by the article 8d of the described regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

In accordance with obligation set in the article 8d of the Regulation on credit rating agencies, ČSOB has considered appointing a rating agency with a market share below 10%. In the final decision, with regards to the position of ČSOB on the Czech market and the market know-how of the considered rating agencies, ČSOB has decided to use the services of the aforementioned rating agencies.

Business Results

Main Factors Influencing the Financial and Business Results and the Market Position of the ČSOB Group

The ČSOB group's business results are affected by a range of economic, political and other external factors that affect business in the banking and financial sector in general and the ČSOB group's operations in particular.

The Board of Directors believes that the following several factors represent principal drivers for the development of the ČSOB group's business model, results and the market position. These factors include the development of both Czech and global macroeconomic and monetary conditions, the development of the financial markets, interest rate environment, changes in credit risk and general competitive factors in the banking industry. These factors also include the impact of the regulatory environment and developments in the field of sustainability.

During 2020, the Czech economy had to cope with the consequences of the COVID-19 pandemic, which as a result significantly limited operations in most sectors. The ongoing pandemic will further influence the development of the economic environment in which the ČSOB Group operates:

- The main uncertainty is caused by the prolongation of restrictions affecting the functioning of the business sector, and by associated compensations aimed at improving the cash flow of the companies concerned.
- The limited provision of some services, which is reflected in the financial situation of the companies operating mainly in the field of tourism, may lead to an increased risk or temporary deterioration in the quality of loan portfolios.
- Lower consumer confidence combined with a possible rise in unemployment may reduce demand for both consumer and mortgage financing.
- The economic recovery expected in the second half of the year will bring a further expansion of the space for financing the corporate sector, as well as foreign trade.
- The increased volatility in financial markets will be replaced by stabilisation and, consequently, rising interest rates and bond yields.

Evolution of Key Business Volumes

Loan portfolio (selected business categories) grew to CZK 792.5bn in 2020. The increase makes +1.5 % year on year and was driven by growth in mortgages and building saving loans.

Outstanding gross amount, selected business categories (CZK bn)	2020	2019	Y/Y change (%)
Mortgage loans	335.2	316.8	5.8
Building savings loans	122.9	120.4	2.1
Consumer loans	34.1	33.8	0.8
Corporate	164.7	171.9	(4.2)
SME	91.0	90.7	0.4
Leasing	39.0	40.9	(4.7)
Factoring	5.4	6.2	(13.0)
Other	0.1	0.0	n/a
Loan portfolio	**792.5**	**780.7**	**1.5**

The outstanding amount of mortgages increased +5.8% year on year as the mortgage market remained active in 2020 despite the outbreak of COVID-19 crisis The outstanding amount of building savings grew +2.1% year on year. Consumer finance increased +0.8% year on year driven by cash loans mainly thanks to direct channels. Outstanding amount of corporate loans declined -4.2% year on year due to early repayments and exit from certain industries. SME loans remained stable year on year. Increase in core SME lending (micro, small and mid-sized companies, +2% year on year) was compensated by the housing cooperatives and municipalities. Outstanding amount of Leasing decreased -4.7% year on year due to decrease in SME and lower sales of financial products for dealers. Factoring outstanding amount decreased –13.0% year on year as a result of COVID induced business disruption on stable client portfolio.

Deposits received from other than credit institutions increased to CZK 1,072.8 bn. This represents a 12.1% increase. Deposits excluding term deposits and repo and other deposits increased driven by current accounts and saving deposits. Term deposits decreased sharply.

Deposits received from other than credit institutions, CZK bn	2020	2019	Y/Y change (%)
Current accounts and overnight deposits	652.9	558.3	16.9
Term deposits	25.5	49.6	(48.5)
Savings deposits	385.7	339.6	13.5
of which savings deposits excluding building savings deposits	246.4	201.4	22.4
of which building savings deposits	139.2	138.2	0.7
Repo and other deposits	8.7	9.7	(10.3)
Total	**1,072.8**	**957.2**	**12.1**

Total assets under management increased year on year by 5.0% to CZK 252.5 bn. Mutual funds and other AM increased due to the positive performance effect. The volume of savings in pension funds increased driven by higher average pension savings per client.

Assets under management, outstanding volumes, CZK bn	2020	2019	Y/Y change (%)
Pension funds	63.9	58.8	8.7
Mutual fund and other AM	188.6	181.8	3.8
Total AUM	**252.5**	**240.6**	**5.0**

ČSOB Group Market Position

In 2020, ČSOB gained market share in total deposits, pension funds, consumer lending and insurance.

Total Loans[1]	**20.7%**	↓
Mortgages[1), 6)]	26.2%	↓
Building savings loans[1]	39.1%	↓
Building savings deposits[1]	39.2%	↓
Total Deposits[1]	**21.0%**	↑
Mutuals funds[1]	22.7%	↓
Factoring[2]	19.7%	↓
Leasing[1]	16.8%	↓
Pension funds[3]	14.8%	↑
SME/corporate loans[1]	14.4%	↓
Consumer lending[1), 4), 6)]	13.4%	↑
Insurance[5] – combined	8.4%	↑
Non-life insurance[5]	8.6%	↑
Life insurance[5]	7.9%	↓

Arrows show Y/Y change.

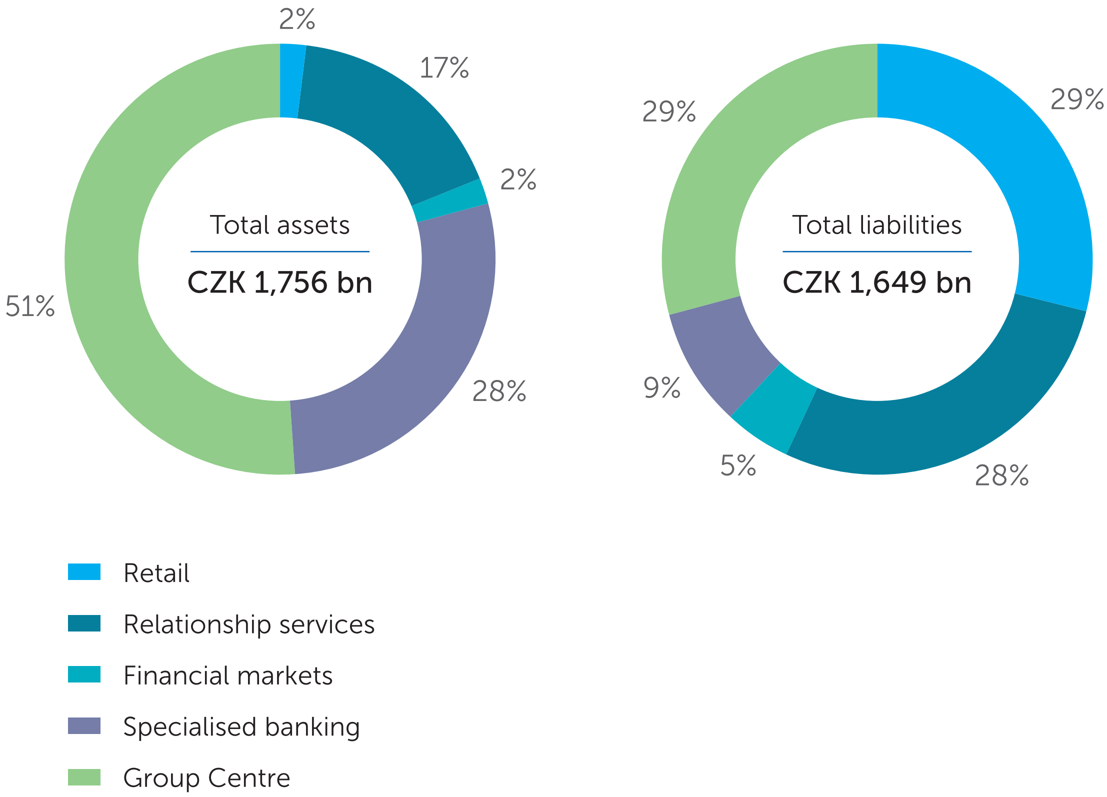
Market shares as of 31 December 2020.
The ranking is ČSOB's estimate. Market position in the insurance reflects combined position of the insurers belonging to the same business group.

1) Outstanding at the given date (including ČSOBS).
2) New business in the year to the given date.
3) Number of total clients at the given date.
4) Retail loans excluding mortgages and building savings loans.
5) New business in the year according to gross written premium.
6) Since 1Q 2019, market shares in mortgages and consumer lending are influenced by methodological change in CNB reporting.

Segment View

ČSOB group has **five segments**, which are the group's strategic business units: **Retail, Relationship services, Financial markets, Specialised banking** and **Group Centre**. The Group's segment reporting was modified following the change of organisational structure of the Group. Thus, building savings and building savings loans were moved from Group Centre to Specialised banking segment in 2019.

Total assets and liabilities by reported segments



Retail

The ČSOB Retail segment represented 2% of ČSOB's assets and 29% of ČSOB's liabilities as at the 31 December 2020.

Retail clients comprise private individuals and entrepreneurs, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

Relationship Services

The ČSOB Relationship services segment comprised 17% of assets and 28% of liabilities of the ČSOB group as at the 31 December 2020.

The Relationship services segment includes corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards, leasing and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

The ČSOB group provides SME and corporate clients with a wide range of financial services, from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing clients' foreign currency and interest rate risks, specialized financing, financing with EU support, acquisition and project financing, cash pooling and internet-based transactional systems. The range of its products combined with its distribution network has enabled the ČSOB group to become an important service provider in key product areas, including cash management, acquisition, export and online trade finance services.

ČSOB offers to its business customers Company electronic banking (CEB) e-channel and provides biometry-based solutions in order to enable business mobility.

ČSOB also offers a range of products for institutional clients. This range comprises both regular banking products tailored to meet the requirements of institutional clients, and specialized services in the areas of cash management, custody of securities, and fund depository services.

Financial Markets

The ČSOB Financial markets segment represented 2% of ČSOB group's assets and 5% of its liabilities as at the 31 December 2020.

This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services, mutual funds and asset management. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Specialised Banking

The ČSOB Specialised banking segment represented 28% of ČSOB group's assets and 9% of its liabilities as at 31 December 2020.

This segment contains mortgages, building savings and building savings loans and pension funds. Net fee and commission income of this segment contains administration of credits, collective investment and distribution fees.

Group Centre

The Group Centre comprised 51% of ČSOB group's assets and 29% of its liabilities as at 31 December 2020.

The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Relationship services and Specialised banking segment, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

Insurance

As at 31 December 2020, ČSOB Pojišťovna reached a 8.6% market share in non-life gross written premium and a 7.9% market share in life gross written (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna provides its clients with a wide range of insurance products, including single and regular premium life insurance as well as car (for individuals and corporate clients), house, accident, travel and industrial insurance. As at 31 December 2020, ČSOB Pojišťovna had approximately 1.251 million clients, comprising of individuals and business entities (including SME's as well as corporates). Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

Key Volumes (CZKm)	2020	2019	Y/Y change (%)
Single life insurance	1,957	2,468	(20.7)
Regular life insurance	3,485	3,381	3.1
Life insurance total	**5,442**	**5,849**	(7.0)
Non-life insurance total	**8,326**	**7,564**	10.1
Total	**13,768**	**13,413**	2.6
Number of cases settled	224,671	229,451	(2.1)

ČSOB's bank-insurance model is already delivering numerous commercial synergies. For example, around six out of ten ČSOB clients who took out home loans with the bank in 2020 also purchased home insurance from the group. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 80% of the business unit's active clients.

Definitions and Glossary of Financial Ratios

Assets under management *include pension funds, mutual funds (assets under management in structured/capital protected funds and other mutual funds), other asset management and assets under management products and assets under management of Slovak local funds managed in the Czech Republic.*

Group deposits *is item Deposits received from other than credit institutions from the consolidated balance sheet.*

Capital adequacy ratio *is total regulatory capital / total RWA (according to CRR).*

Cost / income ratio *represents Operating expenses / Operating income.*

Credit cost ratio *is Total credit costs / average credit risk loan portfolio in the year (simple average of previous year end and reported period end balances).*

Credit risk loan portfolio *includes all payment credit, guarantee credit, standby credit and credit derivatives, granted by ČSOB to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.*

Group Primary Clients *are bank clients with regular income on current account (or clients with Premium account or Premium candidates) with at least one product of ČSOB subsidiary.*

Leverage ratio *is Tier 1 capital / On-balance + Off-balance sheet items + Counterparty exposure for Derivatives and SFT + Add-ons (according to CRR).*

Loan portfolio *includes Loans and receivables to other than credit institutions plus loans and receivables to credit institutions minus exposure to banks from inter-bank transactions plus credit replacing bonds (in FVOCI portfolio).*

Loan-to-deposit ratio is *Financial assets at amortised cost to other than credit institutions minus bonds (net) / Deposits received from other then credit institutions at amortised cost minus repo operations with non-banking financial institutions.*

Net interest margin *is Net interest income excl. volatile short-term assets used for liquidity management / average interest earnings assets excl. volatile short-term assets used for liquidity management.*

Net stable funding ratio *is available amount of stable funding / required amount of stable funding (according to CRR).*

NPL (non-performing loans) *ratio is outstanding amount of non-performing loans (incl. off-balance sheet items) / credit risk loan portfolio.*

ROAA (return on average assets) *is net profit for the year / average of total assets.*

ROAE (return on average equity) *is net profit for the year / average of total shareholders' equity.*

Tier 1 ratio *is Tier 1 capital (CET1) / Total RWA (according to CRR).*

ABOUT US

Company Profile

From ČSOB's History

1964 ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market.

1993 Continuation of ČSOB's activities in both the Czech and Slovak market after the split of Czechoslovakia.

1999 ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB.

2000 Acquisition of Investiční a Poštovní banka (IPB).

2007 KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders. New environmentally friendly building of ČSOB's headquarters in Prague – Radlice (Building of the Year 2007).

2008 As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights.

2009 In December, ČSOB sold its remaining interest in the Slovak activities to KBC Bank.

2013 The establishment of the separate Business Unit Czech Republic within the KBC Group.

2017 New 10-year (for period 2018-2027) exclusivity partnership agreement for both banking and insurance services signed with Česká pošta (Czech Post).

2019 ČSOB reached an agreement to become the sole shareholder of Českomoravská stavební spořitelna (ČMSS) by acquiring 45% stake previously owned by Bausparkasse Schwäbisch Hall. ČSOB thus strengthened its position as the largest provider of financial solutions for housing purposes.

ČSOB and ČSOB Group Profile

Československá obchodní banka, a. s. (hereinafter referred to as "ČSOB" or the "Bank") is operating in the Czech Republic as a **universal bank**. ČSOB is a wholly-owned subsidiary of the Belgian KBC Bank (since 1999, since 2007 fully). KBC Bank is a part of the integrated bank-insurance group KBC Group. As of 1 January 2013, KBC Group has organized its core markets activities into three business units – Belgium, Czech Republic (includes all KBC's business in the Czech Republic) and International Markets.

ČSOB provides its **services to all groups of clients**, i.e. retail as well as SME, corporate and institutional clients. **In retail banking in the Czech Republic**, ČSOB is operating under main recognized brands – ČSOB (branches) and Poštovní spořitelna (Postal Savings Bank – PSB; outlets of the Czech Post network). ČSOB offers to its clients a **wide range of banking products and services**, including the products and services of the entire ČSOB group.

The ČSOB group consists of the Bank and entities related with the Bank. ČSOB's financial group includes strategic companies in the Czech Republic controlled directly or indirectly by ČSOB, or KBC, which offer financial services, namely Hypoteční banka, ČSOB Pojišťovna, ČSOBS[1], ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Factoring, Patria Finance and Ušetřeno.cz.

1) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

The ČSOB group's (Business Unit Czech Republic) product portfolio includes next to standard banking services: financing housing needs (mortgages and building savings loans), insurance products, pension funds, collective investment products and asset management, specialized services (leasing and factoring) and services related to trading equities on financial markets.

With total assets of CZK 1,756.4 bn as at 31 December 2020 and a total net profit of CZK 8.5 bn in 2020 **the ČSOB group is one of the top three banking groups in the Czech Republic**. As at 31 December 2020, the ČSOB group had CZK 1,075 bn of group deposits and a loan portfolio of CZK 792 bn.

ČSOB Group in Figures

	31. 12. 2020	31. 12. 2019
ČSOB Group's clients (mil.)[1]	**4.231**	**4.240**
Clients of Ušetřeno.cz and Top-Pojištění.cz (ths.)	**128**	**173**
ČSOB branches (bank only)	**212**	**225**
ČSOB Retail/SME branches incl. dual branded (ČSOB + PSB)	190	203
ČSOB Private Banking branches	11	11
ČSOB Corporate branches	11	11
ČSOB Pojišťovna branches	**97**	**97**
Hypoteční banka centers	**29**	**29**
ČSOBS advisory centers	**262**	**273**
Leasing branches	**7**	**7**
PSB outlets of the Czech Post network	**ca 2,500**	**ca 2,600**
– of which specialized banking counters	230	226
Czech Post franchise outlets	**ca. 700**	**ca 600**
ATMs[1]	**1,025**	**1,068**
– of which contactless	601	492

1) Including ATMs of cooperating banks.

Employees *(FTEs)*	31. 12. 2020	31. 12. 2019
Employees of the ČSOB group (FTEs)	8,626	8,318
– of which the Bank	6,993	7,091

Annual reports and other information about ČSOB and the ČSOB group are available at www.csob.cz.

KBC Group Profile

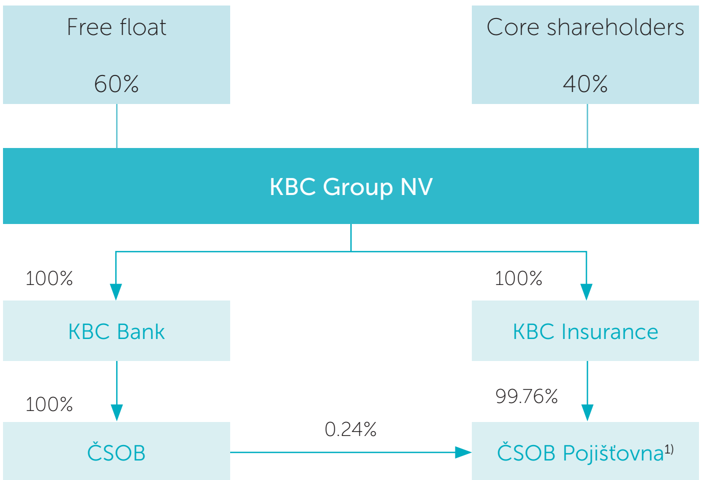
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, KBC focuses on its home markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. Elsewhere in the world, KBC is present in several other countries to support corporate clients from its core markets. As of the end of 2020, the KBC Group served 12 million clients in its home markets, and employed approximately 41,000 employees, more than half of which in Central and Eastern Europe.

The majority of KBC Group's shares is traded publicly on the Euronext Exchange in Brussels. 40% of KBC Group's shares is held by KBC Group's core shareholders (KBC Ancora, Cera, MRBB and the other core shareholders).

The Simplified Scheme of the KBC Group

(as at 31 December 2020)



Percentages in the chart denote the ownership interest.

1) Voting rights in ČSOB Pojišťovna: 40% ČSOB, 60% KBC Insurance.

For an overview of companies of the KBC group please refer to KBC's corporate website www.kbc.com (section About us – Our structure).

KBC Group in Figures

		31. 12. 2020	31. 12. 2019
Total assets	EURbn	320.7	290.6
Loans and advances to customers (excl. rev.repo's)	EURbn	159.6	155.8
Deposits from customers and debt securities (excl. repo's)	EURbn	215.4	203.4
Net profit, group share	EURm	1,440	2,489
Common equity ratio, group level (Basel III, fully loaded)	%	17.6	17.1
Cost / income ratio, banking part	%	60.0	57.9

Long-term ratings (as at 11 February 2021)

	Fitch	Moody's	S & P
KBC Bank	A+	A1	A+
KBC Insurance	-	-	A
KBC Group	A	Baa1	A-

Annual reports and other information about KBC are available at KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both a controlled entity and a controlling entity.

ČSOB is a controlled entity of the sole shareholder KBC Bank NV (ID No. BE 0462.920.226), or more precisely, of its shareholder KBC Group NV (ID No. BE 0403.227.515). Both KBC Bank and KBC Group have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

The control is exercised by decisions of the sole shareholder when exercising the general meeting's competence according to the Corporations Act. Within the limits stipulated by law, the controlling entity also exercises influence through its representatives in the Supervisory Board or the Board of Directors. The control covers cooperation and coordination in the area of risk management, audit functions and prudential rules. The Board of Directors is responsible for the management of business.

ČSOB follows the legislation applicable on the territory of the Czech Republic which protects against abuse of position of the controlling entity. In particular, ČSOB activities are governed by the Corporations Act, regulatory rules for banks and tax law including transfer pricing principles. ČSOB is also subject of supervision of the CNB. The regulatory and supervisory system is supplemented by the internal control system which is secured by the Board of Directors, the Supervisory Board, the Audit Committee and specialized departments of internal audit, compliance and risk management. The Board of Directors is responsible for internal control system efficiency.

ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January and 31 December 2020.

ČSOB is also a controlling entity. For information on companies controlled by ČSOB as at 31 December 2020 please refer to the chapter Companies of the ČSOB group.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

Corporate Social Responsibility & Sustainability

Today's world, as well as our clients' behaviour, are developing very dynamically. The time when clients were making decisions only based on the product and its price is gone. Many new factors come into play. Clients are much more focused on the added value of products and services - whether for themselves or for society, and even more: they want to engage themselves in shared values creation.

ČSOB is open to a new approach to business opportunities, honestly and thoroughly considering whether potential profit is not generated at the expense of or damage to the interests of its partners, the society. In this respect, ČSOB wants to go far beyond the legal obligations and pays increasing attention to how its today's behaviour will be judged by future generations.

Strategic pillars of corporate sustainability and responsibility of ČSOB and their main initiatives

For education

ČSOB has a unique educational program Financial and digital education for schools. Since 2016, volunteers from among ČSOB employees have been attending Czech schools and educating children in financial literacy. We implement teaching aimed at increasing general financial literacy among children in an interactive form in five separate blocks: Money, Household Management, Modern Technologies, Responsible Debt, Financial Products.

During the lessons we use presentations, videos and new technologies using tablets and mobile phones. The implementation of teaching takes place directly at the school, or we can offer premises in ČSOB buildings or in other suitable premises (e.g. Science Centers). By the end of 2020, 545 ambassadors from among our employees had completed a total of 2,278 lessons for more than 36,000 pupils and students from 418 schools. Teaching school costs nothing. We do not sell the ČSOB brand or products, but the idea of higher education. When we talk about financial products, we stay at a general level (current account, savings account, pension fund, equity fund, loan, mortgage, etc.).

To ensure quality teaching, it was first necessary to obtain accreditation from the Ministry of Education. As part of this accreditation, we also received a certificate for teaching teachers at the 2nd level of primary and secondary schools (ref. No.: MSMT-8706 / 2019-3-256). Graduates of this program will receive a certificate, which also serves as a confirmation of further education of pedagogical staff within the program of the Ministry of Education.

During a special regime in the coronavirus period, the online world gained in importance. ČSOB has prepared a new FILIP application, which is dedicated to educating children in financial and digital literacy in an entertaining way. The application runs on Android, iOS and on websites and has been pilot tested on the children of our employees. The reactions of children and even parents were enthusiastic, so we look forward to the official launch and communication campaign, which we decided to postpone until 2021 due to COVID-19.

In addition to financial literacy, we also consider prevention in cyber security to be no less important. We have signed a cooperation and partnership with the Police of the Czech Republic and prepared several courses thematically focused on online security "Your way #online". The school will be visited by a ČSOB employee - an online security expert, who can be supplemented by a Czech Police Prevention Officer. Due to the coronavirus situation, we managed to train only the first 100 children in 2020, but we believe that we will return to school soon with our interesting offer.

Since September 2020, we have been expanding the program with another topic: Ecological and economic sustainability. In the lessons, we focus mainly on wasting energy, food, production of unnecessary waste, its proper sorting, etc.

We continue to prevent the debt trap in cooperation with organization People in Need and co-finance free debt counselling through the Debt Advisory Centre. In addition, we offer easily accessible quality financial advice in the form preferred by the client (information on the bank's website, online telephone advice, personal visit to the branch).

For nature

ČSOB has its own environmental and energy policy in place, better known under the ISO 14001 and ISO 50001 certificates. They contain the company's commitments to protect the environment and prevent its pollution. One of the most significant actions in this area is our decision to drastically reduce the financing of coal combustion in power plants. From mid-2021, we will no longer provide any investment in the coal business.

Already in 2007, we moved to a building that was one of the greenest buildings in the country and has won several environmental sustainability awards. The new ČSOB Campus building is even one of the 10 greenest buildings in Europe and has received LEED Gold (NHQ) and LEED Platinum (SHQ) certifications for the following attributes, among others:

- 177 geothermal wells with 4 heat pumps as a source of renewable energy producing cold and heat
- energy-saving management system saves energy
- rainwater use to irrigate green roofs and greenery
- The buildings are equipped with charging points for electric cars and e-bikes

For our newly built buildings, we use the Construction Program and Quality Standards, by which we systematically commit ourselves and our suppliers to apply an environmental approach.

Our new buildings are created with the help of BIM (Building Information Modelling), a system that we were one of the first on the Czech market to require not only from the designer but also from our construction supplier SHQ; Thanks to the use of this program of information modelling of buildings in 3D, we can coordinate individual processes much better and make full use of the most modern technologies that save not only financial costs but also energy consumption.

From our own operation, we can mention the purchase of electricity from renewable sources and the reduction of the energy intensity of the bank's branches and headquarters thanks to modern heating and cooling with geothermal energy. We light LED sources and gradually switch to autonomous lighting control. The result is a reduction in electricity consumption of almost 13,500 MWh, a saving of 2,300 GJ of heat and a reduction of our own carbon footprint by more than 60% over the past 5 years.

We reduce the frequency of company car rides and prefer modern technologies that allow colleagues to work together remotely. We are constantly reducing the amount of office waste, which we consistently sort. We achieve great savings by switching to biometric signatures, we only record large client documentation electronically, in the last five years we have reduced the consumption of office paper by almost 2/3 and saved 132 tons of paper.

ČSOB strives for rational use of available resources and regularly evaluates the monitored values. Compared to previous years, we have improved the availability of comprehensive data; since 2019, we have had monitored data for the entire ČSOB Group:

Year	Water consumption (m^3)	Electricity consumption (GJ)	Paper consumption (t)	Waste production (t)	Direct CO_2 emissions (t)	Indirect CO_2 emissions (t)
2015*	145,634	160,402	1,160	3,099	8,625	33,649
2019	125,016	117,394	856	1,054	7,153	15,901
2020	96,459	108,585	608	1,116	3,259	14,198

** 2015 is set as a reference year, to which we measure data for the years 2019 and 2020.*

For business

We are closely watching a changing business environment and we promptly response to new needs of our clients because without mutual active cooperation no innovative products and services that are the backbone of our country's economy can be created.

In the difficult period of the coronavirus pandemic, in 2020 ČSOB focused on the **distribution of the COVID state support** for small and medium-sized enterprises. We played an active and pioneering role not only in the distribution of state aid, but also in the overall design of the subsidy (especially with ČMZRB, the state-owned Czech-Moravian Guarantee and Development Bank), so that it **was as easily accessible as possible** for entrepreneurs. Our share in the distribution of the state subsidy increased from 13% in 2019 to approximately 20%.

In addition to large corporations and medium-sized enterprises, ČSOB also **supports start-ups and small companies**. The offer for start-ups includes assistance with obtaining a loan with a guarantee from the **COSME program** from the European Investment Fund up to CZK 250,000 for entrepreneurs without history, participation in the **Business Academy** for beginning entrepreneurs and information and consulting portal **www.pruvodcepodnikanim.cz**. Thanks to regularly updated information related to pandemic impacts on our customers, we have reached 70,000 unique visitors per month.

For the third year in a row, ČSOB continues its **acceleration program for start-ups - Start it @ ČSOB**. In 2020, we launched the so-called anti-COVID wave, in which we opened an online program for 4 start-ups that help **overcome the lockdown of the economy** and bring online solutions. In total, in 2020 we worked with 20 start-ups moving from off-line to on-line environment, depending on the situation. We usually work with B2B technology start-ups entering the go-to-market phase. We help start-ups avoid common mistakes and provide mentoring and workshops in key start-up areas. In December 2020, we organized a **Demo Day**, which introduced investors and reporters to the best start-ups from our program. Satisfaction of our start-ups measured by NPS (net promoter score) reached 78% in 2020. The project generated the equivalent of CZK 1.8 million (approx. EUR 69 thousand) of advertising value.

We actively participate in public discussions, forums and expert meetings, where ČSOB representatives defend the interests of entrepreneurs and work to break down the legislative obstacles that small and medium-sized enterprises face.

For longevity

Mature age and the issues associated with it is another area in which we see a chance to offer a helping hand. And not only for those who have reached old age, but also for those who care for the elderly. In this pillar, ČSOB focuses on seniors and people with disabilities.

We find inspiration and advice in seniors' clubs, with which we have long-term cooperation. We are successfully developing a joint project "Don't get lost in old age" - a counselling centre in which experts from the Sue Ryder Home advise seniors and their loved ones in solving social, legal and health problems. The bank's employees supplement the register with information from the area of finance. The main ambition and at the same time the advantage of this project is the complexity of information and its availability from one place and immediately, i.e. on the web, by phone or in person. In 2020, we registered 66,524 new users and traffic of almost 95,000 views.

We have created a special microsite dedicated to seniors on the ČSOB website and we operate a special line for clients over the age of 70 in the call centre. In 2020, we settled almost 50 thousand calls from these seniors.

Not only clients, but also our colleagues at a certain age enjoy increased attention from ČSOB. In the 55plus program, which is part of the diversity concept in the ČSOB Group, we enable employees of a given age to better combine work and personal life. In the intergenerational dialogue, we stimulate younger and older generations to share their experiences, knowledge and skills on one hand and stability of teams of different ages on the other hand. Diversity in society therefore means a greater diversity of opinions, different styles of work and management. Our next goal is to reduce the retirement of managers, for example due to high workload, reduce pressure and stress and enable them to regenerate better.

Another example of our approach to diversity is the fact that ČSOB was the first bank, together with 25 other companies, to support the LGBT (acronym for lesbian, gay, bisexual and transgender people) community and the application of the principles of equality in the workplace. ČSOB fulfils the obligations it made with the signing of the Pride Business Forum Memorandum in the area of applying the principles of equality in the workplace, and at the same time revises the fairness of employee benefits. An example is one paid day-off to marry a same-sex partner or to accompany a child to a doctor by a partner (i.e. in a same-sex couple who is not the child's biological parent). ČSOB also allows paternity leave when adopting a child, as the "child of an employee" is also considered to be the child of a registered partner (whether own or taken into care), as well as "wedding" according to internal regulations similar volume abroad.

ČSOB wants to be perceived as a barrier-less bank, which is why it also pays increased attention to people with various health complications and difficulties. In 2020, we updated software designed for visually impaired clients, which enables them to secure self-service during financial operations at 995 ATMs. We offer clients with hearing impairments a unique eScribe service, an online transcript of spoken communication with the operator on the helpline in our call centre or when visiting a branch. For this service, ČSOB won 3rd place in the Hospodářské noviny Bank innovator of 2020 competition. The usefulness of the service is evidenced by the enormous increase in calls, i.e. + 300% compared to 2019.

And to make sure that the barrier-free branch is truly barrier-free and that it therefore meets everything that physically handicapped clients expect, we launched an audit in 2020 of all our branches in cooperation with the Czech Association of Paraplegics (CZEPA), which should result in finding and subsequent elimination of any deficiencies. So far, one half of all branches have been inspected, in 2021 the audit will be completed.

Sustainability as a standard in the concept of ČSOB and main initiatives

Sustainability has been an integral part of ČSOB for many years. Within the KBC Group, the Bank launched detailed analysis of the impact of key sectors on the climate change in 2020 and adopted a number of strict measures and policies to meet global commitments (UN Global Compact, SDGs, Equator principles, CCCA, etc.). In accordance with the code of ethics, integrity policy, anti-corruption program and other legal regulations, it does not support acts that violate human rights, endanger peaceful coexistence or devastate the environment.

As a financial institution, ČSOB is an important driving force of the real economy. By contributing to economic prosperity, i.e. by offering loans, insurance and asset management, we can manage the social and environmental impact of our operations and make a significant contribution to achieving positive results.

We implement our sustainability strategy through three basic positions:

- Reducing the negative impact on society by strict compliance with binding policies and legal regulations in the field of respect for human rights, environmental protection, promoting business ethics and resolving controversial societal issues, as well as reducing of own carbon footprint according to the ČSOB Sustainability and Responsibility Policies.
- Increasing the positive impact on society in areas where we can contribute to improvement through our day-to-day activities.
- Responsible behaviour externally and towards employees and support of their responsible behaviour in everyday work.

Sustainable business

We are aware that climate change is one of the greatest global challenges for the 21st century. That is why, as part of our environmental responsibility, we have taken a number of measures to contribute to a healthier environment and to slow down the pace of global warming by moving to a low-carbon economy. In addition, for the third year in a row we have been a partner of the Association of Modern Energy (SME), with which we organize round tables and joint seminars on innovations in the energy sector, and last year we became one of the founding banks of the Czech Platform under the Czech Banking Association to set up effective cooperation with public administration in the implementation of national and EU goals in the field of ESG (Environmental, Social and Governance - the main factors of socially responsible investment).

We consider our commitment to leave the coal business to be the most significant act in terms of the impact on the environment and the volume of finances. From the June 2021, ČSOB will not provide financing, insurance or consultancy for energy companies that operate based on coal-fired power generation.

However, ending harmful business is not the only way to reverse the negative impact on the environment. It is also desirable to stimulate and support activities that mitigate the damage already done. That is why ČSOB entered a new partnership with POHO2030, an important reference project for the re-use and reclamation of the landscape of a former coal mine in the North Moravian region. As a financial and marketing partner, ČSOB POHO2030 assists with financial advice and the necessary publicity for one of the key sustainability projects in northern Moravia.

Through the Green Grants program, ČSOB assists companies in the preparation of energy audits and technical documentation for business. Over the last two years, ČSOB has supported 45 energy saving projects with a total value of CZK 2 billion.

Sustainable business is not the exclusive responsibility of large companies; ČSOB also transfers it to its retail client segment. For those who want to "live green", we offer a range of products and services in which they can show their consideration in the use of natural resources and the effort to preserve a healthy environment for future generations.

We respond to the requirements of these clients by offering so-called "green" solutions, such as:

- Low-energy and passive housing can be financed through a green mortgage with a reduced interest rate and other benefits.
- When buying a car with ecological drive (electric, hybrid, hydrogen cells, CNG), clients can use a green car rental with a favourable and guaranteed rate.
- Another sample product is the investment in the ČSOB Equity Water Wealth Fund, which builds on the fast-growing water management sector. By investing in these businesses, clients can contribute to solving the global water problem.
- From October 2020, we offer an innovative payment card for a current account. In addition to being made from recyclable plastic that does not harm the environment, it also has a special design that will please everyone who has the fate of our planet at heart.
- In the World of Rewards loyalty program, we have prepared an eco-gifts section for clients and the opportunity to contribute their points to tree planting.

Philanthropy in ČSOB and partnership with non-profit organizations in 2020

The support of philanthropy, the development of individual donations of our clients and employees and the connection of the business world with the non-profit sector is an integral part of ČSOB's social responsibility. We have been cooperating with renowned non-profit organizations for a long time and together we bring solutions that respond to the current needs of disabled people.

Our most important partners from the non-profit sector are: Committee of Good Will - Olga Havel Foundation, Sue Ryder Home, Mathilda Endowment Fund, Safety Line, Charta 77 Foundation - Barriers Account, People in Need, Debt Advisory Centre, Neratov Association, Czech Association of Paraplegics, the Rozum a Cit Endowment Fund and many others. We also cooperate with the organizations Donors' Forum and Business for Society, which focus on the general development of CSR and philanthropy in the Czech Republic.

The most important socially responsible projects

ČSOB helps the regions

Our largest grant program ČSOB helps regions supports projects of non-profit organizations that focus on community development and improving the quality of life of people throughout the Czech Republic. The year 2020 was the most successful in history, and despite the ongoing coronavirus pandemic, 111 projects in the total amount of CZK 8.6 million received grant support. This amount is represented by financial contributions from the public, which amounted to CZK 4.3 million as a gift from the bank, i.e. another CZK 4.3 million, which non-profit organizations received according to their fundraising capabilities on the website www.csobpomaharegionum.cz.

Education fund

The Education Fund is our oldest joint philanthropic project. It was established in 1995 in cooperation with the Committee of Good Will - Olga Havel Foundation to support talented high school, college and university students who would not otherwise be able to afford to study due to a health or social handicap. There are currently 89 students in the program.

From the beginning of the program until the end of 2019, we have already provided scholarships to 625 students. Another 601 students received a one-time contribution for education or study aids. In total, we have already donated more than CZK 36.8 million to help with education.

ČSOB Start it social grant program

The ČSOB Start it social grant program follows on from the former ČSOB Stabilization of Social Enterprises program. For the seventh year in a row, we have been offering **financial incentives and tailor-made professional counselling** to organizations that employ people with disabilities in the labour market and have subscribed to the principles of social enterprise. In 2020, we supported five winning projects in the amount of CZK 250,000. In total, we distributed more than CZK 7 million in the program among 43 social enterprises employing people with various types of disabilities.

Volunteering

Responsible activities, in which we regularly involve our employees, include the so-called volunteer day. Each employee can devote one working day a year to **voluntary work or professional advice in a non-profit organization** of their choice.

Due to the coronavirus pandemic, we could not, unfortunately, follow up on the very successful previous years, when we recorded an ever-increasing interest in volunteering activities. For security reasons, a number of non-profit organizations were completely closed, and the situation was not helped by government measures in the form of a ban on the free movement of persons, announced with effect from 11 April 2020 for almost two months. Nevertheless, we did not stop the program and were able to register 528 volunteers, of which 491 from the Helping Together volunteer program and 37 ambassadors of financial and digital literacy.

Goodwill card

Together with the Master Card Association, ČSOB also supports individual donations in the private banking segment. Thanks to a special goodwill debit payment card, ČSOB Private Banking clients can contribute to charitable purposes. The client sets the amount of the voluntary contribution and then the selected amount from each business transaction travels to **help children and adults in difficult health situations**. ČSOB and Master Card Association donate additional funds, which is why, thanks to the Goodwill Card, together we have donated almost CZK 16 million (of which CZK 2.25 million in 2020) during the period of operation and helped more than 274 people in need.

Premium Card

In 2019, we launched a new service in the Premium segment - from May, clients can use a credit card, from which they contribute 0.1% to the **education and training of guide dogs** with each payment. In addition, we have promised to contribute the same amount together with the Master Card Association, which will triple the contributions. For this purpose, we have concluded cooperation with our traditional partner from the non-profit sector - the Mathilda Endowment Fund, which is a top expert in guide dog training in the Czech Republic. At the end of 2020, we jointly donated an amount exceeding 2 million crowns.

Together with ČSOB

Matching fund Together with ČSOB is designed to **support individual donations of our colleagues**. Each employee can apply for a cash grant for their favourite non-profit organization or charity project. All you must do is organize a charity collection on the www.darujspravne.cz portal for the benefit of your favourite, or combine it with any charity event, and involve other colleagues from the bank and people from your surroundings. The bank donates the same amount that was collected (maximum CZK 30,000 per project). During 2020, employees - allies of various non-profit organizations - organized a total of 14 allied collections. The bank added CZK 407,000 to their contributions in the amount of CZK 600,357, so together we donated CZK 1,007,357 to a good cause.

ČSOB Corporate Social Responsibility Award in 2020

Pride Business Forum: LGBT Friendly employer
ČSOB was the first Czech bank in the history of the competition to win in the Jumper of the Year category for supporting diversity and combating discrimination.

Pride Business Forum: LGBT hero
Helene Goessaert, a member of the ČSOB Board of Directors, received the title of LGBT hero. This is how 5 top managers who are active in promoting equal opportunities and combating discrimination are awarded each year.

Hospodářské noviny Award: Banking innovator
3rd place in the Banking Innovator category for the e-Scribe service - online transcription of spoken language for the hearing impaired.

In terms of ecology and sustainability, we won 1st place in the Adapterra Awards with the ČSOB Campus. It is an example of the best adaptation to climate change in the Work Environment category.

Mediator: Advertising execution house
Thanks to the Together Against Internet Predators campaign, ČSOB ranked in the TOP 10 best-rated Czech advertising campaigns of 2020.

Donor Forum Awards 2020: 1st place in the Annual Report - Corporate category for the Annual Report on Corporate Social Responsibility of the ČSOB Group

Business for the company: TOP Responsible company 2020
ČSOB defended the title of TOP Responsible Large Company (rating 87% in the overall approach to responsible and sustainable business).

More information can be found in the Annual Report on Corporate Social Responsibility of the ČSOB 2020 Group and on the website www.csob.cz/csr.

Diversity

ČSOB supports diversity in a broad context, creates inclusive environment for all, and offers tailor-made benefits for specific needs of various groups. ČSOB aims to use the potential and best talent of all our employees. We create equal opportunities regardless of age, gender, sexual orientation, or nationality. We do focus on equal opportunities only, but we spread higher awareness within employees, why there is a value in Diversity. We consider flexibility as a key precondition for Diversity, flexibility is our focus already for a long time – eg. part-time jobs, home-office. COVID-19 pandemic time proved that our ability to provide flexible working condition is crucial for all employees, and we are proud that we were ready for that.

ČSOB's Diversity strategy defines these specific areas:

1. Gender diversity in management: we are gradually increasing number of women in management, in a relative comparison with financial institutions it is one of our key advantage, and we want to improve further. We have been working on more balanced ratio of women in managerial positions and we are gradually decreasing the gap not only in the quantity (in 2015: 32% women in management, 2020: 37%), but also in wages comparison women x men („gender pay-gap" 2015: 6%, 2020: 2.3%).
2. Programme for parents has been supporting parents of small children already for many years. It is newly being expanded with a concept of ČSOB kindergartens.

3. Age diversity: Program 55+ - experience is an advantage, broadened for an offer of expertise volunteering.
4. LGBT+: signed memorandum of Pride business forum, implemented fairness of benefits, new employee group PROUD has been established.

We are aware of our role as a big employer, so we openly share our experience and look for an inspiration from others. We actively cooperate with:

- non-profit organization Business for society in order to build an alliance with other employers, to inspire each other. In 2020 we were a partner of two parts of Diversity Day and we attended panel discussions and employer meetings (focused on support of parents or Silver economics). We challenged other employers to join common initiative of Business for society and ČSOB, which wants to comment a legislation for nurseries and kindergartens.
- non-profit organization Pride business forum, which principles we proudly accepted by signing of their memorandum. In 2021, a conference of equality in the workplace will be held under the sponsorship of ČSOB, focusing on financial institutions.
- a worldwide initiative She loves data, which target is to support and develop women in data and innovation areas.

Activities in 2020 and plans for 2021

1. Gender diversity in management

We continue with an open discussion about the benefits of a diverse approach and the value of the "male and female principle" at work. We are aware that the corporate environment at the level of top management, or in some parts of the bank, is traditionally based more on the application of male principles, and we are trying to gradually balance it. This will ensure not only higher female leadership involvement, but also personal awareness, why is the application of both principles beneficial for decision making.

We are currently focusing on these two activities:

- Since 2020, an extensive series of management workshops with the topic of male and female principles has been taking place; we will continue this activity in 2021 at the level of lower management.
- We also focus on developing the talent of female managers in middle management level within the Women in Management Program. In 2020, the potential and talent were assesed, and in 2021 we are launching a development program for groups of women.

2. Programme for parents and ČSOB kindergarten concept

Parental support is our long-term priority in the field of Diversity. The goal is an easier and faster return to work from parental leave. Within the program we offer:

- keeping in touch with the bank and constant information about developments in the bank, suitable job offers or about social and educational events for parents
- external web for parents (*www.csob.cz/rodice*), where all information about the program are available as well as information about maternity/parental leaves. Information availability is ensured also in internal employee application
- an opportunity to find a job during parental leave in the form of part-time job, or kind of working agreement, either in the original department or in the other department within the bank
- individual consultations with the gestor of the Program (employment law, career consultancy, return to work execution, finding a new job, etc.)

- free professional and personal coaching during parental leave - cooperation with the internal Coaching Center, parents have 5 meetings available
- workshops for parents who leaves for maternity/parental leave
- informal meetings of parents (if pandemic situation allows)

From our experience, delays in return to the work are mainly caused by the lower availability of suitable childcare. The existence of a company kindergarten has a positive effect on company culture, and signals how important is the situation of employee's families for the company.

ČSOB's kindergartens concept:

- We have been operating the kindergarten ČSOB Sluníčka at the headquarters in Prague since 2017. At the same time, a daughter company ČSOBS[1)] operates own kindergarten PampeLiška for many years. Great success of both kindergartners has led us to deepen the concept.
- In September 2021, we are opening a new kindergarten in Hradec Králové, and in the upcoming years we will significantly expand the kindergarten at the headquarter.
- On top, we refund half of the cost for any nursery, kindergarten or nanny, if parents work during or instead of parental leave. With this contribution we support parents in the regions, i.e. in places where there is not enough concentration of employees to establish our own company kindergarten.

In ČSOB, 15% of parents (mostly mothers) return to work earlier (often in the form of part-time work) than after the usual three years of parental leave (to compare, only 5% of parents return to work on the Czech market in average). Together, this represents dozens of high-quality employees that we would not find on the labor market easily. In 2020, 92 parents worked during parental leave.

As a reaction to the pandemic situation:

- All ČSOB employees have the opportunity to use 5 days of extra paid leave (so-called care days), either to take care of children, or relatives.
- We are trying to increase opportunities of home-office jobs for parents of small children who do not have many opportunities to find a job during parental leave, especially if they are from a branch network.

3. Age diversity: Program 55+ - experience is an advantage

In 2020, we successfully continued the "55plus - experience an advantage" program. The objectives of the program are using the experience of these employees to mentor younger colleagues, increase team stability through age diversity of team members, reduce pressure and stress, prevent burnout syndrome (including expert volunteering for nonprofit organizations), increase regeneration thanks to 2 days of extra paid leave.

We run serious of the webinars, with topics focused on:

- managing change and responding to the rapidly changing environment in which we currently live
- how to take care of your energy and how to quickly recharge yourself
- how to strengthen the ability to offer their experience, not only to younger generations and colleagues at work.

1) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

We also offer free services of employment law consultancy.

As a reaction to the pandemic situation and as part of health prevention, we ensured the possibility of flu vaccination for free.

In 2021, we are significantly expanding the activities of expert volunteering. In the case of volunteering for non-profit organizations, where our 55plus colleagues use their expert skills and knowledges, they have the opportunity to take 4 days of paid leave (in individual cases even more). The aim of this activity is to enable employees to achieve greater self-realization, use their expertise, prevent burnout syndrome and last but not least, enable them to think about how their knowledge and skills can be useful after retirement.

4. LGBT+ support:

We are fulfilling the commitments we have made by signing the Pride Business Forum memorandum in the area of applying the principles of equality in the workplace. We offer a day-off for a wedding with a partner from a foreign state, paternity leave also for the adoption of a child or leave for accompanying the child of a partner to a doctor. These are some examples of how we are reviewing the fairness of benefits, precising the definitions and how we work on eliminating discrimination.

The PROUD employee group in ČSOB was established, which associates LGBT colleagues and their supporters. The PROUD group organizes seminars or webinars (of the history of LGBT, or training on minorities), and informal meetings.

Awards in Diversity area for ČSOB in 2020

Pride business forum: LGBT Friendly employer

As a first rewarded bank in the history of competition, ČSOB won Big step forward award.
https://www.pridebusinessforum.com/oceneni/lgbt-friendly-employer-a-pride-business-heroes-2020/

Pride business forum: LGBT hero

Helene Goessaert, member of the Board ČSOB group, won a title LGBT hero. This award goes annually to 5 top executives who are active in promoting equal opportunities and combating discrimination.
https://www.pridebusinessforum.com/oceneni/lgbt-friendly-employer-a-pride-business-heroes-2020/

Top responsible company (Business for society competition)

2nd highest score (93%) amongst big employers in a sub-category Responsible HR and Diversity.

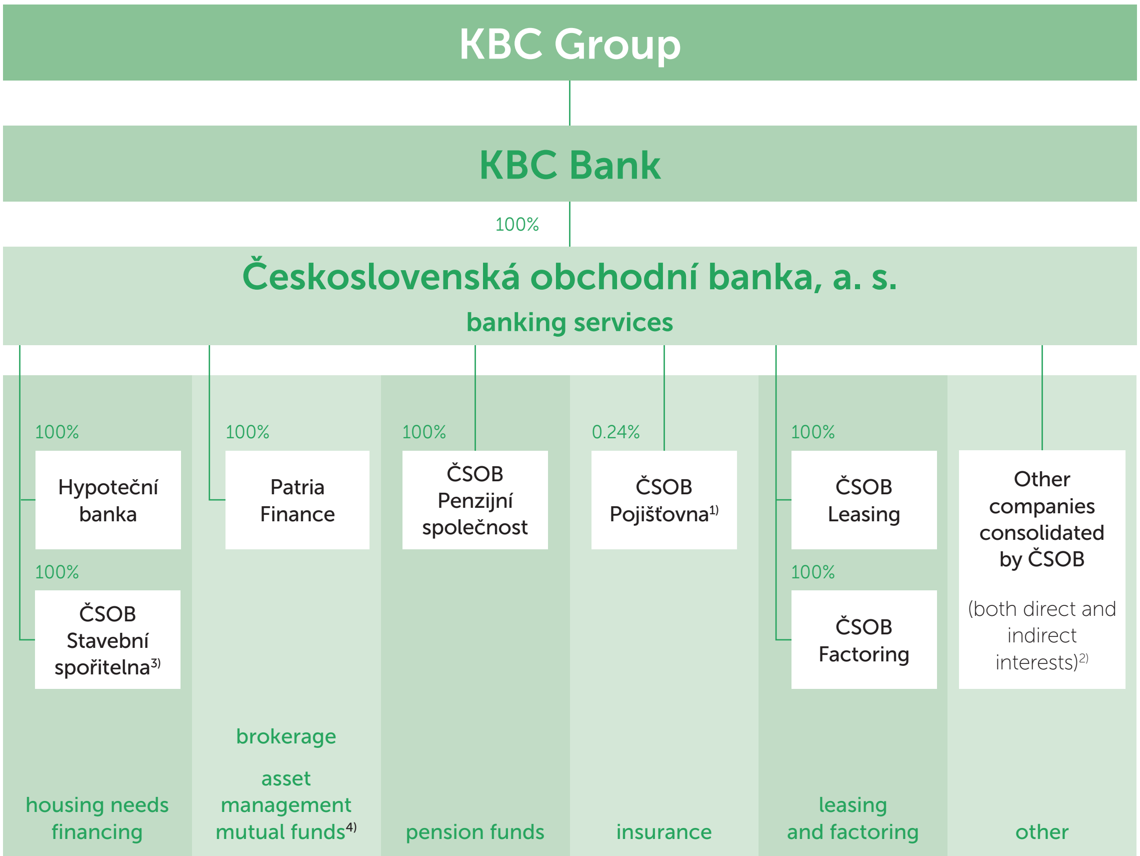
COMPANIES OF THE ČSOB GROUP

ČSOB group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bank-insurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2020, ČSOB had ownership interests in 30 legal entities and, in addition to ČSOB, other 27 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services and products: banking services, building savings and mortgages, securities brokerage, asset management, mutual fund, pension funds, insurance, leasing and factoring.



Percentages show ČSOB's ownership interests on company's equity as at 31 December 2020.

1) 99.76% of shares owned by KBC Insurance; by an equity method consolidation.
2) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report.
3) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).
4) ČSOB continues offering mutual funds and other products of ČSOB Asset Management regardless of its sale within the KBC Group.

Hypoteční banka, a.s.

Date of establishment:	10. 1. 1991
Business activities:	Providing of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,336 ths
Shareholders:	100% ČSOB

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Internet:	www.hypotecnibanka.cz

Indicator		2020	2019
Total assets*	CZKm	346,505	324,053
Loans and advances to customers*	CZKm	333,835	315,566
Total equity*	CZKm	47,077	44,600
Profit for the year after tax*	CZKm	1,566	2,446
Total volume of new mortgage loans (according to the Ministry of Regional Development; CZ)	CZKm	61,625	46,466

** EU IFRS, audited.*

Branches	29	29
Agents and brokers	3,623	3,238

Hypoteční banka is a specialist in providing residential mortgage loans. It has a long-standing reputation for a strong, stable and reliable company with its business partners and clients, which, thanks to its innovations and products offered, sets the tone for the entire market.

2020 was a year full of paradoxes and reversals for the mortgage market. Although we entered it with the expectation of a slight decline, which was subsequently exacerbated by the onset of the coronavirus crisis, we eventually reached a record volume of mortgages. For the first time in history, the housing financing market reached the magic level of CZK 254 bn, thus surpassing the record years of 2016 and 2017. Compared to the weaker year 2019, it recorded a year-on-year increase of almost 40%. Despite all the complications, difficult conditions and unclear developments, year 2020 was successful for Hypoteční banka. The total volume of mortgages provided by us exceeded the limit of CZK 332 bn, the volume of newly provided loans reached CZK 61 bn. As part of our long-term strategy to determine market trends, we have introduced, for example, the Mortgage at your fingertips service. Thanks to it, a potential client can check online within 20 minutes which mortgage he is most likely to reach. He will receive the fastest evaluation on the market completely free of charge, based on data that he fills in himself. We also offered a significant innovation to our business partners, for whom we created a unique Fintech API, which simplified and accelerated the provision of mortgage loans to their clients to financial advisors and consulting firms.

In 2020, we did not forget another of our long-term goals, which is to support sustainable housing and related technological innovations. We constantly offer our clients more advantageous conditions through the Green Mortgage. However, although more and more people are finding green housing, it can be difficult for a layman to find their way around the necessary technical solutions. Within the ČSOB group, we have created a special electronic book, which contains many tips on available technologies, subsidies and other options for financing sustainable housing. Everyone can download it on our special website Myslimezelene.cz.

ČSOB Stavební spořitelna, a.s.[1)]

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Registered capital:	CZK 1,500,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 225 225 225
E-mail:	info@csobstavebni.cz
Internet:	www.csobstavebni.cz

Indicator		2020	2019
Total assets*	CZKm	149,823	147,415
Volume of loans and bridging loans (Retail)*	CZKm	120,034	117,484
Volume of client deposits*	CZKm	140,551	139,008
Total equity*	CZKm	6,986	7,255
Profit for the year after tax*	CZKm	493	965

** EU IFRS, audited.*

Advisory centers	262	273
Tied agents	1,735	1,757

Since ČSOBS was established, it has been the largest and most successful building society in the Czech market from the point of view of the balance sheet total CZK 149.8 bn as at 31 December 2020. In the long run, it has been the biggest provider of the building savings product (in the year 2020, achieved 168 ths. pieces of the new savings contracts, which represented a market share of 32.2 %) and of building savings loans (new loans provided in the year 2020 amounted to a total of CZK 25.1 bn, including construction loans and bridging loans, which was a market share of 38.4 % w/o commercial loans - estimation). Currently, 1.154 million clients have building savings or a building savings loan from ČSOBS.

In addition, ČSOBS is also an important provider of other products from the ČSOB group, namely: current accounts, mortgage loans, life risk insurance, investment life insurance, property and liability insurance, car insurance supplementary pension savings, newly consumer loans and savings accounts.

1) With effect from 12 March 2021 Českomoravská stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

Patria Finance, a.s.

PATRIA FINANCE

Date of establishment:	23. 5. 2001
Business activities:	the securities services
Identification number:	26455064
Registered capital:	CZK 150,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Výmolova 353/3 150 27 Praha 5
Telephone:	+420 221 424 240
Fax:	+420 221 424 179
E-mail:	patria@patria.cz
Internet:	www.patria.cz

Indicator		2020	2019
Profit for the year after tax*	CZKm	159	57
Number of orders realized through personal brokers and the online trading platform WebTrader (Patria Finance)	ca.	341,211	139,200
Number of clients (Patria Finance)	ca.	36,000	28,000

** EU IFRS, unaudited.*

The main activity of Patria Finance is the provision of investment banking services in the areas of securities trading and the provision of information on financial and capital markets through the Internet platform www.patria.cz. Patria Finance services also include investment research, both for the CEE region and the developed markets of Western Europe and the USA. Securities trading and brokerage is offered through the Internet portal www.patria-direct.cz.

In 2020, securities trading focused dominantly on stock markets. Patria Finance, serves more than 36,000 clients with the volume of AUM exceeding CZK 51 bn.

ČSOB Penzijní společnost, a. s., a member of the ČSOB group

Date of establishment:	26. 10. 1994*
Business activities:	Activities related to the pension savings
Identification number:	61859265
Registered capital:	CZK 300,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 495 800 600
Fax:	+420 224 119 536
E-mail:	csobps@csob.cz
Internet:	www.csob-penze.cz

** Date of establishment of ČSOB PF Stabilita. ČSOB PS was incorporated on 1 January 2013 through transformation of ČSOB PF Stabilita (the Transformed fund).*

Indicator		2020	2019
Funds registered in favour of participants of the Transformed fund Stabilita*	CZKm	53,026	50,374
Participant funds in participation funds*	CZKm	10,889	8,416
Profit for the year after tax**	CZKm	172	149

**Unconsolidated*
*** EU IFRS, unaudited.*

Customers	Number (ths)	654	649

Pension savings has been perceived as a basic savings product for each of us. The aim of ČSOB Penzijní společnost is to create responsible clients and pension savings makes clients responsible. Clients are offered simple and effective solutions that help in arranging pension savings and its use, on-line way included.

In 2020, the company had 654 thousand clients who have entrusted it and its funds with CZK 63.9 bn.

ČSOB Pojišťovna, a. s., a member of the ČSOB holding

Date of establishment:	17. 4. 1992	
Business activities:	Life and non-life insurance	
Identification number:	45534306	
Registered capital:	CZK 2,796,248 ths	
Shareholders:		
Registered capital	99.76%	KBC Insurance
	0.24%	ČSOB
Voting rights	60%	KBC Insurance
	40%	ČSOB

Contact

Address:	Masarykovo nám. 1458 532 18 Pardubice, Zelené předměstí
Telephone:	+420 467 007 111 +420 800 100 777
Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

Indicator		2020	2019
Total assets*	CZKm	51,825	49,784
Total equity*	CZKm	6,517	4,710
Profit for the year after tax*	CZKm	1,436	1,198
Gross written premium life insurance	CZKm	5,442	5,850
Gross written premium non-life insurance	CZKm	8,326	7,564

** EU IFRS, audited.*

Branches		97	97
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	1,250,992	1,266,705

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

In 2020, ČSOB Pojišťovna posted a net profit of CZK 1,436 m mainly thanks to good business results. Gross written premium reached CZK 13.8 bn. Market share increased by 0.3 percentage point to 8.4% in 2020.

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995
Business activities:	Financial services
Identification number:	63998980
Registered capital:	CZK 3,050,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Výmolova 353/3 150 00 Praha 5
Telephone:	+420 222 012 111
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

Indicator		2020	2019
Total assets*	CZKm	40,675	43,947
Amounts due from clients (gross)*	CZKm	38,984	40,888
Total equity*	CZKm	7,191	8,762
Profit for the year after tax*	CZKm	2	449
Volume of new leasing business**	CZKm	13,149	16,854

** EU IFRS, unaudited.*
*** According to methodology of Czech Leasing and Financial Association (ČLFA); Initial investment*

Branches	7	7

ČSOB Leasing belongs to the largest asset finance providers in the Czech Republic. Its financial services, incl. related insurance, are provided to wide spectrum of clients from large corporate companies to individual consumers. Its products are distributed multichannel (directly via own brick & mortar branches via distribution channels of parent company ČSOB, third parties and newly also via www).

ČSOB Leasing is also nonbanking provider of tied consumer loan.

In 2020 ČSOB Leasing was awarded by Bronze Crown for ČSOB Zelená Autopůjčka (Car loan for e-cars and hybrids) and within the framework of its ancillary services can provide subsidize advisory besides an asset investments.

ČSOB Factoring, a.s.

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Registered capital:	CZK 70,800 ths
Shareholders:	100% ČSOB

ČSOB Factoring

Contact

Address:	Výmolova 353/3 150 00 Praha 5
Telephone:	+420 230 029 710
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

Indicator		2020	2019
Total assets*	CZKm	5,073	5,890
Amounts due from clients (gross)*	CZKm	5,367	6,170
Total equity*	CZKm	931	1,192
Profit for the year after tax*	CZKm	62	123
Turnover of receivables	CZKm	36,106	39,777

** EU IFRS, unaudited.*

ČSOB Factoring has been providing factoring services to its clients since the year 1992. Thanks to the quality of its services the market share of the company remains around 20 % in the long term.

In 2020, the volume of receivables assigned to ČSOB Factoring declined year-on-year by 9% to CZK 36.1 bn.

ČSOB Factoring is one of the founding members of the Association of Factoring Companies in the Czech Republic and a member of the Czech Leasing and Financial Association.

Companies of the ČSOB Group

(as at 31 December 2020)

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital CZK	Share of ČSOB in: Registered Capital Total %	Registered Capital Direct %	Registered Capital Indirect %	Voting Rights %	Indirect Share of ČSOB via	Cons. EU IFRS Y/N
Controlled Companies									
09513817	**Bankovní identita, a.s.**[1] Activities connected with data processing and web hosting	Praha 8, Smrčkova 2485/4	3,000,000	33.33	33.33	none	33.33	none	Y
63987686	**Bankovní informační technologie, s.r.o.** Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	none	100.00	none	Y
49241397	**Českomoravská stavební spořitelna, a.s.**[2] Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	100.00	100.00	none	100.00	none	Y
27081907	**ČSOB Advisory, a.s.** Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	none	100.00	none	Y
45794278	**ČSOB Factoring, a.s.** Factoring and related services	Praha 5, Výmolova 353/3	70,800,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** Leasing	Praha 5, Výmolova 353/3	3,050,000,000	100.00	100.00	none	100.00	none	Y
61859265	**ČSOB Penzijní společnost, a. s., a member of the ČSOB group** Pension insurance	Praha 5, Radlická 333/150	300,000,000	100.00	100.00	none	100.00	none	Y
27151221	**ČSOB Pojišťovací makléř, s.r.o.** Insurance broker	Praha 5, Výmolova 353/3	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	Y
61251950	**Eurincasso, s.r.o.** Activity of economic and organisation advisors; recovery of receivables	Praha 5, Výmolova 353/3	1,000,000	100.00	none	100.00	100.00	ČSOB Factoring	Y
13584324	**Hypoteční banka, a.s.** Mortgage banking	Praha 5, Radlická 333/150	5,076,336,000	100.00	100.00	none	100.00	none	Y
01-09-338123	**K&H Payment Services Kft** Acquiring of payment transactions	HU, Budapest, Lechner Odon Fasor 9	7,454,000	100.00	100.00	none	100.00	none	Y
07093331	**MallPay s.r.o.** Payment transactions	Praha 7, U garáží 1611/1	235,000,000	50.00	50.00	none	50.00	none	Y
00000949	**MOTOKOV a.s. in liquidation** Wholesale of machines and technical equipment	Praha 5, Radlická 333/150	62,000,000	70.09	0.50	69.59	70.09	ČSOB Advisory	Y
25671413	**Patria Corporate Finance, a.s.** Brokerage activities in financial consulting	Praha 5, Výmolova 353/3	1,000,000	100.00	100.00	none	100.00	none	Y
26455064	**Patria Finance, a.s.** Securities trader	Praha 5, Výmolova 353/3	150,000,000	100.00	100.00	none	100.00	none	Y
05154197	**Patria investiční společnost, a.s.** Management of investment funds	Praha 5, Výmolova 353/3	10,000,000	100.00	100.00	none	100.00	none	Y
02451221	**Radlice Rozvojová, a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Výmolova 353/3	186,000,000	100.00	100.00	none	100.00	none	Y
27388239	**Top-Pojištění.cz s.r.o**[3] Arranging insurance	Praha 4, Lomnického 1742/2a	200,000	100.00	none	100.00	100.00	Ušetřeno.cz s.r.o.	Y

Legal Entity				Share of ČSOB in:					
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
28188667	**Ušetřeno.cz Finanční služby, a.s.** [3] / Arranging loans	Praha 4, Lomnického 1742/2a	2,000,000	100.00	none	100.00	100.00	Ušetřeno.cz s.r.o.	Y
24684295	**Ušetřeno.cz, s.r.o.** / Arranging loans, real estate activity	Praha 4, Lomnického 1742/2a	1,000,000	100.00	100.00	none	100.00	none	Y
Others									
26199696	**CBCB – Czech Banking Credit Bureau, a.s.** / Software development, IT advisory, data processing, network administration databank services	Praha 4, Štětkova 1638/18	1,200,000	20.00	20.00	none	20.00	none	Y
27479714	**ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding** / Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
45534306	**ČSOB Pojišťovna, a. s, a member of the ČSOB holding** [4] / Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	0.24	0.24	none	40.00	none	Y
28985362	**ENGIE REN s.r.o.** / Production and sale of electricity from the solar irradiation	Praha 4, Lhotecká 793/3	186,834,000	42.82	42.82	none	42.82	none	Y
05815614	**Pardubická Rozvojová, a.s.** / Rent of flats and non-residential spaces	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,000,000	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
26439395	**První certifikační autorita, a.s.** / Certification services and administration	Praha 9 - Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	none	23.25	none	Y
	Other companies where ČSOB has a share in registered capital / voting rights under 20%.								N

Prudential consolidation (Decree No. 163/2014 Coll.)

1) In April 2021, another 7 Czech banks became shareholders of Bankovní identita, a.s. ČSOB now has a share on equity and voting rights of 17%.

3) In January 2021, Ušetřeno finanční služby merged with entity Top-Pojištění.cz s.r.o.

2) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

4) Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%; shares in voting rights: ČSOB 40%, KBC Insurance 60%.

Changes as at 31. 12. 2020

MallPay s.r.o. – increase of registered capital as of 29 May 2020, 24 July 2020 and 30 November 2020

K&H Payment Services Kft - increase of registered capita as of 14 September 2020

Bankovní identita,a.s. – establishment of a new company as of 15 September 2020

Top-Pojištění.cz s.r.o. – transfer of 100% interest held by ČSOB, a.s. in the company Top-Pojištění.cz s.r.o. to the buyer Ušetřeno.cz s.r.o. as of 17 April 2020

CORPORATE GOVERNANCE

Managing and Supervisory Bodies

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

ČSOB has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee. The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting. The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting.

The Board of Directors in 2020

First Name and Surname	Position	Membership since	Current Term in Office since[1]	ČSOB's Top Management[4] Position and Area of Responsibility
John Arthur Hollows	Chairman[2]	1. 5. 2014	2. 5. 2018[3]	Chief Executive Officer
Petr Knapp	Member	20. 5. 1996	22. 5. 2018[3]	Senior Executive Officer, Relationship Services
Petr Hutla	Member	27. 2. 2008	1. 3. 2017[3]	Senior Executive Officer, Credits Management
Jiří Vévoda	Member	8. 12. 2010	10. 12. 2019[3]	Senior Executive Officer, Finance Management
Marcela Suchánková	Member	1. 3. 2017	1. 3. 2017	Senior Executive Officer, IT and Operations
Jan Sadil	Member	1. 3. 2017	1. 3. 2017	Senior Executive Officer, Retail
Hélène Goessaert	Member	1. 3. 2018	1. 3. 2018	Senior Executive Officer, Group Risk Management

1) The term in office of the members lasts four years.
2) Chairman since 2 May 2014.
3) Elected to a new term in office.
4) In 2020, members of ČSOB's Top Management were identical with the members of the Board of Directors of ČSOB.

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) as at 31 December 2020 please refer to ČSOB's Organisation Chart, page 66 of this Annual Report. Descriptions of work and decision-making processes are given in Corporate Governance chapter of this Annual Report, page 60.

The Supervisory Board in 2020

First Name and Surname	Position	Membership since	Current Term in Office since[1]	Termination of Membership
Zdeněk Tůma	Chairman[2]	1. 10. 2019	1. 10. 2019	–
Franky Depickere	Member	1. 6. 2014	2. 6. 2018[3]	–
Christine Van Rijsseghem	Member	1. 6. 2014	2. 6. 2018[3]	–
Willy Kiekens	Member	1. 9. 2018	1. 9. 2018	–
Ladislava Spielbergerová	Member	1. 1. 2019	1. 1. 2019	–
Štěpán Stránský	Member	1. 1. 2019	1. 1. 2019	–

1) The term in office of the members lasts four years.
2) Chairman since 16 October 2019.
3) Elected to a new term in office.

The Audit Committee in 2020

First Name and Surname	Position		Membership since	Termination of Membership
Petr Šobotník	Chairman[1]; Independent member	Not a member of any ČSOB body	1. 2. 2011	–
Ladislav Mejzlík	Independent member	Not a member of any ČSOB body	27. 1. 2016	–
Christine Van Rijsseghem	Member	Member of ČSOB's Supervisory Board (since 1. 6. 2014)	24. 6. 2019	–

1) Chairman since 7 April 2016.

Changes in ČSOB's Managing and Supervisory Bodies in 2020

No changes in managing and supervisory bodies of ČSOB occurred in 2020.

Changes in ČSOB's Managing and Supervisory Bodies in 2021

Marcela Suchánková, Petr Hutla and Jan Sadil, members of the Board of Directors, were elected for new term in office with effect of 2. 3. 2021. A change in the Board of Directors has been announced since June 2021, Petr Knapp should be replaced by Ján Lučan in the area of Relationship Banking.

The Composition of ČSOB's Board of Directors since 1 March 2021:

John Arthur Hollows (Chairman), Petr Hutla, Petr Knapp, Jiří Vévoda, Hélène Goessaert, Marcela Suchánková, Jan Sadil.

Abbreviated curriculum vitaes of the members of the Board of Directors can be found on pages 52–54.

Conflict of Interests

under Commission Regulation (EC) No 2017/1129

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, ČSOB's Top Management and the Supervisory Board to ČSOB and their private interests and / or other duties.

ČSOB does not regard entering into banking transactions by the members of the Board of Directors of ČSOB, the members of ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and / or other duties which may negatively influence the execution of their duties.

The Business Address

of members of the Board of Directors, ČSOB's Top Management and the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
150 57 Praha 5
Czech Republic

INTRODUCING MEMBERS OF ČSOB'S BOARD OF DIRECTORS

ČSOB's Board of Directors in 2020

JOHN ARTHUR HOLLOWS

Born on 12 April 1956

Chairman of the Board of Directors

He graduated from the Sidney Sussex College at the University in Cambridge with a degree in economics and law.

Upon graduation Mr. Hollows has followed a career in banking. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai and Singapore. He held senior managerial positions in credit departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was the Chief Executive Officer of K&H Bank (KBC Group) in Hungary. Between 2006 and 2009, Mr. Hollows served as the Senior General Manager of the Central and Eastern Europe Business Unit of the KBC Group. From September 2009 to April 2010, he was the CEO of KBC Group's Central and Eastern Europe and Russia Business Unit. Since September 2009 he has been a member of the Executive Committee of the KBC Group. From May 2010 to April 2014, he served as the Chief Risk Officer of the KBC Group. Between April 2006 and June 2009, Mr. Hollows was a member of ČSOB's Supervisory Board and the Chairman of its Audit Committee. Since 1 May 2014, he has been a member of the Board of Directors of ČSOB (and its Chairman since 2 May 2014). Since 1 May 2014, Mr. Hollows has been the member of the Executive Committee of the KBC Group responsible for the Business Unit Czech Republic.

Membership in bodies of other companies:
- Member of the Executive Committee of the KBC Group (Belgium)
- Member of the Board of Directors and member of the Executive Committee of KBC Bank (Belgium) and KBC Insurance (Belgium)

PETR KNAPP

Born on 7 May 1956

Member of the Board of Directors

Relationship Services

He graduated from the University of Economics, Prague.

Mr. Knapp originally joined ČSOB in 1979. He worked in Teplotechna Praha as Deputy Managing Director from 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996. Between March 2005 and April 2014, Mr. Knapp served as a member of ČSOB's Top Management as the Senior Executive Officer, Corporate Banking and Financial Markets. Since 1 May 2014, he has been a member of ČSOB's Top Management responsible for Relationship Services.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: ČSOB Factoring (CZ), ČSOB Leasing (CZ) and ČSOB Advisory (CZ)
- Member of the Board of Directors of the Prague Economic Chamber (CZ)
- Member of the Board of Trustees of the University of Chemistry and Technology, Prague (CZ)
- Member of the Committee of UNIJAZZ – Association for the support of cultural activities
- Member of the Board of Trustees of the Buďánka, z. ú.
- Member of the Economic council of the Evangelical Church of Czech Brethren

PETR HUTLA

Born on 24 August 1959

Member of the Board of Directors

Credits Management

He graduated from the Czech Technical University Prague, Faculty of Electrical Engineering.

Mr. Hutla worked for Tesla Pardubice between 1983 and 1993, as the Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as the branch manager in Pardubice and the main branch manager in Hradec Králové, then as the main branch manager in Prague 1. Mr. Hutla then served as Senior Director, Corporate and Institutional Banking (between 2000 and 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (between 2005 and 2006), Human Resources and Transformation (between 2006 and 15 November 2009), Distribution (between 16 November 2009 and 31 December 2012). Since 27 February 2008, Mr. Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he was also the head of KBC Global Services Czech Branch, organizational unit. Between January 2013 and June 2014, Mr. Hutla was a member of ČSOB's Top Management as the Senior Executive Officer, Specialized Banking and Insurance. From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Convenient Retail Services and from 1 October 2014 to 9 March 2015, also responsible for Change Zone; Mr. Hutla was responsible for Retail (after the merger of these two management areas) from March 2015 to January 2018. As of February 2018 Mr. Hutla has been in charge of Credits Management.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in ČSOBS* (CZ) and Hypoteční banka (CZ)
- Member of the Supervisory Board in ČSOB Leasing (CZ)
- Member of the Board of Directors in: the Czech Transplant Foundation (CZ) and the Nadační fond Srdce (endowment fund; CZ)

JIŘÍ VÉVODA

Born on 4 February 1977

Member of the Board of Directors

Finance Management

Jiří Vévoda graduated from the Joint European Studies Programme at the Staffordshire University and the University of Economics, Prague.

From 2000 to 2004, Jiří Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden. From 2004 to 2010, he worked for McKinsey & Company. Since 1 May 2010, he has been a member of ČSOB's Top Management. As of 8 December 2010, he has become a member of ČSOB's Board of Directors. Firstly, Jiří Vévoda acted as the Senior Executive Officer responsible for HR and Transformation, afterwards he was responsible for Products and Staff Functions. Between January 2013 and June 2014, Jiří Vévoda acted as the Chief Risk Officer. Since 1 July 2014, he has been appointed as the Chief Finance Officer. From 2018 is Jiří Vévoda responsible for ČSOB Group investment services as well.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: Patria Finance (CZ), Patria Corporate Finance (CZ), ČSOB Penzijní společnost (CZ)
- Member of the Supervisory Board in: Hypoteční banka (CZ), ČSOBS (CZ), ČSOB Asset Management (CZ), Ušetřeno.cz (CZ)

**) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).*

HÉLÈNE GOESSAERT

Born on 3 April 1965

Member of the Board of Directors

Group Risk Management

Ms. Goessaert graduated from Ghent University, Belgium and after gaining that Post graduate degree in Financial Sciences, Vlerick School for Management.

In March 2018 Hélène Goessaert joined to ČSOB from the Belgian headquarters of KBC. She has worked at KBC since 1990. In 2002, she assumed the position of the Head of Market Risks, where she was responsible for the monitoring of the worldwide market risk in KBC Group. From 2007, she worked as the General Manager Market Risks. In that position, she led the Market risk and Modeling team. As of 2010, she became responsible for the risk management strategy for trading and corporate banking activities. In 2011, she became a member of the Management Committee, responsible for the financial reporting and performance measurement. In the same year, she also became a member of the Finance Committee of KBC Group, deciding on the strategy for the Finance function of the Group. Since 2015, she hold the post of the Chief Data Manager, responsible for the Data and Reporting Architecture of KBC Group from 2015 to 28 February 2018.

Membership in bodies of other companies:
- Member of the Audit Committee in: ČSOB Pojišťovna (CZ)
- Member of Supervisory Board in: ČSOB Penzijní společnost (CZ), ČSOB Leasing (CZ), Patria Finanace (CZ), Usetřeno (CZ), K&H Payment Services Ltd. (HU)
- Member of the Board of Directors in: Hypoteční banka (CZ), ČSOBS (CZ)

MARCELA SUCHÁNKOVÁ

Born on 3 January 1971

Member of the Board of Directors

People and Communication

She graduated from University of Economics, Prague and has an MBA diploma from US Business School Prague (Rochester Institute of Technology).

Ms. Suchánková started her professional career in consulting and public relationship area. She joined ČSOB Communication department in 1997. In 1999, she moved to retail banking, where she managed various projects and departments (product development, direct marketing, savings and investments). From 2013 to 2015, Ms. Suchánková was a member of ČSOB Pension Company Board of Directors responsible for business and later became the Chairman of the Board and CEO of ČSOB Pension Company. From 2015 to 2016, she hold ČSOB Human Resources General Manager position. As of 1 March 2017, she has been appointed as a member of ČSOB's Board of Directors responsible area of People and Communication division. Since January 2019 she is also responsible for IT and Operations.

JAN SADIL

Born on 16 February 1969

Member of the Board of Directors

Retail

He graduated from the Civil Engineering Faculty of the Czech Technical University in Prague and University of Economics and the Institute of Forensic Engineering of University of Technology in Brno (postgraduate studies).

Mr. Sadil started his banking career in Komerční banka, a.s. in 1995. In 2000, he was appointed as the manager responsible for private individuals loans division. In 2001, he joined Českomoravská hypoteční banka, a.s. (currently Hypoteční banka, a.s.) as a member of the Board of Directors responsible for sales and marketing. Since the end of 2003 till March 2017, he hold the position of Chairman of the Board of Directors and the CEO of Hypoteční banka. As of 1 March 2017, he has been appointed as a member of ČSOB's Board of Directors responsible for Specialised Banking and Insurance. Since 1 February 2018 he has been responsible for Retail.

Membership in bodies of other companies:
- Member of the Supervisory Board in: Centrum Paraple, o.p.s. (CZ)
- Chairman of the Supervisory Board in: ČSOB Pojišťovna, a.s. (CZ), Via Cordata, o.p.s (CZ), Association for Real Estate Market Development (CZ)

ČSOB's Supervisory Board

ZDENĚK TŮMA

Born on 19 October 1960

Chairman of the Supervisory Board

He graduated from University of Economics, Prague and he joined the Institute for Forecasting of the Czechoslovak Academy of Sciences as a researcher. After completing his postgraduate studies he became the Head of the Macroeconomics Department at the Faculty of Social Sciences at Charles University, where he was appointed as an associate professor. From 1993 to 1995, he was an advisor to the Minister of Industry and Trade. Later on, he worked in the private sector (Patria Finance) as the Chief Economist. In a spell 1998-1999, he was an Executive Director of the European Bank for Reconstruction and Development in London, representing the Czech Republic, Slovakia, Hungary and Croatia.

In 1999 he returned to Prague and joined the Czech National Bank, as vice-governor. He was appointed as Governor of the Czech National Bank on 1 December 2000. In this position, he, with other members of the Board, had a wide range of responsibilities such as monetary policy, financial market supervision, management of foreign exchange reserves, payment system, and currency processing. He was also a member of the General Council of the European Central Bank, represented the Czech Republic in the IMF and in the Bank for International Settlement. He stepped down on 30 June 2010.

He returned to the private sector in 2011, working as a partner responsible for financial services in KPMG Czech Republic (till 2019). Since 1 October 2019, he is the Chairman of the Supervisory Board of ČSOB.

Membership in bodies of other companies:
- Member of Scientific Council of University of South Bohemia
- Vice-chair of Board of Governors, English College in Prague
- Member of Supervisory Board of Committee of Good Will – Olga Havel Foundation (Výbor dobré vůle)
- Member of Czech Economic Society (President in 1999-2001)
- Member of Editorial Board of Czech Journal of Economics and Finance (Editor-in-Chief, 1997-1999)

FRANKY DEPICKERE

Born on 26 January 1959

Member of the Supervisory Board

Mr. Depickere studied commercial and financial sciences at the University of Antwerp (UFSIA; Belgium), and obtained a Master's degree in company financial management from the VLEKHO Business School (Belgium).

Following a short period at Gemeentekrediet bank, in 1982 Mr. Depickere joined the CERA group, where he spent more than 17 years. Among other things he was an internal audit inspector at CERA Bank, financial director of CERA Lease Factors Autolease, chairman of the board of Nédée België-Luxemburg, a subsidiary of CERA Bank, a member of the Management Committee of CERA Investment Bank, and finally a Managing Director at KBC Securities. In 1999 he became managing director and chairman of the Management Committee of F. van Lanschot Bankiers België, as well as group director of F. van Lanschot Bankiers Nederland. From 2005 he was also a member of the Strategic Committee of F. van Lanschot Bankiers Nederland. Since 15 September 2006, he has been a member of Cera's Day-to-Day Management Committee and Managing Director of Cera Société de gestion and Almancora Société de gestion. Mr. Depickere is a member of the Board of Directors of the KBC Group (a non-executive director).

Since 1 June 2014, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Member of the Board of Directors (a non-executive director) in: KBC Group (Belgium), KBC Bank (Belgium), KBC Assurances (Belgium) and CBC Banque (Belgium)
- Chairman of the Risk and Compliance Committee in: KBC Group (Belgium), KBC Bank (Belgium) and KBC Assurances (Belgium)
- Member of the Nomination Committee of the KBC Group (Belgium)
- Member of the Nomination Committee and the Remuneration Committee of CBC Banque (Belgium)
- Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Euro Pool System International (the Netherlands)
- Chairman of the Board of Directors in: the Flanders Business School (Belgium) and the International Raiffeisen Union (Germany)
- Member of the Supervisory Board of University of Leuven – KULAK (Belgium)
- Member of the Supervisory Board of United Bulgarian Bank, AD,Sofia, Bulgaria (since December 27th 2018).

CHRISTINE VAN RIJSSEGHEM

Born on 24 October 1962

Member of the Supervisory Board and of the Audit Committee

She graduated in 1985 from the Faculty of Law at the University of Ghent (Belgium). Subsequently she mpleted an MBA in Financial Sciences at Vlerick Management School in Ghent (Belgium). Ms. Van Rijsseghem started her career at KBC (formerly Kredietbank) in 1987 at the Central Foreign Entities Department. Initially she was responsible for risk management and controlling and international acquisition strategy, and later on became head of that department. In 1994 she was appointed Head of the Credit Department of KBC's Irish subsidiary, Irish Intercontinental Bank. In 1996, she became CEO of KBC France and in 1999 of KBC's London branch. From 2000 to 2003, she was Senior General Manager of the Securities & Derivatives Processing Directorate of KBC Group. From 2003 to 30 April 2014, she was Senior General Manager of KBC Group Finance. Since 1 May 2014, Ms. Van Rijsseghem is a member of the Executive Committee of the KBC Group and KBC Group Chief Risk Officer. Since 1 June 2014, she is a member of ČSOB's Supervisory Board. Ms. Van Rijsseghem is chairwoman of the CSOB Risk and Compliance Committee and a member of the Audit Committee and nomination committee.

Since 1 June 2014, she has been a member of ČSOB's Supervisory Board.

Ms. Van Rijsseghem is also a chairwoman of the Risk and Compliance Committee and chairwoman of the Nomination and Remuneration Committee.

Membership in bodies of other companies:

- Member of the Executive Committee of the KBC Group (Belgium)
- Chairman of the Risk and Compliance Committee ČSOB (SK)
- Member of the Board of Directors and Chairman of the Risk Committee of K&H Bank (Hungary)
- Member of the Supervisory Board, Chairman of the Risk and Compliance Committee and member of the Audit Committee of UBB (Bulgaria)
- Member of the Board of Directors, Chairman of the Risk Committee and member of the Remuneration and Nomination Committee of Bank Ireland (Ireland)
- Member of the Risk and Compliance committee and Audit Committee of the KBC Bank Dublin Branch

WILLY KIEKENS

Born on 17 July 1952

Member of the Supervisory Board

Mr. Kiekens graduated from Catholic University of Leuven, Belgium where he studied law (graduated 1975), notarial sciences (1976) and economics (1978).

Mr. Kiekens started his professional career as a legal counsel for National Bank of Belgium in Brussels (1981-1984). He held also a position of professor of financial law and financial operations at VLEKHO Business School in Brussels (1987-1994). From 1994 to 2016 he acted as member of the Executive Board of the International Monetary Fund (IMF), where he held a position of executive director representing 10 countries including Belgium, Czech Republic and other European countries (1994-2012) and later of first alternate executive director representing 15 countries including Benelux, Central and Eastern European countries, Caucasus countries and Israel (2012-2016). In his positions he participated in decision-making on all major aspects of the functioning of the IMF, international economic cooperation and the international financial system. He also acted as an advisor to his constituency countries' governments, central banks and prudential supervisors on economic policies and financial stability, as a chair of several IMF Board committees, including the Ethics Committee, the Committee of Interpretation of Legal Issues, and the Committee on Administrative Matters, and as a longstanding member of the IMF Pension Committee. From 2016 to 2017 he acted as a special advisor for Global Practice Finance and Markets of Worldbank in Washington, DC, where he provided technical expertise in organizing and conductiong IMF/Worldbank Financial Sector Assesments and advancing financial inclusion in emerging and developing countries.

Since September 2018, Mr. Kiekens has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:

- Chair Executive Committee Kamerorkest Brugge – Chamber Orchestra Bruges, Belgium.

LADISLAVA SPIELBERGEROVÁ

Born on 6 November 1974

Member of the Supervisory Board

Mrs. Spielbergerová graduated in 2002 from BI VŠ Prague (bachelor's degree Banking management). She has been working for ČSOB since 1995, first as an investment and credit specialist (Trutnov branch), and later as a premium banker in Dvůr Králové branch. In years 2010 – 2014 she was a member of the Supervisory Board of ČSOB as an employee representative. She is a chairwoman of the Modern trade unions organized within ČSOB. She is a member of the Supervisory Board as an employee representative since 1 January 2019.

Other professional memberships:
- Member of the bureau and vice-president of Trade Union of Employees in Financial and Insurance Sector (Odborový svaz pracovníků peněžnictví a pojišťovnictví)
- Member of the executive committee of European Works Council of KBC
- Member of UNI Global committee
- Member of OZP Board of Directors

ŠTĚPÁN STRÁNSKÝ

Born on 4 December 1978

Member of the Supervisory Board

Mr. Stránský graduated from the Metropolitan university Prague (International Relations and European Studies and European Union) and from Karlovy Vary College (Business and Law). He has been working for ČSOB for more than 20 years (since 1998). He started his career as an investment and credit advisor in Mariánské Lázně branch and moved to Prague's headquarter of ČSOB in 2007. At first, he was an authorizing officer of credits for individuals, then he rotated to Credit frauds prevention department, which he managed for several years and is still part of it. He runs an international team of credit frauds prevention existing within the KBC Group. He is also a representative in European Works Council within the KBC Bank & Insurance group. He is a member of the Supervisory Board as an employee representative since 1 January 2019.

ČSOB's Audit Committee

LADISLAV MEJZLÍK

Born on 1 May 1961

Independent member of the Audit Committee

He graduated from the Prague University of Economics and Business (VŠE).

Since 1984 Mr. Mejzlík is working at the Department of Financial Accounting (UEP), where he was initially assistant, then deputy to the head of the department. In 2006 he was appointed as Head of Department of Financial Accounting and Auditing. In 2014 and 2018 he was elected as the dean of the Faculty of Finance and Accounting. Mr. Mejzlík was licensed as an auditor in 1993 and he was elected as a member of the Executive Board of Chamber of Auditors of the Czech Republic (CA CR) in 2007. In the years 2010–2014 he was elected twice as the First Vice President of CA CR.

Mr. Mejzlík is representing the Faculty of Finance and Accounting of UEP in the National Accounting Council since 2004, and since 2004 he was elected twice as the National Representative for the Czech Republic in the European Accounting Association Board of Representatives. Mr. Mejzlík is professionally focused on the use of information and communication technology in accounting and auditing, and on the regulation and harmonization of accounting internationally, especially on the implementation of IFRS.

Since 27 January 2016, he has been an independent member of ČSOB's Audit Committee.

Membership in bodies of other companies:
- Chairman of the Audit Committee of ČSOB Insurance (since 2016), member of the Supervisory Board and Chairman of the Audit Committee of ČSOB Slovakia (since 2016)
- Member of the scientific committees at the UEP, the Faculty of Finance of UEP, Mendel University in Brno and the Faculty of Economic Informatics of Economic University in Bratislava
- Licenced statutory auditor and member of the Chamber of Auditors of the Czech Republic (since 1993)
- Member of the European Accounting Association (since 1994) and the American Accounting Association (since 2005)

PETR ŠOBOTNÍK

Born on 16 May 1954

Independent member of the Audit Committee

Mr. Šobotník graduated from the University of Economics, Prague.

Between 1983 and 1991, he acted as a chief accountant in corporations as well as in governmental bodies. Petr joined Coopers & Lybrand in 1991, was promoted to Partnership in 1995 and worked in various top management assurance positions in both Coopers & Lybrand and PricewaterhouseCoopers till 2010. Licensed statutory auditor and member of the Chamber of Auditors of the Czech Republic (1993-2018). From 2007 to 2014, he was the President of the Czech Chamber of Auditors.

Since 1 February 2011, he has been an independent member of ČSOB's Audit Committee (and its Chairman since 7 April 2016).

From 3 October 2014 to 20 March 2019, he has been a member of CSOB's Risk and Compliance Committee.

From 1 February 2017 to 31 December 2018, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Chairman of the Audit Committees of Letiště Praha (CZ), ČEPRO (CZ), Severomoravské vodovody a kanalizace (CZ), Kofola ČeskoSlovensko (CZ), ČSOB penzijní společnost (CZ) and ČSOBS (CZ)
- Member of Letiště Praha's Supervisory Board (CZ)

Corporate Governance Policy

Československá obchodní banka, a. s., voluntarily meets and complies with the corporate governance guidelines set out in the Corporate Governance Code based on the OECD Principles.

The Corporate Governance Code of ČSOB, adopted by ČSOB's Board of Directors in 2012, defines the role of key bodies and sets basic rules of the Bank's governance in compliance with the Czech law and in line with internationally accepted practice. ČSOB's Corporate Governance Code is available in the department of the CEO.

Effective as from October 2012, the Anti-Corruption Programme of ČSOB includes the principle of zero tolerance for bribery and corrupt practices. By issuing and introducing this programme, ČSOB formalized its principles and attitudes nurtured by ČSOB on a continuous and long-term basis. Compliant with the Code of Ethics, this regulation was issued to show to both the public and our employees that corrupt practices or other unethical conduct is and will not be tolerated in ČSOB.

Československá obchodní banka, a. s., is also governed by the Guidelines on internal governance issued by the European Banking Authority (EBA).

Similarly, ČSOB also subscribes to the principle of zero tolerance for any criminal activity. This long-stated position was formalized in a statement of the ČSOB Board of Directors in June 2020.

Československá obchodní banka, a. s. has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee.

The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting.

General Meeting

The General Meeting of shareholders is the supreme body of ČSOB. The General Meeting is equipped with a standard scope of powers as set out in the applicable laws. Among other things, the General meeting takes decisions on matters such as changes in the composition of the ČSOB's bodies, or amendments to the Articles of Association of ČSOB, or changes in the registered capital. The General Meeting also approves financial statements.

The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting. Resolutions are always in writing; a notarial deed is required in cases stipulated by the applicable laws. Where an approval is required by the law, draft resolutions are submitted to the sole shareholder by the Board of Directors.

Board of Directors

The Board of Directors of Československá obchodní banka, a. s. performs its tasks within the framework of competencies defined for the statutory body by legal regulations, the Articles of Association of ČSOB and relevant basic management documents of the company.

The members of the Board of Directors are elected by the company's General Meeting provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholder and clients receive regular reports containing the required range of relevant data on the members of the Board of Directors and their professional and personal qualifications enabling them to duly execute their duties.

At the end of 2020, ČSOB's Board of Directors had seven members and worked in the following composition: John Arthur Hollows (Chairman), Petr Hutla, Petr Knapp, Jiří Vévoda, Hélène Goessaert, Marcela Suchánková and Jan Sadil.

Personnel changes in ČSOB's Board of Directors during the year 2020 are described in the chapter Managing and Supervisory Bodies.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of the statutory body are attended by the Corporate Secretary of the Board of Directors who is responsible for preparing the meetings and taking their minutes. The Board of Directors has quorum if more than half of its members are present at the meeting. Any decision shall receive the votes of a majority of all members of the Board of Directors to be adopted.

The Board of Directors establishes expert committees to discuss specific agendas. Considering the importance of topics covered by the committees with company-wide scope of authority, a member of the Board of Directors primarily responsible for its activities usually presides over each committee. Should the responsible member of the Board of Directors be unable to take part in a committee meeting, such responsible member is substituted by a formally appointed deputy (usually another member of the Board of Directors). This approach makes it possible to achieve continuity of the consistent follow-up process focused on the committee's decision-making and to keep the Board of Directors directly informed. Depending on their roles and responsibilities, all ČSOB's units covering the subject matter are made involved in discussions and take part in committee meetings. This is why the head of such involved unit is authorized to take part and represent his / her unit in committee meetings. In his or her absence, committee meetings are attended by his or her deputy or another appointed employee unless forbidden by the applicable rule of procedure. Committee meetings are governed by the committee's rules of procedure.

Board of Directors Committees

Risk and Capital Oversight Committee (RCOC)

The Committee aims to support ČSOB's Board of Directors in the field of risk and capital management of the ČSOB group.

Chairman of the Committee: Hélène Goessaert

Credit Sanctioning Committee (CSC)

The Committee decides approvals / non-approvals of credit exposure of the ČSOB group.

Chairman of the Committee: Petr Hutla

Project Portfolio Board (PPB)

The Committee manages and monitors the project portfolio from strategic, time and budget perspective. At the same time, the Committee decides about concepts and processes of business and IT architecture.

Chairman of the Committee: John Arthur Hollows

Public Affairs Committee (PAC)

The Committee intends to promote the establishment and implementation of business and strategic initiatives and projects reflecting own needs or external influences and aims to achieve the business and strategic objectives of the Bank or the companies associated in the ČSOB group.

Chairman of the Committee: Petr Hutla

Crisis Committee (CRC)

The goal is to be efficient in solving crisis situations that, if unaddressed, would adversely affect the operations of the whole Bank, or the ČSOB group, as the case may be.

Chairman of the Committee: John Arthur Hollows

Other Bodies

EXCO – Executive Committee Relationship Services

The purpose of the Committee is to ensure implementation of business and strategic initiatives and customer value proposition for corporate banking, SME and private banking in accordance with the powers delegated by ČSOB's Board of Directors and the ČSOB group's strategic plan.

EXCO – Executive Committee for Retail Clients

The aim of the Committee is to review financial and business performance of Retail division in line with the plan, adherence to risk and compliance controls, and delivery of strategic and business initiatives in accordance with the powers delegated by ČSOB's Board of Directors, the ČSOB group strategic plan and Retail transformation roadmap.

IEXCO – Investment Executive Committee

Investment Executive Committee aims to provide winning investments products and solutions for segments and channels in order to become reference for clients and in the market and to create value for the shareholder.

Supervisory Board

The Supervisory Board of Československá obchodní banka, a. s. supervises performance of tasks by the Board of Directors and discharge of the Bank's business activities. The members of the Supervisory Board shall be elected and removed by the General Meeting.

At the end of 2020, ČSOB's Supervisory Board had six members and worked in the following composition: Zdeněk Tůma (Chairman), Christine Van Rijsseghem, Franky Depickere, Willy Kiekens, Ladislava Spielbergerová and Štěpán Stránský.

Personnel changes in ČSOB's Supervisory Board during the year 2020 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, the Supervisory Board held **four meetings in 2020** where it discussed issues falling under its responsibility according to the Articles of Association of ČSOB. Reading materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors who personally present submitted materials. In compliance with its powers and based on the Audit Committee recommendation, the Supervisory Board selects an external auditor prior the official appointment by the General Meeting of shareholders. The auditor attends all meetings of the Audit Committee, thus providing an independent, comprehensive and qualified opinion of whether ČSOB's financial statements reflect ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Procedure of the Supervisory Board, administrative and organizational support is provided by the Corporate Secretary, who is responsible for taking the minutes of the meetings. Constitution of a quorum and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors. Supervisory Board meetings are governed by the Articles of Association of ČSOB and by its rules of procedure.

Supervisory Board Committees

The Supervisory Board, like as the Board of Directors, may establish advisory committees and other initiative committees to ensure its activities, either on the basis of legal regulations or in accordance with the Articles of Association of ČSOB. ČSOB's Supervisory Board established the Nomination Committee and Remuneration Committee for remuneration, nomination and personal issues. Another advisory committee is the Risk and Compliance Committee.

Nomination Committee and Remuneration Committee

The Nomination Committee submits recommendations to the Supervisory Board as to the election of suitable candidates to the position of member(s) of ČSOB's Board of Directors, submits recommendations to the Supervisory Board as to removal of current member(s) of the ČSOB Board of Directors. The Nomination Committee submits proposals to ČSOB's Supervisory Board with respect to appointment to offices in committees of the Supervisory Board. The Remuneration Committee proposes a remuneration policy for the members of ČSOB's Board of Directors including fixed as well as variable parts, and directly supervises the remuneration of the head of risk management, internal audit and compliance. The members of both Committees are regularly informed about changes and rotations of key identified employees.

In 2020, the Nomination Committee was composed of the following members Christine Van Rijsseghem, Zdeněk Tůma and Willy Kiekens.

In 2020, the Remuneration Committee was composed of the following members Zdeněk Tůma, Ladislava Spielbergerová and Willy Kiekens.

In 2020, there were six meetings of the Remuneration Committee and two meetings of the Nomination Committee.

Risk and Compliance Committee

The Risk and Compliance Committee was established in 2014 by separation from the Audit Committee in compliance with the regulatory requirements. Its authority and responsibilities are determined by the statutes of Risk and Compliance Committee. In particular, the Risk and Compliance Committee advises the Supervisory Body on the institution's overall current and future risk profile, appetite and risk strategy (including compliance risks). Risk and Compliance Committee reviews whether prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Assists in the establishment of sound remuneration policies and practices, the risk committee shall, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Committee supervises the proper functioning of Compliance and Risk Management departments.

The Risk and Compliance Committee members are elected by the Supervisory Board from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their duties in a professional manner. Particularly the Chairman and eventually other members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in all meetings. Furthermore, some line managers or other employees who can provide the Risk and Compliance Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Risk and Compliance Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2020, the Risk and Compliance Committee worked in the following composition: Christine Van Rijsseghem (Chair), Zdeněk Tůma and Willy Kiekens.

The Risk and Compliance Committee held four meetings in 2020.

Audit Committee

The authority and responsibilities of ČSOB's Audit Committee are determined by the Articles of Association of ČSOB and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors the compilation of the financial statement and the process of mandatory audit, supervises and monitors the quality of internal control, the work of internal audit and financial reporting. The Audit Committee recommends a statutory auditor, examines the adequacy of the auditor's independence and providing of additional services.

The Audit Committee has 3 members. The Audit Committee members are elected by the General Meeting from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their control tasks in a professional manner. The Chairman and relevant members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in Audit Committee's meetings. Furthermore, some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Audit Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2020, the Audit Committee worked in the following composition: Petr Šobotník (independent Chairman), Ladislav Mejzlík (independent member) and Christine Van Rijsseghem.

The Audit Committee held four meetings in 2020.

Internal Control Mechanisms to Minimize Financial Reporting Process Risks

A number of tools in several areas are used to ensure true and fair representation of transaction in the company's accounting records and correct financial statements presentation. There are both automated and manual checks incorporated in the entire process starting with the transaction registration in the company systems up to financial statements preparation.

Balances of all General Ledger accounts are subject to regular, at least monthly internal checks. The appointed person in charge, so-called Account Manager, performs logical and specific checks related to the General Ledger account balance consisting e.g. of reconciliation of data in support systems or non-accounting registers with the balances in the General Ledger, monitoring the development of the account balance, monitoring the occurrence of unusual transactions, manual entries in accounts with automatic accounting etc. Control procedures are set up to minimize the risk of accounting errors. Findings of accounting errors are listed centrally and relevant corrections are monitored. The adequacy and effectiveness of the accounting examinations are assessed on a regular basis. Findings are reported to the Internal Audit and Operational Risk Management on a semi-annual basis.

The internal control system also includes internal regulations determining authorities assumed by each staff member making entries in the accounting books in order to duly segregate responsibilities within the document flow. Control procedures are integrated to accounting systems including the "four eye" check and access right authentication. The risk of unauthorised entry is minimized by defining the persons who can make a predefined scope of transactions and persons authorised to give approvals.

Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements and incorporation of changes is provided by Accounting Methodology in cooperation with the units concerned. Applicable accounting policies, e.g. rules for valuation financial assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statement for the year 2020 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2020 prepared in accordance with EU IFRS.

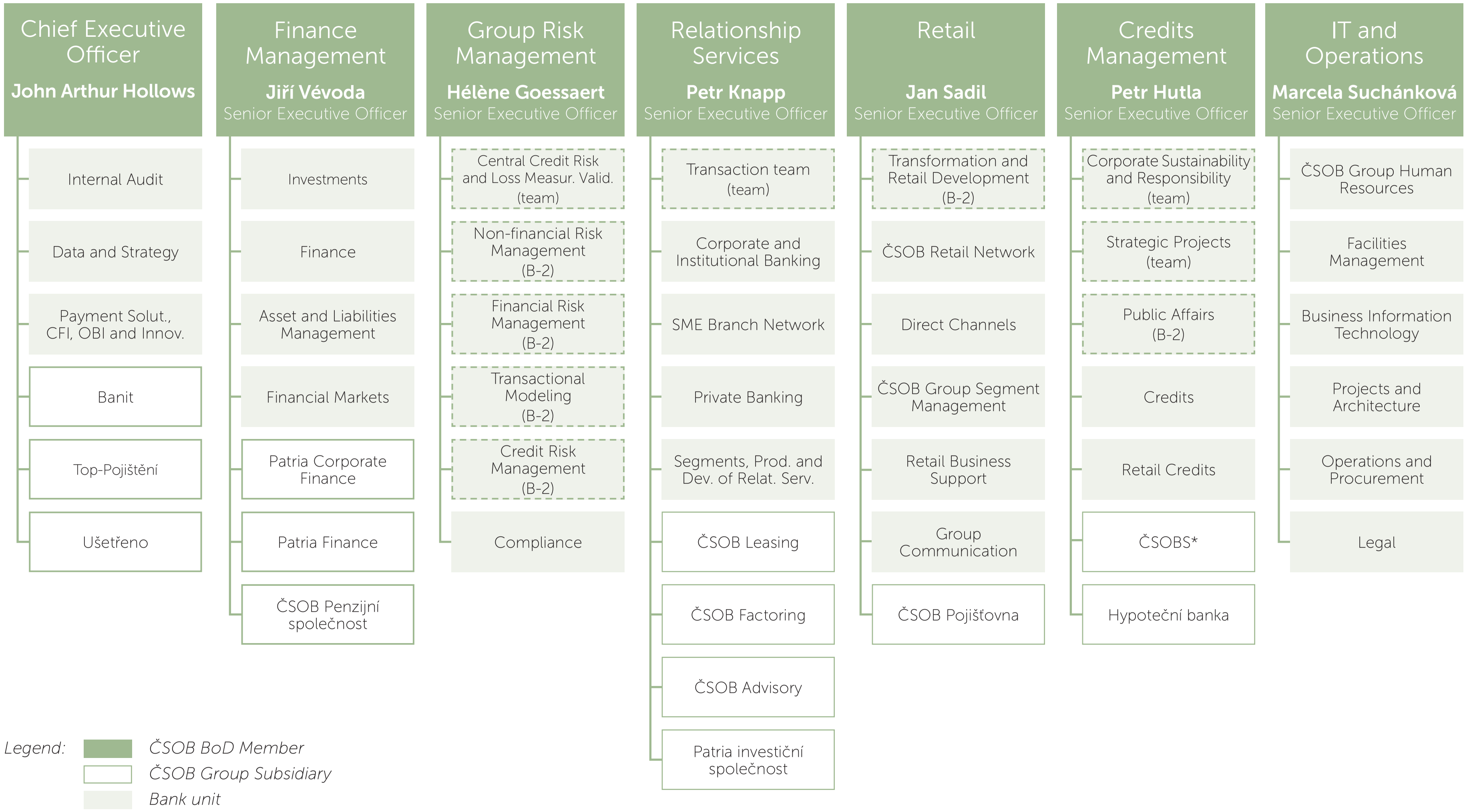
Control mechanisms are extended based on recommendations from internal audit, which evaluates the effectiveness and efficiency of internal controls, or based on outcomes of the risk assessment reviews organized as a part of the operational risk management, please refer to Note 38.5 to the Separate Financial Statement for the year 2020 prepared in accordance with EU IFRS and to Note 41.5 to the Consolidated Financial Statement for the year 2020 prepared in accordance with EU IFRS.

Majority of financial statements is generated automatically using the data from the central data warehouse, reconciled to the General Ledger balances.

Consolidated financial statements are submitted to ČSOB's Supervisory Board regularly and both consolidated and separate financial statements are subject to external audit review. Report on financial results is submitted to ČSOB's Audit Committee quarterly.

Organisation Chart of ČSOB

(as of 31. 12. 2020)



* With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

FINANCIAL PART

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019
Interest income calculated using the effective interest rate method	5	33,490	45,337
Other similar income	5	2,190	1,483
Interest expense calculated using the effective interest rate method	6	(7,275)	(12,781)
Other similar expense	6	(2,303)	(2,035)
Net interest income		**26,102**	**32,004**
Fee and commission income	7	11,933	12,374
Fee and commission expense	7	(4,342)	(3,856)
Net fee and commission income		**7,591**	**8,518**
Dividend income		15	12
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	8	180	(2,213)
Net realised gains on financial instruments at fair value through other comprehensive income		14	1
Income from operating lease	9	1,967	2,620
Expense from operating lease	9	(1,839)	(2,467)
Other net income	10	1,221	3,929
Operating income		**35,251**	**42,404**
Staff expenses	11	(9,254)	(9,333)
General administrative expenses	12	(7,843)	(7,445)
Depreciation and amortisation	23, 24	(2,155)	(2,256)
Operating expenses		**(19,252)**	**(19,034)**
Impairment losses	13	**(5,926)**	**(403)**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI) and finance leases		(5,556)	(313)
on other financial and non-financial assets		(370)	(90)
Share of profit of associates and joint ventures	21	(43)	218
Profit before tax		**10,030**	**23,185**
Income tax expense	14	(1,542)	(3,494)
Profit for the year		**8,488**	**19,691**
Attributable to:			
Owners of the parent		8,488	19,691
Non-controlling interests		-	-

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019
Profit for the year		**8,488**	**19,691**
Other comprehensive income – to be reclassified to the statement of income			
Net gain / (loss) on cash flow hedges		309	(307)
Net (loss) / gain on financial debt instruments at fair value through other comprehensive income		(79)	64
Share of other comprehensive income of associates and joint ventures		-	12
Income tax (expense) / benefit relating to components of other comprehensive income		(15)	42
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	32	**215**	**(189)**
Other comprehensive income – not to be reclassified to the statement of income			
Net (loss) / gain on financial equity instruments at fair value through other comprehensive income		(193)	145
Income tax benefit / (expense) relating to components of other comprehensive income		36	(28)
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	32	**(157)**	**117**
Other comprehensive income for the period, net of tax		**58**	**(72)**
Total comprehensive income for the year, net of tax		**8,546**	**19,619**
Attributable to:			
Owners of the parent		8,546	19,619
Non-controlling interests		-	-

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019 restated
ASSETS			
Cash, balances with central banks and other demand deposits	16	29,595	47,725
Financial assets held for trading	17	36,131	29,017
Non-trading financial assets mandatorily at fair value through profit or loss	17	1,792	948
Financial assets at fair value through other comprehensive income	18	16,016	10,007
Financial assets at fair value through other comprehensive income pledged as collateral	18	6,328	6,465
Financial assets at amortised cost	19	1,566,492	1,443,445
Financial assets at amortised cost pledged as collateral	19	40,930	43,007
Finance lease receivables	20	13,450	15,766
Fair value adjustments of the hedged items in portfolio hedge		5,413	(4,177)
Derivatives used for hedging	22	9,969	9,226
Current tax assets		239	194
Deferred tax assets	14	1,612	477
Investment in associates and joint ventures	21	139	86
Property and equipment	23	14,690	14,417
Goodwill and other intangible assets	24	10,767	10,918
Non-current assets held-for-sale	25	15	23
Other assets	26	2,862	3,053
Total assets		**1,756,440**	**1,630,597**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	27	39,692	51,458
Financial liabilities designated at fair value through profit or loss	27	25,575	42,231
Financial liabilities at amortised cost	28	1,557,853	1,423,115
Fair value adjustments of the hedged items in portfolio hedge		2,759	(3,564)
Derivatives used for hedging	22	14,885	10,967
Current tax liabilities		53	180
Deferred tax liabilities	14	962	940
Other liabilities	29	6,832	6,340
Provisions	30	837	722
Total liabilities		**1,649,448**	**1,532,389**
Share capital	31	5,855	5,855
Share premium		20,929	20,929
Statutory reserve		18,687	18,687
Retained earnings		61,126	52,400
Revaluation reserve from financial assets at fair value through other comprehensive income	31	369	561
Cash flow hedge reserve	31	26	(224)
Shareholders' equity		106,992	98,208
Non-controlling interests, presented within equity		-	-
Total equity		**106,992**	**98,208**
Total liabilities and equity		**1,756,440**	**1,630,597**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Attributable to equity holders of the parent: Share capital (Note: 31)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 31)	Total Equity
At 1 January 2019 - as originally reported	**5,855**	**20,929**	**18,687**	**46,136**	**409**	**92,016**
Change of accounting policy (Note: 2.5)	-	-	-	(470)	-	(470)
At 1 January 2019 - restated	**5,855**	**20,929**	**18,687**	**45,666**	**409**	**91,546**
Profit for the year	-	-	-	19,691	-	19,691
Other comprehensive income for the year (Note: 32)	-	-	-	(1)	(72)	(73)
Total comprehensive income for the year	-	-	-	19,690	(72)	19,618
Dividends paid (Note: 15)	-	-	-	(12,956)	-	(12,956)
At 31 December 2019	**5,855**	**20,929**	**18,687**	**52,400**	**337**	**98,208**
At 1 January 2020	**5,855**	**20,929**	**18,687**	**52,400**	**337**	**98,208**
Profit for the year	-	-	-	8,488	-	8,488
Other comprehensive income for the year (Note: 32)	-	-	-	-	58	58
Total comprehensive income for the year	-	-	-	8,488	58	8,546
Equity investments disposed (Note: 33)	-	-	-	238	-	238
Dividends paid (Note: 15)	-	-	-	-	-	-
At 31 December 2020	**5,855**	**20,929**	**18,687**	**61,126**	**395**	**106,992**

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf on 20 April 2021 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019
OPERATING ACTIVITIES			
Profit before tax		**10,030**	**23,185**
Adjustments for:			
Interest income	5	(35,680)	(46,820)
Interest expense	6	9,578	14,816
Dividend income (other than from associates and joint ventures)		(15)	(12)
Non-cash items included in profit before tax	34	5,081	3,073
Net gains from investing activities		(294)	(2,711)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(11,300)**	**(8,469)**
Change in operating assets	34	(109,318)	(5,256)
Change in operating liabilities	34	107,087	39,954
Change in assets under operating leases		597	525
Income tax paid		(2,805)	(4,044)
Interest paid		(9,570)	(14,771)
Interest received		36,509	47,538
Dividend received (other than from associates and joint ventures)		15	12
Net cash flows from operating activities		**11,215**	**55,489**
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(5,314)	(3,819)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		2,047	318
Capital increase in associates and joint ventures		(96)	-
Changes in consolidation scope (Note: 3)		-	(5,366)
Net cash flows used in investing activities		**(3,363)**	**(8,867)**
FINANCING ACTIVITIES			
Repayment of bonds (Note: 34)		(3,307)	(2,973)
Issue of bonds		-	1,704
Payments of principal on finance leases		(472)	(459)
Dividends paid	15	-	(12,956)
Net cash flows used in financing activities		**(3,779)**	**(14,684)**
Net increase in cash and cash equivalents		**4,073**	**31,938**
Cash and cash equivalents at the beginning of the year	34	234,166	202,228
Net increase in cash and cash equivalents		4,073	31,938
Cash and cash equivalents at the end of the year	34	**238,239**	**234,166**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The main activities of the Bank include: accepting deposits from the public, providing loans, investing in securities on the Bank's own account, financial leasing, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank's own account or on a client's account, the rental of safe-deposit boxes. In addition, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investments, pension insurance, leasing, factoring and the distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses).

The consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

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

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries, associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group 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. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income, consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures and associates included in the Group consolidation are accounted for using the equity method.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments (Note: 33)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments (Note: 41.2)

Calculating expected credit losses (ECL) requires significant judgments on different aspects for example, but not limited to, the borrowers' financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Group applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments. The expected credit losses are calculated in a way that reflects:

- an unbiased, probability weighted amount;
- the time value of money; and
- an information about the past events, current conditions and forecast economic conditions.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Impact of COVID-19 on deterioration of financial instruments

At the beginning of 2020 COVID-19 outbreak caused significant worldwide impact into several business activities. The Group offered already in March 2020 a "bank private payment moratorium" for all types of loans to help clients to better offset expected cash flow loss.

Consequently, the bank moratorium was substituted by legal act for moratorium loan payments in relation with COVID-19 pandemic situation. Clients in financial problems could opt from two grace periods (3 and 6 months), up to 31.7.2020 and 31.10.2020. State moratorium was completely free of charge and clients did not pay any fees during the postponement. In addition, in the deferral period the interest could not exceed 2W Repo + 8% for physical persons. After the postponement period, clients returned to the same amount of monthly payment they were used to. Interest accrued over the period of deferral of payments will be charged within the extended payment deadline.

In close cooperation with Českomoravská záruční a rozvojová banka, a.s. („ČMZRB"), the Group also enables quick drawing of re-bridging loans covered by guarantee from programs (COVID II, COVID II Praha, COVID III) for working capital loans provided by commercial banks to non-retail clients. The loan amount is guaranteed up to 80% or 90% of the loan amount. Interest on these loans is subsidized to clients.

The same cooperation is applied with state Exportní garanční a pojišťovací společnosti, a.s. („EGAP") for providing of loans covered by EGAP guarantee (COVID Plus). The COVID Plus program offers guarantees on loans provided by commercial banks. EGAP guarantees up to 90% of the loan amount, depending on the rating of the debtor. The program is aimed at companies in which exports accounted for more than 20% of turnover in 2019.

Guarantee is an integral part of the loan for all COVID programs (COVID II, COVID II Praha, COVID III from ČMZRB and COVID Plus from EGAP). All guarantees are granted only for newly provided loans.

In line with recommendation of ECB/ESMA/EBA, the Group did not apply automatic change of risk grade of the loans, where clients requested for the payment moratorium which was in line with Act for moratorium in relation with COVID-19 pandemic situation. To capture possibly muted common signals of the increased credit risk or unlikeliness to pay (especially for the clients under moratoria and/or with concession), bank adjusted its processes: (i) introduced ECL management overlay simulating also changes in the staging, (ii) start to assign forbearance flag to all facilities with concession provided after moratoria end (leading to at least stage 2) and (iii) stick to all of the CNB expectation on the loan classification (using external and historical data to assign "unlikely to pay" flag leading to stage 3).

The Group also adjusted forecast of macroeconomic variables (FLI) in expected loan deterioration calculation (ECL). This was reflected in calculation of portfolio credit impairments, however to total impact was not material as the models are not able to reflect specific impact of COVID-19. Thus, total calculated ECL was overlaid by management decision (Management overlay) which also simulates changes in the staging. In the same time, the Group also adjusted individually assessed credit impairments for selected exposures towards clients in stage 3.

Modification loss

For loans with moratorium payment, the Group recognized a loss from the contractual adjustment of the gross carrying amount of the asset in the amount of the difference between the gross carrying amount before the contractual adjustment and the present cash flow based on adjusted conditions discounted at the original effective interest rate. The Group recognized the loss of CZK 135 m in Impairment losses in the statement of income. The adjustment is amortised into Interest income over the expected lifetime of the asset.

Management overlay

In a view of fact, that models for ECL (expected credit losses) are not able to reflect specific impact of COVID-19 or support programs provided by the Czech government, the Group has decided to do additional expert calculation on portfolio basis. The Group applied expert stressed migration matrix per segments. The portfolio was transformed using this migration matrix, whereby a certain portion moved to inferior PD rating classes (which might lead to Stage 2) or default (Stage 3), a certain portion remained unchanged and a minor portion improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. Taking into account the impact of the management overlay on staging, its application would result in a net staging of 3.8% (CZK 29,177 m) of the total portfolio from stage 1 to stage 2 and of 1.6% (CZK 12,954 m) from stage 1 & 2 to stage 3). The estimate of COVID-19 base-case ECL impact was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.

In a second step, a sectoral effect was incorporated in the calculation to refine the COVID-19 ECL. The purpose of this step is to reflect the fact that some sectors will be more heavily affected than others, something which is not yet captured by the migration matrices. All exposures in the SME and Corporate portfolio were classified as high, medium or low risk based on the expected impact of the COVID-19 crisis on the sector affected (for Mortgages and Consumer Finance, no sectoral stress was applied). Based on this classification, the following expert-based weights were applied to the ECL impact as determined in the first step described above: 150% for high risk sectors, 100% for medium risk sectors and 50% for low risk sectors. This resulted in a "sector-driven" COVID-19 base-case ECL following the base-case scenario.

Finally, a probability-weighted management overlay was calculated based on the Group's base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied on the estimated sector-driven COVID-19 base-case ECL from the previous step to determine the collective COVID-19 impact under an optimistic and pessimistic scenario. The final overlay was then determined by weighting the COVID-19 ECL under the three scenarios with the following weights: 55% for the base-case, 10% for the optimistic and 35% for the pessimistic scenario resulting in the total management overlay adjustment of CZK 4,231 m.

The Group has formulated three different forecasts that differ on the virus evolution and its impact on the lockdown measures. In short, the three scenarios can be summarized as follows:

OPTIMISTIC SCENARIO	BASE SCENARIO	PESSIMISTIC SCENARIO
Virus spread and impact more quickly under control thanks to earlier than expected large-scale availability of vaccines, allowing social distancing measures and other precautionary measures to be lifted sooner	Start of vaccination process and wider testing and tracing will allow only a very moderate easing of precautionary measures in 1H 2021. From mid-2021 on, the normalisation of socioeconomic interactions will be helped by the mass rollout of effective vaccines. However, as the vaccination process will take time, socioeconomic interactions will not return to normal before 2022	The virus reappears and continues to weigh on society and the economy, because of setbacks in the vaccination process (e.g., logistical problems, disappointing immunity results, etc.)
Steep and steady recovery from the first half of 2021 onwards, with a fast return to pre-COVID-19 levels of activity	The recovery will be gradual. It will take until the second half of 2021 for the mass rollout of vaccines to reinforce the recovery to pre-COVID-19 levels of activity by the end of 2023	Another (series of) shock(s) takes place, leading to an interrupted and unsteady path to recover
Sharp, short V-pattern	U-pattern	More L-like pattern, with right leg only slowly increasing

The COVID-19 pandemic continues to be the main driver of the global economy. However, the rollout of the different vaccines will support the economic recovery in the medium term. The strength and/or timing of the recovery is country-specific and subject to significant uncertainty. Also, the possible resurgence of virus outbreaks remains a concern and is forcing many countries to maintain or even extend specific lockdown measures. The following table (in line with the Group's forecast of December 2020) gives these three scenarios for three key indicators (GDP growth, unemployment rate and house price index). After that, a gradual linear transition towards a steady state is taken into account. The baseline scenario now incorporates an improvement in the macro assumptions for 2020 and a gradual recovery in Europe that accelerates in the second half of 2021.

Key macroeconomic indicator	2020	2021			2022		
Scenario	Base	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
Real GDP	-6.5%	4.4%	2.7%	-2.0%	4.1%	5.0%	3.2%
Unemployment	3.3%	3.5%	4.2%	5.2%	3.3%	4.0%	5.6%
House price index	6.7%	3.6%	1.5%	-3.0%	4.0%	2.0%	-1.0%

*The macroeconomic information is based on the economic situation in December 2020 and hence does not yet reflect the official macroeconomic figures for 4Q 2020 as reported by different authorities.

Business model assessment

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

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Judgement is required to determine whether a financial asset's cash flows are solely payments of principal and interest as only features representing basic lending agreement are in line with the SPPI test. Judgement is required to assess whether risks and volatility of contractual cash flows are related to basic lending agreement. Among the features that require judgements were, for example, modification of time value of money, change of timing or amount, such as early settlement or prepayment.

Impairment of assets under operating leases (Note: 13)

The Group assesses internal and external impairment indicators and if any indications exist that the carrying amount of assets is higher than their recoverable amount, impairment loss is recognised. Recoverable amount approximates the assets' fair value less costs to sell. Residual maturity of operating leases is short and changes of selling price have the most significant impact on impairment losses. The Group uses judgement in using valuation techniques to arrive at the assets' fair value. The judgements include use of various coefficients specific to each asset class.

Goodwill impairment (Note: 24)

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Assessment of the nature of interest in Group entities

The Group considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

Determining the lease term

Significant judgements are required to assess the lease term. The Group assesses how likely it is to exercise options to extend a lease or whether or not to exercise options to terminate a lease. The Group considers all relevant facts and circumstances, such as contractual terms and conditions for the optional periods compared with market rates, significant leasehold improvements, costs relating to the termination of the lease, importance of the asset to the lessee's operations, etc., in deciding whether to exercise options in lease contracts.

2.3 Changes in accounting policies

Effective from 1 January 2020

The accounting policies adopted in the preparation of the consolidated financial statements of the Group are consistent with those used in the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of the following standards, amendments and interpretations. The adoption of other standards did not have any significant effect on the financial statements of the Group, unless otherwise described below.

Definition of a Business (Amendment to IFRS 3) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment offers guidance how to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment clarifies that certain hedge accounting requirements can still be applied assuming that the interest rate benchmark on which the hedged cash flows and cash flows from hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Definition of Material (Amendments to IAS 1 and IAS 8) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment defines that information is material if omitting, misstating or obscuring it could influence decisions that the users of financial statements make on the basis of financial statements. Materiality depends on the nature or magnitude of information, or both.

Amendments to References to the Conceptual Framework in IFRS Standards are effective for periods on or after 1 January 2020 and was endorsed by the EU.

Effective after 1 January 2020

The following standards, amendments and interpretations have been issued and are effective after 1 January 2020. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

COVID-19-Related Rent Concessions (Amendment to IFRS 16) is effective for periods on or after 1 June 2020 and has not yet been endorsed by the EU. The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for periods on or after 1 January 2021 and was not yet endorsed by the EU. The amendment introduces practical expedients for changes resulting directly from IBOR reform. These changes are accounted for by updating the effective interest rate. If there are changes solely due to IBOR reform there is no need to discontinue existing hedging relationships.

IFRS 17 Insurance Contracts (including **Amendments to IFRS 17**) is effective for annual periods beginning on or after 1 January 2023 and has not yet been endorsed by the EU. The standard establishes principles for the recognition, measurement, presentation and disclosure of issued insurance and held reinsurance contracts, life and non-life. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU.

Classification of Liabilities as Current and Non-current (Amendments to IAS 1) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendment affects only the presentation of liabilities in the statement of financial position, not the amount or timing. The classification of current or non-current is based on rights that exist at the end of the reporting period and is unaffected by expectations about exercising its right.

Property, Plant and Equipment (Amendments to IAS 16) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU. The amendment prohibits deducting sales proceeds from the cost of property, plant and equipment before intended use.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU. The amendment clarifies what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

Reference to Conceptual Framework (Amendments to IFRS 3) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU.

Annual Improvements to IFRS Standards 2018-2020 issued in May 2020 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 January 2022 and have not yet been endorsed by the EU.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in derivatives that provide an effective hedge in the cash flow hedge of currency risk which are deferred in OCI until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary financial assets at fair value through other comprehensive income are included in the fair value through OCI reserve in equity until the assets are derecognised, and then they are transferred to retained earnings.

The results and financial position of all the Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised through OCI as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken through OCI to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

When during the term of a financial asset there is a change in the terms and conditions, then the Group assesses whether the new terms are substantially different from the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Group assesses that the terms are not substantially different then the transaction is accounted for as financial asset modification. The Group considers, among others, these factors:

- Significant extension of the loan term,
- Significant change in the interest rate,
- Introduction of collateral or credit enhancement, which may have an impact on credit risk,
- If the borrower is in financial difficulty, whether the modification reduces contractual cash flows to amounts the borrower is able to pay.

The effect of modification is reflected in modification gain or loss in Impairment losses in the statement of income. The gross carrying amount of a previously recognised financial asset is recalculated in order to reflect renegotiated or otherwise modified contractual cash flows. For modified financial assets an assessment of whether there has been a significant increase in credit risk is based on comparing the PD at the reporting date (modified terms) and PD at initial recognition (unmodified terms). The significant increase in credit risk indicators (below) are used to determine whether the expected credit losses would be lifetime or 12-month expected credit losses. More information on forbearance measures can be found in 41.2 Credit risk.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The Group derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Group compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Group derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Group can derecognise financial liabilities if the two liabilities are qualitatively different.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains/losses from financial instruments at fair value through profit or loss and in the Fair value through other comprehensive income reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(3) Financial instruments - initial recognition and subsequent measurement

Classification and measurement – financial assets

The classification of financial assets depends on the purpose for which the financial instruments were acquired and their cash flow characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition.

Classification and measurement – debt instruments

Debt instruments can be allocated into one of the following categories:

- Financial assets at fair value through profit or loss (FVPL);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at amortised cost (AC).

(i) Financial assets at fair value through profit or loss (FVPL)

- This category has three sub-categories: financial assets held for trading, financial assets mandatorily at fair value through profit or loss and financial assets designated at fair value through profit or loss (FVO);

Financial assets held for trading consist of derivatives held for trading and non-derivative financial assets held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for decreasing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Group occasionally purchases or originates financial assets containing embedded derivatives. The entire hybrid asset is assessed whether its cash flows fulfil the definition of solely principal and interest from principal outstanding. If this criterion is met, the hybrid financial asset is not classified as at fair value through profit or loss.

In the case when a stand alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *Financial instruments held for trading other than derivatives*

Financial assets held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income is recorded in Net interest income using the nominal interest rate. Dividends received are recorded in Dividend income. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

- *Financial assets mandatorily at fair value through profit or loss*

Financial assets mandatorily at fair value through profit or loss are classified into this category if their contractual terms lead to contractual cash flows, which are not solely payments of principal and interest from principal outstanding. Financial assets that are managed on the basis of fair value are also classified into this category.

- *Financial assets designated at fair value through profit or loss (FVO)*

Financial assets designated at fair value through profit or loss are financial assets irrevocably designated at initial recognition as at fair value, although the asset otherwise meets the requirements to be measured at AC or at FVOCI. The Standard allows this classification if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Other similar income or Other similar expense using the nominal interest rate.

(ii) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

b. and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised in the OCI reserve on an after-tax basis, until the financial asset is derecognised. When these assets are disposed of, the unrealised gain or loss recorded in the OCI reserve is reclassified to Net realised gains/losses on FVOCI financial assets. Interest income arising from FVOCI assets, calculated using the effective interest rate method, is recorded separately in Net interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iii) Financial assets at amortised cost (AC)

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortised cost are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

Uncollectible loan is written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. A loan is deemed uncollectible when there are no reasonable expectations of recovering the asset and all of the criteria are fulfilled:

- the loan is classified as Irrecoverable;
- the gross carrying amount of the loan is reduced through 100% ECL;
- the debtor does not exist or best case recovery from the receivable is considered to be immaterial.

Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses. As part of its treatment of defaulted loans, the Group can take over assets that were granted as collaterals. Upon repossession, the assets are valued at their presumed realisable value and booked in inventory.

Business model

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Group reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported the Board of Directors;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument at initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

Classification and Measurement – equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

The election is applicable to long-term, strategic investments. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Group as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments are disposed of. The only exception applies to the dividend income which is recognised in the income statement under the line item "Dividend Income".

Classification and measurement – financial liabilities

The Group classifies financial liabilities into three categories.

(i) Financial liabilities held for trading

Financial liabilities held for trading include derivatives held for trading and non-derivative financial liabilities held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for reducing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

In the case when the stand-alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *Financial instruments held for trading other than derivatives*

Financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Net interest income using the nominal interest rate. A financial liability is classified in this category if acquired principally for the purpose of repurchasing in the near term.

(ii) Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in statement of income except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Group for the following reasons:

- Managed on a FV basis: The Group designates a financial liability or group of financial liabilities and assets at fair value when these are managed and their performance is evaluated on a fair value basis.
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value.

Financial liabilities designated upon initial recognition at fair value are measured at fair value, whereby fair value changes are recognized in statement of income.

Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Other similar expense using the nominal interest rate.

Changes in clean fair value due to own credit risk are presented separately in other comprehensive income (OCI). The remaining fair value change is reported in Net gains/losses from financial instruments at fair value through profit or loss. The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realised.

ČSOB applies a zero credit premium for its own credit risk as it is one of the main market makers in the CZK interbank market and also it is one of six banks whose quotations determine the representative rate in the CZK interbank market (Fixing of interest rates in the interbank deposit market - PRIBOR). The rating of ČSOB and other major market makers on the CZK interbank market is at the same level. In view of the above, ČSOB does not have any premium on quoted rates when financing on the interbank market. Thus, the difference between ČSOB's financing rate and the "representative" rate on the interbank market is zero.

(iii) Financial liabilities measured at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(iv) 'Day 1' profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit or loss) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Financial assets at amortised cost. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or at fair value through other comprehensive income are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

Definition of default

The Group uses the same definition for defaulted financial assets as used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. More on the definition is in the Credit risk section (Note: 41.2).

General model of expected credit losses

The model for impairment of financial assets is called the Expected Credit Loss model (ECL).

The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No expected credit losses are calculated for equity investments.

Financial assets that are in scope for the ECL model carry an amount of impairments equal to the life-time expected credit losses if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month expected credit losses (see below for the references to the significant increase in credit risk).

12-month expected credit losses are defined as the portion of lifetime expected credit losses that represent expected credit losses that result from defaults possible within 12 months after the reporting date. Lifetime expected credit losses are expected credit losses resulting from all possible defaults over the expected life of the financial asset.

To distinguish between the different stages with regards the amount of expected credit losses, the Group uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12-month expected credit losses. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time expected credit losses. Once an asset meets the definition of default it migrates to stage 3.

The expected credit losses for trade and other receivables are measured as the life-time expected credit losses.

Impairment gains and losses on financial assets are recognised under the heading “Impairments” in the statement of income.

Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the expected credit losses is recognised as a reclassification adjustment between the income statement and the other comprehensive income.

Significant increase in credit risk (SICR) since initial recognition

In accordance to the ECL model, a financial asset attracts life-time expected credit losses once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The main indicators of the significant increase in credit risk are:

- Internal rating or behavioural score
- Past due information

- Changes in business, financial or economic conditions
- Expected changes to contractual framework
- External market indicators of credit risk
- Regulatory, economic and technological environment
- Change in credit management approach

The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Group has developed a multi-tier approach (MTA).

Multi-Tier Approach - Bond portfolio

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months expected credit losses if they have a low credit risk at the reporting date (i.e. stage 1). The Group uses the low credit risk exception for bonds which are graded as investment grade.
- Internal rating: [only applicable if the first tier is not met]. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If the triggers do not result in a migration to stage 2, then the bond remains in stage 1.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Multi-Tier Approach - Loan portfolio

For the loan portfolio the Group uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, does not result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: The Group uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.

- Internal rating backstop: The Group uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Group internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Measurement of expected credit losses

The expected credit losses are calculated as the product of:

- probability of default (PD) reflecting the probability of borrower defaulting on its credit facility over the next 12 months (12M PD) or over the lifetime (Lifetime PD),
- estimated exposure at default (EAD) relates to the expected credit risk exposure for a facility at the moment of a potential default event over the next 12 months (12m EAD) or over its entire remaining lifetime (Lifetime EAD), and
- loss given default (LGD) reflecting the Group´s expectation of the loss as a percentage of the exposure at default (EAD). 12M LGD reflects the percentage loss if the default event occurs over the next 12 months and Lifetime LGD is the percentage loss if the default occurs over the remaining lifetime.

The expected credit losses are calculated in a way that reflect:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time expected credit losses represent the sum of the expected credit losses over the life time of the financial asset discounted at the original effective interest rate. A correction is also introduced by a factor that corrects for potential prepayments, since the potential for prepayments reduces the expected lifetime of a facility and hence the probability of having a default event during this expected lifetime. Given the fact that prepayments are limited to products with a contractual repayment scheme and that often different prepayment rates can be observed by product type, prepayments are modelled by facility type.

The 12 months expected credit losses represent the portion of the life time expected credit losses that results from a default in 12-month period after the reporting date.

The Group uses specific IFRS 9 models for PD, EAD and LGD to calculate expected credit losses. To the extent possible The Group uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. The Group ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- The Group removes the conservatism which is required by the regulator for Basel models
- The Group adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a “point-in-time” rather than “through-the-cycle” estimate (the latter is required by the regulator).
- The Group applies forward looking macroeconomic information in the models.

The Group also considers three different forward looking macro-economic scenarios with different weights in the calculation of expected credit losses. The base case macro-economic scenario represents the Group’s estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.

The forecasts of variables used in the scenarios are provided by the Group chief economist on a quarterly basis. An expert judgement is required to assess the impact of the variables on PD, EAD and LGD and is carried out by using linear regression analysis. This approach should be carried out on an appropriate level of granularity (e.g. by industry sector). Aspects that could not be incorporated in the model (e.g. because macroeconomic parameters may not have shown much variation, or only an increase/decrease in the period covered by the data) may still be incorporated in the final ECL figures through 'management overlay'.

The maximum period for measurement of the expected credit losses is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period. In the Group, the credit revolving facilities have either fixed maturity or notice period. The notice period could be either with stated maturity or without maturity. The maturity of these products is further used in estimation of ECL.

Life-time for revolving facilities was investigated within implementation of IFRS 9 standard. The life-time depending on business segment has been implemented in IFRS 9 ECL models through the prepayment survival component of the models. Prepayment survival component can be interpreted as the probability for a revolving facility of not being fully prepaid by the end of year. The p robability is estimated amount weighted using usually through-the-cycle time series of historical data and statistical methods. The life-time ECL for facilities with significant risk increase (Stage 2) is calculated as a sum of ECLs in individual years. The particular ECLs decrease in time due to existence of prepayment survival component for such facilities. Usually it is close to zero after 8 years. Performance of ECL models is regularly back-tested and prepayment survival components are ones of the best performing among other ECL model components.

The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

Purchased or Originated Credit Impaired (POCI) assets

The Group defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).

POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime expected credit losses are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime expected credit losses at the reporting date is lower than the estimated lifetime expected credit losses at origination.

Interest income from assets impaired at initial recognition (POCI) is based on amortised cost (gross carrying amount minus impairment).

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(8) Hedge accounting

The Group decided to use the option in IFRS 9 to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

The Group uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Group has complied with the amended standard, taking into account the ‘carved out’ parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income. Related interest income/expense from the hedging instrument is recorded in Net interest income, revaluation of the hedging instrument is recognised in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged financial asset at fair value through other comprehensive income or on a separate line Fair value adjustments of the hedged items in portfolio hedge if the hedged item is financial asset or liability measured at amortised cost. The change in fair value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(9) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(10) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The lessee has the right to control the use of the asset and to obtain substantial economic benefits from its use.

The Group has used exceptions from the scope of the standard to:

- Short-term leases - for lease contracts shorter than one year
- Low-value leases of assets - for individual assets of less than EUR 5,000
- Intangible asset leases - when the Group acts as a lessee.

(i) The Group company as a lessee

The lessee accounts for the right to use the asset and the lease liability at the commencement of the lease. The Group enters the leasing contracts in respect of branch network buildings and IT hardware equipment.

The lease liability is initially measured at the present value of future lease payments and is subsequently increased by the interest calculated on the basis of the implicit interest rate or the incremental borrowing rate, based on internal fund transfer pricing rates, and reduced by lease payments. Interest is recognized as Other similar expense in the statement of income.

Lease payments consist of fixed payments less lease incentives, variable payments (linked to an index or a rate), payments in connection with guaranteed residual value, penalties for terminating the lease and exercise price for purchase options if it is probable that the options will be exercised.

The Group treats the lease as one single lease if the non-lease component is less than 10% of total lease. Similarly, if the lease component is less than 10%, the whole contract is considered as a non-lease contract.

The right to use the asset is initially recognized at cost and measured using the cost method. The cost of a right-of-use asset is based on the initial measurement of a lease liability and is further adjusted by any lease payments made at or before the commencement date and by lease incentives and direct costs incurred. Right-of-use assets are recognized in Property and equipment, in the sections of Buildings, IT equipment and Other. The depreciation period corresponds to the asset useful life or the useful life of the right of use. The right-of-use asset is tested for impairment.

Indefinite term leases are limited to the earliest date on which the contract can be terminated by the lessee or the lessor, or is limited to a maximum of 10 years, which is based on useful life of underlying assets and their depreciation plan. For fixed-term contracts the useful life of right of use corresponds to the contract length. If a fixed-term contract includes options, the useful life with options included is limited to 10 years.

Total payments made for operating leases with the application of exceptions (short-term rental, low-value lease of assets and rental of intangible assets) are charged to the income statement on an accrued basis.

Practical expedients available for lessee were used at transition to IFRS 16. These included applying a single discount rate for two lease portfolios, accounting for leases with the lease term within 12 months as short term leases, excluding initial direct costs from the measurement of right-of-use asset, using hindsight in determining the lease term and applying provision from onerous contracts as an impairment of a right-of-use asset.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as Finance lease receivables in the statement of financial position. A receivable is recognised over the leasing period at an amount equalling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Other similar income in the statement of income.

Leases, in which the Group does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income, as well as depreciation and other expenses relating to operating lease assets are reported separately in the consolidated statement of income under Income or Expense from operating lease.

(11) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments in Stage 1 and 2 measured at amortised cost and interest bearing financial instruments classified as financial assets at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate method on their gross carrying amount.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on financial assets that are not purchased or originated credit-impaired, but subsequently have become credit-impaired financial assets, should be based on the amortised costs in subsequent periods.

Interest income from assets impaired at initial recognition (POCI) is based on the effective interest rate adjusted for credit risk on initial recognition.

Interest income and expense of interest-bearing financial assets at fair value through OCI and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Most net fee and commission income relates to the services that the Group provides to its customers. For the recognition of revenue, the Group identifies the contract and defines the performance obligations in the transaction. Revenue is recognised at a point in time when the Group has satisfied the performance obligation.

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on a straight line basis as the services have been rendered, when a client simultaneously receives and consumes benefits provided (recurring account maintenance fees or custody fees, for example).

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised at a point in time, when the Group satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Group charges customers for certain current account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Recognition of management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable.

Distribution fee income, such as commissions from sales of insurance products, are based on the applicable contract and revenue is recognised when the performance obligation is satisfied.

The Group operates a customer loyalty programme through which retail customers can accumulate points and the points can be used to claim discounts on products or services. The promise to provide discount to the customer is a separate performance obligation. A liability is recognised for the points expected to be redeemed. Revenue from the awarded points is recognised when the points are redeemed or when they expire.

(iii) Dividend income

Income is recognised when the Group's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks, loans and advances (measured at amortised cost) to credit institutions and central banks and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations) are assessed by the Group as cash equivalents.

(13) Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of income reflects the Group’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of associates and joint ventures' in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(14) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment contains right-of-use assets in Buildings and IT equipment. They are depreciated over their useful lives or, if earlier, the end of lease term.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the total of the fair values of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree's recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognised at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The income statement reflects the results of the combining entities only since the date, when the control was obtained by the Group.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred (Note: 2.5).

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The amortisation of software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Core systems	8 years
Other software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. At the end of each reporting period, financial guarantees are measured in the financial statements at the higher of the amortised premium and the loss allowance, which is based on expected credit loss. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(18) Loan commitments

The Group issues commitments to provide loans and these commitments can be irrevocable or revocable. The loan commitments are initially measured at fair value, which is normally evidenced by the amount of fees received. One-off fees are charged directly into the income statement, other fees are booked to the income statement on accrued basis. The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

(19) Employee benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(21) Income tax

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and financial assets at fair value through other comprehensive income, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(22) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(23) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising there on are excluded from these financial statements, as they are not assets of the Group.

(24) Operating segments

Operating segments are components of the Group that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Group level to assess their performance. Discrete information is available for each operating segment.

2.5 Comparative balances

Change in accounting policy – derecognition of low value software

In 2020, the Group made a change in accounting policy for internally developed intangible assets, with the purpose of simplification in its accounting. The change relates to software for which capitalization thresholds have been set at CZK 52 m. Only software above these thresholds may be capitalized, whereas software below these thresholds will be directly expensed in operating expenses. As a result of the change in accounting policy, low value software has been derecognized from the Consolidated statement of financial situation. Following the requirements of IAS8, the changes in accounting policy have been applied retrospectively. Consequently, the Group restated Consolidated statement of financial situation at 31 December 2019 and Consolidated statement of changes in equity at 1 January 2019. Consolidated statement of income for the year ended 31 December 2019 has not been retrospectively restated given the limited impact. The consolidated statement of cash flows was not impacted by the accounting policy change.
The table below shows the list of changes in the Consolidated statement of financial situation at 31 December 2019:

(CZKm)	At 31 December 2019 As reported	Restatement	At 31 December 2019 Restated
Goodwill and other intangible assets	11,498	(580)	10,918
Deferred tax assets	367	110	477
Retained earnings	52,870	(470)	52,400

Reclassification of prepayment fees

Prepayment fees, i.e. income received from customers as a compensation of loan early repayment, have been reported as part of Net interest income in 2020. Whereas, these were included under Net fee and commission income in 2019 and due to the immateriality have not been retrospectively reclassified.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 28 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2020	% 2019
Subsidiaries				
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
ČSOB Stavební spořitelna, a.s. (formerly Českomoravská stavební spořitelna, a.s.)	ČSOBS (formerly ČMSS)	Czech Republic	100.00	100.00
ČSOB Advisory, a.s.	ČSOB Advisory	Czech Republic	100.00	100.00
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing	Czech Republic	100.00	100.00
ČSOB Pojišťovací makléř, s.r.o.	ČSOB pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	Czech Republic	100.00	100.00
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Patria Corporate Finance, a.s.	Patria CF	Czech Republic	100.00	100.00
Patria Finance, a.s.	Patria Finance	Czech Republic	100.00	100.00
Radlice Rozvojová, a.s.	Radlice Rozvojová	Czech Republic	100.00	100.00
Ušetřeno.cz s.r.o.	Ušetřeno	Czech Republic	100.00	100.00
Ušetřeno.cz Finanční služby, a.s.	Ušetřeno finanční služby	Czech Republic	100.00	100.00
Joint venture				
MallPay, s.r.o.	MallPay	Czech Republic	50.00	50.00
Associates				
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	0.24	0.24
Bankovní identita, a.s.	Bankovní identita	Czech Republic	33.33	-

Acquisition of Bankovní identita

On 15 September 2020, ČSOB jointly with Česká spořitelna, a.s. and Komerční banka, a.s. established company Bankovní identita, a.s. Founding companies agreed on management of Bankovní identita, a.s. equally. Every shareholder holds a share on equity of Bankovní identita of 33.33 %. A share on equity corresponds with a share on voting rights in the entity. As a result, the Bank assessed its investment in Bankovní identita as an associate and included it into the consolidated financial statements using equity method of consolidation. Bankovní identita provides services of electronic identification and electronic signature based on digital identities of banks customers.

Acquisition of ČSOB Stavební spořitelna

On 15 April 2019, ČSOB and Bausparkasse Schwäbisch Hall (BSH) reached an agreement for ČSOB to acquire BSH's 45% stake in the building savings bank ČSOB Stavební spořitelna, a.s. (ČSOBS) and thus assume 100% ownership control over ČSOBS, for a total consideration of CZK 6,196 m. In May, the agreement was approved by antitrust authority. Transaction has a strong financial and strategic rationale and ČSOB consolidates its position as the largest provider of financial solutions for housing purposes in the Czech Republic.

Before the acquisition, ČSOB's ownership interest in ČSOBS was 55%. Based on the company statutes, the Group controlled ČSOBS jointly with the owner of the remaining 45% share. Therefore, ČSOBS was classified as a joint venture in accordance with the accounting standard IFRS 11 Joint Arrangements and was included into the consolidated financial statements of the Group using equity method of consolidation. By acquiring the remaining 45% share, ČSOB gained control over ČSOBS, which subsequently has become a 100% owned subsidiary.

According to the accounting rules, ČSOB re-measured previously held equity investment at fair value as of 31 May 2019, as an acquisition date, and recognized resulting gain of CZK 2,081m in Other net income of the consolidated statement of income. The one-off gain realised by the Group resulted from the comparison of net carrying amount of the 55% share in ČSOBS, as reported in the consolidated statement of the financial position of the Group before the acquisition, and its fair value.

Income and expenses realised by ČSOBS from June 2019 are included into the consolidated statement of income of the Group using full method line-by-line. Whereas, net profit of ČSOBS for the period ended 31 May 2019 is included to the consolidated statement of income using equity method, as a one line entry on Share of profit of associates and joint ventures.

In the consolidated statement of financial position of the Group from 30 June 2019, ČSOBS is consolidated using full method of consolidation. All existing assets and liabilities, as well as new identifiable assets and liabilities of ČSOBS, are included at their fair value into the statement of financial position line-by-line. The excess of the consideration transferred over the net identifiable assets acquired and the liabilities assumed at the date of acquisition represents goodwill. Acquisition goodwill will be tested for impairment on annual basis.

Set out below is an analysis of the financial effect of the business combination on the consolidated financial statements of the Group as at 31 May 2019:

Assets acquired and liabilities assumed

(CZKm)	31 May 2019
ASSETS	
Cash, balances with central banks & other demand deposits	18,826
Financial assets at fair value through OCI	2,668
Financial assets at amortised cost	125,338
Derivatives used for hedging	9
FV adjustments of the hedged items in portfolio hedge	380
Tax assets	95
Property and equipment	526
Intangible assets	1,074
Other assets	182
Total assets	**149,098**
LIABILITIES	
Financial liabilities at amortised cost	138,432
Derivatives used for hedging	557
Tax Liabilities	250
Other liabilities	853
Provisions	33
Total liabilities	**140,126**
Total identifiable net assets acquired	**8,972**
Investment in associates and joint ventures (equity value of ČSOBS before acquisition)	4,860
Fair value remeasurement (one-off gain from the acquisition)	2,081
Total net assets dismissed in acquisition	**(6,941)**
Goodwill	**4,165**
Acquisition value	**6,196**

Based on the transaction, the Group acquired financial assets measured at amortised cost as described in the table below:

	31 May 2019			
(CZKm)	Stage 1	Stage 2	Stage 3	Total
Debt securities				
General government	4,115	-	-	4,115
Loans and advances				
Central banks	1,300	-	-	1,300
General government	8	-	-	8
Credit institutions	4,058	-	-	4,058
Other legal entities	520	2	17	539
Private individuals	107,569	5,358	4,917	117,844
Loans and advances – gross carrying amount	113,455	5,360	4,934	123,749
Allowance for impairment losses	(97)	(260)	(2,169)	(2,526)
	113,358	**5,100**	**2,765**	**121,223**
Total financial assets at amortised cost	**117,473**	**5,100**	**2,765**	**125,338**

Fair value of loan commitments acquired in the business combination amounted to CZK 7,298 m.

The table below sets out the amounts of income and expenses of ČSOBS since the acquisition date included in the consolidated statement of income for the reporting period:

(CZKm)	2019
Net interest income	1,239
Net fee and commission income	382
Other net income	21
Operating income	**1,642**
Operating expenses	**(768)**
Impairment losses	(160)
Profit before tax	**714**
Income tax expense	(144)
Profit for the year	**570**

Sale of ČSOB Asset Management

Until February 2019, the Bank was exercising a significant influence in ČSOB AM having an ownership amounted to 40.08%. Given that fact, ČSOB AM was assessed as an associated company being included into the consolidated financial statements using equity method. In February 2019, the Bank sold the share in ČSOB AM to KBC Asset Management. Cash consideration received by the Bank amounted to CZK 910 m. As a result, the Group cessed its significant influence and excluded the company from the consolidated financial statements in 2019. The Group recognised a gain on the sale in Other net income of the consolidated statement of income in 2019 in the amount of CZK 621 m.

Acquisition of MallPay

In 2018, ČSOB Bank and Sully system a.s. agreed on a foundation of a joint venture jointly controlled by both entities. Based on that agreement, a new entity MallPay, s.r.o. was established in May 2018 which was fully controlled by Sully system a.s. In November 2019, ČSOB Bank entered the business. ČSOB invested CZK 80 m into the capital of MallPay and gained 50% share in the entity.
The investment is a new interest of the Group in the segment of consumer lending. According to the statutes, decisions of the general meeting of MallPay are valid only in case of agreement of both shareholders. On the basis of this fact, the Group assessed its investment in MallPay as a joint venture and included the entity into the consolidation scope of the Group using equity method of consolidation.

Assets acquired and liabilities assumed

(CZKm)	1 December 2019
ASSETS	
Cash, balances with central banks and other demand deposits (cash equivalents)	20
Property and equipment	168
Other assets	34
Total assets	**222**
LIABILITIES	
Deferred tax liabilities	27
Other liabilities	34
Total liabilities	**61**
Total identifiable net assets	**161**
Non-controlling interest	(81)
Acquisition value	**80**

As a result of the sale of significant part the ČSOB's participation in ČSOB Pojišťovna in 2012, the Group's ownership interest in ČSOB Pojišťovna is 0.24%. While, based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Note: 21).

Ownership in other companies corresponds with the share of voting rights.

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategic business units, the Group's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on a Group basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

Relationship services: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards, leasing and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services, mutual funds and asset management. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Specialised banking: This segment contains mortgages, building savings and building savings loans and pension funds. Net fee and commission income of this segment contains administration of credits, collective investment and distribution fees.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Relationship services and Specialised banking segment, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

The Group's segment reporting was modified following the change of organisational structure of the Group. Thus, building savings and building savings loans were moved from Group Centre to Specialised banking segment in 2019.

Segment reporting information by customer segments for 2020

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	Total
Statement of income						
Net interest income	7,314	8,994	3,039	4,653	2,102	**26,102**
Net fee and commission income	2,135	3,243	938	751	524	**7,591**
Dividend income	-	-	1	-	14	**15**
Net gains from financial instruments at fair value through profit or loss	69	1,435	(723)	99	(700)	**180**
Net realised gains on financial instruments at fair value through other comprehensive income	-	(57)	-	3	68	**14**
Income from operating lease	-	1,967	-	-	-	**1,967**
Expense from operating lease	-	(1,839)	-	-	-	**(1,839)**
Other net income	49	88	(7)	102	989	**1,221**
Operating income	**9,567**	**13,831**	**3,248**	**5,608**	**2,997**	**35,251**
of which:						
External operating income	*4,035*	*11,284*	*3,248*	*10,113*	*6,571*	*35,251*
Intersegment operating income	*5,532*	*2,547*	*-*	*(4,505)*	*(3,574)*	*-*
Depreciation and amortisation	(22)	(56)	(47)	(403)	(1,627)	**(2,155)**
Other operating expenses	(6,272)	(4,174)	(623)	(1,893)	(4,135)	**(17,097)**
Operating expenses	**(6,294)**	**(4,230)**	**(670)**	**(2,296)**	**(5,762)**	**(19,252)**
Impairment losses	(640)	(4,399)	-	(744)	(143)	(5,926)
Share of profit of associates and joint ventures	3	-	-	-	(46)	**(43)**
Profit before tax	**2,636**	**5,202**	**2,578**	**2,568**	**(2,954)**	**10,030**
Income tax expense	(768)	(1,246)	(485)	(493)	1,450	**(1,542)**
Segment profit	**1,868**	**3,956**	**2,093**	**2,075**	**(1,504)**	**8,488**
Attributable to:						
Owners of the parent	1,868	3,956	2,093	2,075	(1,504)	**8,488**
Non-controlling interest	-	-	-	-	-	**-**
Assets and liabilities						
Segment assets	33,681	302,731	43,802	486,130	889,942	**1,756,286**
Investment in associates and joint ventures	15	-	-	-	124	**139**
Non-current assets held-for-sale	-	15	-	-	-	**15**
Total assets	**33,696**	**302,746**	**43,802**	**486,130**	**890,066**	**1,756,440**
Total liabilities	**478,993**	**459,021**	**79,107**	**148,404**	**483,923**	**1,649,448**
Capital expenditure	**170**	**401**	**42**	**1,634**	**3,259**	**5,506**

Segment reporting information by customer segments for 2019

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	Total
Statement of income						
Net interest income	9,105	10,120	5,632	4,820	2,327	**32,004**
Net fee and commission income	2,717	3,494	849	725	733	**8,518**
Dividend income	-	-	-	-	12	**12**
Net gains from financial instruments at fair value through profit or loss	63	1,538	(3,610)	41	(245)	**(2,213)**
Net realised gains on financial instruments at fair value through other comprehensive income	-	-	-	-	1	**1**
Income from operating lease	-	2,620	-	-	-	**2,620**
Expense from operating lease	-	(2,467)	-	-	-	**(2,467)**
Other net income	62	58	14	44	3,751	**3,929**
Operating income	**11,947**	**15,363**	**2,885**	**5,630**	**6,579**	**42,404**
of which:						
External operating income	*4,783*	*12,154*	*2,885*	*9,247*	*13,335*	*42,404*
Intersegment operating income	*7,164*	*3,209*	*-*	*(3,617)*	*(6,756)*	*-*
Depreciation and amortisation	(23)	(65)	(50)	(304)	(1,814)	**(2,256)**
Other operating expenses	(6,929)	(4,659)	(639)	(1,462)	(3,089)	**(16,778)**
Operating expenses	**(6,952)**	**(4,724)**	**(689)**	**(1,766)**	**(4,903)**	**(19,034)**
Impairment losses	10	(753)	-	93	247	(403)
Share of profit of associates and joint ventures	3	-	-	220	(5)	**218**
Profit before tax	**5,008**	**9,886**	**2,196**	**4,177**	**1,918**	**23,185**
Income tax expense	(983)	(1,879)	(418)	(762)	548	**(3,494)**
Segment profit	**4,025**	**8,007**	**1,778**	**3,415**	**2,466**	**19,691**
Attributable to:						
Owners of the parent	4,025	8,007	1,778	3,415	2,466	**19,691**
Non-controlling interest	-	-	-	-	-	**-**
Assets and liabilities						
Segment assets	33,390	311,731	57,133	462,601	766,103	**1,630,958**
Investment in associates and joint ventures	12	-	-	-	74	**86**
Non-current assets held-for-sale	-	23	-	-	-	**23**
Total assets	**33,402**	**311,754**	**57,133**	**462,601**	**766,177**	**1,631,067**
Total liabilities	**413,903**	**416,456**	**105,501**	**149,933**	**446,596**	**1,532,389**
Capital expenditure	**159**	**736**	**38**	**419**	**2,768**	**4,120**

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2020	2019
Interest income on financial instruments calculated using effective interest rate method		
Cash, balances with central banks and other demand deposits	167	355
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	8,033	17,341
Other than credit institutions	22,968	22,698
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	379	373
Derivatives used for hedging (Note: 8)	883	3,497
Negative interest from financial liabilities measured at amortised cost	1,060	1,073
	33,490	45,337
Interest income on other financial instruments		
Finance lease receivables	334	356
Financial assets held for trading, incl. assets pledged as collateral (Note: 8)	143	382
Derivatives used as economic hedges (Note: 8)	1,663	727
Negative interest from financial liabilities measured at fair value (Note: 8)	50	18
	2,190	1,483
Interest income	**35,680**	**46,820**

6. INTEREST EXPENSE

(CZKm)	2020	2019
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	2	15
Credit institutions	579	1,724
Other than credit institutions	4,850	6,737
Debt instruments in issue	1,372	3,198
Derivatives used for hedging (Note: 8)	472	1,107
	7,275	12,781
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 8)	179	388
Financial liabilities designated at fair value through profit or loss (Note: 8)	332	398
Derivatives used as economic hedges (Note: 8)	1,736	1,179
Lease liabilities	54	62
Discount amortisation on other financial liabilities	2	8
	2,303	2,035
Interest expense	**9,578**	**14,816**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2020	2019
Fee and commission income		
Banking services		
Payment service fees	5,063	5,668
Credit / Guarantee related fees	1,288	1,532
Network income	839	1,021
Securities	430	348
Other	1,448	1,299
Asset management services		
Custody fees	256	222
Mutual funds entry fees	244	216
Distribution		
Mutual funds	869	796
Banking and insurance products	1,496	1,272
	11,933	**12,374**
Fee and commission expense		
Banking services		
Payment services	2,622	2,588
Credit / Guarantee related fees	279	278
Securities	190	158
Other	274	187
Asset management services		
Custody fees	103	88
Distribution		
Banking and insurance products	874	557
	4,342	**3,856**
Net fee and commission income	**7,591**	**8,518**

8. NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2020	2019
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**180**	**(2,213)**
Net interest income (Notes: 5, 6)	20	1,552
	200	**(661)**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	128	1,683
Foreign exchange	(3,809)	(2,366)
Equity contracts	(250)	1,365
Commodity contracts	20	12
	(3,911)	694
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	1,793	960
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	(297)	(1,302)
Foreign exchange differences	2,615	(1,013)
Financial instruments at fair value through profit or loss and foreign exchange	**200**	**(661)**

As from October 2018, KBC Bank started centralising ČSOB's trading activities to the Central European Financial Markets in order to align regulatory scope, risks arising from trading and streamline the trading activities. KBC Bank has outsourced the related trading activities back to ČSOB. The contracts are concluded through the Financial Markets trades specified products on behalf of KBC Bank. Related risk raised from the transactions is then transferred via a back-to-back transaction to KBC Bank with positive impact on risk weighted assets (RWA) of the Bank. Net residual profit based on trading results is distributed by KBC Bank to ČSOB; KBC Bank bears any potential loss. The profit is booked into Net gains from non-trading financial assets mandatorily at fair value through profit or loss.

9. NET RESULT FROM OPERATING LEASE

(CZKm)	2020	2019
Income from operating lease		
Revenues from operating leases	450	596
Revenues from disposal of assets under operating leases	1,164	1,521
Revenues from other services relating to operating leases	353	503
	1,967	**2,620**
Expense from operating lease		
Depreciation of assets under operating leases	(349)	(465)
Expenses from disposal of assets under operating leases	(1,108)	(1,513)
Other services relating to operating leases	(382)	(489)
	(1,839)	**(2,467)**

10. OTHER NET INCOME

(CZKm)	2020	2019
Net gain on acquisition of ČSOBS (Note: 3)	-	2,081
Net gain on disposal of ČSOB AM (Note: 3)	-	621
ICT services	718	675
Services provided to the parent and to entities under common control (excluding income from ICT services)	297	247
Net gain on disposal of investments measured at amortised cost	174	31
Other services provided by ČSOB Leasing	14	18
Net gain on disposal of property and equipment	9	18
Net loss on disposal of intangible assets	(9)	(11)
Net (increase) in provisions for legal issues and other losses	(31)	(80)
Net gain on disposal of non-current assets held-for-sale	-	6
Net loss on disposal of liabilities at amortised cost	-	(4)
Other	49	327
	1,221	**3,929**

11. STAFF EXPENSES

(CZKm)	2020	2019
Wages and salaries	6,568	6,546
Salaries and other short-term benefits of top management	89	102
Social security charges	2,145	2,153
of which pension security charges (obligatory)	*1,333*	*1,334*
Pension (voluntary) and similar expenses	185	182
Net increase in provisions for Restructuring programme	79	120
Other	188	230
	9,254	**9,333**

Number of personnel of the Group

The number (in full-time equivalents) of personnel of the Group was 8,349 at 31 December 2020 (31 December 2019: 8,626).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are base salaries, annual bonuses and other short-term benefits of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

A bonus scheme of the Group follows the changes in legislation in previous years. Half of the bonus is provided in a non-cash instrument, so called 'Virtual investment certificate' (VIC). VIC is linked to the Economic Value Added of the Group which captures both finance and risk aspects. Another half of the bonus is paid in cash. The payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next five years following the initial assignment of the benefit.

Retirement benefits

The Group provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute a portion of their salaries to pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Group of 2% or 3% of their salaries, respectively, or with a fixed amount by preference of an employee.

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee's monthly average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month's average salary), 15-20 years (2.5 times the month's average salary), 20-25 years (3 times the month's average salary), 25-30 years (4 times the month's average salary), 30-35 years (5 times the month's average salary) and over 35 years (6 times the month's average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). The compensation was CZK Nil in 2020 (2019: CZK 4 m).

12. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2020	2019
Information technologies	3,114	2,707
Contribution to the Single Resolution Mechanism	772	720
Other building expenses	617	602
Marketing	616	787
Retail service fees	537	522
Professional fees	494	479
Communication	397	361
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	318	271
Administration	171	173
Travel and transportation	145	192
Payment cards and electronic banking	124	162
Insurance	57	52
Rental expenses on land and buildings - minimum lease payments	50	73
Training	38	86
Car expenses	17	26
Other	376	232
	7,843	**7,445**

13. IMPAIRMENT LOSSES

(CZKm)	2020	2019
Impairment of financial assets at amortised cost - loans and advances (Notes: 34, 41.2)	(5,207)	(243)
Impairment of financial assets at amortised cost - debt securities (Notes: 34, 41.2)	(5)	1
Impairment of finance lease receivables (Note: 34)	(235)	(26)
Provisions for loan commitments and guarantees (Notes: 30, 34)	(109)	(45)
Impairment of property, plant and equipment (Notes: 23, 34)	23	27
Impairment of intangible assets (Notes: 24, 34)	(214)	(60)
Impairment of other financial assets (Note: 34)	(6)	(4)
Impairment of other non-financial assets (Note: 34)	(38)	(53)
Modification losses (Note: 34, 41.2)	(135)	-
	(5,926)	**(403)**

14. INCOME TAX

The components of income tax expense for the years ended 31 December 2020 and 2019 are as follows:

(CZKm)	2020	2019
Current tax expense	2,646	3,459
Previous year over accrual of current tax	(13)	(73)
Deferred tax (income) / expense relating to the origination and reversal of temporary differences	(1,091)	108
	1,542	**3,494**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2020 and 2019 is as follows:

(CZKm)	2020	2019
Profit before taxation	10,030	23,185
Applicable tax rates	19%	19%
Taxation at applicable tax rates	1,906	4,405
Previous year over accrual of current tax	(13)	(73)
Tax effect of non-taxable income	(937)	(1,288)
Tax effect of non-deductible expenses	586	450
	1,542	**3,494**

The applicable tax rate for 2020 was 19% (2019: 19%).

Included in non-taxable income is interest income accrued on tax-free financial investments.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2020	2019
At 1 January - as originally reported	**(573)**	**(619)**
Correction as a result of accounting policy change (Note: 2.5)	110	110
At 1 January - restated	(463)	(509)
Statement of income	1,091	(108)
Financial assets FVOCI (Note: 32)		
Fair value remeasurement	24	(44)
Transfer to net profit or retained earnings	57	-
Cash-flow hedges (Note: 32)		
Fair value remeasurement	(116)	(24)
Transfer to net profit (Note: 22)	57	82
Impact of business combinations	-	140
At 31 December - restated	**650**	**(463)**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2020	2019 restated
Deferred tax asset		
Impairment losses on loans and advances at amortised cost and credit risk provisions	753	66
Revaluation of financial assets and liabilities at fair value through profit or loss	276	(106)
Interest rate bonus	260	231
Initial fee income	255	245
Employee benefits	253	307
Temporary difference resulting from tax depreciation	173	93
Temporary difference resulting from tax depreciation related to acquisition of ICT function	113	118
Provisions for other risks and charges	97	76
Unused tax losses applicable in the next periods	27	22
Impairment losses on debt securities	13	11
Impairment of tangible and intangible assets	10	9
Cash-flow hedging derivatives	(14)	52
Debt securities at fair value through other comprehensive income	(92)	(146)
Amortisation of goodwill	(511)	(511)
Other temporary differences	(1)	10
	1,612	**477**

(CZKm)	2020	2019
Deferred tax liability		
Temporary difference resulting from tax depreciation	775	695
Debt securities at fair value through other comprehensive income	164	158
Cash-flow hedging derivatives	162	106
Finance lease valuation	58	11
Revaluation of financial assets and liabilities at fair value through profit or loss	45	51
Unused tax losses applicable in the next periods	11	20
Employee benefits	(15)	(18)
Provisions for other risks and charges	(20)	(14)
Initial fee expense	(52)	(26)
Impairment losses on loans and advances at amortised cost and credit risk provisions	(149)	(32)
Other temporary differences	(17)	(11)
	962	**940**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2020	2019
Impairment losses on loans and advances at amortised cost and credit risk provisions	804	20
Revaluation of financial assets and liabilities at fair value through profit or loss	388	(71)
Initial fee income	36	60
Interest rate bonus	29	4
Provisions for other risks and charges	27	(19)
Unused tax losses applicable in the next periods	14	(1)
Impairment losses on debt securities	2	-
Impairment of tangible and intangible assets	1	(2)
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(5)	(5)
Finance lease valuation	(47)	17
Employee benefits	(57)	27
Debt securities at fair value through other comprehensive income	(96)	27
Legal claims	-	(76)
Temporary difference resulting from tax depreciation	-	(86)
Other temporary differences	(5)	(3)
	1,091	**(108)**

The Group management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its initial recognition.

15. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2020 has not been taken before the date of issue of the financial statements (Notes: 40, 42).

Based on a sole shareholder decision from 29 June 2020, and in accordance with the recommendation of the national regulator, no dividend was paid for 2019.

Based on a sole shareholder decision from 30 April 2019, a dividend of CZK 44.26 per share was paid for 2018, representing a total dividend of CZK 12,956 m.

16. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEMAND DEPOSITS

(CZKm)	2020	2019
Cash (Note: 34)	8,664	10,277
Mandatory minimum reserves (Notes: 34, 35, 41.2)	13,573	6,448
Other balances with central banks (Notes: 34, 35, 41.2)	4,443	28,921
Other demand deposits in credit institutions (Notes: 34, 35, 41.2)	2,915	2,079
	29,595	**47,725**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Group is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Group.

Other balances with central banks contain overnight loans provided to central bank in the amount of CZK Nil at 31 December 2020 (31 December 2019: CZK 20,354 m). Balances with central banks are classified as Stage 1 assets, expected credit losses being immaterial.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2020	2019
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 37)	-	8
Other loans and advances	102	-
Equity securities		
Credit institutions	-	8
Corporate	3	1
Derivative contracts (Note: 22)		
Trading derivatives	35,205	27,970
Derivatives used as economic hedges	821	1,030
	36,131	**29,017**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	1,792	948
	1,792	**948**
Financial assets at fair value through profit or loss	**37,923**	**29,965**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2020	2019
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	12,731	7,273
Credit institutions	1,916	1,805
Corporate	185	184
Equity securities		
Corporate	1,184	746
Gross carrying amount	16,017	10,008
Allowance for impairment losses	(1)	(1)
	16,016	**10,007**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	6,328	6,465
	6,328	**6,465**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

Included within Financial assets at fair value through other comprehensive income pledged as collateral in repo transactions in the amount of CZK 6,188 m (2019: CZK 6,187 m) or securities lending in the amount of CZK 140 m (2019: CZK 278 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

19. FINANCIAL ASSETS AT AMORTISED COST

(CZKm)	2020 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	160,319	-	-	-	160,319
Credit institutions	4,063	-	-	-	4,063
Other legal entities	6,281	-	-	-	6,281
Debt securities – gross carrying amount	170,663	-	-	-	170,663
Allowance for impairment losses	(8)	-	-	-	(8)
	170,655	**-**	**-**	**-**	**170,655**
Loans and advances					
Central banks	632,330	-	-	-	632,330
General government	8,078	81	-	-	8,159
Credit institutions	9,292	65	-	-	9,357
Other legal entities	191,435	34,307	9,692	179	235,613
Private individuals	496,327	21,314	7,991	40	525,672
Loans and advances – gross carrying amount	1,337,462	55,767	17,683	219	1,411,131
Allowance for impairment losses	(788)	(5,817)	(8,623)	(66)	(15,294)
	1,336,674	**49,950**	**9,060**	**153**	**1,395,837**
Total financial assets at amortised cost	**1,507,329**	**49,950**	**9,060**	**153**	**1,566,492**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	40,930	-	-	-	40,930
Debt securities – gross carrying amount	40,930	-	-	-	40,930
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**40,930**	**-**	**-**	**-**	**40,930**

(CZKm)	2019 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	72,775	-	-	-	72,775
Credit institutions	5,654	-	-	-	5,654
Other legal entities	5,251	332	-	-	5,583
Debt securities – gross carrying amount	83,680	332	-	-	84,012
Allowance for impairment losses	(2)	-	-	-	(2)
	83,678	**332**	**-**	**-**	**84,010**
Loans and advances					
Central banks	609,511	-	-	-	609,511
General government	8,115	168	-	-	8,283
Credit institutions	5,959	70	-	-	6,029
Other legal entities	208,015	26,137	8,341	135	242,628
Private individuals	475,260	19,901	8,606	46	503,813
Loans and advances – gross carrying amount	1,306,860	46,276	16,947	181	1,370,264
Allowance for impairment losses	(853)	(1,604)	(8,323)	(49)	(10,829)
	1,306,007	**44,672**	**8,624**	**132**	**1,359,435**
Total financial assets at amortised cost	**1,389,685**	**45,004**	**8,624**	**132**	**1,443,445**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	43,007	-	-	-	43,007
Debt securities – gross carrying amount	43,007	-	-	-	43,007
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**43,007**	**-**	**-**	**-**	**43,007**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

The following table shows the gross carrying amount of those financial assets which are in a different impairment stage at 31 December 2020 and 2019 than they were at the beginning of the financial year or their initial recognition:

	2020					
	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
(CZKm)	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						
General government	23	131	-	-	-	-
Credit institutions	-	24	-	-	-	-
Other legal entities	19,343	2,628	1,208	157	2,156	-
Private individuals	10,391	7,008	1,539	774	1,328	351
Total	**29,757**	**9,791**	**2,747**	**931**	**3,484**	**351**

(CZKm)	2019 Transfers between stages 1 and 2 From stage 1 to stage 2	From stage 2 to stage 1	Transfers between stages 2 and 3 From stage 2 to stage 3	From stage 3 to stage 2	Transfers between stages 1 and 3 From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						
General government	27	27	-	2	-	-
Credit institutions	3	9	-	-	-	-
Other legal entities	11,053	2,317	752	392	1,409	14
Private individuals	12,279	8,046	1,258	1,233	1,075	459
Total	**23,362**	**10,399**	**2,010**	**1,627**	**2,484**	**473**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 632,330 m at 31 December 2020 (31 December 2019: CZK 609,511 m).

Included within Financial assets at amortised cost pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 30,401 m (2019: CZK 17,548 m) or securities lending in the amount of CZK 10,529 m (2019: CZK 25,459 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

Financial assets at amortised cost contain debt securities of CZK 12,462 m (2019: CZK 14,458 m) pledged as collateral of term deposits and financial guarantees.

Set out below is a set of information relating to the Group's financial instruments reclassified from the Available-for-sale financial assets to the Financial assets at amortised cost as part of the IFRS 9 transition procedure:

(CZKm)	2020	2019
Carrying value	16,085	16,254
Fair value	15,135	16,586
Net gain (before tax) that would have been recognised in the Statement of other comprehensive income after the date of reclassification if the Group had not reclassified the assets	(1,578)	(238)

20. FINANCE LEASE RECEIVABLES

(CZKm)	2020 Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Other legal entities	9,259	1,888	430	5	11,582
Private individuals	1,737	370	217	22	2,346
Gross carrying amount	10,996	2,258	647	27	13,928
Allowance for impairment losses	(20)	(202)	(250)	(6)	(478)
	10,976	**2,056**	**397**	**21**	**13,450**

(CZKm)	2019 Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Other legal entities	11,477	946	385	10	12,818
Private individuals	2,569	429	172	21	3,191
Gross carrying amount	14,046	1,375	557	31	16,009
Allowance for impairment losses	(25)	(31)	(179)	(8)	(243)
	14,021	**1,344**	**378**	**23**	**15,766**

Finance lease receivables may be analysed as follows:

(CZKm)	2020	2019
Total amount of the future minimum lease payments	**13,883**	**16,293**
At not more than one year	3,877	4,398
At more than one but not more than two years	2,822	3,432
At more than two but not more than three years	1,899	2,531
At more than three but not more than four years	1,120	1,567
At more than four but not more than five years	1,926	795
At more than five years	2,239	3,570
Unearned future finance income on finance leases	(434)	(527)
Present value of the future minimum lease payments	**13,450**	**15,766**
At not more than one year	3,756	4,256
At more than one but not more than two years	2,733	3,321
At more than two but not more than three years	1,840	2,449
At more than three but not more than four years	1,085	1,517
At more than four but not more than five years	1,867	769
At more than five years	2,169	3,454
Accumulated allowance for uncollectible minimum lease payments receivable	(478)	(243)

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

As at 31 December 2020, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 15 m (2019: CZK 23 m), which the Group is in the process of selling (Note: 25).

21. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The following table illustrates the summarised financial information of the investment in the associates and joint ventures:

	ČSOB Pojišťovna		MallPay		Bankovní identita	
(CZKm)	2020	2019	2020	2019	2020	2019
The associate's and joint venture's assets and liabilities						
Assets	53,226	51,146	254	210	72	-
of which current assets	368	436	69	20	35	-
Liabilities	46,709	46,435	41	61	19	-
of which current liabilities	2,915	2,334	11	32	1	-
Net assets	**6,517**	**4,710**	**213**	**149**	**53**	**-**
Carrying amount of the investment	**16**	**11**	**106**	**75**	**17**	**-**
The associate's and joint venture's results						
Interest income	867	934	-	-	-	-
Interest expense	(181)	(154)	-	-	-	-
Total revenues	14,481	14,233	2	(3)	-	-
Depreciation and amortisation	(109)	(90)	(28)	(2)	(1)	-
Income tax expense	(329)	(253)	1	-	-	-
Profit for the year	1,437	1,198	(85)	(12)	(10)	-
Profit for the year – share of the Group	3	3	(43)	(6)	(3)	-
Dividend – share of the Bank	-	2	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	3	3	(43)	(6)	(3)	-

22. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2020 and 2019 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	1,495,942	27,757	28,309	1,679,639	20,896	21,752
Forwards	1,000	-	-	58,050	14	12
Options	17,197	45	106	18,957	38	43
	1,514,139	**27,802**	**28,415**	**1,756,646**	**20,948**	**21,807**
Foreign exchange contracts						
Swaps / Forwards	823,407	5,950	6,103	983,951	5,626	5,845
Cross currency interest rate swaps	82,685	910	895	100,978	905	889
Options	35,473	351	337	52,125	394	371
	941,565	**7,211**	**7,335**	**1,137,054**	**6,925**	**7,105**
Commodity contracts						
Swaps / Options	4,166	192	174	3,580	97	90
Total trading derivatives (Notes: 17, 27)	**2,459,870**	**35,205**	**35,924**	**2,897,280**	**27,970**	**29,002**

Positions of ALM – economic hedges

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	29,195	42	292	70,101	104	86
Foreign exchange contracts						
Cross currency interest rate swaps	2,247	82	-	3,870	98	1
Equity contracts						
Swaps	6,654	280	233	6,328	280	56
Options	9,045	417	10	9,783	548	9
	15,699	**697**	**243**	**16,111**	**828**	**65**
Total derivatives used as economic hedges (Notes: 17, 27)	**47,141**	**821**	**535**	**90,082**	**1,030**	**152**

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In the Group, an effectiveness of hedge accounting relationship is measured by a comparison of cumulative changes in net present value of a hedging derivative and cumulative changes in net present value of a "hypothetical" derivative. Hypothetical derivative is not a real transaction. It is a virtual financial derivative representing a hedged item and hedged risk. Besides, the Group is testing whether the total amount of hedging derivatives does not exceed the volume of financial instruments eligible for hedging.

The hedging ineffectiveness results from the different floating rate repricing frequencies in hedging and hypothetical derivatives having an impact on their valuation.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from expected reverse repo operations with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Group also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of non-retail client current accounts (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert floating-rate client loans to fixed rates.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Financial assets at amortised cost of the Group’s statement of financial position.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2020 and 2019 are set out as follows:

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	54,101	1,139	801	74,813	1,224	1,048
Cross currency interest rate swaps	5,229	7	353	8,212	278	350
Total hedging derivatives	**59,330**	**1,146**	**1,154**	**83,025**	**1,502**	**1,398**

In 2020, a gain of CZK 29 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2019: a gain of CZK 14 m).

In 2020, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative gains of CZK Nil from equity to the statement of income (2019: gains of CZK 9 m). The gains / losses are included in Net gains from financial instruments at fair value through profit or loss.

The following table contains details of the hedged financial instruments as at 31 December 2020 and 2019 covered by the Group's hedging strategies:

	2020			2019		
	Cash flow hedge reserve		Change in fair value of hedged item for	Cash flow hedge reserve		Change in fair value of hedged item for
(CZKm)	Continuing hedges	Discontinued hedges	ineffectiveness assessment	Continuing hedges	Discontinued hedges	ineffectiveness assessment
Cash flow hedges	19	53	29	(363)	87	14

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2020	2019
Interest income (Note: 32)	273	408
Net gains from financial instruments at fair value through profit or loss (Note: 32)	29	23
Taxation (Note: 14)	(57)	(82)
Net gains	**245**	**349**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2020 and 2019:

	2020		2019	
(CZKm)	Single currency interest rate swaps	Cross currency interest rate swaps	Single currency interest rate swaps	Cross currency interest rate swaps
Less than 3 months	3,239	-	3,666	1,840
More than 3 months but not more than 6 months	8,839	4,234	4,664	1,137
More than 6 months but not more than 1 year	7,193	-	12,543	-
More than 1 year but not more than 2 years	8,216	996	19,255	4,239
More than 2 years but not more than 5 years	9,606	-	15,336	996
More than 5 years	17,007	-	19,349	-
	54,100	**5,230**	**74,813**	**8,212**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of foreign currency fixed rate bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Financial assets at fair value through other comprehensive income and as Financial assets at amortised cost, i.e. private issues without active secondary market, attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of long-term fixed rate wholesale funding transactions (classified as Financial liabilities at cost) attributable to changes in the risk-free (interest rate swap) yield curve. A fixed rate receiver/floating rate payer interest rate swap denominated in the same currency as the hedged funding transaction is expected to be highly effective hedge.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for portfolios of fixed rate loans have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio of ČSOBS consisting of the part of retail saving accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2020 and 2019 are set out as follows:

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	120,700	2,386	3,304	57,622	499	3,282
Fair value portfolio hedges	629,269	6,437	10,324	518,191	7,225	6,211
Cross currency interest rate swaps						
Fair value micro hedges	923	-	104	923	-	76
Total hedging derivatives	**750,892**	**8,823**	**13,732**	**576,736**	**7,724**	**9,569**

The following table contains details of the hedged items as at 31 December 2020 and 2019 covered by the Group's hedging strategies:

	2020			
	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)		Assets	Liabilities	
Fair value micro hedges				
Financial assets at amortised cost	69,914	(1,063)	-	(1,492)
Financial assets at fair value through other comprehensive income	11,035	289	-	263
Financial liabilities at amortised cost	40,473	-	574	(434)
Total	121,422	(774)	574	(1,663)
Fair value portfolio hedges				
Financial assets at amortised cost	371,235	5,413	-	9,869
Financial liabilities at amortised cost	259,945	-	2,759	(6,323)
Total	631,180	5,413	2,759	3,546
Total hedged items	**752,602**	**4,639**	**3,333**	**1,883**

(CZKm)	2019 Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items: Assets	Accumulated amount of fair value adjustments on the hedged items: Liabilities	Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	20,026	385	-	145
Financial assets at fair value through other comprehensive income	11,127	(73)	-	(43)
Financial liabilities at amortised cost	27,853	-	149	51
Total	59,006	312	149	153
Fair value portfolio hedges				
Financial assets at amortised cost	404,360	(4,177)	-	(499)
Financial liabilities at amortised cost	205,770	-	(3,564)	502
Total	610,130	(4,177)	(3,564)	3
Total hedged items	**669,136**	**(3,865)**	**(3,415)**	**156**

In 2020, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised gains of CZK 69 m (2019: gains of CZK 69 m) included in Net gains from financial instruments at fair value through profit or loss in the statement of income.

In 2020, the net gains in the amount of CZK 1,883 m (2019: gains of CZK 156 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net losses realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 2,117 m (2019: gains of CZK 83 m).

23. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2019	9,358	1,452	647	6,860	529	18,846
Depreciation and impairment at 1 January 2019	(3,802)	(894)	(488)	(3,307)	-	(8,491)
Net book value at 1 January 2019	**5,556**	**558**	**159**	**3,553**	**529**	**10,355**
Transfers	1,094	387	97	1,086	(2,664)	-
Additions	-	-	-	-	3,123	3,123
Additions through business combination	459	30	5	32	-	526
Disposals	(83)	(17)	(21)	(878)	-	(999)
Depreciation	(301)	(333)	(30)	(222)	-	(886)
Depreciation related to assets leased by lessor under operating leasing contracts (Note: 34)	-	-	-	(451)	-	(451)
Impairment	4	9	-	30	-	43
Net book value at 31 December 2019	**6,729**	**634**	**210**	**3,150**	**988**	**11,711**
of which						
Cost	11,137	1,955	685	6,306	988	21,071
Depreciation and impairment	(4,408)	(1,321)	(475)	(3,156)	-	(9,360)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2020	11,137	1,955	685	6,306	988	21,071
Depreciation and impairment at 1 January 2020	(4,408)	(1,321)	(475)	(3,156)	-	(9,360)
Net book value at 1 January 2020	**6,729**	**634**	**210**	**3,150**	**988**	**11,711**
Transfers	948	303	65	533	(1,849)	-
Additions	-	-	-	-	3,371	3,371
Additions through business combination	-	-	-	-	-	-
Disposals	(769)	(1)	(3)	(739)	-	(1,512)
Depreciation	(341)	(347)	(36)	(218)	-	(942)
Depreciation related to assets leased by lessor under operating leasing contracts (Note: 34)	-	-	-	(349)	-	(349)
Impairment	(8)	-	-	38	-	30
Net book value at 31 December 2020	**6,559**	**589**	**236**	**2,415**	**2,510**	**12,309**
of which						
Cost	10,672	2,046	697	5,215	2,510	21,140
Depreciation and impairment	(4,113)	(1,457)	(461)	(2,800)	-	(8,831)

Right of use assets

(CZKm)	Land and buildings	IT equipment	Total
Cost at 1 January 2019	2,731	-	2,731
Depreciation and impairment at 1 January 2019	(43)	-	(43)
Net book value at 1 January 2019	**2,688**	**-**	**2,688**
Additions	315	130	445
Depreciation	(411)	-	(411)
Impairment	(7)	(9)	(16)
Net book value at 31 December 2019	**2,585**	**121**	**2,706**
of which			
Cost	3,046	130	3,176
Depreciation and impairment	(461)	(9)	(470)

(CZKm)	Land and buildings	IT equipment	Total
Cost at 1 January 2020	3,046	130	3,176
Depreciation and impairment at 1 January 2020	(461)	(9)	(470)
Net book value at 1 January 2020	**2,585**	**121**	**2,706**
Additions	55	84	139
Disposals	(8)	-	(8)
Depreciation	(410)	(39)	(449)
Impairment	(7)	-	(7)
Net book value at 31 December 2020	**2,215**	**166**	**2,381**
of which			
Cost	3,093	214	3,307
Depreciation and impairment	(878)	(48)	(926)

ČSOB Leasing owns assets leased out under operating leases (mainly vehicles and production facilities), which represent 70% (2019: 84%) of the net book value of the Other class of property and equipment.

Property and equipment are assessed as non-current assets.

24. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2019 - - as originally reported	3,817	5,064	2,150	654	487	12,172
Amortisation and impairment at 1 January 2019 - - as originally reported	(1,095)	(3,854)	(373)	(500)	-	(5,822)
Net book value at 1 January 2019 - - as originally reported	**2,722**	**1,210**	**1,777**	**154**	**487**	**6,350**
Correction as a result of accounting policy change - - Cost (Note: 2.5)	-	-	(833)	-	-	(833)
Correction as a result of accounting policy change - - Amortisation (Note: 2.5)	-	-	253	-	-	253
Cost at 1 January 2019 restated	-	-	1,317	-	-	1,317
Amortisation and impairment at 1 January 2019 restated	-	-	(120)	-	-	(120)
Net book value at 1 January 2019 restated	**2,722**	**1,210**	**1,197**	**154**	**487**	**5,770**
Transfers	-	458	410	158	(1,026)	-
Additions	-	-	-	-	997	997
Additions through business combination	4,244	744	251	-	-	5,239
Disposals	-	(1)	-	(68)	-	(69)
Amortisation	-	(553)	(364)	(42)	-	(959)
Impairment (Note: 13)	-	-	-	(60)	-	(60)
Net book value at 31 December 2019	**6,966**	**1,858**	**1,494**	**142**	**458**	**10,918**
of which						
Cost	8,061	7,790	1,978	683	458	18,970
Amortisation and impairment	(1,095)	(5,932)	(484)	(541)	-	(8,052)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2020	8,061	7,790	1,978	683	458	18,970
Amortisation and impairment at 1 January 2020	(1,095)	(5,932)	(484)	(541)	-	(8,052)
Net book value at 1 January 2020	**6,966**	**1,858**	**1,494**	**142**	**458**	**10,918**
Transfers	-	523	1,129	1	(1,653)	-
Additions	-	-	-	-	2,135	2,135
Additions through business combination	-	-	-	-	-	-
Disposals	-	(893)	(395)	(20)	-	(1,308)
Amortisation	-	(497)	(226)	(41)	-	(764)
Impairment (Note: 13)	-	(51)	(161)	(2)	-	(214)
Net book value at 31 December 2020	**6,966**	**940**	**1,841**	**80**	**940**	**10,767**
of which						
Cost	8,061	6,392	3,454	661	940	19,508
Amortisation and impairment	(1,095)	(5,452)	(1,613)	(581)	-	(8,741)

Internally developed software in the net amount of CZK 850 m as at 31 December 2020 (31 December 2019: CZK 450 m) is included in Construction in progress.

Goodwill and other intangible assets are assessed as non-current assets.

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represents the lowest level to which goodwill can be allocated on a reasonable basis.

An allocation to CGUs of the Group's goodwill attributable to shareholders is shown below:

(CZKm)	2020	2019
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries	4,455	4,455
	6,966	**6,966**

Retail segment and SME clients - Bank

The recoverable amount for the Retail segment and SME clients - Bank was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients – Bank are based on the net profit generated by the cash-generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.3% in 2020 (2019: 10.4%) and no long term growth rates were used in 2020 and 2019.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients - Bank has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients - Bank an average risk discount rate of 10.6% has been applied (2019: 10.8%). This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients - Bank would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail segment and SME clients - Ušetřeno

In April 2018, the Group acquired 100% share in entities "Ušetřeno.cz" and "Ušetřeno.cz finanční služby". As part of the acquisition, the Group recognised goodwill in the amount of CZK 181 m. The recoverable amount for this cash generating unit was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for twenty years using the expected average growth rate. After that a terminal value is applied.

Cash flows in Ušetřeno.cz and in Ušetřeno.cz finanční služby are based on the net profit generated by the cash generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 9.2% (2019: 14.6%) and a negative long term growth rate of -10% were used.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget.
  The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Ušetřeno.cz and Ušetřeno.cz finanční služby has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Ušetřeno.cz and Ušetřeno.cz finanční služby an average risk discount rate of 10.6% (2019: 15.1%) has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

Based on the impairment assessment, there is no evidence of impairment of goodwill in respect of the Ušetřeno.cz and Ušetřeno.cz finanční služby given the fact that the value-in-use is higher than the carrying value of the CGU.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail segment and SME clients - ČSOBS

In April 2019, the Group acquired 45% share in ČSOBS. As part of the acquisition, the Group recognised goodwill in the amount of CZK 4,244 m. The recoverable amount for this cash generating unit was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming ten years. Besides the cash flows generated by the business, synergy effects for the Group are reflected. After that a terminal value is applied.

Cash flows in ČSOBS are based on the net profit generated by the cash generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 9.3% (2019: 9.6%) and a long term growth rate of 2.0% were used.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget.
  The Group used a realistic expectations when calculating the terminal value, which implies that growth rate of 2% for ČSOBS has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For ČSOBS an average risk discount rate of 10.5% (2019: 10.4%) has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

Based on the impairment assessment, there is no evidence of impairment of goodwill in respect of ČSOBS given the fact that the value-in-use is higher than the carrying value of the CGU.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

25. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Other (Note: 20)	Total
Net book value at 1 January 2019	**38**	**47**	**85**
Additions	-	71	71
Disposals	(38)	(95)	(133)
Net book value at 31 December 2019	**-**	**23**	**23**
of which			
Cost	-	23	23
Impairment	-	-	-

(CZKm)	Land and buildings	Other (Note: 20)	Total
Net book value at 1 January 2020	**-**	**23**	**23**
Additions	-	40	40
Disposals	-	(48)	(48)
Net book value at 31 December 2020	**-**	**15**	**15**
of which			
Cost	-	15	15
Impairment	-	-	-

26. OTHER ASSETS

(CZKm)	2020	2019
Other financial assets		
Other debtors, net of provisions (Notes: 33, 35, 38, 41.2)	823	979
Receivables from pension funds (Notes: 33, 35, 38, 41.2)	534	491
Accrued income (Notes: 33, 35, 38, 41.2)	393	436
Other receivables from clients (Notes: 33, 35, 38, 41.2)	54	48
	1,804	**1,954**
Other non-financial assets		
Assets subject of terminated operating leasing contracts	96	181
Prepaid charges	792	765
VAT and other tax receivables	30	25
Other	140	128
	1,058	**1,099**
Total other assets	**2,862**	**3,053**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2020 and 2019:

	2020			2019		
(CZKm)	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Other financial assets						
Gross carrying amount	1,815	14	1,829	1,960	37	1,997
Allowance for impairment losses	(18)	(7)	(25)	(19)	(24)	(43)
	1,797	**7**	**1,804**	**1,941**	**13**	**1,954**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2020	2019
Financial liabilities held for trading		
Derivative contracts (Note: 22)		
Trading derivatives	35,924	29,002
Derivatives used as economic hedges	535	152
Term deposits	430	1,011
Repo transactions	579	16,631
Bonds and investment certificates issued	2,224	4,662
	39,692	**51,458**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	5,407	22,459
Investment certificates	20,168	19,772
	25,575	**42,231**
Financial liabilities at fair value through profit or loss	**65,267**	**93,689**

The amount that the Group would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is by CZK 500 m lower than the carrying amount at 31 December 2020 (31 December 2019: lower by CZK 330 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk were not significant.

The investment certificates and bonds issued reported as Financial liabilities designated at fair value through profit or loss are hybrid contracts which contain an embedded derivative. The Group has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Group has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

28. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2020	2019
Deposits received from credit institutions		
Current accounts and overnight deposits	10,972	11,277
Term deposits	9,653	13,141
Repo transactions	36,796	22,928
	57,421	**47,346**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	652,898	558,332
Term deposits	25,539	49,562
Savings deposits	385,653	339,648
Pension funds clients deposits	7	9
Repo transactions	12	-
Other deposits	8,662	9,670
	1,072,771	**957,221**
Debt securities in issue		
Bonds and investment certificates issued	6,138	9,445
Promissory notes	419,155	406,373
	425,293	**415,818**
Lease liabilities	**2,368**	**2,730**
Financial liabilities at amortised cost	**1,557,853**	**1,423,115**

29. OTHER LIABILITIES

(CZKm)	2020	2019
Other financial liabilities		
Payables to employees including social security charges (Notes: 33, 35, 38, 41.3)	2,140	2,342
Accrued charges (Notes: 33, 35, 38, 41.3)	3,182	2,260
Other creditors (Notes: 33, 35, 38, 41.3)	818	1,263
Other debts to clients (Notes: 33, 35, 38, 41.3)	127	104
Other (Notes: 33, 35, 38, 41.3)	48	67
	6,315	**6,036**
Other non-financial liabilities		
Income received in advance	125	133
VAT and other tax payables	392	171
	517	**304**
Total other liabilities	**6,832**	**6,340**

Other liabilities are assessed as current liabilities.

30. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2019	**243**	**61**	**18**	**322**
Additions through business combination	15	-	-	15
Additions	109	121	1	231
Amounts utilised	(20)	(60)	(8)	(88)
Unused amounts reversed	(102)	(1)	(11)	(114)
At 31 December 2019	**245**	**121**	**-**	**366**
Additions	192	79	-	271
Amounts utilised	(148)	(93)	-	(241)
Unused amounts reversed	(22)	-	-	(22)
At 31 December 2020	**267**	**107**	**-**	**374**

Loan commitments and guarantees (Note: 36):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	**111**	**48**	**133**	**292**
Additions through business combination	13	4	1	18
Origination and acquisition	87	4	6	97
Change in credit risk not leading to stage transfers	(64)	(9)	61	(12)
Change in credit risk leading to stage transfer	(2)	7	(2)	3
Derecognition	(38)	(4)	-	(42)
Foreign currency translation	6	(7)	1	-
At 31 December 2019	**113**	**43**	**200**	**356**
Origination and acquisition	85	21	12	118
Change in credit risk not leading to stage transfers	(81)	(13)	42	(52)
Change in credit risk leading to stage transfer	(3)	9	48	54
Derecognition	(7)	(1)	(1)	(9)
Modification	-	-	(2)	(2)
Foreign currency translation	7	1	(10)	(2)
At 31 December 2020	**114**	**60**	**289**	**463**

Restructuring

During 2019 and 2020, the Group started a new restructuring programme, resulting in the creation of a provision of CZK 121 m and CZK 79 m, respectively. In the framework of this restructuring programme the total number of personnel will be reduced in the period of 2021 - 2023.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Group is the defendant.

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Group's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Group creates a provision in the full amount to cover the possible cost in the event of loss.

In 2020, the Group had a provision for pending legal issues and other losses in the total amount of CZK 213 m. It is expected that the majority of the costs will be incurred in the next 3 years.

On a quarterly basis, the Group monitors the status of all cases and makes a decision whether to create, utilise or reverse any provision.

The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

31. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2020, the total authorised share capital was CZK 5,855 m (31 December 2019: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2019: 292,750,002 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

No Treasury shares were held by the Group at 31 December 2020 and 2019.

On 31 December 2020, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2019: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2020 and 2019 are as follows:

(CZKm)	Revaluation reserve from financial assets at fair value through OCI	Cash flow hedge reserve	Total
At 1 January 2019	**384**	**25**	**409**
Other comprehensive income (Note: 32)	177	(249)	(72)
At 31 December 2019	**561**	**(224)**	**337**
Other comprehensive income (Note: 32)	(192)	250	58
At 31 December 2020	**369**	**26**	**395**

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32. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2020	2019
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised gain on cash flow hedges	611	124
Net gains on cash flow hedges reclassified to the statement of income (Note: 22)	(302)	(431)
Tax effect relating to cash flow hedges (Note: 14)	(59)	58
	250	(249)
Financial debt instruments FVOCI		
Net unrealised (losses) / gains on financial debt instruments FVOCI	(65)	65
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on disposal	(14)	(1)
Tax effect relating to financial debt instruments FVOCI (Note: 14)	44	(16)
	(35)	48
Share of other comprehensive income of associates	-	12
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**215**	**(189)**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	101	145
Net realised gains on financial equity instruments FVOCI reclassified to the retained earnings on disposal	(294)	-
Tax effect relating to financial equity instruments FVOCI	36	(28)
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**(157)**	**117**
Other comprehensive income for the year, net of tax attributable to owners of the parent	**58**	**(72)**
Non-controlling interests	-	-
Other comprehensive income for the year, net of tax	**58**	**(72)**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Group's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (3)).

Financial assets and liabilities at fair value, i.e. financial assets FVOCI, held for trading, designated at fair value through profit or loss, are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate, foreign exchange and commodity contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of trading derivatives, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Group currently checks the valuation of all bonds quarterly.

The Group also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or Level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2020:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	102	-	102
Equity securities	3	-	-	3
Derivative contracts	-	35,297	729	36,026
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,792	-	1,792
Financial assets FVOCI				
Debt securities	12,053	-	2,779	14,832
Equity securities	386	-	798	1,184
Financial assets FVOCI pledged as collateral				
Debt securities	6,328	-	-	6,328
Fair value adjustments of the hedged items in portfolio hedge	-	5,413	-	5,413
Derivatives used for hedging	-	9,969	-	9,969
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	36,119	340	36,459
Term deposits	-	430	-	430
Repo transactions	-	579	-	579
Bonds and investment certificates issued	-	-	2,224	2,224
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	25,575	25,575
Fair value adjustments of the hedged items in portfolio hedge	-	2,759	-	2,759
Derivatives used for hedging	-	14,885	-	14,885

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2019:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	8	-	8
Equity securities	9	-	-	9
Derivative contracts	-	28,138	862	29,000
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	948	-	948
Financial assets FVOCI				
Debt securities	6,604	-	2,657	9,261
Equity securities	-	-	746	746
Financial assets FVOCI pledged as collateral				
Debt securities	6,465	-	-	6,465
Fair value adjustments of the hedged items in portfolio hedge	-	(4,177)	-	(4,177)
Derivatives used for hedging	-	9,226	-	9,226
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	29,032	122	29,154
Term deposits	-	1,011	-	1,011
Repo transactions	-	16,631	-	16,631
Bonds and investment certificates issued	-	-	4,662	4,662
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	42,231	42,231
Fair value adjustments of the hedged items in portfolio hedge	-	(3,564)	-	(3,564)
Derivatives used for hedging	-	10,967	-	10,967

Yield curve used in the mortgage bonds valuation model for discounting future cash flows is constructed from IRS rates and respective credit spreads. The credit spreads for all maturities were derived from market unobservable inputs. The credit spread curve for mortgage bonds was derived from newly issued mortgage bonds for 5Y bucket (as the most frequent maturity) and spreads for other maturities were calculated using slope from mortgage bonds credit spread curve with rating grade A. The management considers this a significant market unobservable input, and as a consequence, all mortgage bonds are reported as part of Level 3

The spread according to bond maturity was 6 bps (2-year) to 37 bps (above 20-year) in 2019 and 0 bps (2-year) to 39 bps (above 20-year) in 2020.

Valuation of bonds issued by Česká Exportní Banka (ČEB) was based on model using unobservable inputs. Yield curves used in the ČEB bonds valuation model for discounting future cash flows was constructed from IRS rates and respective credit spreads. The credit spreads were derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. Direct quotes were used for remaining CEB bonds from the mid of year 2019. As quotes come from less liquid market the management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB are classified as Level 3.

The Group's share in Visa Inc. unquoted C-class classified as a financial asset at fair value through other comprehensive income is subject to fair value measurement based on the quoted price of Visa Inc. adjusted for applied liquidity spreads and conversion ratio. In 2020, the Group converted a part of the Visa shares position to quoted Visa Inc. A-class. The Group reported the transaction as a sale of Visa Inc. C-class from Level 3, including realised gain reclassified to the retained earnings on disposal of CZK 238 m. And, a recognition of new Visa Inc. A-class shares classified as Level 1 financial assets.

Investment certificate is a financial liability composed of term deposit and index linked option / swap. The Group valuates the certificates using valuation of the underlying option / swap component in combination with the calculation of the deposit component value. Issued bonds are hybrid financial liabilities composed of the floating coupon rate bond and callable / puttable option. Valuation of the embedded derivative is based on model using both, market observable and unobservable inputs. Unobservable inputs represents a significant portion of the valuation, and as a consequence, the investment certificates and bonds issued are classified as Level 3 financial instruments.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial assets held for trading		Financial assets FVOCI (incl. assets pledged as collateral)		Total
(CZKm)	Debt securities	Financial derivatives	Debt securities	Equity securities	
At 1 January 2019	**1,863**	**252**	**2,785**	**534**	**5,434**
Total gains / (losses) recorded in profit or loss	21	821	(20)	-	822
Total gains recorded in OCI	-	-	(108)	199	91
Purchases	7	-	15	13	35
Settlement	(7)	(211)	-	-	(218)
Sales	(1,884)	-	(15)	-	(1,899)
At 31 December 2019	**-**	**862**	**2,657**	**746**	**4,265**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	821	(20)	-	**801**
At 1 January 2020	**-**	**862**	**2,657**	**746**	**4,265**
Total gains / (losses) recorded in profit or loss	-	115	3	-	118
Total gains / (losses) recorded in OCI	-	-	119	54	173
Purchases	-	-	-	350	350
Settlement	-	(248)	-	-	(248)
Sales	-	-	-	(352)	(352)
At 31 December 2020	**-**	**729**	**2,779**	**798**	**4,306**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	115	3	-	**118**

Total gains / (losses) recorded in profit or loss are included within the captions Interest income calculated using the effective interest rate method, Net gains from financial instruments at fair value through profit or loss, Net realised gains on financial instruments at fair value through other comprehensive income and Impairment losses of the statement of income.

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss	Total
(CZKm)	Debt instruments	Financial derivatives	Debt instruments	
At 1 January 2019	**4,540**	**824**	**26,065**	**31,429**
Total (gains) / losses recorded in profit or loss	314	(507)	1,059	866
Issued	-	-	16,358	16,358
Settlement	(192)	(195)	(1,251)	(1,638)
At 31 December 2019	**4,662**	**122**	**42,231**	**47,015**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	314	(507)	1,059	866
At 1 January 2020	**4,662**	**122**	**42,231**	**47,015**
Total (gains) / losses recorded in profit or loss	(85)	384	170	469
Issued	-	-	7,838	7,838
Sales	(71)	-	(10,708)	(10,779)
Settlement	(2,282)	(166)	(13,956)	(16,404)
At 31 December 2020	**2,224**	**340**	**25,575**	**28,139**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	(85)	384	170	469

Total gains / losses recorded in profit or loss are included within the captions Net gains / losses from financial instruments at fair value through profit or loss of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers the value of the credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds in periods after the first year from the balance sheet date as a key assumption not derived from observable market inputs which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2020, an increase / (decrease) of the credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds and bonds issued by ČEB included in Level 3 by CZK 25 m and CZK 10 m, respectively (2019: CZK 28 m and CZK 14 m, respectively). Such a change in the credit spread is based on the variability of mortgage bond and ČEB bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

In 2019 and 2020, no transfers were made between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs.

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements:

	2020		2019	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	29,595	29,595	47,725	47,725
Financial assets at amortised cost	1,566,492	1,553,430	1,443,445	1,408,481
Debt securities	*170,655*	*178,858*	*84,010*	*87,892*
Loans and advances	*1,395,837*	*1,374,572*	*1,359,435*	*1,320,589*
Financial assets at amortised cost pledged as collateral	40,930	40,436	43,007	44,604
Finance lease receivables	13,450	13,499	15,766	15,769
Other assets (Note: 26)	1,804	1,804	1,954	1,954
Financial liabilities				
Financial liabilities at amortised cost	1,557,853	1,556,823	1,423,115	1,421,250
Deposits	*1,130,192*	*1,130,835*	*1,004,567*	*1,003,125*
Debt securities in issue	*425,293*	*423,620*	*415,818*	*415,395*
Lease liabilities	*2,368*	*2,368*	*2,730*	*2,730*
Other liabilities (Note: 29)	6,315	6,315	6,036	6,036

The following table shows an analysis of assets and liabilities for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2020:

	2020			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	10,277	19,318	-	29,595
Financial assets at amortised cost	168,354	632,362	752,714	1,553,430
Debt securities	*168,354*	*21*	*10,483*	*178,858*
Loans and advances	-	*632,341*	*742,231*	*1,374,572*
Financial assets at amortised cost pledged as collateral	40,436	-	-	40,436
Finance lease receivables	-	-	13,499	13,499
Other assets (Note: 26)	-	1,804	-	1,804
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,353,346	203,477	1,556,823
Deposits	-	*939,690*	*191,145*	*1,130,835*
Debt securities in issue	-	*411,288*	*12,332*	*423,620*
Lease liabilities	-	*2,368*	-	*2,368*
Other liabilities (Note: 29)	-	6,315	-	6,315

The following table shows an analysis of assets and liabilities for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2019:

	2019			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	10,277	37,448	-	47,725
Financial assets at amortised cost	72,268	592,837	743,376	1,408,481
Debt securities	*72,268*	*-*	*15,624*	*87,892*
Loans and advances	*-*	*592,837*	*727,752*	*1,320,589*
Financial assets at amortised cost pledged as collateral	44,604	-	-	44,604
Finance lease receivables	-	-	15,769	15,769
Other assets (Note: 26)	-	1,954	-	1,954
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,232,118	189,132	1,421,250
Deposits	*-*	*826,040*	*177,086*	*1,003,126*
Debt securities in issue	*-*	*403,348*	*12,046*	*415,394*
Lease liabilities	*-*	*2,730*	*-*	*2,730*
Other liabilities (Note: 29)	-	6,036	-	6,036

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Financial debt securities at amortised cost

Fair values for securities measured at amortised cost are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted future cash flows.

Loans and advances to credit institutions and balances with central banks measured at amortised cost

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Group's own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and advances to other than credit institutions measured at amortised cost

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Group's own experience of probability of default and loss given default.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

The fair values of bonds issued are estimated by discounting their future cash flows using Czech government bond rates adjusted by credit spread derived from market observable transactions with respective or comparable bonds. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

34. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2020	2019
Cash, balances with central banks and other demand deposits (Note: 16)	29,595	47,725
Loans and advances to credit institutions and central banks	638,944	609,526
Financial liabilities at amortised cost to credit institutions and central banks	(11,145)	(16,762)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(419,155)	(406,323)
Cash and cash equivalents	**238,239**	**234,166**

Change in operating assets

(CZKm)	2020	2019
Net change in financial assets held for trading (incl. assets pledged as collateral)	(7,114)	(7,472)
Net change in non-trading financial assets mandatorily at fair value through profit or loss	(844)	(305)
Net change in financial assets at FVOCI (incl. assets pledged as collateral)	(5,757)	4,836
Net change in financial assets at amortised cost	(95,315)	(1,842)
Net change in derivatives used for hedging	(435)	(146)
Net change in other assets	147	(327)
	(109,318)	**(5,256)**

Change in operating liabilities

(CZKm)	2020	2019
Net change in financial liabilities held for trading	(11,766)	18,281
Net change in financial liabilities designated at fair value through profit or loss	(16,656)	16,166
Net change in financial liabilities at amortised cost	131,155	5,150
Net change in derivatives used for hedging	3,918	285
Net change in other liabilities	436	72
	107,087	**39,954**

Non-cash items included in profit before tax

(CZKm)	2020	2019
Allowances and provisions for credit losses (Note: 13)	5,551	315
Depreciation and amortisation	2,155	2,256
Depreciation related to operating leases assets (Note: 23)	349	451
Impairment on intangible assets (Note: 13)	214	60
Impairment on other assets (Note: 13)	44	57
Share of profit of associates and joint ventures	43	(218)
Creation of provisions	8	29
Impairment on financial investments (Note: 13)	6	-
Impairment on property, plant and equipment (Note: 13)	(23)	(27)
Net change in fair value adjustments of the hedged items in portfolio hedge	(3,266)	150
	5,081	**3,073**

The table below sets out the movements of the debt instruments issued by the Group and lease liabilities in 2020 and 2019. The debt items are those that are reported within net cash flows used in financing activities in the consolidated statement of cash flows:

	Financial liabilities at amortised cost (Note: 28)	
(CZKm)	Bonds issued	Lease liabilities
At 1 January 2019	**10,714**	**2,731**
Cash flows in respect of issuance, repayment and interest paid on bonds	(1,269)	-
Cash flows in respect of payments for the principal of lease liabilities	-	(459)
Cash flows in respect of payments for the interest of lease liabilities	-	(62)
Non-cash adjustments	-	520
At 31 December 2019	**9,445**	**2,730**
Cash flows in respect of issuance, repayment and interest paid on bonds	(3,307)	-
Cash flows in respect of payments for the principal of lease liabilities	-	(472)
Cash flows in respect of payments for the interest of lease liabilities	-	(51)
Non-cash adjustments	-	161
At 31 December 2020	**6,138**	**2,368**

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2020:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	29,595	-	-	-	**29,595**
Financial assets held for trading					
Financial derivatives	12,126	17,516	6,384	-	**36,026**
Other than financial derivatives	102	-	-	3	**105**
Non-trading financial assets mandatorily at fair value through profit or loss	1,792	-	-	-	**1,792**
Financial assets FVOCI	1,054	7,622	6,156	1,184	**16,016**
Financial assets FVOCI pledged as collateral	50	4,250	2,028	-	**6,328**
Financial assets at amortised cost	779,313	256,874	530,305	-	**1,566,492**
Financial assets at amortised cost pledged as collateral	342	9,430	31,158	-	**40,930**
Finance lease receivables	3,756	7,525	2,169	-	**13,450**
Fair value adjustments of the hedged items in portfolio hedge	1,882	3,394	137	-	**5,413**
Derivatives used for hedging	2,304	5,401	2,264	-	**9,969**
Other assets (Note: 26)	1,804	-	-	-	**1,804**
Total carrying value	**834,120**	**312,012**	**580,601**	**1,187**	**1,727,920**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	13,218	16,900	6,341	-	**36,459**
Other than financial derivatives	3,003	230	-	-	**3,233**
Financial liabilities designated at fair value through profit or loss	976	21,805	2,794	-	**25,575**
Financial liabilities at amortised cost	664,316	436,428	457,109	-	**1,557,853**
of which lease liabilities	*416*	*1,231*	*721*	*-*	***2,368***
Fair value adjustments of the hedged items in portfolio hedge	626	1,461	672	-	**2,759**
Derivatives used for hedging	4,652	8,571	1,662	-	**14,885**
Other liabilities (Note: 29)	6,315	-	-	-	**6,315**
Total carrying value	**693,106**	**485,395**	**468,578**	**-**	**1,647,079**

For derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2019:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	47,725	-	-	-	**47,725**
Financial assets held for trading					
Financial derivatives	10,234	13,910	4,856	-	**29,000**
Other than financial derivatives	8	-	-	9	**17**
Non-trading financial assets mandatorily at fair value through profit or loss	948	-	-	-	**948**
Financial assets FVOCI	1,897	6,088	1,276	746	**10,007**
Financial assets FVOCI pledged as collateral	52	4,525	1,888	-	**6,465**
Financial assets at amortised cost	759,401	243,385	440,659	-	**1,443,445**
Financial assets at amortised cost pledged as collateral	10,740	14,822	17,445	-	**43,007**
Finance lease receivables	4,256	8,056	3,454	-	**15,766**
Fair value adjustments of the hedged items in portfolio hedge	(2,009)	(2,272)	104	-	**(4,177)**
Derivatives used for hedging	3,315	5,105	806	-	**9,226**
Other assets (Note: 26)	1,954	-	-	-	**1,954**
Total carrying value	**838,521**	**293,619**	**470,488**	**755**	**1,603,383**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	11,020	13,386	4,748	-	**29,154**
Other than financial derivatives	20,032	2,272	-	-	**22,304**
Financial liabilities designated at fair value through profit or loss	13,754	25,742	2,735	-	**42,231**
Financial liabilities at amortised cost	633,513	359,934	429,668	-	**1,423,115**
of which lease liabilities	*510*	*1,302*	*918*	-	***2,730***
Fair value adjustments of the hedged items in portfolio hedge	(539)	(2,058)	(967)	-	**(3,564)**
Derivatives used for hedging	2,293	6,160	2,514	-	**10,967**
Other liabilities (Note: 29)	6,036	-	-	-	**6,036**
Total carrying value	**686,109**	**405,436**	**438,698**	**-**	**1,530,243**

36. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2020 and 2019 are as follows:

(CZKm)	2020	2019
Loan commitments – irrevocable (Note: 41.2)	152,987	135,393
Loan commitments – revocable	47,746	47,956
Financial guarantees (Note: 41.2)	39,347	41,757
Other commitments (Note: 41.2)	2,067	2,749
	242,147	**227,855**
Provisions for loan commitments and guarantees (Notes: 30, 41.2)	463	356

Revocable loan commitments are such commitments in which the Group may at any time limit the amount that may be drawn under the credit limit. Further the Group may not provide any drawdown under the credit facility requested by the client or the Group can suspend further drawdowns under the credit facility all together. The Group can do so with or without specifying the reason, giving a prior notice or stipulating any time limit. Loan commitments which do not meet the above definition are assessed as irrevocable.

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 41.3).

The Group is obliged by law to guarantee the positive results and equity position of the Transformed fund. Transformed fund is a pension fund, which is closed to new participants, formed in 2013 when pension system reform became effective in the Czech Republic. With regard to the conservative investment policy and investment limits of the Transformed fund the management of the Group is convinced it is not probable the guarantee will be used.

Litigation

Other than the litigations, for which provisions have already been made (Note: 30), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Group believes that such claims are unfounded. In addition, the Group believes that potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease receivables (Group is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2020	2019
Not later than 1 year	307	383
Later than 1 year and not later than 5 years	349	442
Later than 5 years	-	2
	656	**827**

These operating leases can be technically cancelled under the Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

37. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the statement of financial position in which they are included:

(CZKm)	2020	2019
Financial assets		
Financial assets held for trading	-	8
Financial assets at amortised cost	635,099	612,867
	635,099	**612,875**

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Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to return collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2020 was CZK 682,952 m, of which CZK 38,325 m has been either sold or repledged (31 December 2019: CZK 668,290 m and CZK 46,878 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2020	2019
Financial liabilities		
Financial liabilities held for trading	579	16,631
Financial liabilities at amortised cost	36,808	22,928
	37,387	**39,559**

The Group contracts repo operations under the standard conditions currently applied on the market. Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 17), Financial assets at fair value through OCI (Note: 18) and Financial assets at amortised cost (Note: 19).

38. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Group that have been set-off or that have not been set-off as at 31 December 2020:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	41,692	-	41,692
Derivatives not set-off that are not subject to an enforceable master netting arrangement	4,303	-	4,303
Total trading and hedging derivatives	**45,995**	**-**	**45,995**
Repurchase agreements set-off	19,214	19,214	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	635,099	-	635,099
Total repurchase agreements (Note: 37)	**654,313**	**19,214**	**635,099**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	46,941	-	46,941
Derivatives not set-off that are not subject to an enforceable master netting arrangement	4,403	-	4,403
Total trading and hedging derivatives	**51,344**	**-**	**51,344**
Repurchase agreements set-off	19,214	19,214	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	37,387	-	37,387
Total repurchase agreements (Note: 37)	**56,601**	**19,214**	**37,387**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off as at 31 December 2019:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,103	-	36,103
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,123	-	2,123
Total trading and hedging derivatives	**38,226**	**-**	**38,226**
Repurchase agreements set-off	8,854	8,854	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	612,875	-	612,875
Total repurchase agreements (Note: 37)	**621,729**	**8,854**	**612,875**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,618	-	36,618
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,503	-	3,503
Total trading and hedging derivatives	**40,121**	**-**	**40,121**
Repurchase agreements set-off	8,854	8,854	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	39,559	-	39,559
Total repurchase agreements (Note: 37)	**48,413**	**8,854**	**39,559**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2020:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set-off			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	41,692	40,107	984	-	601
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	37,387	37,387	-	-	-
Total carrying value	**79,079**	**77,494**	**984**	**-**	**601**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	46,941	40,107	6,428	-	406
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	37,387	-	-	37,387	-
Total carrying value	**84,328**	**40,107**	**6,428**	**37,387**	**406**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2019:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set-off Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,103	34,574	932	-	597
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	39,559	39,559	-	-	-
Total carrying value	**75,662**	**74,133**	**932**	**-**	**597**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,618	34,574	1,519	-	525
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	39,559	-	-	39,559	-
Total carrying value	**76,177**	**34,574**	**1,519**	**39,559**	**525**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

39. RELATED PARTY DISCLOSURES

A number of transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2020 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-
KBC Bank	834	23,831	1,792	5,269	9,101	-
Entities under common control						
ČSOB SK	11	2	-	100	-	-
Other	15	33	-	96	-	119
Joint ventures						
MallPay	-	-	-	10	-	-
Associates						
ČSOB Pojišťovna	-	266	-	-	-	102

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The outstanding balances of liabilities from related party transactions as at 31 December 2020 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	130	-	61
KBC Bank	25,791	445,584	12,838	2
Entities under common control				
ČSOB AM	-	1,420	-	-
ČSOB SK	5	163	-	-
K&H Bank Zrt.	-	79	-	-
Other	-	310	-	34
Joint ventures				
MallPay	-	45	-	-
Associates				
ČSOB Pojišťovna	122	1,200	-	30

The outstanding balances of assets from related party transactions as at 31 December 2019 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-
KBC Bank	455	19,433	948	1,389	8,048	-
Entities under common control						
ČSOB SK	26	-	-	180	-	-
Other	76	17	-	-	-	-
Associates						
ČSOB Pojišťovna	-	181	-	-	-	8

The outstanding balances of liabilities from related party transactions as at 31 December 2019 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	67	-	62
KBC Bank	35,797	417,691	9,646	1
Entities under common control				
ČSOB AM	-	1,064	-	-
ČSOB SK	4	75	-	-
KBC Securities NV	-	1	-	-
K&H Bank Zrt.	-	275	-	-
Other	-	103	-	15
Associates				
ČSOB Pojišťovna	-	1,659	-	-

The outstanding balances of financial assets and liabilities held for trading comprise positive and negative fair values of derivative financial instruments (mainly single currency and cross-currency interest rate swaps). Majority of these transactions are collateralised by cash deposit or by securities. Financial assets at amortised cost from related parties represent balances on current accounts. Financial liabilities to related parties measured at amortised cost consist of balances on demand deposits. Liabilities to KBC Bank NV represent balances on money-market products, specifically promissory notes with maturities up to one year issued by the Bank, repo transactions and short-term deposits.

The Group provides banking services to its associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2020		2019	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank	2,967	3,389	4,013	5,044
Entities under common control				
ČSOB AM	-	6	-	18
ČSOB SK	-	11	-	33
Other	2	2	4	4
Associates				
ČSOB Pojišťovna	-	65	-	131

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2020		2019	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	54	43	74	23
Entities under common control				
ČSOB AM	369	53	307	48
ČSOB SK	16	-	13	-
KBC Asset Management	436	-	455	-
Other	14	1	-	2
Associates				
ČSOB Pojišťovna	950	4	841	5

Effective from 1 July 2009, the Group concluded a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group. In 2020, the Group received income of CZK 181 m (2019: CZK 141 m) from the provision of administration services and paid expense of CZK 494 m (2019: CZK 479 m) for IT services, including rental expenses on information technologies.

In 2019, the Group received income of CZK 593 m (2019: CZK 623 m) from ČSOB SK and ČSOB Pojišťovna arising from providing services and support in the following areas such as: ICT services, electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2020 Guarantees received	2020 Guarantees given	2019 Guarantees received	2019 Guarantees given
KBC Bank NV	2,345	113	3,611	69
Entities under common control				
ČSOB SK	1,979	12	1,573	15
K&H Bank Zrt.	171	-	165	18

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

40. EVENTS AFTER THE REPORTING PERIOD

In January 2021, Ušetřeno finanční služby merged with entity Top-Pojištění.cz s.r.o., Ušetřeno s.r.o. being a successor company.

With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (abbreviated ČMSS) changed its name to ČSOB Stavební spořitelna (abbreviated ČSOBS). The registered office of the company was changed on the same date, the company is now based at Radlická 333/150, 150 57 Prague 5, Czech Republic.

ČSOB was the first bank on the Czech market to receive in October 2020 accreditation from the Ministry of the Interior for banking identity (management of a system for qualified electronic identification). In January 2021, the identification service was launched for Group's clients.

ČSOB together with Komerční banka and Česká spořitelna established the company Bankovní identita for cooperation in providing the banking identity services. In February 2021, an agreement was reached with other Czech banks on accession and cooperation within the company Bankovní identita. In April 2021, another 7 Czech banks became shareholders of the Bankovní identita. ČSOB now has a share on equity and voting rights of 17%.

On 16 March 2021, ČNB distributed to the banks an information about the limits for the dividend payments from net profits generated in 2019 and 2020.

Maximum dividend, which ČNB allows to distribute is set as a lowest of the following values:

- 100bps of the total risk weighted assets reported at 31 December 2020;
- 25% of the cumulated net profit for the years 2019 and 2020;
- Such a volume, paying of which would lead the total capital adequacy to stand 4 percentage points above the overall capital requirement;
- Such a volume, paying of which would lead the adjusted leverage to stand at 7%. The adjusted leverage ratio is the leverage ratio after exclusion of exposures towards ČNB.

ČNB will assess the dividend proposals individually based on the assessment of the risk profile of the bank. ČNB will also consider the documentation submitted for the SREP process, incl. ICAAP/ILAAP reports, financial plans and stress testing results.

ČNB expects that it will be ready to communicate the results of the assessment during Q3 2021.

There were no other significant events after the reporting period in addition to those mentioned above and elsewhere in these notes to the financial statements.

41. RISK MANAGEMENT

41.1 Introduction

Risk is an inherent part of the Group's activities, and risk and capital management is critical to the results of operations and financial condition of the Group.

The principal risks that the Group faces are credit risk, liquidity risk, market risk, operational and other non-financial risks. The Group manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. The Group primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Group's risk and capital management system is based on a risk strategy determined by the Bank's Board of Directors and is consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. The Group maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB, European Central Bank (ECB), European Banking Authority (EBA) and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Group's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at the Group is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

Risk and capital management within the Group is centralized at the ČSOB level. Nevertheless, each subsidiary, associate and joint venture of ČSOB also has a risk control and management unit, the responsibilities and size of which are tailored to the requirements applicable to that subsidiary under the Group's risk and capital management strategy and policies. Any decisions taken by the Group are considered by the subsidiaries, associates and joint ventures of ČSOB as recommendations and require final approval by the appropriate decision making bodies of these subsidiaries, associates and joint ventures, as applicable.

The risk and capital management governance model is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including the Group, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within the Group;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of the Group within which the business has the right to take risks and beyond which the Chief risk officer (CRO) can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The principles described above establish a governance structure, within which:

(i) the Board of Directors is responsible for determining the risk appetite of the Group, and capital allocation within the Group, by establishing measurable risk and capital parameters, which must be followed in all business activities,

(ii) the Risk and Capital Oversight Committee (RCOC) is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

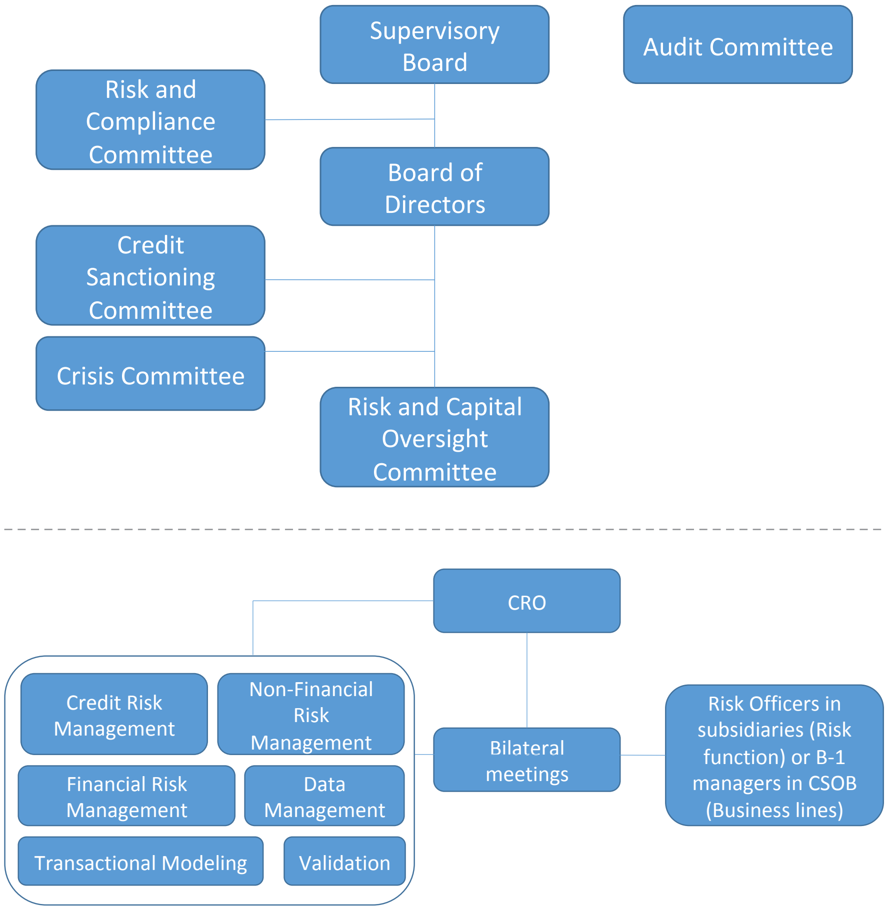
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Group is fully embedded in the governance of the KBC Group.
In 2020, Credit risk Management department rejoined to CRO zone.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Group.



The Group operates a three-line of defense (LoD) risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Group is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Group; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Group).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Group's overall current and future risk profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance related matters and communicates with the Group's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee reviews the activities, structure, independence, professionalism and expertise of Risk management.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Group's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements and consolidated financial statements of the Group.

With regards to external audit, the Committee oversees the Group's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors (BoD)

The Board of Directors generally ensures that comprehensive and adequate internal control and risk governance system is established, well functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- ČSOB Holding Risk Appetite;
- Result of Risk Scan;
- Limit Book;
- Internal Capital Adequacy Assessment Process;
- ČSOB Holding Local Capitalisation Plan;
- ČSOB Holding Recovery Plan as a part of KBC Group Recovery Plan;
- Information Security Strategy,
- Risk governance documents:
  - ČSOB Holding Risk Management Strategy;
  - ČSOB Holding Risk Management Framework;
  - ČSOB Holding RCOC Charter;
  - ČSOB Holding CRO Role & Mandate;
  - ČSOB Holding Risk Governance Charter.

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors with risk and capital monitoring within the Group. To perform this function, the BoD delegated to RCOC following key competencies / responsibilities:

(i) to propose to the Board of Directors the Bank's Risk Appetite;

(ii) to propose to the Board of Directors a framework of limits (e.g. market risk, ALM risk, credit risk, operational risk, capital, risk/return limits, concentration limits) consistent with the Bank's Risk Appetite, within which Risk and Capital will be managed;

(iii) to monitor risk exposure against approved Risk Appetite and risk indicators;

(iv) to approve (in line with the delegation rules and exceptions set in Limit Book and Risk Appetite Standards) temporary Risk indicators breaches and remedial actions;

(v) to recommend to BoD remedial actions to bring risk exposure within Risk Appetite;

(vi) to approve Risk Indicators (in line with the delegation rules and exceptions set in Limit Book);

(vii) to approve valuation methodology and policy;

(viii) to periodically review indicators & targets and, as necessary, to recommend to the BoD changes in approved Primary Risk Indicators and to decide on changes in approved Secondary Risk Indicators (in line with the delegation rules and exceptions set in Limit Book);

(ix) to monitor the integrated risk profile (including results of stress-tests) to ensure its consistency with the Risk Appetite and to identify and report on 'hidden risks';

(x) to monitor market context, solvency, liquidity, earnings at risk, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(xi) to monitor capital adequacy and usage of Regulatory and Economic Capital.

The RCOC is responsible for the whole ČSOB Holding. In case of subsidiaries or entities that have a separate legal structure, the decisions of the RCOC are to be considered as advices to the Management Board of those entities.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Risk and Compliance Committee and the Supervisory Board. These reports form the basis for the risk monitoring process.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Financial Risk Management;

(ii) Non-financial Risk Management;

(iii) Validations;

(iv) Transactional Modelling;

(v) Credit Risk Management.

The key strategic and governance responsibilities of the CRO are:

(i) Membership in ČSOB Board of Directors (BoD);

(ii) Standing invitation to the Risk and Compliance Committee (RCC) and a separate reporting line to its Chairman;

(iii) Membership in ČSOB Group Risk and Capital Oversight Committee (RCOC), CRO is the Chair;

(iv) Membership in ČSOB Crisis Committee (CRC);

(v) Membership in KBC Group Risk Management Committee (Risk ManCo);

(vi) Membership in Bilateral meetings, CRO is the Chair;

(vii) Recommend Risk Governance structure and roles;

(viii) Decide the structure of the risk function;

(ix) Contribute to the Risk Appetite and approves Business line's Risk Appetites for CSOB Bank, and takes note of subsidiaries' Risk Appetite Statements;

(x) Contribute to the business strategy / strategic planning (including performance targets) and give consent to final strategy to ensure staying within Risk Appetite;

(xi) Recommend the Capital Adequacy Policy;

(xii) Contribute to limits and delegation of authority setting within and below BoD delegation and give consent to final decision to ensure staying within Risk Appetite;

(xiii) Contribute to capital and funding allocation and give consent to final allocation to ensure staying within Risk Appetite.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks and policies;

(ii) Decide on transactional models for risk management;

(iii) Contribute to guidelines for portfolio and transactional model development;

(iv) Approve (in line with the delegation rules set in Risk Appetite Standards and exceptions specified in Limit Book) temporary Risk Indicators (as specified in Risk Appetite Standards) breaches and remedial actions;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Contribute to day to day business decisions;

(viii) Decide local implementation and monitoring of group-wide risk standards;

(ix) Agree to risk taking decisions outside of the Risk Appetite with the right to call “time out”.

The CRO may suspend any decisions of any department or committee, or any entity, affecting the risk or capital position of the Group by escalating it to the RCOC or the Board of Directors.

The oversight activities of the CRO are:

(i) Ensure that risk management processes are effective and efficient, promote a culture of risk aware business conduct and prudent risk management;

(ii) Ensure compliance with Group (KBC) and regulatory requirements in the field of risk management. CRO is accountable for the correct implementation of KBC group wide standards and policies;

(iii) Recommend the need for action to address risk & capital issues raised in internal reports;

(iv) Contribute to corrective actions to address local underperformance versus targets and give consent to final actions to ensure staying within Risk Appetite;

(v) Assess the extent and structure of risk undertaken and the impact thereof on the performance and stability of the ČSOB group;

(vi) Coordinate implementation of business continuity management process in the ČSOB group;

(vii) Provide risk and capital reporting to internal (senior management, Board of Directors, Risk and Capital Oversight Committee, Risk and Compliance Committee) and external clients (KBC, CNB);

(viii) Present information concerning the developments in the field of risk management to ČSOB and KBC management and to regulator;

(ix) Advise on risk related matters to Management Board of entities that have a separate legal structure;

(x) Is accountable for risk management in the ČSOB group, including the implementation of the risk standards. To ensure proper risk management and to enhance risk culture, Risk Officers in material entities are appointed;

(xi) Is accountable for clear delineation of accountabilities and responsibilities between 3 lines of defence.

Risk Function

The risk function is organized in the following risk specific departments: Financial Risk Management, Credit Risk Management and Non-financial Risk Management, which is complemented by one team responsible for validation of transactional models and one team responsible for transactional modelling. Common activities and shared processes are coordinated by Integrated risk management team (part of Financial Risk Management).

The risk departments at group level support the CRO of ČSOB group and are the sparring partner of the business lines via the Bilateral Meetings (Former Business Risk Meetings). This support mainly consists of formulating proposals with regard to the definition of the Risk Appetite and providing reporting and advice in the field of risk and capital management.

The risk departments have the following roles and responsibilities:

(i) Define the risk management approach and methodology related to their specific risk type, in particular through ownership of the risk type specific framework and policies;

(ii) Define the risk measures that relate to the specific risk types;

(iii) Support ČSOB group RCOC;

(iv) Support the CROs for all matters that relate to the specific risk types;

(v) Contribute to integrated processes (e.g. ICAAP/ORSA, stress testing);

(vi) Define and deliver the core reports for the specific risk types and deliver inputs for Integrated Risk Report;

(vii) Define and monitor a set of Risk Indicators (Primary & Secondary), Targets and Early Warning Signals that cover the specific risk types;

(viii) Follow up on the status of risk and capital management for the specific risks throughout the ČSOB group.

Central Credit risk and loss Measurement Validation

Central Credit risk and loss Measurement Validation focuses on reducing of model risk and seeks a group-wide consistency by providing a well-founded, intelligible and timely independent second opinion and methodological guidance on models for risk measurement and provisioning to their owners, decision bodies and modellers.

Transactional modelling

Transactional modelling being part of KBC Group Modelling Competence Centre is responsible for design and review of local credit risk (PD, EAD, LGD), incl. application scorecards, and local provisioning models. The unit further participates in implementation of local and group-wide models into credit decision process of all business segments and for the purpose of regulatory capital calculation.

In addition to the risk and capital management activities performed at the Group level, each subsidiary of ČSOB also has a risk control and management unit, the responsibilities of which are tailored to the requirements applicable to the subsidiary, under the Group's risk and capital management policies.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the Group level:

Credits departments

Departments within Credits are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors.

The key responsibilities of the Credits departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALM Department)

The ALM Department is responsible for managing the assets and liabilities of the Group's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALM Department is also primarily responsible for managing the funding and liquidity position of the Group. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses risk and capital management processes throughout the Group examining both the adequacy of its risk and capital management procedures and the Group's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

Members of NAPP process are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department and Compliance Department) seeks to ensure that no product may be offered to the Group's customers unless all significant risks have been analysed and mitigated and residual risks have been accepted. The Group pays special attention to protecting the Group against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the Group with respect to credit risk. The members of the CSC are a member of ČSOB BoD responsible for Credits, who is the CSC's chairman, and the Head of ČSOB Credits; Head for Credits for Corporates and Banks; Head for Corporate Advice and Underwriting; Head of Corporate Banking; Head of Specialized and Institutional Banking and Executive Director SME and appointed Risk Manager. The CSC reports to the Board of Directors.

Bilateral Meetings

Bilateral Meetings (formerly known as Business Risk Meetings) are established for each Business Line in ČSOB Holding (including subsidiaries and ČSOB Insurance) where business specific risk issues are regularly discussed. Currently, Bilateral Meetings do not take place within Hypoteční banka and ČSOBS where the same CRO as in ČSOB is appointed.

The CRO has sole decision rights within the delegated decision authorities which can always be escalated to the BoD on request of the BoD member responsible for that area.

As a general approach, RCOC approves (majority of) limits, while CRO approves (via Bilateral Meetings) risk measurement methods and methodology.

Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP)

The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) require banks to have in place processes to assess and maintain adequate levels of internal capital and liquidity buffers.

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the European Central Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications. Moreover, results of Internal Capital Model which is currently used for internal calculation of the ČSOB capital adequacy are quarterly reported to the Board of Directors.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP the following:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results;

including the methods of reflecting these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

ICAAP and ILAAP address the following material risks to which the Group is or may be exposed:

- Credit and counterparty risk, (incl. concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Business risk
- Funding and liquidity risk

Other risks are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital needed is calculated for the Group as a separate entity within the KBC group at a probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

According to the relevant EBA Guidelines the Internal Liquidity Assessment Process (ILAAP) is a process to identify, measure, manage and monitor liquidity, implemented by the bank pursuant to the CRD. It discloses all the qualitative and quantitative information about the systems, processes and methodologies to measure and manage liquidity and funding risk, which is necessary to underpin the risk appetite and business strategy both in normal and stressed scenarios.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling of risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is provided to top management and all other relevant members of the Group on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Group, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

41.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Group monitors exposures in relation to these limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Group is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on the principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The model results are used for the capital calculation and for credit decision purposes too.

The Group implemented a new default definition as of March 2020. This implementation is in line with relevant European and local regulations. The impacts of this implementation are, among other things, in the method of calculating days past due. Overdue days are newly defined as the number of consecutive days when the "arrears" of the client facility are continuous and simultaneously above both "materiality thresholds" (absolute threshold and relative materiality threshold).

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection;

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

At the Group, default status may occur when a forbearance measure-concession is granted. Forbearance measures is concessions towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled. For more, see the section "Forbearance measures".

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains: (i) customers where the relevant Group credit decision authority has judged the exposure to be 'unlikely to pay' and none of the obligations are more than 90 days overdue and no Group credit decision authority has judged the exposure to be 'partly or fully lost' without recourse to credit protection.

PD 11 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, where Group credit decision authority has judged the exposure to be 'partly or fully lost' without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, among other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Group's risk categories, including internal and external ratings, for non-retail exposure:

ČSOB risk categories for Non-retail exposure

Category	PD Rating	PD %	S&P's Rating	Stage	Performance	Impairment	Default
Normal	1-7	0.0-6.4	AAA - B	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Monitored	8-9	6.4-100	(B-) - C	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Uncertain	10	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Doubtful	11	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Irrecoverable	12	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit departments in the Group. These Credit departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credits department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credits department above the certain threshold. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the "four eyes principle", i.e. at least two persons with appropriate delegation authority need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to non-retail exposures (corporate, large non-retail SME). For small non-retail SME, an automated behavioural monitoring process is being used. Credit exposures with a rating between PD 1 – 8 (non-retail SME) / PD 1 – 9 (corporate) are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 (non-retail SME) / PD 10 – 12 (corporate) are reviewed by the Bad Debt department, which is a sub-department of the Credits departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subject to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt department. The credit customer relationship is transferred to the Bad Debt department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Group's risk categories for retail exposure:

ČSOB risk categories for Retail exposure

Category	PD rating	Stage	Performance	Impairment	Default
Normal	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Monitored	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Uncertain	10	Stage 3	Non-performing	Model based	Defaulted
Doubtful	11	Stage 3	Non-performing	Model based	Defaulted
Irrecoverable	12	Stage 3	Non-performing	Model based	Defaulted

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are fully automated based on scorecards in the vast majority of cases. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and development of Credit Cost Ratios within the different sub-portfolios. The development of the mortgage portfolio is monitored also on the basis of pool migration (i.e. migration between different risk pools).

Collection Process

The collection process in retail consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is few days overdue and may involve the restructuring of the loan. Late collection is focused on legal proceedings and the recovery of collateral. In addition, mortgage collection also uses field collection for customers whose payments are less than 180 days overdue and which precedes late collection. Collection units within the Group are monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Group, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Group provides guarantees and letters of credit on behalf of its customers, as a result of which the Group may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Group to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Group:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Group's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Group to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Group manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government - e-Toll), where the risk is limited as counterparties are either highly rated banks, government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2020 and 2019. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

	2020				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	2,124	18,807	-	-	20,931
Financial assets held for trading (Note: 17)	-	821	35,307	-	36,128
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,792	-	-	1,792
Financial assets FVOCI (Note: 18)	2,473	12,359	-	-	14,832
Financial assets FVOCI pledged as collateral	-	6,328	-	-	6,328
Financial assets AC	761,368	803,549	-	1,575	1,566,492
Financial assets AC pledged as collateral	-	40,930	-	-	40,930
Finance lease receivables	13,450	-	-	-	13,450
Fair value adjustments of the hedged items in portfolio hedge	-	5,413	-	-	5,413
Derivatives used for hedging	-	9,969	-	-	9,969
Other assets (Note: 26)	-	-	-	1,804	1,804
Total	779,415	899,968	35,307	3,379	1,718,069
Contingent liabilities (Note: 36)	40,859	-	-	328	41,187
Commitments – irrevocable (Note: 36)	152,016	-	-	-	152,016
Total	192,875	-	-	328	193,203
Total credit risk exposure	**972,290**	**899,968**	**35,307**	**3,707**	**1,911,272**

	2019				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	1,664	35,784	-	-	37,448
Financial assets held for trading (Note: 17)	-	1,030	27,978	-	29,008
Non-trading financial assets mandatorily at fair value through profit or loss	-	948	-	-	948
Financial assets FVOCI (Note: 18)	2,428	6,833	-	-	9,261
Financial assets FVOCI pledged as collateral	-	6,465	-	-	6,465
Financial assets AC	751,695	688,240	-	3,510	1,443,445
Financial assets AC pledged as collateral	-	43,007	-	-	43,007
Finance lease receivables	15,766	-	-	-	15,766
Fair value adjustments of the hedged items in portfolio hedge	-	(4,177)	-	-	(4,177)
Derivatives used for hedging	-	9,226	-	-	9,226
Other assets (Note: 26)	-	-	-	1,954	1,954
Total	771,553	787,356	27,978	5,464	1,592,351
Contingent liabilities (Note: 36)	43,991	-	-	329	44,320
Commitments – irrevocable (Note: 36)	135,224	-	-	-	135,224
Total	179,215	-	-	329	179,544
Total credit risk exposure	**950,768**	**787,356**	**27,978**	**5,793**	**1,771,895**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Group before and after taking into account the collateral held:

(CZKm)	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure	2019 Gross maximum exposure	2019 Financial effect of collateral	2019 Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 16)	20,931	-	20,931	37,448	-	37,448
Financial assets held for trading (incl. assets pledged as collateral)	36,128	1,350	34,778	29,008	961	28,047
Financial derivatives	36,026	1,350	34,676	29,000	961	28,039
Financial assets other than derivatives	102	-	102	8	-	8
Non-trading financial assets mandatorily at fair value through profit or loss	1,792	-	1,792	948	-	948
Financial assets FVOCI (incl. assets pledged as collateral) (Note: 18)	21,160	-	21,160	15,726	-	15,726
Financial assets AC (incl. assets pledged as collateral)	1,607,422	1,204,948	402,474	1,486,452	1,155,500	330,952
of which non-performing assets	*9,088*	*6,622*	*2,466*	*8,657*	*5,353*	*3,304*
Finance lease receivables	13,450	11,036	2,414	15,766	13,079	2,687
Fair value adjustments of the hedged items in portfolio hedge	5,413	-	5,413	(4,177)	-	(4,177)
Derivatives used for hedging	9,969	54	9,915	9,226	282	8,944
Other assets (Note: 26)	1,804	-	1,804	1,954	-	1,954
Total	1,718,069	1,217,388	500,681	1,592,351	1,169,822	422,529
Contingent liabilities and Commitments – irrevocable (Note: 36)	193,203	56,217	136,986	179,544	48,707	130,837
of which non-performing exposures	*672*	*365*	*307*	*959*	*579*	*380*
Total credit risk exposure	**1,911,272**	**1,273,605**	**637,667**	**1,771,895**	**1,218,529**	**553,366**

Set out below is an analysis of the non-performing exposure to credit risk of the Group before and after taking into account the collateral held by type of the business:

(CZKm)	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure	2019 Gross maximum exposure	2019 Financial effect of collateral	2019 Net maximum exposure
Non-performing exposures						
Mortgage loans	2,090	2,082	8	2,064	2,059	5
Building savings loans	1,496	1,026	470	1,888	1,579	309
Consumer loans	396	1	395	316	1	315
SME	2,294	1,802	492	1,432	803	629
Leasing	245	229	16	225	210	15
Corporate	3,132	1,843	1,289	3,588	1,277	2,311
Factoring	61	-	61	35	-	35
Other	46	4	42	68	3	65
Total non-performing exposures	**9,760**	**6,987**	**2,773**	**9,616**	**5,932**	**3,684**

Financial effect of collateral represents a fair value of collateral received by the Group against a credit exposure limited to the outstanding amount of the exposure.

The credit portfolio is structured according to the type of the business the Group enters into:

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	335,234	-	25,032	**360,266**	(1,384)	(35)	**358,847**
Building savings loans	122,927	-	6,745	**129,672**	(2,339)	(15)	**127,318**
Consumer loans	34,117	-	12,276	**46,393**	(1,747)	(17)	**44,629**
SME	91,047	4,059	42,200	**137,306**	(4,890)	(68)	**132,348**
Leasing	38,984	-	-	**38,984**	(1,144)	-	**37,840**
Corporate	164,725	36,981	65,878	**267,584**	(3,870)	(323)	**263,391**
Factoring	5,367	-	-	**5,367**	(371)	-	**4,996**
Other	2,777	49	118	**2,944**	(18)	(5)	**2,921**
Total credits	**795,178**	**41,089**	**152,249**	**988,516**	**(15,763)**	**(463)**	**972,290**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	316,828	-	24,513	**341,341**	(1,249)	(12)	**340,080**
Building savings loans	120,383	-	6,146	**126,529**	(2,357)	(15)	**124,157**
Consumer loans	33,846	-	11,534	**45,380**	(1,193)	(17)	**44,170**
SME	90,659	4,247	38,074	**132,980**	(3,236)	(60)	**129,684**
Leasing	40,888	-	-	**40,888**	(560)	-	**40,328**
Corporate	171,926	39,860	55,120	**266,906**	(2,098)	(243)	**264,565**
Factoring	6,170	-	-	**6,170**	(343)	-	**5,827**
Other	1,903	70	5	**1,978**	(14)	(7)	**1,957**
Total credits	**782,603**	**44,177**	**135,392**	**962,172**	**(11,050)**	**(354)**	**950,768**

The following tables show a reconciliation of the allowances for impairment losses on credit portfolio for 2020 and 2019 by classes of financial instruments:

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
At 1 January 2019	**1,644**	**-**	**1,191**	**3,483**	**547**	**2,157**	**357**	**23**	**9,402**
STAGE 1									
At 1 January 2019	**71**	**-**	**149**	**196**	**106**	**140**	**10**	**1**	**673**
Business combination	-	98	-	-	-	-	-	-	98
Origination and acquisition	4	16	78	87	47	148	-	-	380
Change in credit risk not leading to stage transfers	(57)	(10)	(31)	20	(39)	(47)	2	-	(162)
Change in credit risk leading to stage transfer	(4)	3	(4)	(13)	(5)	(7)	(1)	-	(31)
Modification without derecognition	-	-	-	(1)	-	-	-	-	(1)
Derecognition	(4)	(8)	(34)	(23)	(12)	-	-	-	(81)
Write-offs	-	(1)	-	-	-	-	-	-	(1)
Foreign currency translation	-	-	2	-	-	-	-	-	2
At 31 December 2019	**10**	**98**	**160**	**266**	**97**	**234**	**11**	**1**	**877**
Origination and acquisition	13	22	63	49	38	72	-	-	257
Change in credit risk not leading to stage transfers	14	(7)	(34)	(71)	(20)	(25)	(2)	-	(145)
Change in credit risk leading to stage transfer	1	(6)	(3)	(25)	(10)	(5)	(3)	-	(51)
Modification without derecognition	-	-	(4)	(26)	-	(12)	-	-	(42)
Derecognition	(1)	(12)	(28)	(31)	(11)	-	-	-	(83)
Write-offs	-	(1)	-	-	-	-	-	-	(1)
Foreign currency translation	-	-	(4)	5	-	-	-	-	1
At 31 December 2020	**37**	**94**	**150**	**167**	**94**	**264**	**6**	**1**	**813**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 2									
At 1 January 2019	**165**	**-**	**300**	**406**	**93**	**76**	**210**	**-**	**1,250**
Business combination	-	260	-	-	-	-	-	-	260
Origination and acquisition	6	4	56	37	19	73	-	-	195
Change in credit risk not leading to stage transfers	(55)	4	14	23	(19)	(36)	(17)	3	(83)
Change in credit risk leading to stage transfer	(29)	52	2	102	(3)	17	13	-	154
Modification without derecognition	(4)	-	(1)	(15)	-	-	-	-	(20)
Derecognition	(13)	(16)	(29)	(44)	(7)	-	-	-	(109)
Write-offs	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	(39)	9	-	(4)	-	-	(34)
At 31 December 2019	**70**	**304**	**303**	**518**	**83**	**126**	**206**	**3**	**1,613**
Origination and acquisition	9	44	-	-	94	-	-	-	147
Change in credit risk not leading to stage transfers	301	263	540	1,667	109	877	(33)	-	3,724
Change in credit risk leading to stage transfer	12	70	29	57	253	134	44	-	599
Modification without derecognition	1	(3)	4	25	-	17	-	-	44
Derecognition	(7)	(29)	(24)	(50)	(5)	-	-	-	(115)
Write-offs	(2)	-	-	-	-	-	-	-	(2)
Foreign currency translation	-	-	(6)	3	-	-	-	-	(3)
At 31 December 2020	**384**	**649**	**846**	**2,220**	**534**	**1,154**	**217**	**3**	**6,007**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 3									
At 1 January 2019	**1,408**	**-**	**739**	**2,837**	**337**	**1,928**	**137**	**22**	**7,408**
Business combination	-	2,170	-	-	-	-	-	-	2,170
Origination and acquisition	3	2	36	95	10	42	-	-	188
Change in credit risk not leading to stage transfers	112	192	34	(89)	32	(142)	(22)	5	122
Change in credit risk leading to stage transfer	-	4	197	228	41	153	26	-	649
Modification without derecognition	25	-	3	136	12	-	-	-	176
Derecognition	(282)	(100)	(31)	(123)	(24)	-	-	-	(560)
Write-offs	(97)	(313)	(252)	(667)	(40)	(250)	(15)	(5)	(1,639)
Foreign currency translation	-	-	-	-	-	-	-	(12)	(12)
At 31 December 2019	**1,169**	**1,955**	**726**	**2,417**	**368**	**1,731**	**126**	**10**	**8,502**
Origination and acquisition	1	18	-	-	23	-	-	-	42
Change in credit risk not leading to stage transfers	(21)	(16)	33	(88)	14	(35)	(11)	-	(124)
Change in credit risk leading to stage transfer	4	134	258	359	145	548	35	1	1,484
Modification without derecognition	28	59	54	234	6	200	-	-	581
Derecognition	(134)	(191)	(27)	(102)	(28)	-	-	-	(482)
Write-offs	(84)	(363)	(295)	(363)	(29)	-	(2)	-	(1,136)
Foreign currency translation	-	-	-	-	-	1	-	3	4
At 31 December 2020	**963**	**1,596**	**749**	**2,457**	**499**	**2,445**	**148**	**14**	**8,871**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
POCI									
At 1 January 2019	**-**	**-**	**3**	**44**	**11**	**13**	**-**	**-**	**71**
Change in credit risk not leading to stage transfers	-	-	4	1	1	(6)	-	-	-
Change in credit risk leading to stage transfer	-	-	(2)	-	-	-	-	-	(2)
Derecognition	-	-	-	(8)	-	-	-	-	(8)
Write-offs	-	-	(1)	(2)	-	-	-	-	(3)
At 31 December 2019	**-**	**-**	**4**	**35**	**12**	**7**	**-**	**-**	**58**
Change in credit risk not leading to stage transfers	-	-	1	8	3	-	-	-	12
Change in credit risk leading to stage transfer	-	-	(2)	5	2	-	-	-	5
Derecognition	-	-	-	(1)	-	-	-	-	(1)
Write-offs	-	-	(1)	(1)	-	-	-	-	(2)
At 31 December 2020	**-**	**-**	**2**	**46**	**17**	**7**	**-**	**-**	**72**

In 2020 and 2019, the most significant changes in gross carrying amount of credit exposures that have an impact on ECL allowance include: origination and acquisition of new assets, changes in credit risk leading to transfers between stages (Note: 19), derecognition of loans and write-offs.

The following table shows a consistence of the movements of expected credit losses with the impairment losses as reported in the consolidated statement of income:

(CZKm)	2020	2019
Balance of allowances for credit losses at 1 January	11,050	9,402
Balance of allowances for credit losses at 31 December	15,763	11,050
Net increase of allowances for credit losses for the year	**4,713**	**1,648**
Adjusted for:		
Business combination	-	(2,528)
Write-offs	1,141	1,643
Recoveries	(484)	(754)
Sales of loans	79	215
Foreign currency translation	(2)	44
Net impairment losses as reported in the income statement	**5,447**	**268**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2020		2019	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	532,812	53.9	509,708	53.0
Distribution	70,654	7.1	68,071	7.1
Services	64,989	6.6	66,786	6.9
Commercial Real Estate	58,624	5.9	58,793	6.1
Automotive	45,814	4.6	44,937	4.7
Building and Construction	45,527	4.6	44,068	4.6
Oil, Gas and other Fuels	22,133	2.2	18,449	1.9
Machinery and Heavy Equipment	18,170	1.8	17,344	1.8
Metals	17,496	1.8	16,172	1.7
Authorities	16,645	1.7	17,343	1.8
Finance and Insurance	11,554	1.2	12,811	1.3
Electricity	8,565	0.9	10,653	1.1
Other sectors	75,533	7.7	77,037	8.0
Total	**988,516**	**100.0**	**962,172**	**100.0**

The investment portfolio is structured according to the type of the instrument.

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	220,192	-	-	(1)	**220,191**
Loans and receivables within investment portfolio	650,180	-	-	-	**650,180**
Derivatives used for hedging	9,969	-	-	-	**9,969**
Derivatives held for trading	821	-	-	-	**821**
Cash, balances with central banks and other demand deposits	18,807	-	-	-	**18,807**
Total investment	**899,969**	**-**	**-**	**(1)**	**899,968**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	Granted exposure
Debt securities	130,790	-	-	(1)	**130,789**
Loans and receivables within investment portfolio	610,527	-	-	-	**610,527**
Derivatives used for hedging	9,226	-	-	-	**9,226**
Derivatives held for trading	1,030	-	-	-	**1,030**
Cash, balances with central banks and other demand deposits	35,784	-	-	-	**35,784**
Total investment	**787,357**	**-**	**-**	**(1)**	**787,356**

The investment portfolio is monitored from a counterparty sector point of view:

	2020		2019	
(CZKm)	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	648,223	72.0	643,217	81.8
General government	206,852	23.0	117,562	14.9
Credit institutions	39,118	4.3	20,807	2.6
Corporate	5,775	0.7	5,770	0.7
Total investment	**899,968**	**100.0**	**787,356**	**100.0**

The trading portfolio is structured according to the type of the instrument.

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Granted exposure
Loans and advances	102	-	-	**102**
Derivatives held for trading	35,205	-	-	**35,205**
Total trading portfolio	**35,307**	**-**	**-**	**35,307**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Granted exposure
Loans and advances	8	-	-	**8**
Derivatives held for trading	27,970	-	-	**27,970**
Total trading portfolio	**27,978**	**-**	**-**	**27,978**

The trading portfolio is monitored from a counterparty sector point of view:

	2020		2019	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Credit institutions	31,477	89.2	26,553	94.9
Corporate	3,830	10.8	1,425	5.1
Total trading portfolio	**35,307**	**100.0**	**27,978**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2020		2019	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	1,795,149	214,185	1,664,546	123,176
Belgium	38,877	-	29,049	-
Slovak Republic	19,275	6,942	13,688	6,996
Spain	1,130	-	1,129	-
Hungary	522	-	570	-
Italy	503	-	1,454	-
Greece	18	-	54	-
Other Europe	44,284	7,327	45,853	7,630
Other	11,514	-	15,552	-
Total	**1,911,272**	**228,454**	**1,771,895**	**137,802**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2020		2019	
Client	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
1 largest client	9,639	1.0	10,829	1.1
10 largest clients	70,377	7.1	67,116	7.0
25 largest clients	113,202	11.5	110,587	11.5

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2019 and 31 December 2018 were:

	2020		2019	
Client	Granted exposure (CZKm)	% of total investment portfolio	Granted exposure (CZKm)	% of total investment portfolio
Investment portfolio				
Czech Ministry of Finance (S&P's rating AA)	205,175	22.8	114,041	14.5
CNB	648,223	72.0	644,880	81.9
Trading portfolio				
KBC Bank	24,173	68.5	20,435	73.0

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2020 and 31 December 2019 were:

	2020		2019	
Rating (S&P)	Granted exposure (CZKm)	% of total portfolio	Granted exposure (CZKm)	% of total portfolio
Investment portfolio				
AAA up to and including A-	892,132	99.1	786,757	99.9
BBB+ up to and including BB-	274	0.1	599	0.1
Unrated	7,562	0.8	-	-
Total	**899,968**	**100.0**	**787,356**	**100.0**
Trading portfolio				
AAA up to and including A-	25,850	73.3	21,421	76.6
BBB+ up to and including BB-	333	0.9	3,388	12.1
Unrated	9,124	25.8	3,169	11.3
Total	**35,307**	**100.0**	**27,978**	**100.0**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, trade receivables and inventory;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Group complies with CNB recommendation regarding retail loans secured by residential properties. The Group continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

Within concluding derivatives transaction to hedge counterparty's risk the Group uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment

The Group complies with the IFRS 9 accounting standard and as a result uses the expected credit loss model methodology to calculate its impairments.

The portfolio can be divided into three stages while the main considerations for stage allocation include whether there has been a significant increase in credit risk since initial recognition, any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract.

A symmetric Group-wide 5-tier waterfall staging approach was developed to assess whether there has been a significant increase in credit risk since initial recognition triggering transfer to stage 2. The five tiers are following:

1. Increase of internal rating (mapped to Basel probability of default) by 2 notches or more since initial recognition, for Retail exposures 400% increase of probability of default being equivalent of 2 notches;
2. The exposure is forborne;
3. The exposure is more than 30 days past due;
4. The internal PD rating is 9 or its equivalent for Retail exposures;
5. Collective assessment – manual expert judgement based on forward looking information not captured by PD models such as social, political, regional, economic conditions.

A default event triggers transfer directly to stage 3.

The Group takes the advantage of low credit risk exemption for its debt securities in the Treasury and ALM portfolios, i.e. all such exposures internally rated PD1 - PD3 stay in stage 1.

The accounting standard introduced also staging rules for purchased or originated credit impaired (so called POCI) assets which upon cure event move from stage 3 to stage 2, but may never transfer to stage 1. This concerns also modified financial assets in case the modification resulted into derecognition of the original asset and recognition of a new forborne asset.

The expected credit loss (impairment) is calculated on 12-month basis for stage 1 and on lifetime basis for stage 2 and stage 3.

Various IFRS 9 models were developed within the Group for certain combinations of products and types of counterparty to arrive at the impairment as a sum of discounted products of IFRS 9 Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD) adjusted for survival factor across the 12 months or lifetime to maturity for stage 1 or stage 2 and stage 3, respectively. The final impairment is a weighted sum of calculated impairments resulting from three different macroeconomic scenarios.

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively calculated ECL (i.e. without the ECL on individually assessed files of CZK 4,095 m at year-end 2020 and CZK 2,868 m in 2019), shows that the base scenario results in an ECL of CZK 11,209 m (CZK 8,186 m in 2019), which is CZK 1,697 m lower than the "down"-scenario (CZK 152 m in 2019) and CZK 1,172 m higher than the "up"-scenario (CZK 46 m in 2019). The collectively calculated weighted ECL results (which was booked) amounts to CZK 11,686 m (CZK 8,207 m in 2019). Note that these amounts take into account the COVID-19 related management overlay (per scenario) at the end of 2020 (Note: 2.2).

Different macroeconomic factors are taken into consideration and the Group applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

Management has the possibility to reflect its expertise in the final result of the impairment numbers in the exceptional case that the model-based calculation does not result in relevant and reliable impairment amounts based on available forward looking information.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Group sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Group's credit rating system as at 31 December 2020 and 2019:

Credit portfolio

	2020					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	323,463	8,727	1,513	709	822	335,234
Building savings loans	111,629	8,207	828	308	1,955	122,927
Consumer loans	30,379	2,591	226	143	778	34,117
SME	74,571	15,725	2,753	182	1,875	95,106
Leasing	33,357	4,454	-	223	950	38,984
Corporate	176,548	19,784	4,309	-	1,065	201,706
Factoring	2,991	2,168	-	75	133	5,367
Other	1,929	835	-	-	62	2,826
Total	**754,867**	**62,491**	**9,629**	**1,640**	**7,640**	**836,267**

	2019					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	304,037	9,564	1,010	242	1,975	316,828
Building savings loans	109,948	6,597	962	511	2,365	120,383
Consumer loans	30,539	2,260	132	138	777	33,846
SME	79,736	11,279	1,435	401	2,055	94,906
Leasing	36,919	2,975	-	255	739	40,888
Corporate	190,762	15,749	4,140	-	1,135	211,786
Factoring	4,876	1,133	-	52	109	6,170
Other	1,878	8	6	-	81	1,973
Total	**758,695**	**49,565**	**7,685**	**1,599**	**9,236**	**826,780**

Loan portfolio breakdown by risk class (in gross amounts) based on internal rating scale:

	2020			2019		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-defaulted assets						
PD 1 (default probability 0.00% - 0.10%)	47,473	387	-	47,103	70	-
PD 2 (0.10% - 0.20%)	45,394	483	-	48,230	338	-
PD 3 (0.20% - 0.40%)	284,972	778	-	279,842	387	-
PD 4 (0.40% - 0.80%)	93,900	2,977	-	110,667	1,052	-
PD 5 (0.80% - 1.60%)	171,959	9,047	-	168,353	6,394	-
PD 6 (1.60% - 3.20%)	72,780	11,802	-	65,298	8,278	-
PD 7 (3.20% - 6.40%)	31,355	11,470	-	32,605	8,372	-
PD 8 (6.40% - 12.80%)	6,294	11,042	-	5,806	5,131	-
PD 9 (> 12.80%)	684	14,439	-	791	19,298	-
Unrated	56	66	-	-	245	-
Defaulted assets						
PD 10	-	-	9,629	-	-	7,685
PD 11	-	-	1,640	-	-	1,599
PD 12	-	-	7,640	-	-	9,236
Total	**754,867**	**62,491**	**18,909**	**758,695**	**49,565**	**18,520**

Investment portfolio

(CZKm)	2020 Non-defaulted assets Normal	2020 Non-defaulted assets Monitored	2020 Defaulted assets Irrecoverable	2020 Total
Debt securities	220,191	-	-	**220,191**
Loans and receivables within investment portfolio	650,180	-	-	**650,180**
Derivatives used for hedging	9,969	-	-	**9,969**
Derivative contracts held for trading	821	-	-	**821**
Cash, balances with central banks and other demand deposits	18,807	-	-	**18,807**
Total	**899,968**	**-**	**-**	**899,968**

(CZKm)	2019 Non-defaulted assets Normal	2019 Non-defaulted assets Monitored	2019 Defaulted assets Irrecoverable	2019 Total
Debt securities	130,789	-	-	130,789
Loans and receivables within investment portfolio	610,527	-	-	610,527
Derivatives used for hedging	9,226	-	-	9,226
Derivative contracts held for trading	1,030	-	-	1,030
Cash, balances with central banks and other demand deposits	35,784	-	-	35,784
Total	**787,356**	**-**	**-**	**787,356**

Trading portfolio

(CZKm)	2020 Non-defaulted assets Normal	2020 Defaulted assets Irrecoverable	2020 Total
Loans and advances	102	-	102
Derivative contracts held for trading	35,205	-	35,205
Total	**35,307**	**-**	**35,307**

(CZKm)	2019 Non-defaulted assets Normal	2019 Defaulted assets Irrecoverable	2019 Total
Loans and advances	8	-	8
Derivative contracts held for trading	27,970	-	27,970
Total	**27,978**	**-**	**27,978**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2020			2019		
	Neither past due nor defaulted	Past due (< 30 days) but not defaulted	Past due (> 30 days) but not defaulted	Neither past due nor defaulted	Past due (< 30 days) but not defaulted	Past due (> 30 days) but not defaulted
Mortgage loans	327,280	4,098	812	307,310	5,308	983
Building savings loans	113,404	5,456	976	110,408	5,350	786
Consumer loans	32,260	596	115	32,052	627	120
SME	85,984	288	34	86,177	570	63
Leasing	36,749	894	168	37,319	2,452	123
Corporate	159,771	-	-	167,445	8	7
Factoring	5,159	-	-	6,009	-	-
Other	2,764	-	-	1,884	-	-
Total	**763,371**	**11,332**	**2,105**	**748,604**	**14,315**	**2,082**

Performing assets reported within neither past due nor defaulted consist of Normal risk category assets based on the Group's credit rating system.

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of non-performing financial assets included in the credit portfolio and the related impairment are as follows:

(CZKm)	2020 Gross amount	2020 Impairment	2019 Gross amount	2019 Impairment
Mortgage loans	3,043	(970)	3,227	(1,172)
Building savings loans	3,091	(1,597)	3,838	(1,956)
Consumer loans	1,147	(751)	1,047	(731)
SME	4,810	(2,516)	3,890	(2,458)
Leasing	1,173	(510)	995	(378)
Corporate	5,374	(2,634)	5,275	(1,917)
Factoring	208	(147)	161	(126)
Other	63	(17)	87	(20)
Total	**18,909**	**(9,142)**	**18,520**	**(8,758)**

There are no individually impaired financial assets included in the investment portfolio.

Forbearance measures

Forbearance measure is concession towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as "Forborne credits". Such an approach enables the Group to control and limit potential future losses stemming from troubled credits.

In the context of IFRS 9, a forbearance measure is considered as a significant increase in credit risk. Therefore, a forborne tag always leads to a transfer of the file to stage 2 (in case of non-default) or stage 3 (in case of default). Consequently, impairment is measured at an amount equal to lifetime expected credit losses instead of 12-month expected credit losses, while the forborne tag is attached.

The minimum probation period for forbearance measures is 2 years after the date the forborne facility has been considered as non-default. However, according to the default definition, a client/facility remains in default at least 1 year, which brings in that case the total minimum probation period to 3 years.

Here, it is important to mention, that COVID-19 related concessions provided under public and private moratoria schemes (e.g. imposed by Czech government in the form of the law) are not considered as forborne facilities in line with Czech National Bank expectations and in line with European Banking Authority guidelines.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2020 and 2019 are as follows:

	2020				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Mortgage loans	335,234	2,133	0.6	128	2,005
Building savings loans	122,927	550	0.4	251	299
SME	91,047	5,859	6.4	1,276	3,563
Leasing	38,984	241	0.6	57	123
Corporate	164,725	5,932	3.6	1,490	2,044
Other	42,261	902	2.1	184	16
Total	**795,178**	**15,617**	**2.0**	**3,386**	**8,050**

	2019				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Mortgage loans	316,828	1,469	0.5	115	1,355
Building savings loans	120,383	30	0.0	4	26
SME	90,659	1,004	1.1	582	192
Leasing	40,888	371	0.9	51	187
Corporate	171,926	1,306	0.8	326	641
Other	41,920	86	0.2	38	-
Total	**782,604**	**4,266**	**0.5**	**1,116**	**2,401**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2020 and 2019 are as follows:

	2020				
(CZKm)	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Mortgage loans	1,159	14	974	106	22
Building savings loans	118	-	432	248	3
SME	3,837	10	2,022	903	373
Leasing	127	3	114	51	6
Corporate	2,848	-	3,084	1,365	125
Other	723	36	179	90	94
Total	**8,812**	**63**	**6,805**	**2,763**	**623**

(CZKm)	2019 Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Mortgage loans	536	86	933	114	1
Building savings loans	-	-	30	4	-
SME	46	3	958	580	2
Leasing	158	9	212	51	1
Corporate	892	-	415	310	16
Other	19	2	68	36	1
Total	**1,651**	**100**	**2,616**	**1,095**	**21**

The following table shows a reconciliation of gross amounts of forborne exposures for 2020 and 2019 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2019	**1,547**	**1,013**	**1,695**	**-**	**464**	**108**	**4,827**
Loans which have become forborne	137	375	351	-	162	34	1,059
Loans which are no longer considered to be forborne	-	(69)	(329)	-	(36)	(12)	(446)
Increase of exposure	3	12	-	-	-	1	16
Decrease of exposure	(381)	(327)	(263)	-	(219)	(45)	(1,235)
Other movements	-	-	15	30	-	-	45
At 31 December 2019	**1,306**	**1,004**	**1,469**	**30**	**371**	**86**	**4,266**
Loans which have become forborne	5,626	5,170	1,134	544	62	852	13,388
Loans which are no longer considered to be forborne	(862)	(20)	(218)	(3)	(73)	(11)	(1,187)
Increase of exposure	-	5	-	-	-	1	6
Decrease of exposure	(138)	(300)	(254)	(21)	(119)	(26)	(858)
Other movements	-	-	2	-	-	-	2
At 31 December 2020	**5,932**	**5,859**	**2,133**	**550**	**241**	**902**	**15,617**

The following table shows a reconciliation of impairments of forborne exposure for 2020 and 2019 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2019	**516**	**565**	**131**	**-**	**88**	**52**	**1,352**
Loans which have become forborne	2	174	28	-	14	13	231
Loans which are no longer considered to be forborne	-	(12)	(7)	-	-	-	(19)
Increase of exposure	-	33	15	-	7	3	58
Decrease of exposure	(192)	(178)	(52)	-	(58)	(30)	(510)
Other movements	-	-	-	4	-	-	4
At 31 December 2019	**326**	**582**	**115**	**4**	**51**	**38**	**1,116**
Loans which have become forborne	1,184	834	47	-	9	159	2,233
Loans which are no longer considered to be forborne	(18)	(4)	(6)	-	-	(2)	(30)
Increase of exposure	-	43	12	262	10	4	331
Decrease of exposure	(2)	(179)	(40)	(15)	(13)	(15)	(264)
Other movements	-	-	-	-	-	-	-
At 31 December 2020	**1,490**	**1,276**	**128**	**251**	**57**	**184**	**3,386**

41.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Group pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Group's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Group can address an adverse liquidity development in several ways. Most typically, the Group would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Group can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015, the Group reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions.

The LCR during 2020 and 2019 was as follows:

(%)	2020	2019
31 March	128.1	129.1
30 June	136.0	132.2
30 September	137.1	131.7
31 December	137.5	130.9

The LCR ratio is regularly monitored and reported to the top management of the Group.

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Group's business activities in the medium- and long-term horizon. For strategic liquidity management, the Group uses 'E-NSFR', KBC Bank adjusted net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). It has been developed by KBC Bank to better reflect business of the Group and penalize funding concentrations in order for the ratio to provide a better picture about funding profile's stability. The strategy of the Group is to maintain the value of the E-NSFR well above one. That means the Group aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

Both E-NSFR and NSFR are monitored on a monthly basis and are regularly reported to the top management of the Group.

The NSFR / E-NSFR during 2020 and 2019 were as follows:

	NSFR		E- NSFR	
(%)	2020	2019	2020	2019
31 March	161.3	174.1	133.0	151.0
30 June	168.9	165.3	137.0	133.7
30 September	169.9	158.0	135.4	130.7
31 December	170.6	161.5	133.7	128.4

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of mandatory minimum reserve deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations (outflows / inflows shown as negative / positive figures).

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2020:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(3,040)	(238)	-	(3,278)
Financial liabilities designated at fair value through profit or loss	-	(988)	(23,135)	(3,139)	(27,262)
Financial liabilities at amortised cost	(910,509)	(549,146)	(73,650)	(38,079)	(1,571,384)
of which lease liabilities	-	*(420)*	*(1,316)*	*(825)*	*(2,560)*
Fair value adjustments of the hedged items in portfolio hedge	(2,759)	-	-	-	(2,759)
Other liabilities (Note: 29)	-	(6,327)	-	-	(6,327)
Contractual cash flows excluding derivatives	**(913,268)**	**(559,501)**	**(97,023)**	**(41,218)**	**(1,611,010)**
Net settled derivatives	**-**	**(15,586)**	**(25,016)**	**(6,078)**	**(46,680)**
Trading derivatives	-	(8,323)	(14,903)	(5,343)	(28,569)
Hedging derivatives	-	(7,263)	(10,113)	(735)	(18,111)
Gross settled derivatives	**-**	**(7,345)**	**(1,968)**	**103**	**(9,210)**
Trading derivatives	-	(6,788)	(1,779)	103	(8,464)
Inflows	-	*485,176*	*96,210*	*6,316*	*587,702*
Outflows	-	*(491,964)*	*(97,989)*	*(6,213)*	*(596,166)*
Hedging derivatives	-	(557)	(189)	-	(746)
Inflows	-	*8,493*	*3,918*	-	*12,411*
Outflows	-	*(9,050)*	*(4,107)*	-	*(13,157)*
Contractual cash flows from derivatives	**-**	**(22,931)**	**(26,984)**	**(5,975)**	**(55,890)**
Contractual cash flows from financial liabilities	**(913,268)**	**(582,432)**	**(124,007)**	**(47,193)**	**(1,666,900)**
Loan commitments – irrevocable (note 36)	(152,987)	-	-	-	(152,987)
Loan commitments – revocable (note 36)	(47,746)	-	-	-	(47,746)
Financial guarantees (note 36)	(39,347)	-	-	-	(39,347)
Other commitments (note 36)	(2,067)	-	-	-	(2,067)
Contractual cash flows from contingent liabilities	**(242,147)**	**-**	**-**	**-**	**(242,147)**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2019:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(20,283)	(2,342)	-	(22,625)
Financial liabilities designated at fair value through profit or loss	-	(13,925)	(27,192)	(3,065)	(44,182)
Financial liabilities at amortised cost	(769,766)	(561,462)	(75,159)	(25,681)	(1,432,068)
of which lease liabilities	-	*(509)*	*(1,381)*	*(1,041)*	*(2,931)*
Fair value adjustments of the hedged items in portfolio hedge	3,564	-	-	-	3,564
Other liabilities (Note: 29)	-	(6,100)	-	-	(6,100)
Contractual cash flows excluding derivatives	**(766,202)**	**(601,770)**	**(104,693)**	**(28,746)**	**(1,501,411)**
Net settled derivatives	-	(8,160)	(18,141)	(6,985)	(33,286)
Trading derivatives	-	(5,689)	(11,169)	(5,522)	(22,380)
Hedging derivatives	-	(2,471)	(6,972)	(1,463)	(10,906)
Gross settled derivatives	-	(7,301)	(4,631)	(302)	(12,234)
Trading derivatives	-	(7,280)	(4,329)	(310)	(11,919)
Inflows	-	*662,285*	*139,972*	*6,463*	*808,720*
Outflows	-	*(669,565)*	*(144,301)*	*(6,773)*	*(820,639)*
Hedging derivatives	-	(21)	(302)	8	(315)
Inflows	-	*2,538*	*11,406*	*1,039*	*14,983*
Outflows	-	*(2,559)*	*(11,708)*	*(1,031)*	*(15,298)*
Contractual cash flows from derivatives	**-**	**(15,461)**	**(22,772)**	**(7,287)**	**(45,520)**
Contractual cash flows from financial liabilities	**(766,202)**	**(617,231)**	**(127,465)**	**(36,033)**	**(1,546,931)**
Loan commitments – irrevocable (note 36)	(135,393)	-	-	-	(135,393)
Loan commitments – revocable (note 36)	(47,956)	-	-	-	(47,956)
Financial guarantees (note 36)	(41,757)	-	-	-	(41,757)
Other commitments (note 36)	(2,749)	-	-	-	(2,749)
Contractual cash flows from contingent liabilities	**(227,855)**	**-**	**-**	**-**	**(227,855)**

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Group's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Group is not managed based on the remaining contractual maturities of the financial instruments, as such the Group's expected cash flows on these instruments vary significantly from this analysis (Note: 35). For example, undrawn loan commitments are not expected to be drawn down immediately.

41.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio was managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables in 2019. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. As from October 2018, within the programme of trading portfolios centralization on the KBC group level, open positions were gradually transferred to the department KBC Central European Financial Markets. As from September 2019, only residual technical position remains in the Group's trading portfolio after the last phase implementation. New positions in trading portfolio are immediately closed by back-to-back transactions to the department KBC Central European Financial Markets. The Group's trading portfolio is not exposed to market risk from that time. VaR application has been stopped and only BPV sensitivity analysis is used for trading portfolio since January 2020. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The limits of acceptable risk were significantly decreased over 2019 in connection with sequential transfer of open positions and finally VaR limits were cancelled from January 2020. The Group applied a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group used a full linear VaR model for interest rate and foreign exchange rate risk till end of the year 2019. These calculations were based on historic scenarios derived from a two-year history. VaR calculation was stopped from the beginning of 2020 due to transfer of trading positions to KBC Bank in 2019. The Group has no net position in FX options, commodity derivatives nor any position in equity. A nominal technical limit for reminder products, in particular interest rate options and structured bonds. Positions in these products are not allowed to be material as back-to-back approach is required.

Standard VaR calculations were supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Group. The Group analysed scenarios, dependent and independent of the Group's position. Also, real historical scenarios were evaluated on a regular basis.

To enhance the system of risk management, the Group also used other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits. Only minimal BPV limits are applied since January 2020 after transfer of trading positions to KBC Bank.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results was verified through back-testing in 2019.

VaR assumptions

When measuring risks, the Group applied VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group used historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

The VaR model was back tested on a daily basis. Daily VaR (1 day holding period) was compared with theoretic profit or loss from holding previous day position. Daily VaR was also compared with the actual profit or loss made by the trading book over year 2019.

The Group has held regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks. The Group asked regulator for abolition to use the internal VaR for the calculation of capital requirements for interest rate and foreign exchange risks after last phase implementation of the trading portfolio transfer to the department KBC Central European Financial Markets. The Group request was approved by regulator on December 2019. The capital requirements for interest rate and foreign exchange risks are calculated by application of standardized method since January 2020.

The Group has calculated a Stress VaR to fulfil CRR/CRD IV requirements for market risk capital requirements calculation. A one year historic stress period was used for determining of stress scenarios. All other assumptions were identical to the standard VaR measurement. Also Stress VaR has not been used for the calculation of capital requirements for interest rate and foreign exchange risks since January 2020, after regulatory approval about abolition of the internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

The table below shows potential gains / (losses) analysed using VaR 10D 99% model in 2019:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2019	1	-	-	1
Average during the period	11	1	(1)	11
Highest	73	1	(1)	73
Lowest	-	-	-	-

Market risk – Investment portfolio

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Financial assets at fair value through other comprehensive income, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Group’s investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2020:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	2.0	(1.2)	4.0	(97.4)	(92.6)
EUR	+ 10	0.1	0.1	(8.2)	(9.6)	(17.6)
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	(2.0)	1.2	(4.0)	97.4	92.6
EUR	- 10	(0.1)	(0.1)	8.2	9.6	17.6
USD	- 10	0.0	0.0	0.0	0.0	0.0

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(1.3)	0.8	12.2	15.6	27.3
EUR	+ 10	(0.1)	2.4	(0.3)	(0.1)	1.9
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	1.3	(0.8)	(12.2)	(15.6)	(27.3)
EUR	- 10	0.1	(2.4)	0.3	0.1	(1.9)
USD	- 10	0.0	0.0	0.0	0.0	0.0

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2019:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	1.4	0.1	17.9	(96.7)	(77.3)
EUR	+ 10	(0.3)	0.5	(4.6)	(22.1)	(26.5)
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	(1.4)	(0.1)	(17.9)	96.7	77.3
EUR	- 10	0.3	(0.5)	4.6	22.1	26.5
USD	- 10	0.0	0.0	0.0	0.0	0.0

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	1.7	(2.4)	16.0	(3.7)	11.6
EUR	+ 10	1.7	4.9	0.6	6.0	13.2
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	(1.7)	2.4	(16.0)	3.7	(11.6)
EUR	- 10	(1.7)	(4.9)	(0.6)	(6.0)	(13.2)
USD	- 10	0.0	0.0	0.0	0.0	0.0

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2020 and 2019:

	2020			2019		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	38	1	(1)	20	1	(1)

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments included in Financial assets at fair value through other comprehensive income) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity 2020	Effect on equity 2019
Visa Inc. quotation	- 10	(72)	(60)
	+ 10	72	60

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk is regularly monitored and assessed in the Group. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

41.5 Operational risk

The Group defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, fraud and tax risks. The impact of incidents on the Group's reputation is taken into consideration when assessing the Group's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the Group, as well as an assessment of the Group's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by the decision of an accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance. Risk events that cannot be prevented may be also mitigated by business continuity arrangements.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision-making in business units. Operational risk management governance is promoted by the CRO and the Risk Function.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the “LORMs”)

LORMs are first line support for business managers in respect of non-financial risks (also responsible for first-line business continuity and information security agendas). Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Group has also established a crisis management infrastructure. Major incidents within the Group are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Group has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Deep Dive

The Deep Dive (formerly Detailed Risk Scan) aims to identify and quantify operational risks in products, activities, processes and systems. The risks are subsequently either accepted or mitigated via action plans. It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Process of Change Management

Besides above mentioned NAPP addressing product changes, Process of Change Management dealing with non-product changes is also used. Each material change must be analysed and identified risks are further managed according to valid rules.

Risk Scan

Every year, before the risk appetite statement is defined, the Group executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

Group Key Controls, Zero Tolerances and Local Risk and Control Assessment (GKC ZT)

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach called Local Risk and Control Assessment aims to identify new key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Risk assessment and its approval

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels, where financial limits and also non-financial criteria are taken into account. Risk is then approved by respective managerial level based on its impact.

Action plans

Action plans are activities set up by 1st LoD that mitigate risk. Action plans are reported by LORMs to risk management application Bwise on a Q basis. By using risk based approach, NFRD checks selected action plans when they are proposed for closing by 1st LoD.

42. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the Group might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Group fully follows the KBC Group Capital Adequacy Policy stating that fully owned subsidiaries within the Group shall hold at least the regulatory minimum capital. All capital in excess of the targeted level shall be held at the KBC Group level.

For the purpose of the ICAAP process, available capital of the Pillar II in the Group coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

The Group reports its solvency calculated on the basis of IFRS balances, taking into account all relevant regulatory requirements. Solvency targets based on external regulatory capital requirements were met throughout 2020 and 2019 with adequate buffers above the regulatory minimum standards, underpinning the very strong capital position of the Group.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with capital adequacy legislation requirements, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) in place. The ICAAP examines both the current and future capital situation. To assess the latter situation, a four-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. The Group uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

According to European Directive and Regulation (CRD / CRR), the legal minimum tier-1 ratio is set to 6.0% of risk weighted assets (with a minimum common equity ratio of 4.5%). On top of this, the institution shall hold the following capital buffers: the capital conservation buffer, the buffer for systemic risk, and the countercyclical buffer. The Group has incorporated these requirements into the regular management of the risk and capital positions.

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain the optimum capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue capital instruments.

Within the ICAAP approach the capital economic model (ICM – internal capital model) has been developed in KBC Bank in cooperation with the Group. The model is more risk sensitive and built in way that allows decomposition of the undergone credit risk to various categories (like default risk, migration risk, single-name risk, sector and region concentration and diversifications). Model was presented to the regulators and approved. The Group plans to roll out the internal model also for the purpose of the pricing and various business analyses to support business decisions.

It is expected that COVID-19 crisis will hit the banking sector materially. As a result, national regulator recommended not to pay any dividends from 2019 profits to the shareholders. The bank decided to fully follow this recommendation and strengthened its capital for expected portfolio worsening. Full profit of 2019, amounting to CZK 19,690 m was retained. Furthermore, for the purposes of the capital management in 2020, the Bank was granted the ČNB permission to include a part of the interim profit of the Group to the Common Equity Tier 1 before taking a formal decision confirming the final net profit of the Group for the year. On 16 March 2021, ČNB distributed to the banks an information about the limits for the dividend payments from net profits generated in 2019 and 2020 (Notes: 15, 40) and the Group will consider profit distribution in line with amended ČNB rules.

The following table shows the capital, capital requirements and CAD ratio as of 31 December 2020 and 31 December 2019 for the Group.

(CZKm)	2020	2019
Tier 1 capital	97,191	75,117
Tier 2 capital	1,884	-
Total capital	**99,075**	**75,117**
Regulatory capital requirements	32,802	31,317
Risk weighted assets	**410,027**	**391,461**
Capital adequacy ratio	24.16%	19.19%

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019
Interest income calculated using the effective interest rate method	4	26,311	38,796
Other similar income	4	1,218	1,137
Interest expense calculated using the effective interest rate method	5	(5,925)	(11,436)
Other similar expense	5	(1,384)	(2,036)
Net interest income		**20,220**	**26,461**
Fee and commission income	6	9,496	10,306
Fee and commission expense	6	(4,159)	(3,955)
Net fee and commission income		**5,337**	**6,351**
Dividend income	13	4,243	8,338
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	7	1,492	(2,487)
Net realised gains on financial instruments at fair value through other comprehensive income		11	1
Other net income	8	1,691	2,243
Operating income		**32,994**	**40,907**
Staff expenses	9	(7,594)	(7,650)
General administrative expenses	10	(6,627)	(6,445)
Depreciation and amortisation	20, 21	(1,519)	(1,720)
Operating expenses		**(15,740)**	**(15,815)**
Impairment losses	11	**(4,579)**	**(477)**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)		(4,414)	(472)
on other financial and non-financial assets		(165)	(5)
Profit before tax		**12,675**	**24,615**
Income tax expense	12	(1,174)	(2,599)
Profit for the year		**11,501**	**22,016**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2020	2019
Profit for the year		**11,501**	**22,016**
Other comprehensive income – to be reclassified to the statement of income			
Net gain / (loss) on cash flow hedges		348	(306)
Net gain / (loss) on financial debt instruments at fair value through other comprehensive income		399	(107)
Income tax (expense) / benefit relating to components of other comprehensive income		(142)	79
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	29	**605**	**(334)**
Other comprehensive income – not to be reclassified to the statement of income			
Net (loss) / gain on financial equity instruments at fair value through other comprehensive income		(192)	145
Income tax benefit / (expense) relating to components of other comprehensive income		36	(28)
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	29	**(156)**	**117**
Other comprehensive income for the period, net of tax		**449**	**(217)**
Total comprehensive income for the year, net of tax		**11,950**	**21,799**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019 restated
ASSETS			
Cash, balances with central banks and other demand deposits	14	25,782	42,586
Financial assets held for trading	15	40,047	30,934
Non-trading financial assets mandatorily at fair value through profit or loss	15	1,792	948
Financial assets at fair value through other comprehensive income	16	32,128	29,609
Financial assets at fair value through other comprehensive income pledged as collateral	16	6,328	6,465
Financial assets at amortised cost	17	1,349,312	1,229,638
Financial assets at amortised cost pledged as collateral	17	40,930	43,007
Fair value adjustments of the hedged items in portfolio hedge		4,686	(3,477)
Investments in subsidiaries, associates and joint ventures	18	70,006	66,440
Derivatives used for hedging	19	10,023	8,318
Current tax assets		93	-
Deferred tax assets	12	632	118
Property and equipment	20	8,456	8,721
Goodwill and other intangible assets	21	4,695	4,761
Other assets	23	1,478	1,531
Total assets		**1,596,388**	**1,469,599**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	43,186	53,601
Financial liabilities designated at fair value through profit or loss	24	25,575	42,231
Financial liabilities at amortised cost	25	1,402,137	1,268,957
Fair value adjustments of the hedged items in portfolio hedge		3,083	(3,564)
Derivatives used for hedging	19	13,330	11,172
Current tax liabilities		-	105
Other liabilities	26	3,359	3,670
Provisions	27	732	629
Total liabilities		**1,491,402**	**1,376,801**
Share capital	28	5,855	5,855
Share premium		20,093	20,093
Statutory reserve		18,687	18,687
Retained earnings		59,384	47,645
Revaluation reserve from financial assets at fair value through other comprehensive income	28	909	742
Cash flow hedge reserve	28	58	(224)
Total equity		**104,986**	**92,798**
Total liabilities and equity		**1,596,388**	**1,469,599**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2019 as originally reported	**5,855**	**20,093**	**18,687**	**39,055**	**735**	**84,425**
Change of accounting policy (Note: 2.5)	-	-	-	(470)	-	(470)
At 1 January 2019 restated	5,855	20,093	18,687	38,585	735	83,955
Profit for the year	-	-	-	22,016	-	22,016
Other comprehensive income for the year (Note: 29)	-	-	-	-	(217)	(217)
Total comprehensive income for the year	-	-	-	22,016	(217)	21,799
Dividends paid (Note: 13)	-	-	-	(12,956)	-	(12,956)
At 31 December 2019	**5,855**	**20,093**	**18,687**	**47,645**	**518**	**92,798**
Profit for the year	-	-	-	11,501	-	11,501
Other comprehensive income for the year (Note: 29)	-	-	-	-	449	449
Total comprehensive income for the year	-	-	-	11,501	449	11,950
Equity investments disposed (Note: 30)	-	-	-	238	-	238
Dividends paid (Note: 13)	-	-	-	-	-	-
At 31 December 2020	**5,855**	**20,093**	**18,687**	**59,384**	**967**	**104,986**

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

The accompanying notes are an integral part of these separate financial statements.

These separate financial statements were approved for issue by the Board of Directors and signed on its behalf on 20 April 2021 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2020	2019
OPERATING ACTIVITIES			
Profit before tax		**12,675**	**24,615**
Adjustments for:			
Interest income	4	(27,529)	(39,933)
Interest expense	5	7,309	13,472
Dividend income	13	(4,243)	(8,338)
Non-cash items included in profit before tax	31	4,601	2,127
Net gains from investing activities		(683)	(928)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(7,870)**	**(8,985)**
Change in operating assets	31	(104,116)	(28,996)
Change in operating liabilities	31	99,217	52,893
Income tax paid		(2,049)	(2,817)
Interest paid		(7,248)	(13,402)
Interest received		28,976	41,252
Dividend received	13	4,243	8,338
Net cash flows from operating activities		**11,153**	**48,283**
INVESTING ACTIVITIES			
Acquisition and equity increase of subsidiary, associate and joint venture companies		(3,580)	(11,923)
Purchase of property, equipment and intangible assets		(1,424)	(1,376)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		-	910
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		205	124
Net cash flows used in investing activities		**(4,799)**	**(12,265)**
FINANCING ACTIVITIES			
Payments of principal on finance leases		(530)	(480)
Dividends paid	13	-	(12,956)
Net cash flows used in financing activities		**(530)**	**(13,436)**
Net increase in cash and cash equivalents		**5,824**	**22,582**
Cash and cash equivalents at the beginning of the year	31	225,702	203,120
Net increase in cash and cash equivalents		5,824	22,582
Cash and cash equivalents at the end of the year	31	**231,526**	**225,702**

The accompanying notes are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic. The Corporate ID is 00001350. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The Bank is operating in the Czech Republic. It is a universal bank offering to its clients a wide range of banking products and services, including the products and services of the entire ČSOB Group. The main activities services of the ČSOB include: accepting deposits from the public, providing loans, investing in securities on the Bank´s own account, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank´s own account or on a client´s account, the rental of safe-deposit boxes. Furthermore, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The separate financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses). The separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of the ČSOB Group in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Statement of compliance

The separate financial statements of ČSOB have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

2.2 Significant accounting judgements and estimates

While applying the Bank accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments (Note: 30)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments (Note: 38.2)

Calculating expected credit losses (ECL) requires significant judgments on different aspects for example, but not limited to, the borrowers' financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Bank applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments. The expected credit losses are calculated in a way that reflects:

- an unbiased, probability weighted amount;
- the time value of money; and
- an information about the past events, current conditions and forecast economic conditions.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Impact of COVID-19 on deterioration of financial instruments

At the beginning of 2020 COVID-19 outbreak caused significant worldwide impact into several business activities. CSOB bank offered already in March 2020 a "bank private payment moratorium" for all types of loans to help clients to better offset expected cash flow loss.

Consequently, the bank moratorium was substituted by legal act for moratorium loan payments in relation with COVID-19 pandemic situation. Clients in financial problems could opt from two grace periods (3 and 6 months), up to 31.7.2020 and 31.10.2020. State moratorium was completely free of charge and clients did not pay any fees during the postponement. In addition in the deferral period the interest could not exceed 2W Repo + 8% for physical persons. After the postponement period, clients returned to the same amount of monthly payment they were used to. Interest accrued over the period of deferral of payments will be charged within the extended payment deadline.

In close cooperation with Českomoravská záruční a rozvojová banka, a.s. („ČMZRB"), ČSOB also enables quick drawing of re-bridging loans covered by guarantee from programs (COVID II., COVID II Praha, COVID III.) for working capital loans provided by commercial banks to non-retail clients. The loan amount is guaranteed up to 80% or 90% of the loan amount. Interest on these loans is subsidized to clients.

The same cooperation is applied with state Exportní garanční a pojišťovací společnosti, a.s. („EGAP") for providing of loans covered by EGAP guarantee (COVID Plus). The COVID Plus program offers guarantees on loans provided by commercial banks. EGAP guarantees up to 90% of the loan amount, depending on the rating of the debtor. The program is aimed at companies in which exports accounted for more than 20% of turnover in 2019.

Guarantee is an integral part of the loan for all COVID programs (COVID II, COVID II Praha, COVID III from ČMZRB and COVID Plus from EGAP). All guarantees are granted only for newly provided loans.

In line with recommendation of ECB/ESMA/EBA, ČSOB did not apply automatic change of risk grade of the loans, where clients requested for the payment moratorium which was in line with Act for moratorium in relation with COVID-19 pandemic situation. To capture possibly muted common signals of the increased credit risk or unlikeliness to pay (especially for the clients under moratoria and/or with concession), bank adjusted its processes: (i) introduced ECL management overlay simulating also changes in the staging, (ii) start to assign forbearance flag to all facilities with concession provided after moratoria end (leading to at least stage 2) and (iii) stick to all of the CNB expectation on the loan classification (using external and historical data to assign "unlikely to pay" flag leading to stage 3).

The Bank also adjusted forecast of macroeconomic variables (FLI) in expected loan deterioration calculation (ECL). This was reflected in calculation of portfolio credit impairments, however to total impact was not material as the models are not able to reflect specific impact of COVID-19. Thus, total calculated ECL was overlaid by management decision (Management overlay) which also simulates changes in the staging. In the same time, Bank also adjusted individually assessed credit impairments for selected exposures towards clients in stage 3.

Modification loss

For loans with moratorium payment, the Bank recognized a loss from the contractual adjustment of the gross carrying amount of the asset in the amount of the difference between the gross carrying amount before the contractual adjustment and the present cash flow based on adjusted conditions discounted at the original effective interest rate. The Bank recognized the loss of CZK Nil m in impairment losses in the statement of income. The adjustment is amortised into Interest income over the expected lifetime of the asset.

Management overlay

In a view of fact, that models for ECL (expected credit losses) are not able to reflect specific impact of COVID-19 or support programs provided by the Czech government, the Bank has decided to do additional expert calculation on portfolio basis. The Bank applied expert stressed migration matrix per segments. The portfolio was transformed using this migration matrix, whereby a certain portion moved to inferior PD rating classes (which might lead to Stage 2) or default (Stage 3), a certain portion remained unchanged and a minor portion improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. Taking into account the impact of the management overlay on staging, its application would result in a net staging of 6.0% (CZK 16,645 m) of the total portfolio from stage 1 to stage 2 and of 2.6% (CZK 8,443 m) from stage 1 & 2 to stage 3). The estimate of COVID-19 base-case ECL impact was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.

In a second step, a sectoral effect was incorporated in the calculation to refine the COVID-19 ECL. The purpose of this step is to reflect the fact that some sectors will be more heavily affected than others, something which is not yet captured by the migration matrices. All exposures in the SME and Corporate portfolio were classified as high, medium or low risk based on the expected impact of the COVID-19 crisis on the sector affected (for Mortgages and Consumer Finance, no sectoral stress was applied). Based on this classification, the following expert-based weights were applied to the ECL impact as determined in the first step described above: 150% for high risk sectors, 100% for medium risk sectors and 50% for low risk sectors. This resulted in a "sector-driven" COVID-19 base-case ECL following the base-case scenario.

Finally, a probability-weighted management overlay was calculated based on Bank's base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied on the estimated sector-driven COVID-19 base-case ECL from the previous step to determine the collective COVID-19 impact under an optimistic and pessimistic scenario. The final overlay was then determined by weighting the COVID-19 ECL under the three scenarios with the following weights: 55% for the base-case, 10% for the optimistic and 35% for the pessimistic scenario resulting in the total management overlay adjustment of CZK 3,253 m.

The Bank has formulated three different forecasts that differ on the virus evolution and its impact on the lockdown measures. In short the three scenarios can be summarized as follows:

OPTIMISTIC SCENARIO	BASE SCENARIO	PESSIMISTIC SCENARIO
Virus spread and impact more quickly under control thanks to earlier than expected large-scale availability of vaccines, allowing social distancing measures and other precautionary measures to be lifted sooner	Start of vaccination process and wider testing and tracing will allow only a very moderate easing of precautionary measures in 1H 2021. From mid-2021 on, the normalisation of socioeconomic interactions will be helped by the mass rollout of effective vaccines. However, as the vaccination process will take time, socioeconomic interactions will not return to normal before 2022	The virus reappears and continues to weigh on society and the economy, because of setbacks in the vaccination process (e.g., logistical problems, disappointing immunity results, etc.)
Steep and steady recovery from the first half of 2021 onwards, with a fast return to pre-COVID-19 levels of activity	The recovery will be gradual. It will take until the second half of 2021 for the mass rollout of vaccines to reinforce the recovery to pre-COVID-19 levels of activity by the end of 2023	Another (series of) shock(s) takes place, leading to an interrupted and unsteady path to recover
Sharp, short V-pattern	U-pattern	More L-like pattern, with right leg only slowly increasing

The COVID-19 pandemic continues to be the main driver of the global economy. However, the rollout of the different vaccines will support the economic recovery in the medium term. The strength and/or timing of the recovery is country-specific and subject to significant uncertainty. Also, the possible resurgence of virus outbreaks remains a concern and is forcing many countries to maintain or even extend specific lockdown measures. The following table (in line with the ČSOB's forecast of December 2020) gives these three scenarios for three key indicators (GDP growth, unemployment rate and house price index). After that, a gradual linear transition towards a steady state is taken into account. The baseline scenario now incorporates an improvement in the macro assumptions for 2020 and a gradual recovery in Europe that accelerates in the second half of 2021.

Key macroeconomic indicator	2020	2021			2022		
Scenario	Base	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
Real GDP	-6.5%	4.4%	2.7%	-2.0%	4.1%	5.0%	3.2%
Unemployment	3.3%	3.5%	4.2%	5.2%	3.3%	4.0%	5.6%
House price index	6.7%	3.6%	1.5%	-3.0%	4.0%	2.0%	-1.0%

*The macroeconomic information is based on the economic situation in December 2020 and hence does not yet reflect the official macroeconomic figures for 4Q 2020 as reported by different authorities.

Business model assessment

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

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Judgement is required to determine whether a financial asset's cash flows are solely payments of principal and interest as only features representing basic lending agreement are in line with the SPPI test. Judgement is required to assess whether risks and volatility of contractual cash flows are related to basic lending agreement. Among the features that require judgements were, for example, modification of time value of money, change of timing or amount, such as early settlement or prepayment.

Goodwill impairment (Note: 21)

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Impairment of investment in subsidiaries (Note: 18)

Investments in subsidiaries are reviewed for impairment indicators at least annually. In cases where impairment indicators are identified, investment is tested for impairment by comparing the recoverable amount with the investment carrying amount. Determining and assessing of the impairment indicators as well as determining the recoverable amount requires judgment.

Assessment of the nature of interest in Group entities

The Bank considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Bank's voting rights and potential voting rights.

Determining the lease term

Significant judgements are required to assess the lease term. The Bank assesses how likely it is to exercise options to extend a lease or whether or not to exercise options to terminate a lease.
The Bank considers all relevant facts and circumstances, such as contractual terms and conditions for the optional periods compared with market rates, significant leasehold improvements, costs relating to the termination of the lease, importance of the asset to the lessee's operations, etc., in deciding whether to exercise options in lease contracts.

2.3 Changes in accounting policies

Effective from 1 January 2020

The accounting policies adopted in the preparation of the financial statements of the Bank are consistent with those used in the Bank's annual financial statements for the year ended 31 December 2019, except for the adoption of the following standards, amendments and interpretations. The adoption of other standards did not have any significant effect on the financial statements of the Bank, unless otherwise described below.

Definition of a Business (Amendment to IFRS 3) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment offers guidance how to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment clarifies that certain hedge accounting requirements can still be applied assuming that the interest rate benchmark on which the hedged cash flows and cash flows from hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Definition of Material (Amendments to IAS 1 and IAS 8) is effective for periods on or after 1 January 2020 and was endorsed by the EU. The amendment defines that information is material if omitting, misstating or obscuring it could influence decisions that the users of financial statements make on the basis of financial statements. Materiality depends on the nature or magnitude of information, or both.

Amendments to References to the Conceptual Framework in IFRS Standards are effective for periods on or after 1 January 2020 and was endorsed by the EU.

Effective after 1 January 2020

The following standards, amendments and interpretations have been issued and are effective after 1 January 2020. The Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank financial statements.

COVID-19-Related Rent Concessions (Amendment to IFRS 16) is effective for periods on or after 1 June 2020 and has not yet been endorsed by the EU. The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for periods on or after 1 January 2021 and was not yet endorsed by the EU. The amendment introduces practical expedients for changes resulting directly from IBOR reform. These changes are accounted for by updating the effective interest rate. If there are changes solely due to IBOR reform there is no need to discontinue existing hedging relationships.

IFRS 17 Insurance Contracts (including Amendments to IFRS 17) is effective for annual periods beginning on or after 1 January 2023 and has not yet been endorsed by the EU. The standard establishes principles for the recognition, measurement, presentation and disclosure of issued insurance and held reinsurance contracts, life and non-life. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU.

Classification of Liabilities as Current and Non-current (Amendments to IAS 1) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendment affects only the presentation of liabilities in the statement of financial position, not the amount or timing. The classification of current or non-current is based on rights that exist at the end of the reporting period and is unaffected by expectations about exercising its right.

Property, Plant and Equipment (Amendments to IAS 16) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU. The amendment prohibits deducting sales proceeds from the cost of property, plant and equipment before intended use.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU. The amendment clarifies what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

Reference to Conceptual Framework (Amendments to IFRS 3) is effective for periods on or after 1 January 2022 and has not yet been endorsed by the EU.

Annual Improvements to IFRS Standards 2018-2020 issued in May 2020 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 January 2022 and have not yet been endorsed by the EU.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial information of these separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Bank's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in derivatives that provide an effective hedge in the cash flow hedge of currency risk which are deferred in OCI until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary financial assets at fair value through other comprehensive income are included in the fair value through OCI reserve in equity until the assets are derecognised, and then they are transferred to retained earnings.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken through OCI to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by the Bank (parent entity). The Bank controls an investee when 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.

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in subsidiaries, associates and joint ventures are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and joint ventures are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

When during the term of a financial asset there is a change in the terms and conditions, then the Bank assesses whether the new terms are substantially different from the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Bank assesses that the terms are not substantially different then the transaction is accounted for as financial asset modification. The Bank considers, among others, these factors:

- Significant extension of the loan term,
- Significant change in the interest rate,
- Introduction of collateral or credit enhancement, which may have an impact on credit risk,
- If the borrower is in financial difficulty, whether the modification reduces contractual cash flows to amounts the borrower is able to pay.

The effect of modification is reflected in modification gain or loss in Impairment losses in the statement of income. The gross carrying amount of a previously recognised financial asset is recalculated in order to reflect renegotiated or otherwise modified contractual cash flows. For modified financial assets an assessment of whether there has been a significant increase in credit risk is based on comparing the PD at the reporting date (modified terms) and PD at initial recognition (unmodified terms). The significant increase in credit risk indicators (below) are used to determine whether the expected credit losses would be lifetime or 12-month expected credit losses. More information on forbearance measures can be found in 38.2 Credit risk.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The Bank derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Bank compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Bank derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Bank can derecognise financial liabilities if the two liabilities are qualitatively different.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains/losses from financial instruments at fair value through profit or loss and in the Fair value through other comprehensive income reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(4) Financial instruments - initial recognition and subsequent measurement

Classification and measurement – financial assets

The classification of financial assets depends on the purpose for which the financial instruments were acquired and their cash flow characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition.

Classification and measurement – debt instruments

Debt instruments can be allocated into one of the following categories:

- Financial assets at fair value through profit or loss (FVPL);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at amortised cost (AC).

(i) Financial assets at fair value through profit or loss (FVPL)

- This category has three sub-categories: financial assets held for trading, financial assets mandatorily at fair value through profit or loss and financial assets designated at fair value through profit or loss (FVO);

Financial assets held for trading consist of derivatives held for trading and non-derivative financial assets held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Bank occasionally purchases or originates financial assets containing embedded derivatives. The entire hybrid asset is assessed whether its cash flows fulfil the definition of solely principal and interest from principal outstanding. If this criterion is met, the hybrid financial asset is not classified as at fair value through profit or loss.

In the case when a stand alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *Financial instruments held for trading other than derivatives*

Financial assets held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income is recorded in Net interest income using the nominal interest rate. Dividends received are recorded in Dividend income. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

- *Financial assets mandatorily at fair value through profit or loss*

Financial assets mandatorily at fair value through profit or loss are classified into this category if their contractual terms lead to contractual cash flows, which are not solely payments of principal and interest from principal outstanding. Financial assets that are managed on the basis of fair value are also classified into this category.

- *Financial assets designated at fair value through profit or loss (FVO)*

Financial assets designated at fair value through profit or loss are financial assets irrevocably designated at initial recognition as at fair value, although the asset otherwise meets the requirements to be measured at AC or at FVOCI. The Standard allows this classification if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Other similar income or Other similar expense using the nominal interest rate.

(ii) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
b. and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised in the OCI reserve on an after-tax basis, until the financial asset is derecognised. When these assets are disposed of, the unrealised gain or loss recorded in the OCI reserve is reclassified to Net realised gains/losses on FVOCI financial assets. Interest income arising from FVOCI assets, calculated using the effective interest rate method, is recorded separately in Net interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iii) Financial assets at amortised cost (AC)

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortised cost are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

Uncollectible loan is written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. A loan is deemed uncollectible when there are no reasonable expectations of recovering the asset and all of the criteria are fulfilled:

- the loan is classified as Irrecoverable;
- the gross carrying amount of the loan is reduced through 100% ECL;
- the debtor does not exist or best case recovery from the receivable is considered to be immaterial.

Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses. As part of its treatment of defaulted loans, the Bank can take over assets that were granted as collaterals. Upon repossession, the assets are valued at their presumed realisable value and booked in inventory.

Business model

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Bank reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported the Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument at initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets which could occur when the Bank begins or ceases to perform an activity that is significant to its operations (e.g.: when the Bank acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

Classification and Measurement – equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

The election is applicable to long-term, strategic investments. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Bank as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments are disposed of. The only exception applies to the dividend income which is recognised in the income statement under the line item "Dividend Income".

Classification and measurement – financial liabilities

The Bank classifies financial liabilities into three categories.

(i) Financial liabilities held for trading

Financial liabilities held for trading include derivatives held for trading and non-derivative financial liabilities held for trading.

- Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Bank Asset Liability Management department uses for reducing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

In the case when the stand-alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- Financial instruments held for trading other than derivatives

Financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Net interest income using the nominal interest rate. A financial liability is classified in this category if acquired principally for the purpose of repurchasing in the near term.

(ii) Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in statement of income except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Bank for the following reasons:

- Managed on a FV basis: The Bank designates a financial liability or group of financial liabilities and assets at fair value when these are managed and their performance is evaluated on a fair value basis.
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value.

Financial liabilities designated upon initial recognition at fair value are measured at fair value, whereby fair value changes are recognized in statement of income.

Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Other similar expense using the nominal interest rate.

Changes in clean fair value due to own credit risk are presented separately in other comprehensive income (OCI). The remaining fair value change is reported in Net gains/losses from financial instruments at fair value through profit or loss. The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realised.

ČSOB applies a zero credit premium for its own credit risk as it is one of the main market makers in the CZK interbank market and also it is one of six banks whose quotations determine the representative rate in the CZK interbank market (Fixing of interest rates in the interbank deposit market - PRIBOR). The rating of ČSOB and other major market makers on the CZK interbank market is at the same level. In view of the above, ČSOB does not have any premium on quoted rates when financing on the interbank market. Thus, the difference between ČSOB´s financing rate and the “representative” rate on the interbank market is zero.

(iii) Financial liabilities measured at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

Financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(iv) ‘Day 1’ profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit or loss) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Financial assets at amortised cost. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(6) Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or at fair value through other comprehensive income are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

Definition of default

The Bank uses the same definition for defaulted financial assets as used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. More on the definition is in the Credit risk section (Note: 38.2).

General model of expected credit losses

The model for impairment of financial assets is called the Expected Credit Loss model (ECL).

The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No expected credit losses are calculated for equity investments.

Financial assets that are in scope for the ECL model carry an amount of impairments equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month expected credit losses (see below for the references to the significant increase in credit risk).

12-month expected credit losses are defined as the portion of lifetime expected credit losses that represent expected credit losses that result from defaults possible within 12 months after the reporting date. Lifetime expected credit losses are expected credit losses resulting from all possible defaults over the expected life of the financial asset.

To distinguish between the different stages with regards the amount of expected credit losses, the Bank uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12-month expected credit losses. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time expected credit losses. Once an asset meets the definition of default it migrates to stage 3.

The expected credit losses for trade and other receivables are measured as the life-time expected credit losses.

Impairment gains and losses on financial assets are recognised under the heading "Impairments" in the statement of income.

Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the expected credit losses is recognised as a reclassification adjustment between the income statement and the other comprehensive income.

Significant increase in credit risk (SICR) since initial recognition

In accordance to the ECL model, a financial asset attracts life-time expected credit losses once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The main indicators of the significant increase in credit risk are:

- Internal rating or behavioural score
- Past due information
- Changes in business, financial or economic conditions
- Expected changes to contractual framework
- External market indicators of credit risk
- Regulatory, economic and technological environment
- Change in credit management approach

The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Bank has developed a multi-tier approach (MTA).

Multi-Tier Approach - Bond portfolio

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months expected credit losses if they have a low credit risk at the reporting date (i.e. stage 1). The Bank uses the low credit risk exception for bonds which are graded as investment grade.
- Internal rating: [only applicable if the first tier is not met]. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Bank makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If the triggers do not results in a migration to stage 2, then the bond remains in stage 1.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Multi-Tier Approach - Loan portfolio

For the loan portfolio the Bank uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, does not result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Bank makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: The Bank uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: The Bank uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Bank internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Measurement of expected credit losses

The expected credit losses are calculated as the product of:

- probability of default (PD) reflecting the probability of borrower defaulting on its credit facility over the next 12 months (12M PD) or over the lifetime (Lifetime PD),
- estimated exposure at default (EAD) relates to the expected credit risk exposure for a facility at the moment of a potential default event over the next 12 months (12m EAD) or over its entire remaining lifetime (Lifetime EAD), and
- loss given default (LGD) reflecting the Bank´s expectation of the loss as a percentage of the exposure at default (EAD). 12M LGD reflects the percentage loss if the default event occurs over the next 12 months and Lifetime LGD is the percentage loss if the default occurs over the remaining lifetime.

The expected credit losses are calculated in a way that reflect:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time expected credit losses represent the sum of the expected credit losses over the life time of the financial asset discounted at the original effective interest rate. A correction is also introduced by a factor that corrects for potential prepayments, since the potential for prepayments reduces the expected lifetime of a facility and hence the probability of having a default event during this expected lifetime. Given the fact that prepayments are limited to products with a contractual repayment scheme and that often different prepayment rates can be observed by product type, prepayments are modelled by facility type.

The 12 months expected credit losses represent the portion of the life time expected credit losses that results from a default in 12-month period after the reporting date.

The Bank uses specific IFRS 9 models for PD, EAD and LGD to calculate expected credit losses. To the extent possible The Bank uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. The Bank ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- The Bank removes the conservatism which is required by the regulator for Basel models
- The Bank adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a "point-in-time" rather than "through-the-cycle" estimate (the latter is required by the regulator).
- The Bank applies forward looking macroeconomic information in the models.

The Bank also considers three different forward looking macro-economic scenarios with different weights in the calculation of expected credit losses. The base case macro-economic scenario represents the Bank's estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.

The forecasts of variables used in the scenarios are provided by the Bank chief economist on a quarterly basis. An expert judgement is required to assess the impact of the variables on PD, EAD and LGD and is carried out by using linear regression analysis. This approach should be carried out on an appropriate level of granularity (e.g. by industry sector). Aspects that could not be incorporated in the model (e.g. because macroeconomic parameters may not have shown much variation, or only an increase/decrease in the period covered by the data) may still be incorporated in the final ECL figures through 'management overlay'.

The maximum period for measurement of the expected credit losses is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period. In the Group, the credit revolving facilities have either fixed maturity or notice period. The notice period could be either with stated maturity or without maturity. The maturity of these products is further used in estimation of ECL.

Life-time for revolving facilities was investigated within implementation of IFRS 9 standard. The life-time depending on business segment has been implemented in IFRS 9 ECL models through the prepayment survival component of the models. Prepayment survival component can be interpreted as the probability for a revolving facility of not being fully prepaid by the end of year. The probability is estimated amount weighted using usually through-the-cycle time series of historical data and statistical methods. The life-time ECL for facilities with significant risk increase (Stage 2) is calculated as a sum of ECLs in individual years. The particular ECLs decrease in time due to existence of prepayment survival component for such facilities. Usually it is close to zero after 8 years. Performance of ECL models is regularly back-tested and prepayment survival components are ones of the best performing among other ECL model components.

The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

Purchased or Originated Credit Impaired (POCI) assets

The Bank defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).

POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime expected credit losses are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime expected credit losses at the reporting date is lower than the estimated lifetime expected credit losses at origination.

Interest income from assets impaired at initial recognition (POCI) is based on amortised cost (gross carrying amount minus impairment).

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(9) Hedge accounting

The Bank decided to use the option in IFRS 9 to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

The Bank uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Bank's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Bank's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Bank achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Bank has complied with the amended standard, taking into account the 'carved out' parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income. Related interest income/expense from the hedging instrument is recorded in Net interest income, revaluation of the hedging instrument is recognised in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged financial asset at fair value through other comprehensive income or on a separate line Fair value adjustments of the hedged items in portfolio hedge if the hedged item is financial asset or liability measured at amortised cost. The change in fair value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(10) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(11) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The lessee has the right to control the use of the asset and to obtain substantial economic benefits from its use.

The Bank has used exceptions from the scope of the standard to:

- Short-term leases - for lease contracts shorter than one year
- Low-value leases of assets - for individual assets of less than EUR 5,000
- Intangible asset leases - when the Bank acts as a lessee.

(i) Bank as a lessee

The lessee accounts for the right to use the asset and the lease liability at the commencement of the lease. The Bank enters the leasing contracts in respect of branch network buildings, cars and IT hardware equipment.

The lease liability is initially measured at the present value of future lease payments and is subsequently increased by the interest calculated on the basis of the implicit interest rate or the incremental borrowing rate, based on internal fund transfer pricing rates, and reduced by lease payments. Interest is recognized as Other similar expense in the statement of income.

Lease payments consist of fixed payments less lease incentives, variable payments (linked to an index or a rate), payments in connection with guaranteed residual value, penalties for terminating the lease and exercise price for purchase options if it is probable that the options will be exercised.

ČSOB treats the lease as one single lease if the non-lease component is less than 10% of total lease. Similarly, if the lease component is less than 10%, the whole contract is considered as a non-lease contract.

The right to use the asset is initially recognized at cost and measured using the cost method. The cost of a right-of-use asset is based on the initial measurement of a lease liability and is further adjusted by any lease payments made at or before the commencement date and by lease incentives and direct costs incurred. Right-of-use assets are recognized in Property and equipment, in the sections of Buildings, IT equipment and Other. The depreciation period corresponds to the asset useful life or the useful life of the right of use. The right of use asset is tested for impairment.

Indefinite term leases are limited to the earliest date on which the contract can be terminated by the lessee or the lessor, or is limited to a maximum of 10 years, which is based on useful life of underlying assets and their depreciation plan. For fixed-term contracts the useful life of right of use corresponds to the contract length. If a fixed-term contract includes options, the useful life with options included is limited to 10 years.

Total payments made for operating leases with the application of exceptions (short-term rental, low-value lease of assets and rental of intangible assets) are charged to the income statement on an accrued basis.

Practical expedients available for lessee were used at transition to IFRS 16. These included applying a single discount rate for two lease portfolios, accounting for leases with the lease term within 12 months as short term leases, excluding initial direct costs from the measurement of right-of-use asset, using hindsight in determining the lease term and applying provision from onerous contracts as an impairment of a right-of-use asset.

(ii) Bank as a lessor

Finance leases, where the Bank transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the statement of financial position in Financial assets at amortised cost. A receivable is recognised over the leasing period at an amount equalling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, in which the Bank does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Bank leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

(12) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments in Stage 1 and 2 measured at amortised cost and interest bearing financial instruments classified as financial assets at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate method on their gross carrying amount.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on financial assets that are not purchased or originated credit-impaired, but subsequently have become credit-impaired financial assets, should be based on the amortised costs in subsequent periods.

Interest income from assets impaired at initial recognition (POCI) is based on the effective interest rate adjusted for credit risk on initial recognition.

Interest income and expense of interest-bearing financial assets at fair value through OCI and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Most net fee and commission income relates to the services that the Bank provides to its customers. For the recognition of revenue, the Bank identifies the contract and defines the performance obligations in the transaction. Revenue is recognised at a point in time when the Bank has satisfied the performance obligation.

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on a straight line basis as the services have been rendered, when a client simultaneously receives and consumes benefits provided (recurring account maintenance fees or custody fees, for example).

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised at a point in time, when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Bank charges customers for certain current account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Recognition of management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable.

Distribution fee income, such as commissions from sales of insurance products, are based on the applicable contract and revenue is recognised when the performance obligation is satisfied.

The Bank operates a customer loyalty programme through which retail customers can accumulate points and the points can be used to claim discounts on products or services. The promise to provide discount to the customer is a separate performance obligation. A liability is recognised for the points expected to be redeemed. Revenue from the awarded points is recognised when the points are redeemed or when they expire.

(iii) Dividend income

Income is recognised when the Bank's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: Cash and balances with central banks loans and advances (measured at amortised cost) to credit institutions and central banks and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations) are assessed by the Bank as cash equivalents.

(14) Property and equipment

Property and equipment includes Bank occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment contains right-of-use assets in Buildings, IT equipment and Other. They are depreciated over their useful lives or, if earlier, the end of lease term.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

Business combination are generally reflected in separate financial statements only if the Bank acquires business that doesn't represent separate legal entity.

The acquisition method of accounting is used to account for business by the Bank that are not under common control as the Bank was. The cost of an acquisition is measured as the total of the fair values of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree's recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognised at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The income statement reflects the results of the combining entities only since the date, when the control was obtained by the entity.

(16) Intangible assets

Intangible assets include software, licences and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred (Note: 2.5).

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The amortisation of software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Core systems	8 years
Other software	4 years
Other intangible assets	5 years

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. At the end of each reporting period, financial guarantees are measured in the financial statements at the higher of the amortised premium and the loss allowance, which is based on expected credit loss. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(18) Loan commitments

The Bank issues commitments to provide loans and these commitments can be irrevocable or revocable. The loan commitments are initially measured at fair value, which is normally evidenced by the amount of fees received. One-off fees are charged directly into the income statement, other fees are booked to the income statement on accrued basis. The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

(19) Employee benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Bank contributes to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(20) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(21) Income tax

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and financial assets at fair value through other comprehensive income, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(22) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(23) Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising there on are excluded from these financial statements, as they are not assets of the Bank.

(24) Operating segments

Operating segments are components of the Bank that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Bank level to assess their performance. Discrete information is available for each operating segment.

2.5 Comparative balances

Change in accounting policy – derecognition of low value software

In 2020, the Bank made a change in accounting policy for internally developed intangible assets, with the purpose of simplification in its accounting. The change relates to software for which capitalization thresholds have been set at CZK 52 m. Only software above these thresholds may be capitalized, whereas software below these thresholds will be directly expensed in operating expenses. As a result of the change in accounting policy, low value software has been derecognized from the Separate statement of financial situation. Following the requirements of IAS8, the changes in accounting policy have been applied retrospectively. Consequently, the Bank restated Separate statement of financial situation at 31 December 2019 and Separate statement of changes in equity at 1 January 2019. Separate statement of income for the year ended 31 December 2019 has not been retrospectively restated given the limited impact. The Separate statement of cash flows was not impacted by the accounting policy change.

The table below shows the list of changes in the Separate statement of financial situation at 31 December 2019:

(CZKm)	At 31 December 2019 As reported	Restatement	At 31 December 2019 Restated
Goodwill and other intangible assets	5,341	(580)	4,761
Deferred tax assets	8	110	118
Retained earnings	48,115	(470)	47,645

Reclassification of prepayment fees

Prepayment fees, i.e. income received from customers as a compensation of loan early repayment, have been reported as part of Net interest income in 2020. Whereas, these were included under Net fee and commission income in 2019 and due to the immateriality have not been retrospectively reclassified.

3. SEGMENT INFORMATION

The Bank's primary segment reporting is by customer segment.

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the strategic business units, the Bank's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on a Bank basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards, mortgages and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

Relationship services: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

Segment reporting information by customer segments for 2020

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,314	8,064	3,010	1,832	20,220
Net fee and commission income	2,308	2,826	240	(37)	5,337
Dividend income	-	-	-	4,243	4,243
Net gains / (losses) from financial instruments at fair value through profit or loss	69	1,457	(784)	750	1,492
Net realised gains on financial assets at fair value through OCI	-	-	-	11	11
Other net income	49	3	(3)	1,642	1,691
Operating income	**9,740**	**12,350**	**2,463**	**8,441**	**32,994**
of which:					
External operating income	*4,208*	*9,600*	*2,463*	*16,723*	*32,994*
Intersegment operating income	*5,532*	*2,750*	*-*	*(8,282)*	*-*
Depreciation and amortisation	(22)	(5)	-	(1,492)	(1,519)
Other operating expenses	(6,272)	(3,467)	(263)	(4,219)	(14,221)
Operating expenses	**(6,294)**	**(3,472)**	**(263)**	**(5,711)**	**(15,740)**
Impairment losses	(640)	(3,791)	-	(148)	(4,579)
Profit before tax	**2,806**	**5,087**	**2,199**	**2,583**	**12,675**
Income tax expense	(768)	(1,150)	(415)	1,159	(1,174)
Segment profit	**2,038**	**3,937**	**1,784**	**3,742**	**11,501**
Assets and liabilities					
Segment assets	33,696	255,578	39,279	1,267,835	1,596,388
Total assets	**33,696**	**255,578**	**39,279**	**1,267,835**	**1,596,388**
Total liabilities	**478,993**	**444,430**	**77,384**	**490,595**	**1,491,402**
Capital expenditure	**170**	**16**	**-**	**1,238**	**1,424**

Segment reporting information by customer segments for 2019

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	9,105	9,172	5,609	2,575	26,461
Net fee and commission income	2,886	3,083	244	138	6,351
Dividend income	-	-	-	8,338	8,338
Net gains / (losses) from financial instruments at fair value through profit or loss	63	1,497	(3,640)	(407)	(2,487)
Net realised gains on financial assets at fair value through OCI	-	-	-	1	1
Other net income	62	6	8	2,167	2,243
Operating income	**12,116**	**13,758**	**2,221**	**12,812**	**40,907**
of which:					
External operating income	*4,952*	*10,197*	*2,221*	*23,537*	*40,907*
Intersegment operating income	*7,164*	*3,561*	*-*	*(10,725)*	*-*
Depreciation and amortisation	(23)	(4)	-	(1,693)	(1,720)
Other operating expenses	(6,929)	(3,914)	(276)	(2,976)	(14,095)
Operating expenses	**(6,952)**	**(3,918)**	**(276)**	**(4,669)**	**(15,815)**
Impairment losses	10	(654)	-	167	(477)
Profit before tax	**5,174**	**9,186**	**1,945**	**8,310**	**24,615**
Income tax expense	(983)	(1,746)	(369)	499	(2,599)
Segment profit	**4,191**	**7,440**	**1,576**	**8,809**	**22,016**
Assets and liabilities					
Segment assets	33,402	262,171	53,617	1,120,879	1,470,069
Total assets	**33,402**	**262,171**	**53,617**	**1,120,879**	**1,470,069**
Total liabilities	**413,903**	**404,009**	**104,539**	**454,350**	**1,376,801**
Capital expenditure	**159**	**31**	**-**	**1,186**	**1,376**

Interest income and interest expense are not presented separately since the Bank assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Bank operates predominantly in the Czech Republic.

SEPARATE FINANCIAL STATEMENTS

4. INTEREST INCOME

(CZKm)	2020	2019
Interest income on financial instruments calculated using effective interest rate method		
Cash balances with central banks and other demand deposits	158	339
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	12,220	21,002
Other than credit institutions	11,140	12,991
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	809	726
Derivatives used for hedging (Note: 7)	923	2,664
Negative interest from financial liabilities measured at amortised cost	1,061	1,074
	26,311	38,796
Interest income on other financial instruments		
Financial assets held for trading incl. assets pledged as collateral (Note: 7)	142	384
Derivatives used as economic hedges (Note: 7)	1,026	735
Negative interest from financial liabilities measured at fair value (Note: 7)	50	18
	1,218	1,137
Interest income	**27,529**	**39,933**

5. INTEREST EXPENSE

(CZKm)	2020	2019
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	2	15
Credit institutions	875	1,988
Other than credit institutions	2,899	5,572
Debt instruments in issue	1,187	2,957
Derivatives used for hedging (Note: 7)	962	904
	5,925	11,436
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 7)	179	388
Financial liabilities designated at fair value through profit or loss (Note: 7)	332	399
Derivatives used as economic hedges (Note: 7)	812	1,179
Lease liabilities	59	62
Discount amortisation on other financial liabilities	2	8
	1,384	2,036
Interest expense	**7,309**	**13,472**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2020	2019
Fee and commission income		
Banking services		
Payment service fees	5,070	5,682
Credit / Guarantee related fees	1,079	1,205
Network income	839	1,021
Securities	157	196
Other	295	321
Asset management services		
Custody fees	256	223
Mutual funds entry fees	244	216
Distribution		
Mutual funds	851	786
Banking and insurance products	705	656
	9,496	**10,306**
Fee and commission expense		
Banking services		
Payment services	2,903	2,847
Credit / Guarantee related fees	279	278
Securities	124	127
Other	251	144
Asset management services		
Custody fees	26	20
Distribution		
Banking and insurance products	576	539
	4,159	**3,955**
Net fee and commission income	**5,337**	**6,351**

SEPARATE FINANCIAL STATEMENTS

7. NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Bank:

(CZKm)	2020	2019
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,492**	**(2,487)**
Net interest income (Notes: 4, 5)	(144)	933
	1,348	**(1,554)**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	1,322	860
Foreign exchange	(3,809)	(2,366)
Equity contracts	(249)	1,362
Commodity contracts	20	12
	(2,716)	(132)
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	1,793	960
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	(298)	(1,302)
Foreign exchange differences	2,569	(1,080)
Financial instruments at fair value through profit or loss and foreign exchange	**1,348**	**(1,554)**

As from October 2018, KBC Bank started centralising ČSOB's trading activities to the Central European Financial Markets in order to align regulatory scope, risks arising from trading and streamline the trading activities. KBC Bank has outsourced the related trading activities back to ČSOB. The contracts are concluded through the Financial Markets trades specified products on behalf of KBC Bank. Related risk raised from the transactions is then transferred via a back-to-back transaction to KBC Bank with positive impact on risk weighted assets (RWA) of the Bank. Net residual profit based on trading results is distributed by KBC Bank to ČSOB; KBC Bank bears any potential loss. The profit is booked into Net gains from non-trading financial assets mandatorily at fair value through profit or loss.

8. OTHER NET INCOME

(CZKm)	2020	2019
ICT services	782	738
Net gain on disposal of investments measured at amortised cost	389	26
Services provided to Československá obchodná banka, a.s. (ČSOB SK) (excluding income from ICT services)	54	43
Net operating leasing and rental income	45	70
Net gain on disposal of ČSOB AM (Note: 18)	-	891
Net gain on disposal of non-current assets held-for-sale	-	6
Net gain on disposal of liabilities at amortised cost	-	5
Net increase in provisions for legal issues and other losses	(32)	(88)
Other	453	552
	1,691	**2,243**

9. STAFF EXPENSES

(CZKm)	2020	2019
Wages and salaries	5,370	5,333
Salaries and other short-term benefits of top management	89	102
Social security charges	1,759	1,773
of which pension security charges (obligatory)	*1,081*	*1,087*
Pension (voluntary) and similar expenses	176	172
Net increase in provisions for Restructuring programme	79	120
Other	121	150
	7,594	**7,650**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 7,117 at 31 December 2020 (31 December 2019: 6,993). FTE growth relates to transfer of employees as a result of an integration within the Group.

Management bonus scheme

Included within Salaries and other short-term benefits of top management are base salaries, annual bonuses and other short-term benefits of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

A bonus scheme of the Bank follows the changes in legislation in previous years. Half of the bonus is provided in a non-cash instrument, so called “Virtual investment certificate” (VIC). VIC is linked to the Economic Value Added of Group which captures both finance and risk aspects. Another half of the bonus is paid in cash. The payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next five years following the initial assignment of the benefit.

Retirement benefits

The Bank provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute a portion of their salaries to pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Bank of 2% or 3% of their salaries, respectively, or with fixed amount by preference of an employee.

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee’s monthly average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month’s average salary), 15-20 years (2.5 times the month’s average salary), 20-25 years (3 times the month’s average salary), 25-30 years (4 times the month’s average salary), 30-35 years (5 times the month’s average salary) and over 35 years (6 times the month’s average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). The compensation was CZK Nil in 2020 (2019: CZK 4 m).

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2020	2019
Information technologies	2,828	2,539
Contribution to the Single Resolution Mechanism	625	602
Retail service fees	537	522
Other building expenses	554	495
Professional fees	429	408
Marketing	426	560
Communication	313	323
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	249	226
Travel and transportation	143	186
Payment cards and electronic banking	124	162
Administration	111	125
Insurance	57	52
Rental expenses on land and buildings – minimum lease payments	43	68
Training	31	73
Car expenses	22	34
Other	135	70
	6,627	**6,445**

11. IMPAIRMENT LOSSES

(CZKm)	2020	2019
Impairment of financial assets at amortised cost - loans and advances (Notes: 31, 38.2)	(4,319)	(365)
Impairment of financial assets at amortised cost - debt securities (Notes: 31, 38.2)	(9)	(1)
Provisions for loan commitments and guarantees (Notes: 27, 31)	(86)	(106)
Impairment of property and equipment (Notes: 20, 31)	(8)	(3)
Impairment of other financial assets (Notes: 31)	6	(2)
Impairment of other intangible assets (Notes: 31)	(163)	-
	(4,579)	**(477)**

12. INCOME TAX

The components of income tax expense for the years ended 31 December 2020 and 2019 are as follows:

(CZKm)	2020	2019
Current tax expense	1,820	2,557
Previous year over accrual of current tax	(26)	(75)
Deferred tax (income) / expense relating to the origination and reversal of temporary differences	(619)	117
	1,175	**2,599**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2020 and 2019 is as follows:

(CZKm)	2020	2019
Profit before taxation	12,675	24,615
Applicable tax rates	19%	19%
Taxation at applicable tax rates	2,408	4,677
Previous year over accrual of current tax	(26)	(75)
Tax effect of non-taxable income	(1,543)	(2,310)
Tax effect of non-deductible expenses	336	307
	1,175	**2,599**

The applicable tax rate for 2020 was 19% (2019: 19%).

Included in non-taxable income are tax-free interest income and dividend income.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2020	2019
At 1 January – as originally reported	**8**	**74**
Correction as a result of accounting policy change (Note: 2.5)	110	110
At 1 January – restated	**118**	**184**
Statement of income	619	(117)
Financial assets FVOCI (Note: 29)		
Fair value remeasurement	(95)	(7)
Transfer to net profit or retained earnings	56	-
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(123)	(24)
Transfer to net profit (Note: 19)	57	82
At 31 December - restated	**632**	**118**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2020	2019 restated
Deferred tax assets / (liability)		
Impairment losses on loans and advances at amortised cost and provisions for credit risk	656	29
Temporary difference resulting from tax depreciation	263	221
Employee benefits	252	293
Temporary difference resulting from tax depreciation related to acquisition of ICT function	113	118
Provisions for other risk and charges	78	72
Impairment losses on debt securities	13	11
Impairment losses on tangible and intangible assets	3	3
Cash-flow hedging derivatives	(14)	52
Debt securities at fair value through other comprehensive income	(220)	(180)
Amortisation of goodwill	(511)	(511)
Other temporary differences	(1)	10
	632	**118**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2020	2019
Impairment losses on loans and advances at amortised cost and provisions for credit risk	627	25
Temporary difference resulting from tax depreciation	42	(72)
Provisions for other risk and charges	6	(10)
Impairment losses on debt securities	2	-
Impairment losses on tangible and intangible assets	-	(2)
Legal claim	-	(76)
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(5)	(5)
Employee benefits	(41)	19
Other temporary differences	(12)	4
	619	**(117)**

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

13. DIVIDENDS PAID AND RECEIVED

Dividends paid

Dividends paid are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2020 has not been taken before the date of issue of the financial statements (Notes: 37, 39).

Based on a sole shareholder decision from 29 June 2020, and in accordance with the recommendation of the national regulator, no dividend was paid for 2019.

Based on a sole shareholder decision from 30 April 2019, a dividend of CZK 44.26 per share was paid for 2018, representing a total dividend of CZK 12,956 m.

Dividends received

The following table shows a dividend received by the companies for 2020 and 2019:

(CZKm)	2020	2019
Hypoteční banka, a.s.	2,446	3,554
ČSOB Stavení spořitelna, a.s. (formerly Českomoravská stavební spořitelna, a.s.)	965	4,472
ČSOB Leasing, a.s.	319	-
Patria Finance, a.s.	222	30
Bankovní informační technologie, s. r. o.	154	-
ČSOB Factoring, a.s.	123	114
První certifikační autorita, a.s.	9	7
Visa Inc.	3	3
CBCB - Czech Banking Credit Bureau, a.s.	2	2
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	-	135
ČSOB Advisory, a.s.	-	19
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	-	2
	4,243	**8,338**

14. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEMAND DEPOSITS

(CZKm)	2020	2019
Cash (Note: 31)	8,664	10,276
Mandatory minimum reserves (Note: 31, 32, 38.2)	12,274	6,044
Other balances with central banks (Notes: 31, 32, 38.2)	2,580	24,593
Other demand deposits in credit institutions (Notes: 31, 32, 38.2)	2,264	1,673
	25,782	**42,586**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Bank is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Bank.

Other balances with central banks contain overnight loans provided to central bank in the amount of CZK Nil m at 31 December 2020 (31 December 2019: CZK 20,354 m). Balances with central banks are classified as Stage 1 assets, expected credit losses being immaterial.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2020	2019
Financial assets held for trading		
Loans and advances		
Other loans and advances	102	-
Derivative contracts (Note: 19)		
Trading derivatives	35,167	28,224
Derivatives used as economic hedges	4,778	2,710
	40,047	**30,934**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	1,792	948
	1,792	**948**
Financial assets at fair value through profit or loss	**41,839**	**31,882**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2020	2019
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	5,172	4,629
Credit institutions	25,654	24,057
Corporate	185	184
Equity securities		
Corporate	1,123	745
Gross carrying amount	32,134	29,615
Allowance for impairment losses	(6)	(6)
	32,128	**29,609**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	6,328	6,465
	6,328	**6,465**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

Included within Financial assets at fair value through other comprehensive income pledged as collateral in repo transactions in the amount of CZK 6,188 m (2019: CZK 6,187 m) or securities lending in the amount of CZK 140 m (2019: CZK 278 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

Set out below is a set of information relating to the Bank's financial instruments reclassified from the Financial assets designated at fair value through profit or loss to the Financial assets at fair value through other comprehensive income as part of the IFRS 9 transition procedure:

(CZKm)	2020	2019
Fair value	3,524	3,478
Net gain (before tax) that would have been recognised in the Statement of income after the date of reclassification if the Bank had not reclassified the assets	196	(63)
Interest income (before tax) recorded on reclassified assets after date of reclassification	95	82
Anticipated average EIR over the remaining life of the assets	1.8	1.8

17. FINANCIAL ASSETS AT AMORTISED COST

(CZKm)	2020 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	153,301	-	-	-	153,301
Credit institutions	268,313	-	-	-	268,313
Other legal entities	17,429	-	-	-	17,429
Debt securities – gross carrying amount	439,043	-	-	-	439,043
Allowance for impairment losses	(64)	-	-	-	(64)
	438,979	**-**	**-**	**-**	**438,979**
Loans and advances					
Central banks	619,723	-	-	-	619,723
General government	8,038	77	-	-	8,115
Credit institutions	9,104	65	-	-	9,169
Other legal entities	191,732	30,739	9,290	141	231,902
Private individuals	46,749	3,635	1,547	26	51,957
Loans and advances – gross carrying amount	875,346	34,516	10,837	167	920,866
Allowance for impairment losses	(582)	(4,234)	(5,661)	(56)	(10,533)
	874,764	**30,282**	**5,176**	**111**	**910,333**
Total financial assets at amortised cost	**1,313,743**	**30,282**	**5,176**	**111**	**1,349,312**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	40,930	-	-	-	40,930
Debt securities – gross carrying amount	40,930	-	-	-	40,930
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**40,930**	**-**	**-**	**-**	**40,930**

(CZKm)	2019 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	68,700	-	-	-	68,700
Credit institutions	249,467	-	-	-	249,467
Other legal entities	17,793	332	-	-	18,125
Debt securities – gross carrying amount	335,960	332	-	-	336,292
Allowance for impairment losses	(54)	-	-	-	(54)
	335,906	**332**	**-**	**-**	**336,238**
Loans and advances					
Central banks	592,838	-	-	-	592,838
General government	8,035	168	-	-	8,203
Credit institutions	5,858	70	-	-	5,928
Other legal entities	208,820	24,005	8,032	96	240,953
Private individuals	47,538	3,189	1,293	24	52,044
Loans and advances – gross carrying amount	863,089	27,432	9,325	120	899,966
Allowance for impairment losses	(666)	(971)	(4,883)	(46)	(6,566)
	862,423	**26,461**	**4,442**	**74**	**893,400**
Total financial assets at amortised cost	**1,198,329**	**26,793**	**4,442**	**74**	**1,229,638**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	43,007	-	-	-	43,007
Debt securities – gross carrying amount	43,007	-	-	-	43,007
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**43,007**	**-**	**-**	**-**	**43,007**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

The following table shows the gross carrying amount of those financial assets which are in a different impairment stage at 31 December 2020 and 2019 than they were at the beginning of the financial year or their initial recognition:

	2020					
	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
(CZKm)	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						
General government	18	131	-	-	-	-
Credit institutions	-	24	-	-	-	-
Other legal entities	17,428	2,445	1,092	143	2,034	-
Private individuals	2,011	542	404	12	361	-
Total	**19,457**	**3,142**	**1,496**	**155**	**2,395**	**-**

	2019					
	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
(CZKm)	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						-
General government	27	27	-	2	-	-
Credit institutions	3	9	-	-	-	-
Other legal entities	10,301	1,844	693	375	1,095	11
Private individuals	1,344	810	214	42	222	9
Total	**11,674**	**2,690**	**907**	**419**	**1,317**	**20**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 619,723 m at 31 December 2020 (31 December 2019: CZK 592,838 m).

Included within Financial assets at amortised cost pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 30,401 m (2019: CZK 17,548 m) or securities lending in the amount of CZK 10,529 m (2019: CZK 25,459 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

Financial assets at amortised cost contain debt securities of CZK 12,462 m (2019: CZK 14,458 m) pledged as collateral of term deposits and financial guarantees.

Set out below is a set of information relating to the Bank's financial instruments reclassified from the Available-for-sale financial assets to the Financial assets at amortised cost as part of the IFRS 9 transition procedure:

(CZKm)	2020	2019
Carrying value	16,085	16,254
Fair value	15,135	16,586
Net gain (before tax) that would have been recognised in the Statement of other comprehensive income after the date of reclassification if the Bank had not reclassified the assets	(1,578)	(238)

SEPARATE FINANCIAL STATEMENTS

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

Name	Abbreviation	2020 (%)	2020 Carrying amount	2019 (%)	2019 Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.00	215	100.00	60
ČSOB Stavební spořitelna, a.s. (formerly Českomoravská stavební spořitelna, a.s.)	ČSOBS (formerly ČMSS)	100.00	9,923	100.00	9,923
ČSOB Advisory, a.s.	ČSOB Advisory	100.00	1,458	100.00	1,458
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,175	100.00	1,375
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	7,000	100.00	8,000
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.00	1,475	100.00	1,475
Hypoteční banka, a.s.	Hypoteční banka	100.00	45,678	100.00	42,178
Patria Corporate Finance, a.s.	Patria CF	100.00	16	100.00	16
Patria Finance, a.s.	Patria Finance	100.00	389	100.00	225
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.00	2,036	100.00	1,286
Ušetřeno.cz, s.r.o.	Ušetřeno	100.00	455	100.00	355
Joint venture					
MallPay, s. r. o.	MallPay	50.00	155	50.00	80
Associate					
Bankovní identita, a. s.	Bankovní identita	33.33	21	-	-
ČSOB Asset Management, a.s., investment company	ČSOB AM	-	-	-	-
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			70,006		**66,440**

All companies are incorporated in the Czech Republic.

Acquisition of Bankovní identita

On 15 September 2020, ČSOB jointly with Česká spořitelna, a.s. and Komerční banka, a.s. established company Bankovní identita, a.s. Founding companies agreed on management of Bankovní identita, a.s. equally. Every shareholder holds a share on equity of Bankovní identita of 33.33 %. A share on equity corresponds with a share on voting rights in the entity. As a result, the Bank assessed its investment in Bankovní identita as an associate and included it into the consolidated financial statements using equity method of consolidation. Bankovní identita provides services of electronic identification and electronic signature based on digital identities of banks customers.

Sale of ČSOB Asset Management

Until February 2019, the Bank was exercising a significant influence in ČSOB AM having an ownership amounted to 40.08%. Given that fact, ČSOB AM was assessed as an associated company being included into the consolidated financial statements using equity method. In February 2019, the Bank sold the share in ČSOB AM to KBC Asset Management. Cash consideration received by the Bank amounted to CZK 910 m. The Bank recognised a gain on the sale in Other net income of the statement of income in 2019 in the amount of CZK 891 m.

Acquisition of ČSOB Stavební spořitelna

On 15 April 2019, ČSOB and Bausparkasse Schwäbisch Hall (BSH) reached an agreement for ČSOB to acquire BSH's 45% stake in the building savings bank ČSOB Stavební spořitelna, a.s. (ČSOBS) and thus assume 100% ownership control over ČSOBS, for a total consideration of CZK 6,196 m. In May, the agreement was approved by antitrust authority. Transaction has a strong financial and strategic rationale and ČSOB consolidates its position as the largest provider of financial solutions for housing purposes in the Czech Republic.

Before the acquisition, ČSOB's ownership interest in ČSOBS was 55%. Based on the company statutes, the Bank controlled ČSOBS jointly with the owner of the remaining 45% share. Therefore, ČSOBS was classified as a joint venture in accordance with the accounting standard IFRS 11 Joint Arrangements. By acquiring the remaining 45% share, ČSOB gained control over ČSOBS, which subsequently has become a 100% owned subsidiary.

Acquisition of MallPay

In 2018, ČSOB Bank and Sully system a.s. agreed on a foundation of a joint venture jointly controlled by both entities. Based on that agreement, a new entity MallPay, s.r.o. was established in May 2018 which was fully controlled by Sully system a.s. In November 2019, ČSOB Bank entered the business. ČSOB invested CZK 80 m into the capital of MallPay and gained 50% share in the entity.
The investment is a new interest of the Bank in the segment of consumer lending. According to the statutes, decisions of the general meeting of MallPay are valid only in case of agreement of both shareholders. On the basis of this fact, the Bank assessed its investment in MallPay as a joint venture

Other changes

In January 2020, the Bank increased its investment in MallPay by CZK 40 m through an additional charge apart from the registered capital of the company.

In February 2020, the Bank increased its investment in Radlice Rozvojová by CZK 450 m through an additional charge apart from the registered capital of the company.

In April 2020, the Bank increased its investment in Ušetřeno by CZK 21 m through an additional charge apart from the registered capital of the company.

In April 2020 the Bank realised the transfer of share in Top – Pojištění to Ušetřeno by CZK 65 m through an additional charge apart from the registered capital of the company.

In May 2020, the Bank increased its investment in Hypoteční banka by CZK 3,500 m through an additional charge apart from the registered capital of the company.

In July 2020, the Bank increased its investment in MallPay by CZK 13 m through an additional charge apart from the registered capital of the company.

In July 2020, the Bank increased its investment in Patria Finance by CZK 164 m through an additional charge apart from the registered capital of the company.

In July 2020, the Bank decreased its investment in ČSOB Leasing by CZK 1,000 m through the redemption of other capital funds of the company.

In September 2020, the Bank increased its investment in Radlice Rozvojová by CZK 300 m through an additional charge apart from the registered capital of the company.

In September 2020, the Bank increased its investment in BANIT by CZK 155 m through an additional charge apart from the registered capital of the company.

In November 2020, the Bank increased its investment in Ušetřeno by CZK 14 m through an additional charge apart from the registered capital of the company.

In November 2020, the Bank increased its investment in MallPay by CZK 22 m through an additional charge apart from the registered capital of the company.

In November 2020, the Bank decreased its investment in ČSOB Factoring by CZK 200 m through the redemption of other capital funds of the company.

In January 2019, the Bank increased its investment in Radlice Rozvojová by CZK 150 m through an additional charge apart from the registered capital of the company.

In April 2019, the Bank increased its investment in Hypoteční banka by CZK 2,350 m through an additional charge apart from the registered capital of the company.

In June 2019, the Bank increased its investment in Radlice Rozvojová by CZK 1,015 m through an additional charge apart from the registered capital of the company.

In July 2019, the Bank increased its investment in Ušetřeno by CZK 23 m through an additional charge apart from the registered capital of the company.

In September 2019, the Bank increased its investment in ČSOBS by CZK 2,187 m through an additional charge apart from the registered capital of the company.

In September 2019, the Bank increased its investment in Hypoteční banka by CZK 1,200 m through an additional charge apart from the registered capital of the company.

In September 2019, the Bank increased its investment in Ušetřeno by CZK 7 m through an additional charge apart from the registered capital of the company.

In December 2019, the Bank decreased its investment in Radlice Rozvojová by CZK 1,400 m through the redemption of other capital funds of the company.

In April 2018, ČSOB purchased 100% share in entity "Ušetřeno.cz". The investment is a new interest of the Bank and represents the largest services comparator website in the Czech Republic. Entity is controlled by the Bank and have been fully consolidated since 1 April 2018. The acquisition cost in the amount of CZK 325 m consisted of cash paid of CZK 177 m and of estimated fair value of contractual future cash outflows ('earn-out') of CZK 148 m, depending on the business performance of the company. In 2019, a substantial portion of the earn-out was settled impacting the Other income of the statement of income by CZK 22 m. At 31 December 2019, fair value of the remaining balance of earn-out amounted to CZK 33 m reported as part of Other liabilities with the expected settlement within the next 3 years.

The Bank's management believes that there is no indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2020 and 2019 are set out in the table below.
The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	1,495,942	27,721	28,315	1,701,339	21,151	21,817
Forwards	1,000	-	-	53,050	13	12
Options	17,197	45	106	18,957	38	43
	1,514,139	**27,766**	**28,421**	**1,773,346**	**21,202**	**21,872**
Foreign exchange contracts						
Swaps / Forwards	823,341	5,948	6,102	983,863	5,626	5,844
Cross currency interest rate swaps	82,685	910	895	100,978	905	890
Options	35,473	351	337	52,125	394	371
	941,499	**7,209**	**7,334**	**1,136,966**	**6,925**	**7,105**
Commodity contracts						
Swaps / Options	4,166	192	174	3,580	97	90
Total trading derivatives (Notes: 15, 24)	**2,459,804**	**35,167**	**35,929**	**2,913,892**	**28,224**	**29,067**

Positions of ALM – economic hedges

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	324,977	3,999	3,781	264,196	1,783	2,172
Forwards	-	-	-	5,000	1	-
	324,977	**3,999**	**3,781**	**269,196**	**1,784**	**2,172**
Foreign exchange contracts						
Cross currency interest rate swaps	2,247	82	-	3,870	98	1
Equity contracts						
Swaps	6,654	280	233	6,328	280	56
Options	9,045	417	10	9,783	548	9
	15,699	**697**	**243**	**16,111**	**828**	**65**
Total derivatives used as economic hedges (Notes: 15, 24)	**342,923**	**4,778**	**4,024**	**289,177**	**2,710**	**2,238**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In ČSOB, an effectiveness of hedge accounting relationship is measured by a comparison of cumulative changes in net present value of a hedging derivative and cumulative changes in net present value of a "hypothetical" derivative. Hypothetical derivative is not a real transaction. It is a virtual financial derivative representing a hedged item and hedged risk. Besides, the Bank is testing whether the total amount of hedging derivatives does not exceed the volume of financial instruments eligible for hedging.
The hedging ineffectiveness results from the different floating rate repricing frequencies in hedging and hypothetical derivatives having an impact on their valuation.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from expected reverse repo operations with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Bank also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of non-retail client current accounts (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert floating-rate client loans to fixed rates.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Financial assets at amortised cost of the Bank's statement of financial position.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2020 and 2019 are set out as follows:

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	55,001	1,190	801	75,713	1,231	1,048
Cross currency interest rate swaps	5,230	7	353	8,212	278	350
Total hedging derivatives	**60,231**	**1,197**	**1,154**	**83,925**	**1,509**	**1,398**

In 2020, a gain of CZK 29 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2019: gain of CZK 14 m).

In 2020, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative gains of CZK Nil m from equity to the statement of income (2019: gains of CZK 9 m). The gains / losses are included in Net gains from financial instruments at fair value through profit or loss.

The following table contains details of the hedged financial instruments as at 31 December 2020 and 2019 covered by the Bank's hedging strategies:

(CZKm)	2020 Cash flow hedge reserve: Continuing hedges	2020 Cash flow hedge reserve: Discontinued hedges	2020 Change in fair value of hedged item for ineffectiveness assessment	2019 Cash flow hedge reserve: Continuing hedges	2019 Cash flow hedge reserve: Discontinued hedges	2019 Change in fair value of hedged item for ineffectiveness assessment
Cash flow hedges	19	53	29	(363)	87	14

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2020	2019
Interest income (Note: 29)	273	408
Net (losses) / gains from financial instruments at fair value through profit or loss (Note: 29)	29	23
Taxation (Note: 12)	(57)	(82)
Net gains	**245**	**349**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2020 and 2019:

(CZKm)	2020 Single currency interest rate swaps	2020 Cross currency interest rate swaps	2019 Single currency interest rate swaps	2019 Cross currency interest rate swaps
Less than 3 months	3,239	-	3,666	1,840
More than 3 months but not more than 6 months	8,839	4,234	4,664	1,137
More than 6 months but not more than 1 year	7,193	-	12,543	-
More than 1 year but not more than 2 years	8,216	996	19,255	4,239
More than 2 years but not more than 5 years	9,606	-	15,336	996
More than 5 years	17,908	-	20,249	-
	55,001	**5,230**	**75,713**	**8,212**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of foreign currency fixed rate bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Financial assets at fair value through other comprehensive income and as Financial assets at amortised cost, i.e. private issues without active secondary market, attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be highly effective hedge.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of long-term fixed rate wholesale funding transactions (classified as Financial liabilities at cost) attributable to changes in the risk-free (interest rate swap) yield curve. A fixed rate receiver/floating rate payer interest rate swap denominated in the same currency as the hedged funding transaction is expected to be highly effective hedge.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for portfolios of fixed rate loans have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Fair value hedges for portfolios of fixed rate mortgage bonds classified as at fair value through other comprehensive income have been used to hedge interest rate risk arising from changes in the fair value of fixed rate bonds to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2020 and 2019 are set out as follows:

	2020			2019		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	120,700	2,386	3,304	57,622	499	3,282
Fair value portfolio hedges	581,017	6,440	8,768	520,998	6,310	6,416
Cross currency interest rate swaps						
Fair value micro hedges	923	-	104	923	-	76
Total hedging derivatives	**702,640**	**8,826**	**12,176**	**579,543**	**6,809**	**9,774**

The following table contains details of the hedged items as at 31 December 2020 covered by the Bank's hedging strategies:

(CZKm)	2020 Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items: Assets	Accumulated amount of fair value adjustments on the hedged items: Liabilities	Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	69,914	(1,063)	-	(1,492)
Financial assets at fair value through other comprehensive income	11,035	289	-	263
Financial liabilities at amortised cost	40,473	-	575	(434)
Total	121,422	(774)	575	(1,663)
Fair value portfolio hedges				
Financial assets at amortised cost	323,887	4,686	-	8,164
Financial assets at fair value through other comprehensive income	8,129	129	-	287
Financial liabilities at amortised cost	256,900	-	3,083	(6,648)
Total	588,916	4,815	3,083	1,803
Total fair value hedged items	**710,338**	**4,041**	**3,658**	**140**

The following table contains details of the hedged items as at 31 December 2019 covered by the Bank's hedging strategies:

(CZKm)	2019 Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items: Assets	Accumulated amount of fair value adjustments on the hedged items: Liabilities	Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	20,583	426	-	149
Financial assets at fair value through other comprehensive income	10,740	56	-	(126)
Financial liabilities at amortised cost	27,853	-	149	51
Total	59,176	482	149	74
Fair value portfolio hedges				
Financial assets at amortised cost	300,186	(3,477)	-	(396)
Financial assets at fair value through other comprehensive income	7,842	(159)	-	8
Financial liabilities at amortised cost	205,770	-	(3,564)	502
Total	513,798	(3,636)	(3,564)	114
Total fair value hedged items	**572,974**	**(3,154)**	**(3,415)**	**188**

In 2020, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised gains of CZK 69 m (2019: gains of CZK 69 m) included in Net gains from financial instruments at fair value through profit or loss in the statement of income.

In 2020, the net gains in the amount of CZK 140 m (2019: gains of CZK 188 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net losses realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 168 m (2019: losses of CZK 291 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2019	7,566	1,275	612	1,487	479	11,419
Depreciation and impairment at 1 January 2019	(3,722)	(759)	(457)	(1,159)	-	(6,097)
Net book value at 1 January 2019	**3,844**	**516**	**155**	**328**	**479**	**5,322**
Transfers	258	343	22	108	(731)	-
Additions	-	-	-	-	848	848
Disposals	(46)	(1)	(6)	(11)	-	(64)
Depreciation	(244)	(303)	(25)	(101)	-	(673)
Impairment	(3)	-	-	-	-	(3)
Net book value at 31 December 2019	**3,809**	**555**	**146**	**324**	**596**	**5,430**
of which						
Cost	7,588	1,555	572	1,409	596	11,720
Depreciation and impairment	(3,779)	(1,000)	(426)	(1,085)	-	(6,290)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2020	7,588	1,555	572	1,409	596	11,720
Depreciation and impairment at 1 January 2020	(3,779)	(1,000)	(426)	(1,085)	-	(6,290)
Net book value at 1 January 2020	**3,809**	**555**	**146**	**324**	**596**	**5,430**
Transfers	257	262	54	70	(643)	-
Additions	-	-	-	-	982	982
Disposals	(168)	(1)	(1)	(8)	-	(178)
Depreciation	(256)	(307)	(28)	(92)	-	(683)
Impairment	(4)	-	-	-	-	(4)
Net book value at 31 December 2020	**3,638**	**509**	**171**	**294**	**935**	**5,547**
of which						
Cost	7,597	1,737	605	1,421	935	12,295
Depreciation and impairment	(3,959)	(1,228)	(434)	(1,127)	-	(6,748)

RIGHT OF USE ASSETS

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2019	2,617	-	11	2,628
Depreciation and impairment at 1 January 2019	(43)	-	-	(43)
Net book value at 1 January 2019	**2,574**	**-**	**11**	**2,585**
Additions	1,009	130	15	1,154
Depreciation	(426)	-	(6)	(432)
Impairment	(7)	(9)	-	(16)
Net book value at 31 December 2019	**3,150**	**121**	**20**	**3,291**
of which				
Cost	3,588	130	26	3,744
Depreciation and impairment	(438)	(9)	(6)	(453)

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2020	3,588	130	26	3,744
Depreciation and impairment at 1 January 2020	(438)	(9)	(6)	(453)
Net book value at 1 January 2020	**3,150**	**121**	**20**	**3,291**
Additions	54	84	1	139
Disposals	(5)	-	-	(5)
Depreciation	(467)	(39)	(7)	(513)
Impairment	(4)	-	-	(4)
Net book value at 31 December 2020	**2,728**	**166**	**14**	**2,908**
of which				
Cost	3,595	214	27	3,836
Depreciation and impairment	(867)	(48)	(13)	(928)

Property and equipment are assessed as non-current assets.

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2019 – as originally reported	2,752	3,287	2,073	399	345	8,856
Amortisation and impairment at 1 January 2019 – as originally reported	(63)	(2,645)	(348)	(371)	-	(3,427)
Net book value at 1 January 2019 – as originally reported	**2,689**	**642**	**1,725**	**28**	**345**	**5,429**
Correction as a result of accounting policy change – Cost (Note: 2.5)	-	-	(833)	-	-	(833)
Correction as a result of accounting policy change – Amortisation (Note: 2.5)	-	-	253	-	-	253
Cost at 1 January 2019 restated	-	-	1,240	-	-	1,240
Amortisation and impairment at 1 January 2019 restated	-	-	(95)	-	-	(95)
Net book value at 1 January 2019 restated	**2,689**	**642**	**1,145**	**28**	**345**	**4,849**
Transfers	-	31	378	28	(437)	-
Additions	-	-	-	-	527	527
Amortisation	-	(254)	(347)	(14)	-	(615)
Impairment	-	-	-	-	-	-
Net book value at 31 December 2019	**2,689**	**419**	**1,176**	**42**	**435**	**4,761**
of which						
Cost	2,752	3,318	1,618	426	435	8,549
Amortisation and impairment	(63)	(2,899)	(442)	(384)	-	(3,788)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2020	2,752	3,318	1,618	426	435	8,549
Amortisation and impairment at 1 January 2020	(63)	(2,899)	(442)	(384)	-	(3,788)
Net book value at 1 January 2020	**2,689**	**419**	**1,176**	**42**	**435**	**4,761**
Transfers	-	23	17	-	(40)	-
Additions	-	-	-	-	442	442
Disposals	-	(6)	-	(17)	-	(23)
Amortisation	-	(128)	(182)	(12)	-	(322)
Impairment (Note: 11)	-	-	(161)	(2)	-	(163)
Net book value at 31 December 2020	**2,689**	**308**	**850**	**11**	**837**	**4,695**
of which						
Cost	2,752	3,209	1,474	408	837	8,680
Amortisation and impairment	(63)	(2,901)	(624)	(397)	-	(3,985)

Internally developed software in the net amount of CZK 837 m as at 31 December 2020 (31 December 2019: CZK 435 m) is included in Construction in progress.

Goodwill and other intangible assets are assessed as non-current assets.

Goodwill has been allocated to the Retail segment and SME clients, representing a cash-generating unit (CGU). The recoverable amount for the Retail segment and SME clients was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients are based on the net profit generated by the CGU above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.3% in 2020 (2019: 10.4%) and no long term growth rates were used in 2020 and 2019.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Bank has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients an average risk discount rate of 10.6% has been applied (2019: 10.8%). This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

22. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Total
Net book value at 1 January 2019	**38**	**38**
Transfer from Property and equipment	-	-
Disposals	(38)	(38)
Net book value at 31 December 2019	**-**	**-**
of which		
Cost	-	-
Impairment	-	-

(CZKm)	Land and buildings	Total
Net book value at 1 January 2020	**-**	**-**
Transfer from Property and equipment	-	-
Disposals	-	-
	-	
Net book value at 31 December 2020	**-**	**-**
of which		
Cost	-	-
Impairment	-	-

23. OTHER ASSETS

(CZKm)	2020	2019
Other financial assets		
Other debtors, net of provisions (Notes: 30, 32, 35, 38.2)	710	767
Accrued income (Notes: 30, 32, 35, 38.2)	134	145
	844	**912**
Other non-financial assets		
Prepaid charges	633	614
VAT and other tax receivables	1	5
	634	**619**
Total other assets	**1,478**	**1,531**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2020 and 2019:

	2020			2019		
(CZKm)	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Other financial assets						
Gross carrying amount	841	14	855	903	37	940
Allowance for impairment losses	(4)	(7)	(11)	(4)	(24)	(28)
	837	**7**	**844**	**899**	**13**	**912**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

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24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2020	2019
Financial liabilities held for trading		
Derivative contracts (Note: 19)		
Trading derivatives	35,929	29,067
Derivatives used as economic hedges	4,024	2,238
Term deposits	430	1,011
Repo transactions	579	16,623
Bonds and investment certificates issued	2,224	4,662
	43,186	**53,601**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	5,407	22,459
Investment certificates	20,168	19,772
	25,575	**42,231**
Financial liabilities at fair value through profit or loss	**68,761**	**95,832**

The amount that the Bank would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 500 m lower than the carrying amount at 31 December 2020 (31 December 2019: lower by CZK 330 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk were not significant.

The investment certificates and bonds issued reported as Financial liabilities designated at fair value through profit or loss are hybrid contracts which contain an embedded derivative. The Bank has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Bank has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2020	2019
Deposits received from credit institutions		
Current accounts and overnight deposits	11,033	11,300
Term deposits	12,468	14,366
Repo transactions	36,796	22,928
	60,297	**48,594**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	653,540	558,703
Term deposits	25,609	49,633
Savings deposits	246,438	201,410
Other deposits	3,944	7,234
	929,531	**816,980**
Debt securities in issue		
Bonds and investment certificates issued	-	4
Promissory notes	409,377	400,077
	409,377	**400,081**
Lease liabilities	**2,932**	**3,302**
Financial liabilities at amortised cost	**1,402,137**	**1,268,957**

26. OTHER LIABILITIES

(CZKm)	2020	2019
Other financial liabilities		
Payables to employees including social security charges (Notes: 30, 32, 35, 38.3)	1,910	2,096
Accrued charges (Notes: 30, 32, 35, 38.3)	1,167	1,143
Other creditors (Notes: 30, 32, 35, 38.3)	113	260
	3,190	**3,499**
Other non-financial liabilities		
Income received in advance	67	72
VAT and other tax payables	102	99
	169	**171**
Total other liabilities	**3,359**	**3,670**

Other liabilities are assessed as current liabilities.

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2019	**186**	**61**	**18**	**265**
Additions	99	121	1	221
Amounts utilised	(9)	(60)	(8)	(77)
Unused amounts reversed	(95)	(1)	(11)	(107)
At 31 December 2019	**181**	**121**	**-**	**302**
At 1 January 2020	**181**	**121**	**-**	**302**
Additions	171	79	-	250
Amounts utilised	(139)	(92)	-	(231)
At 31 December 2020	**213**	**108**	**-**	**321**

Loan commitments and guarantees (Note: 33):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	**52**	**39**	**131**	**222**
Origination and acquisition	73	3	3	79
Change in credit risk not leading to stage transfers	(35)	(7)	62	20
Change in credit risk leading to stage transfer	(1)	6	1	6
Derecognition	(5)	(2)	-	(7)
Foreign currency translation	10	(4)	1	7
At 31 December 2019	**94**	**35**	**198**	**327**
Origination and acquisition	52	19	11	82
Change in credit risk not leading to stage transfers	(76)	(11)	41	(46)
Change in credit risk leading to stage transfer	(3)	10	45	52
Derecognition	-	-	(2)	(2)
Foreign currency translation	9	1	(12)	(2)
At 31 December 2020	**76**	**54**	**281**	**411**

Restructuring

During 2019 and 2020, the Bank started a new restructuring programme, resulting in the creation of a provision of CZK 121 m and CZK 79 m respectively. In the framework of this restructuring programme the total number of personnel will be reduced in the period of 2021 - 2023.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Bank is the defendant.

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Bank's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Bank creates a provision in the full amount to cover the possible cost in the event of loss.

In 2020, the Bank had a provision for pending legal issues and other losses in the total amount of CZK 213 m. It is expected that the majority of the costs will be incurred in the next 3 years.

On a quarterly basis, the Bank monitors the status of all cases and makes a decision as to whether to create, utilise or reverse any provision.

The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2020, the total authorised share capital was CZK 5,855 m (31 December 2019: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2019: 292,750,002 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

No Treasury shares were held by the Bank at 31 December 2020 and 2019.

On 31 December 2020, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2019: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2020 and 2019 are as follows:

(CZKm)	Revaluation reserve from financial assets at fair value through OCI	Cash flow hedge reserve	Total
At 1 January 2019	**711**	**24**	**735**
Other comprehensive income (Note: 29)	31	(248)	(217)
At 31 December 2019	**742**	**(224)**	**518**
Other comprehensive income (Note: 29)	167	282	449
At 31 December 2020	**909**	**58**	**967**

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29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2020	2019
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised gain on cash flow hedges	650	125
Net gains on cash flow hedges reclassified to the statement of income (Note: 19)	(302)	(431)
Tax effect relating to cash flow hedges (Note: 12)	(66)	58
	282	(248)
Financial debt instruments FVOCI		
Net unrealised gains / (losses) on financial debt instruments FVOCI	410	(106)
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on disposal	(11)	(1)
Tax effect relating to financial debt instruments FVOCI (Note: 12)	(76)	21
	323	(86)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**605**	**(334)**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	102	145
Net realised gains on financial equity instruments FVOCI reclassified to the retained earnings on disposal	(294)	-
Tax effect relating to financial equity instruments FVOCI	36	(28)
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**(156)**	**117**
Other comprehensive income for the year, net of tax	**449**	**(217)**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Bank's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (4)).

Financial assets and liabilities at fair value, i.e. financial assets FVOCI, held for trading, designated at fair value through profit or loss, are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate, foreign exchange and commodity contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of trading derivatives, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Bank currently checks the valuation of all bonds quarterly.

The Bank also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or Level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2020:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	102	-	102
Derivative contracts	-	39,216	729	39,945
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,792	-	1,792
Financial assets FVOCI				
Debt securities	4,494	-	26,511	31,005
Equity securities	386	-	737	1,123
Financial assets FVOCI pledged as collateral				
Debt securities	6,328	-	-	6,328
Fair value adjustments of the hedged items in portfolio hedge	-	4,686	-	4,686
Derivatives used for hedging	-	10,023	-	10,023
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	39,613	340	39,953
Term deposits	-	430	-	430
Repo transactions	-	579	-	579
Bonds and Investment certificates issued	-	-	2,224	2,224
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	-	25,575	25,575
Fair value adjustments of the hedged items in portfolio hedge	-	3,083	-	3,083
Derivatives used for hedging	-	13,330	-	13,330

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2019

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Derivative contracts	-	30,072	862	30,934
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	948	-	948
Financial assets FVOCI				
Debt securities	3,960	-	24,904	28,864
Equity securities	-	-	745	745
Financial assets FVOCI pledged as collateral				
Debt securities	6,465	-	-	6,465
Fair value adjustments of the hedged items in portfolio hedge	-	(3,477)	-	(3,477)
Derivatives used for hedging	-	8,318	-	8,318
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	31,183	122	31,305
Term deposits	-	1,011	-	1,011
Repo transactions	-	16,623	-	16,623
Bonds and Investment certificates issued	-	-	4,662	4,662
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	-	42,231	42,231
Fair value adjustments of the hedged items in portfolio hedge	-	(3,564)	-	(3,564)
Derivatives used for hedging	-	11,172	-	11,172

Yield curve used in the mortgage bonds valuation model for discounting future cash flows is constructed from IRS rates and respective credit spreads. The credit spreads for all maturities were derived from market unobservable inputs. The credit spread curve for mortgage bonds was derived from newly issued mortgage bonds for 5Y bucket (as the most frequent maturity) and spreads for other maturities were calculated using slope from mortgage bonds credit spread curve with rating grade A. The management considers this a significant market unobservable input, and as a consequence, all mortgage bonds are reported as part of Level 3.

The spread according to bond maturity was 0 bps (2-year) to 39 bps (above 20-year) in 2020 and 6 bps (2-year) to 37 bps (above 20-year) in 2019.

Valuation of bonds issued by Česká Exportní Banka (ČEB) was based on model using unobservable inputs. Yield curve used in the ČEB bonds valuation model for discounting future cash flows was constructed from IRS rates and respective credit spreads. The credit spreads were derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. Direct quotes were used for remaining CEB bonds from the mid of year 2019. As quotes come from less liquid market the the management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB are classified as Level 3.

The Bank's share in Visa Inc. unquoted C-class classified as a financial asset at fair value through other comprehensive income is subject to fair value measurement based on the quoted price of Visa Inc. adjusted for applied liquidity spreads and conversion ratio. In 2020, the Bank converted a part of the Visa shares position to quoted Visa Inc. A-class. The Bank reported the transaction as a sale of Visa Inc. C-class from Level 3, including realised gain reclassified to the retained earnings on disposal of CZK 238 m. And, a recognition of new Visa Inc. A-class shares classified as Level 1 financial assets.

Investment certificate is a financial liability composed of term deposit and index linked option/swap. The Bank valuates the certificates using valuation of the underlying option/swap component in combination with the calculation of the deposit component value. Issued bonds are hybrid financial liabilities composed of the floating coupon rate bond and callable / puttable option. Valuation of the embedded derivative is based on model using both market observable and unobservable inputs. Unobservable inputs represents a significant portion of the valuation, and as a consequence, the investment certificates and bonds issued are classified as Level 3 financial instruments.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial assets held for trading		Financial assets FVOCI (incl. assets pledged as collateral)		Total
(CZKm)	Financial derivatives	Debt securities	Debt securities	Equity securities	
At 1 January 2019	**252**	**2,717**	**25,256**	**533**	**28,758**
Total gains / (losses) recorded in profit or loss	821	21	(282)	-	560
Total gains recorded in other comprehensive income	-	-	(165)	199	34
Purchases	-	7	136	13	156
Settlement	(211)	(7)	(26)	-	(244)
Sales	-	(2,738)	(15)	-	(2,753)
At 31 December 2019	**862**	**-**	**24,904**	**745**	**26,511**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	821	-	(282)	-	539
At 1 January 2020	**862**	**-**	**24,904**	**745**	**26,511**
Total gains / (losses) recorded in profit or loss	115	-	(205)	-	(90)
Total gains / (losses) recorded in other comprehensive income	-	-	771	54	825
Purchases	-	-	1,175	350	1,525
Settlement	(248)	-	(134)	-	(382)
Sales	-	-	-	(412)	(412)
At 31 December 2020	**729**	**-**	**26,511**	**737**	**27,977**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	115	-	(226)	-	(111)

Total gains / (losses) recorded in profit or loss are included within the captions Interest income calculated using the effective interest rate method, Net gains from financial instruments at fair value through profit or loss, Net realised gains on financial instruments at fair value through other comprehensive income and Impairment losses of the statement of income.

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Financial liabilities held for trading: Debt instruments	Financial liabilities held for trading: Financial derivatives	Financial liabilities designated at fair value through profit or loss: Debt instruments	Total
At 1 January 2019	**4,540**	**823**	**26,065**	**31,428**
Total (gains) / losses recorded in profit or loss	314	(506)	1,059	867
Issued	-	-	16,358	16,358
Settlement	(192)	(195)	(1,251)	(1,638)
At 31 December 2019	**4,662**	**122**	**42,231**	**47,015**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	314	(506)	1,059	867
At 1 January 2020	**4,662**	**122**	**42,231**	**47,015**
Total (gains) / losses recorded in profit or loss	(85)	384	170	469
Issued	-	-	7,838	7,838
Settlement	(2,282)	(166)	(13,956)	(16,404)
Sales	(71)	-	(10,708)	(10,779)
At 31 December 2020	**2,224**	**340**	**25,575**	**28,139**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	(85)	384	170	469

Total (gains) / losses recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers the value of the credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds in periods after the first year from the balance sheet date as a key assumption not derived from observable market inputs, which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2020, an increase / (decrease) of the credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds and bonds issued by ČEB included in Level 3 by CZK 296 m and CZK 10 m, respectively (2019: CZK 360 m and CZK 14 m, respectively). Such a change in the credit spread is based on the variability of mortgage bond and ČEB bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

In 2019 and 2020, no transfers were made between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs.

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements:

(CZKm)	2020 Carrying value	2020 Fair value	2019 Carrying value	2019 Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	25,782	25,782	42,586	42,586
Financial assets at amortised cost	1,349,312	1,347,766	1,229,638	1,209,412
Debt securities	*438,979*	*451,293*	*336,238*	*337,474*
Loans and advances	*910,333*	*896,473*	*893,400*	*871,938*
Financial assets at amortised cost pledged as collateral	40,930	40,436	43,007	44,604
Other assets (Note: 23)	844	844	912	912
Financial liabilities				
Financial liabilities at amortised cost	1,402,137	1,403,385	1,268,957	1,268,631
Deposits	*989,828*	*991,140*	*865,574*	*865,443*
Debt securities in issue	*409,377*	*409,313*	*400,081*	*399,886*
Lease liabilities	*2,932*	*2,932*	*3,302*	*3,302*
Other liabilities (Note: 26)	3,190	3,190	3,499	3,499

The following table shows an analysis of financial instruments for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2020:

(CZKm)	2020 Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,664	17,118	-	25,782
Financial assets at amortised cost	161,342	619,734	566,690	1,347,766
Debt securities	*161,342*	-	*289,951*	*451,293*
Loans and advances	-	*619,734*	*276,739*	*896,473*
Financial assets at amortised cost pledged as collateral	40,436	-	-	40,436
Other assets (Note: 23)	-	844	-	844
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,353,844	49,541	1,403,385
Deposits	-	*941,599*	*49,541*	*991,140*
Debt securities in issue	-	*409,313*	-	*409,313*
Lease liabilities	-	*2,932*	-	*2,932*
Other liabilities (Note: 26)	-	3,190	-	3,190

The following table shows an analysis of financial instruments for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2019:

	2019			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	10,276	32,310	-	42,586
Financial assets at amortised cost	72,268	592,837	544,307	1,209,412
Debt securities	*72,268*	-	*265,206*	*337,474*
Loans and advances	-	*592,837*	*279,101*	*871,938*
Financial assets at amortised cost pledged as collateral	44,604	-	-	44,604
Other assets (Note: 23)	-	912	-	912
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,231,055	37,576	1,268,631
Deposits	-	*827,867*	*37,576*	*865,443*
Debt securities in issue	-	*399,886*	-	*399,886*
Lease liabilities	-	*3,302*	-	*3,302*
Other liabilities (Note: 26)	-	3,499	-	3,499

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Financial debt securities at amortised cost

Fair values for securities measured at amortised cost are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted future cash flows.

Loans and advances to credit institutions and balances with central banks measured at amortised cost

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Bank’s own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and advances to other than credit institutions measured at amortised cost

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Bank’s own experience of probability of default and loss given default.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

The fair values of bonds issued are estimated by discounting their future cash flows using Czech government bond rates adjusted by credit spread derived from market observable transactions with respective or comparable bonds. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

31. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2020	2019
Cash, balances with central banks and other demand deposits (Note: 14)	25,782	42,586
Loans and advances to credit institutions and central banks	626,323	594,611
Financial liabilities at amortised cost to credit institutions and central banks	(11,202)	(11,469)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(409,377)	(400,026)
Cash and cash equivalents	**231,526**	**225,702**

Change in operating assets

(CZKm)	2020	2019
Net change in financial assets held for trading (incl. assets pledged as collateral)	(9,114)	(6,607)
Net change in non-trading financial assets mandatorily at fair value through profit or loss	(845)	(305)
Net change in financial assets at FVOCI (including assets pledged as collateral)	(2,033)	4,626
Net change in financial assets at amortised cost	(90,826)	(26,199)
Net change in derivatives used for hedging	(1,357)	(182)
Net change in other assets	59	(329)
	(104,116)	**(28,996)**

Change in operating liabilities

(CZKm)	2020	2019
Net change in financial liabilities held for trading	(10,415)	18,057
Net change in financial liabilities designated at fair value through profit or loss	(16,656)	16,167
Net change in financial liabilities at amortised cost	124,427	17,321
Net change in derivatives used for hedging	2,158	1,157
Net change in other liabilities	(297)	191
	99,217	**52,893**

Non-cash items included in profit before tax

(CZKm)	2020	2019
Allowances and provisions for credit losses (Note: 11)	4,405	471
Depreciation and amortisation	1,519	1,720
Impairment on goodwill and other intangible assets (Note: 11)	163	-
Creation of provisions	19	37
Impairment on investment securities (Note: 11)	9	1
Impairment on property and equipment (Note: 11)	8	3
Impairment on other assets (Note: 11)	(6)	2
Net change in fair value adjustments of the hedged items in portfolio hedge	(1,516)	(107)
	4,601	**2,127**

The table below sets out the movements of the lease liabilities in 2019 and 2020. The debt items are those that are reported within net cash flows used in financing activities in the separated statement of cash flows:

(CZKm)	Financial liabilities at amortised cost (Note: 25) Lease liabilities
At 1 January 2019	**2,628**
Cash flows in respect of payments for the principal of lease liabilities	(480)
Cash flows in respect of payments for the interest of lease liabilities	(62)
Non-cash adjustments	1,216
At 31 December 2019	**3,302**
At 1 January 2020	**3,302**
Cash flows in respect of payments for the principal of lease liabilities	(540)
Cash flows in respect of payments for the interest of lease liabilities	(59)
Non-cash adjustments	229
At 31 December 2020	**2,932**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2020:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	25,782	-	-	-	25,782
Financial assets held for trading					
Financial derivatives	13,445	19,423	7,077	-	39,945
Other than financial derivatives	102	-	-	-	102
Non-trading financial assets mandatorily at fair value through profit or loss	1,792	-	-	-	1,792
Financial assets at fair value through other comprehensive income	995	14,225	15,785	1,123	32,128
Financial assets at fair value through other comprehensive income pledged as collateral	50	4,250	2,028	-	6,328
Financial assets at amortised cost	762,425	284,474	302,413	-	1,349,312
Financial assets at amortised cost pledged as collateral	342	9,430	31,158	-	40,930
Fair value adjustments of the hedged items in portfolio hedge	1,629	2,938	119	-	4,686
Derivatives used for hedging	2,316	5,430	2,277	-	10,023
Other assets (Note: 23)	844	-	-	-	844
Total carrying value	**809,722**	**340,170**	**360,857**	**1,123**	**1,511,872**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	14,485	18,520	6,948	-	39,953
Other than financial derivatives	3,003	230	-	-	3,233
Financial liabilities designated at fair value through profit or loss	976	21,805	2,794	-	25,575
Financial liabilities at amortised cost	566,580	384,227	451,330	-	1,402,137
of which lease liabilities	*490*	*1,492*	*950*	-	*2,932*
Fair value adjustments of the hedged items in portfolio hedge	700	1,633	750	-	3,083
Derivatives used for hedging	4,166	7,675	1,489	-	13,330
Other liabilities (Note: 26)	3,190	-	-	-	3,190
Total carrying value	**593,100**	**434,090**	**463,311**	**-**	**1,490,501**

For derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2019:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	42,586	-	-	-	42,586
Financial assets held for trading					
Financial derivatives	10,916	14,838	5,180	-	30,934
Non-trading financial assets mandatorily at fair value through profit or loss	948	-	-	-	948
Financial assets at fair value through other comprehensive income	1,682	5,203	21,979	745	29,609
Financial assets at fair value through other comprehensive income pledged as collateral	52	4,525	1,888	-	6,465
Financial assets at amortised cost	742,274	261,656	225,708	-	1,229,638
Financial assets at amortised cost pledged as collateral	10,740	14,822	17,445	-	43,007
Fair value adjustments of the hedged items in portfolio hedge	(1,673)	(1,892)	87	-	(3,477)
Derivatives used for hedging	2,989	4,603	726	-	8,318
Other assets (Note: 23)	912	-	-	-	912
Total carrying value	**811,426**	**303,755**	**273,013**	**745**	**1,388,940**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	11,834	14,375	5,096	-	31,305
Other than financial derivatives	20,025	2,271	-	-	22,296
Financial liabilities designated at fair value through profit or loss	13,754	25,742	2,735	-	42,231
Financial liabilities at amortised cost	543,167	301,791	423,999	-	1,268,957
of which lease liabilities	*574*	*1,530*	*1,198*	-	*3,302*
Fair value adjustments of the hedged items in portfolio hedge	(539)	(2,058)	(967)	-	(3,564)
Derivatives used for hedging	2,336	6,275	2,561	-	11,172
Other liabilities (Note: 26)	3,499	-	-	-	3,499
Total carrying value	**594,076**	**348,396**	**433,424**	**-**	**1,375,896**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2020 and 2019 are as follows:

(CZKm)	2020	2019
Loan commitments - irrevocable (Note: 38.2)	121,201	106,000
Loan commitments - revocable	53,114	55,517
Financial guarantees (Note: 38.2)	43,466	47,553
Other commitments (Note: 38.2)	2,067	2,749
	219,848	**211,819**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	411	327

Revocable loan commitments are such commitments in which the Bank may at any time limit the amount that may be drawn under the credit limit. Further the Bank may not provide any drawdown under the credit facility requested by the client or the Bank can suspend further drawdowns under the credit facility all together. The Bank can do so with or without specifying the reason, giving a prior notice or stipulating any time limit. Loan commitments which do not meet the above definition are assessed as irrevocable.

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 38.3).

Litigation

Other than the litigations, for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Bank believes that such claims are unfounded. In addition, the Bank believes that potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Bank has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease receivables (Bank is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings are as follows:

(CZKm)	2020	2019
Not later than 1 year	46	66
Later than 1 year and not later than 5 years	105	30
	151	**96**

These operating leases can be technically cancelled under the Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

34. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2020	2019
Financial assets		
Financial assets at amortised cost	619,743	592,867
	619,743	**592,867**

Under reverse repurchase agreements, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions and securities lending as at 31 December 2020 was CZK 667,830 m, of which CZK 38,325 m has been either sold or repledged (31 December 2019: CZK 648,578 m and CZK 46,878 m, respectively).

The following table shows an analysis of the loans the Bank has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2020	2019
Financial liabilities		
Financial liabilities held for trading	579	16,623
Financial liabilities at amortised cost	36,796	22,928
	37,375	**39,551**

The Bank contracts repo operations under the standard conditions currently applied on the market. Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 15) and Financial assets at fair value through other comprehensive income (Note: 16) and Financial assets at amortised cost (Note: 17).

35. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Bank that have been set-off or that have not been set-off as at 31 December 2020 and 2019:

	2020		
(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	41,692	-	41,692
Derivatives not set-off that are not subject to an enforceable master netting arrangement	8,277	-	8,277
Total trading and hedging derivatives	**49,969**	**-**	**49,969**
Repurchase agreements set-off	19,214	19,214	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	619,742	-	619,742
Total repurchase agreements (Note: 34)	**638,956**	**19,214**	**619,742**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	46,941	-	46,941
Derivatives not set-off that are not subject to an enforceable master netting arrangement	6,341	-	6,341
Total trading and hedging derivatives	**53,282**	**-**	**53,282**
Repurchase agreements set-off	19,214	19,214	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	37,375	-	37,375
Total repurchase agreements (Note: 34)	**56,589**	**19,214**	**37,375**

	2019		
(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,103	-	36,103
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,148	-	3,148
Total trading and hedging derivatives	**39,251**	**-**	**39,251**
Repurchase agreements set-off	8,854	8,854	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	592,867	-	592,867
Total repurchase agreements (Note: 34)	**601,721**	**8,854**	**592,867**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,618	-	36,618
Derivatives not set-off that are not subject to an enforceable master netting arrangement	5,859	-	5,859
Total trading and hedging derivatives	**42,477**	**-**	**42,477**
Repurchase agreements set-off	8,854	8,854	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	39,551	-	39,551
Total repurchase agreements (Note: 34)	**48,405**	**8,854**	**39,551**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2020:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set off: Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	41,692	40,107	984	-	601
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	37,375	37,375	-	-	-
Total carrying value	**79,067**	**77,482**	**984**	**-**	**601**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	46,941	40,107	6,428	-	406
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	37,375	-	-	37,375	-
Total carrying value	**84,316**	**40,107**	**6,428**	**37,375**	**406**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2019:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set off: Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,103	34,574	932	-	597
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	39,551	39,551	-	-	-
Total carrying value	**75,654**	**74,125**	**932**	**-**	**597**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	36,618	34,574	1,519	-	525
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	39,551	-	-	39,551	-
Total carrying value	**76,169**	**34,574**	**1,519**	**39,551**	**525**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

36. RELATED PARTY DISCLOSURES

A number of transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2020 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	834	24,173	1,792	-	5,142	8,759	-
Entities under common control							
ČSOB SK	10	2	-	-	100	-	-
Other	15	33	-	-	96	-	119
Subsidiaries							
BANIT	-	-	-	-	79	-	1
ČSOBS (formerly ČMSS)	-	1,092	-	-	40	309	3
ČSOB Factoring	-	-	-	-	1,878	-	-
ČSOB Leasing	-	246	-	-	19,373	-	-
Hypoteční banka	141	2,473	-	23,835	264,193	88	-
Patria Finance	-	-	-	-	1,644	-	-
Radlice Rozvojová	-	-	-	-	1,380	-	10
Joint ventures							
MallPay	-	-	-	-	10	-	-
Associates							
ČSOB Pojišťovna	-	266	-	-	-	-	8

The outstanding balances of liabilities from related party transactions as at 31 December 2020 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	130	-	61
KBC Bank NV	28,240	445,427	10,389	2
Entities under common control				
ČSOB AM	-	61	-	-
ČSOB SK	5	163	-	-
K&H Bank Zrt	-	79	-	-
Other	-	310	-	34
Subsidiaries				
BANIT	-	2	-	53
ČSOBS (formerly ČMSS)	359	57	22	-
ČSOB Advisory	-	53	-	-
ČSOB Leasing	14	333	-	-
Hypoteční banka	149	6,623	1,394	-
Patria Corporate Finance	-	19	-	-
Patria Finance	-	301	-	-
Radlice Rozvojová	-	713	-	-
Ušetřeno	-	3	-	-
Joint ventures				
MallPay	-	45	-	-
Associates				
ČSOB Pojišťovna	122	537	-	-

The outstanding balances of assets from related party transactions as at 31 December 2019 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	445	20,435	948	-	1,332	7,046	-
Entities under common control							
ČSOB SK	26	-	-	-	180	-	-
Other	76	17	-	-	-	-	-
Subsidiaries							
BANIT	-	-	-	-	119	-	2
ČSOBS (formerly ČMSS)	-	220	-	-	40	35	-
ČSOB Factoring	-	-	-	-	2,665	-	-
ČSOB Leasing	-	63	-	-	22,983	-	-
Hypoteční banka	9	420	-	22,374	243,761	283	-
Patria Finance	-	-	-	-	1,663	-	-
Radlice Rozvojová	-	-	-	-	1,414	-	-
Associates							
ČSOB Pojišťovna	-	181	-	-	-	-	8

The outstanding balances of liabilities from related party transactions as at 31 December 2019 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	67	-	62
KBC Bank NV	35,672	417,649	9,771	1
Entities under common control				
ČSOB AM	-	37	-	-
ČSOB SK	4	75	-	-
K&H Bank Zrt	-	275	-	-
Other	-	103	-	14
Subsidiaries				
BANIT	-	42	-	28
ČSOBS (formerly ČMSS)	23	29	71	-
ČSOB Advisory	-	97	-	-
ČSOB Leasing	205	92	-	-
Hypoteční banka	1,736	6,623	322	-
Patria Corporate Finance	-	20	-	-
Patria Finance	-	271	-	-
Radlice Rozvojová	-	791	-	-
Ušetřeno	-	9	-	-
Associates				
ČSOB Pojišťovna	-	918	-	-

The outstanding balances of financial assets and liabilities held for trading comprise positive and negative fair values of derivative financial instruments (mainly single currency and cross-currency interest rate swaps). Majority of these transactions are collateralised by cash deposit or by securities. Financial assets at amortised cost from related parties represent balances on current accounts or, in a specific cases, term loans with fixed maturity granted to subsidiaries of the Bank (ČSOB Leasing). Financial assets included in the portfolio held for trading, financial assets at fair value through other comprehensive income, financial assets at amortised cost contracted between ČSOB and Hypoteční banka represent mortgage debenture bonds with the contractual maturities from 3 years up to 30 years issued by Hypoteční banka and purchased by the Bank on a primary capital market. Financial liabilities to related parties measured at amortised cost consist of balances on demand deposits. Liabilities to KBC Bank NV represent balances on money-market products, specifically promissory notes with maturities up to one year issued by the Bank, repo transactions and short-term deposits.

The Bank provides banking services to its subsidiaries, associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services. In addition, the Bank acquired interest bearing debt instruments issued by its subsidiaries.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2020		2019	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank NV	2,967	3,389	4,013	5,044
Entities under common control				
ČSOB AM	-	6	-	17
ČSOB SK	-	11	-	33
Other	2	2	4	4
Subsidiaries				
BANIT	3	-	2	-
ČSOBS (formerly ČMSS)	2	-	1	41
ČSOB Factoring	13	-	36	-
ČSOB Advisory	-	5	-	16
ČSOB Leasing	260	-	298	1
Hypoteční banka	4,792	342	4,155	376
Patria Finance	24	-	24	1
Radlice Rozvojová	43	13	1	-
Ušetřeno	-	-	-	-
Associates				
ČSOB Pojišťovna	-	44	-	111

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2020 Fee and commission income	2020 Fee and commission expense	2019 Fee and commission income	2019 Fee and commission expense
KBC Bank NV	54	4	74	2
Entities under common control				
ČSOB AM	369	-	307	-
ČSOB SK	16	-	13	-
KBC Asset Management	436	-	455	-
Other	14	1	5	2
Subsidiaries				
BANIT	1	286	1	266
ČSOBS (formerly ČMSS)	15	23	7	1
ČSOB Factoring	1	-	1	-
ČSOB Leasing	31	-	38	-
ČSOB Penzijní společnost	21	-	18	-
Hypoteční banka	212	190	215	185
Patria Finance	24	1	22	10
Associates				
ČSOB Pojišťovna	504	-	487	-

Dividend income received from subsidiaries, associates and joint ventures in 2020 amounted to CZK 4,229 m (2019: CZK 8,326 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2020 amounted to CZK 22 m (2019: CZK 8 m).

Effective from 1 July 2009, the Bank concluded a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group. In 2020, the Bank received income of CZK 182 m (2019: CZK 141 m) from the provision of administration services and paid expense of CZK 454 m (2019: CZK 449 m) for IT services, including rental expenses on information technologies.

In 2020, the Bank received income of CZK 593 m (2019: CZK 623 m) from ČSOB SK and ČSOB Pojišťovna arising from providing services and support in the following areas such as: ICT services, electronic banking, cards, payment processing, financial management and risk management.

In 2020, the Bank continued with integration of Group and thus received income of CZK 230 m (2019: CZK 58 m) from Hypoteční banka and ČSOBS (formerly ČMSS) for the provision of loan services, such as debt management and collection and for the provision of administration services, such as human resources and accounting services.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2020 Guarantees received	2020 Guarantees given	2019 Guarantees received	2019 Guarantees given
KBC Bank NV	2,345	113	3,611	69
Entities under common control				
ČSOB SK	1,979	12	1,573	15
K&H Bank Zrt	171	-	165	18
Subsidiaries				
ČSOB Leasing	-	4,119	-	5,796

The outstanding balances of guarantees received from KBC Bank NV and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

37. EVENTS AFTER THE REPORTING PERIOD

With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (abbreviated ČMSS) changed its name to ČSOB Stavební spořitelna (abbreviated ČSOBS). The registered office of the company was changed on the same date, the company is now based at Radlická 333/150, 150 57 Prague 5, Czech Republic.

ČSOB was the first bank on the Czech market to receive in October 2020 accreditation from the Ministry of the Interior for banking identity (management of a system for qualified electronic identification). In January 2021, the identification service was launched for Bank's clients.

ČSOB together with Komerční banka and Česká spořitelna established the company Bankovní identita for cooperation in providing the banking identity services. In February 2021, an agreement was reached with other Czech banks on accession and cooperation within the company Bankovní identita. In April 2021, another 7 Czech banks became shareholders of the Bankovní identita. ČSOB now has a share on equity and voting rights of 17%.

On 16 March 2021, ČNB distributed to the banks an information about the limits for the dividend payments from net profits generated in 2019 and 2020.

Maximum dividend, which ČNB allows to distribute is set as a lowest of the following values:

- 100bps of the total risk weighted assets reported at 31 December 2020;
- 25% of the cumulated net profit for the years 2019 and 2020;
- Such a volume, paying of which would lead the total capital adequacy to stand 4 percentage points above the overall capital requirement;
- Such a volume, paying of which would lead the adjusted leverage to stand at 7%. The adjusted leverage ratio is the leverage ratio after exclusion of exposures towards ČNB.

ČNB will assess the dividend proposals individually based on the assessment of the risk profile of the bank. ČNB will also consider the documentation submitted for the SREP process, incl. ICAAP/ILAAP reports, financial plans and stress testing results.

ČNB expects that it will be ready to communicate the results of the assessment during Q3 2021.

There were no other significant events after the reporting period in addition to those mentioned above and elsewhere in these notes to the financial statements.

38. RISK MANAGEMENT

38.1 Introduction

Risk is an inherent part of ČSOB's activities, and risk and capital management is critical to the results of operations and financial condition of ČSOB.

The principal risks that ČSOB faces are credit risk, liquidity risk, market risk, operational and other non-financial risks. ČSOB manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. ČSOB primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Bank's risk and capital management system is based on a risk strategy determined by the ČSOB Board of Directors and is consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. ČSOB maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB, European Central Bank (ECB), European Banking Authority (EBA) and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Bank's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at ČSOB is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

The risk and capital management governance model is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including ČSOB, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within ČSOB;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of ČSOB within which the business has the right to take risks and beyond which the Chief risk officer (CRO) can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The principles described above establish a governance structure, within which:

(i) the Board of Directors is responsible for determining the risk appetite of ČSOB, and capital allocation within ČSOB, by establishing measurable risk and capital parameters, which must be followed in all business activities;

(ii) the Risk and Capital Oversight Committee (RCOC) is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits;

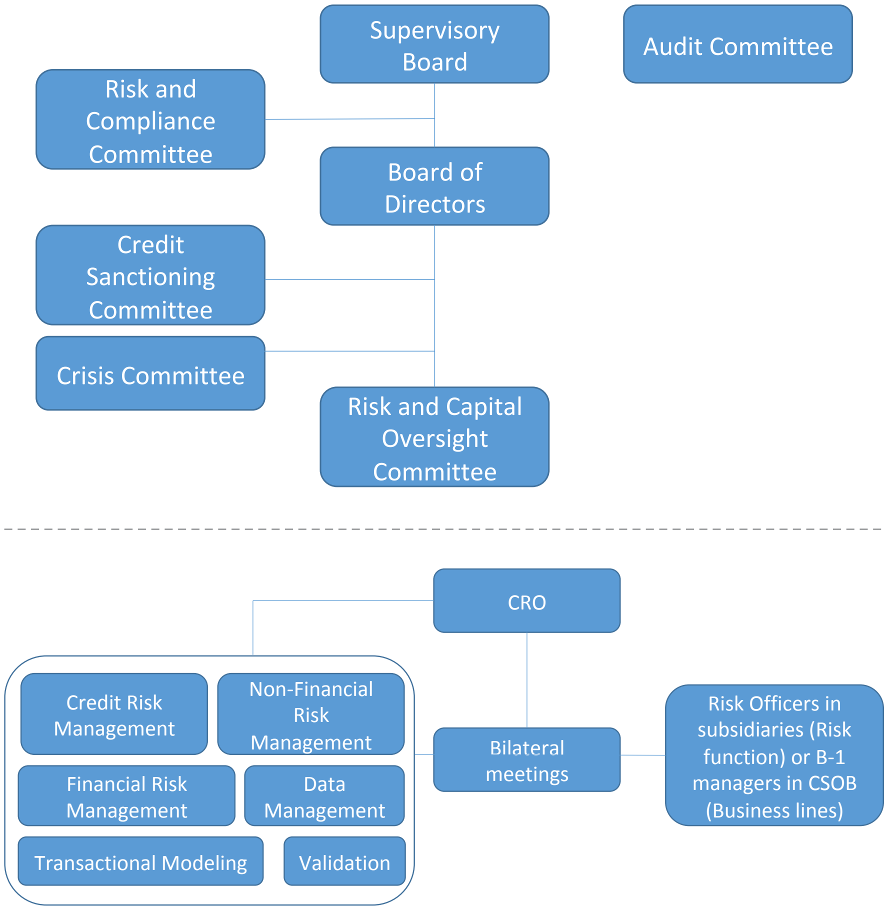
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place; and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Bank is fully embedded in the governance of the KBC Group.
In 2020, Credit risk Management department rejoined to CRO zone.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Bank.



The Bank operates a three-line of defense (LoD) risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Bank is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Bank; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Bank).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Bank's overall current and future risk profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance related matters and communicates with the Bank's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee reviews the activities, structure, independence, professionalism and expertise of Risk management.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Bank's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements of the Bank.

With regards to external audit, the Committee oversees the Bank's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors (BoD)

The Board of Directors generally ensures that comprehensive and adequate internal control and risk governance system is established, well functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- Risk Appetite of ČSOB;
- Result of Risk Scan;
- Limit Book;
- Internal Capital Adequacy Assessment Process;
- Local Capitalisation Plan;
- Recovery Plan as a part of KBC Group Recovery Plan;
- Information Security Strategy;
- Risk governance documents:
  - Risk Management Strategy;
  - Risk Management Framework;
  - RCOC Charter;
  - CRO Role & Mandate;
  - Risk Governance Charter.

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors with risk and capital monitoring within ČSOB's. To perform this function, the BoD delegated to RCOC following key competencies / responsibilities:

(i) to propose to the Board of Directors the Bank's Risk Appetite;

(ii) to propose to the Board of Directors a framework of limits (e.g. market risk, ALM risk, credit risk, operational risk, capital, risk/return limits, concentration limits) consistent with the Bank's Risk Appetite, within which Risk and Capital will be managed;

(iii) to monitor risk exposure against approved Risk Appetite and risk indicators;

(iv) to approve (in line with the delegation rules and exceptions set in Limit Book and Risk Appetite Standards) temporary Risk indicators breaches and remedial actions;

(v) to recommend to BoD remedial actions to bring risk exposure within Risk Appetite;

(vi) to approve Risk Indicators (in line with the delegation rules and exceptions set in Limit Book)

(vii) to approve valuation methodology and policy;

(viii) to periodically review indicators & targets and, as necessary, to recommend to the BoD changes in approved Primary Risk Indicators and to decide on changes in approved Secondary Risk Indicators (in line with the delegation rules and exceptions set in Limit Book);

(ix) to monitor the integrated risk profile (including results of stress-tests) to ensure its consistency with the Risk Appetite and to identify and report on ‘hidden risks’;

(x) o monitor market context, solvency, liquidity, earnings at risk, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(xi) monitor capital adequacy and usage of Regulatory and Economic Capital.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Risk and Compliance Committee and the Supervisory Board. These reports form the basis for the risk monitoring process.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Financial Risk Management;

(ii) Non-financial Risk Management;

(iii) Validations;

(iv) Transactional Modelling;

(v) Credit Risk Management.

The key strategic and governance responsibilities of the CRO are:

(i) Membership in ČSOB Board of Directors (BoD).

(ii) Standing invitation to the Risk and Compliance Committee (RCC) and a separate reporting line to its Chairman.

(iii) Membership in ČSOB Group Risk and Capital Oversight Committee (RCOC), CRO is the Chair.

(iv) Membership in ČSOB Crisis Committee (CRC).

(v) Membership in KBC Group Risk Management Committee (Risk ManCo).

(vi) Membership in Bilateral meetings, CRO is the Chair.

(vii) Recommend Risk Governance structure and roles.

(viii) Decide the structure of the risk function.

(ix) Contribute to the Risk Appetite and approves Business line´s Risk Appetites for ČSOB Bank, and takes note of subsidiaries´ Risk Appetite Statements.

(x) Contribute to the business strategy / strategic planning (including performance targets) and give consent to final strategy to ensure staying within Risk Appetite.

(xi) Recommend the Capital Adequacy Policy.

(xii) Contribute to limits and delegation of authority setting within and below BoD delegation and give consent to final decision to ensure staying within Risk Appetite.

(xiii) Contribute to capital and funding allocation and give consent to final allocation to ensure staying within Risk Appetite.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks and policies;

(ii) Decide on of transactional models for risk management;

(iii) Contribute to guidelines for portfolio and transactional model development;

(iv) Approve (in line with the delegation rules set in Risk Appetite Standards and exceptions specified in Limit Book) temporary Risk Indicators (as specified in Risk Appetite Standards) breaches and remedial actions;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Contribute to day to day business decisions;

(viii) Decide local implementation and monitoring of group-wide risk standards;

(ix) Agree to risk taking decisions outside of the Risk Appetite with the right to call “time out”.

The CRO may suspend any decisions of any department or committee, or any entity, affecting the risk or capital position of ČSOB by escalating it to the RCOC or the Board of Directors.

The oversight activities of the CRO are:

(i) Ensure that risk management processes are effective and efficient, promote a culture of risk aware business conduct and prudent risk management;

(ii) Ensure compliance with Group (KBC) and regulatory requirements in the field of risk management. CRO is accountable for the correct implementation of KBC group wide standards and policies;

(iii) Recommend the need for action to address risk & capital issues raised in internal reports;

(iv) Contribute to corrective actions to address local underperformance versus targets and give consent to final actions to ensure staying within Risk Appetite;

(v) Assess the extent and structure of risk undertaken and the impact thereof on the performance and stability of the ČSOB Group;

(vi) Coordinate implementation of business continuity management process in the ČSOB Group;

(vii) Provide risk and capital reporting to internal (senior management, Board of Directors, Risk and Capital Oversight Committee, Risk and Compliance Committee) and external clients (KBC, CNB);

(viii) Present information concerning the developments in the field of risk management to ČSOB and KBC management and to regulator;

(ix) Advise on risk related matters to Management Board of entities that have a separate legal structure;

(x) Is accountable for risk management in the ČSOB Group, including the implementation of the risk standards. To ensure proper risk management and to enhance risk culture, Risk Officers in material entities are appointed (see Risk Officer Mandate below);

(xi) Is accountable for clear delineation of accountabilities and responsibilities between 3 lines of defence.

Risk Function

The risk function is organized in the following risk specific departments: Financial Risk Management, Credit Risk Management and Non-financial Risk Management, which is complemented by one team responsible for validation of transactional models and one team responsible for transactional modelling. Common activities and shared processes are coordinated by Integrated risk management team (part of Financial Risk Management).

The risk departments at group level support the CRO of ČSOB Group and are the sparring partner of the business lines via the Bilateral Meetings (Former Business Risk Meetings). This support mainly consists of formulating proposals with regard to the definition of the Risk Appetite and providing reporting and advice in the field of risk and capital management.

The risk departments have the following roles and responsibilities:

(i) Define the risk management approach and methodology related to their specific risk type, in particular through ownership of the risk type specific framework and policies;

(ii) Define the risk measures that relate to the specific risk types;

(iii) Support ČSOB Group RCOC;

(iv) Support the CROs for all matters that relate to the specific risk types;

(v) Contribute to integrated processes (e.g. ICAAP/ORSA, stress testing);

(vi) Define and deliver the core reports for the specific risk types and deliver inputs for Integrated Risk Report;

(vii) Define and monitor a set of Risk Indicators (Primary & Secondary), Targets and Early Warning Signals that cover the specific risk types;

(viii) Follow up on the status of risk and capital management for the specific risks throughout the ČSOB Group.

Central Credit risk and loss Measurement Validation

Central Credit risk and loss Measurement Validation focuses on reducing of model risk and seeks a group-wide consistency by providing a well-founded, intelligible and timely independent second opinion and methodological guidance on models for risk measurement and provisioning to their owners, decision bodies and modellers.

Transactional modelling

Transactional modelling being part of KBC Group Modelling Competence Centre is responsible for design and review of local credit risk (PD, EAD, LGD), incl. application scorecards, and local provisioning models. The unit further participates in implementation of local and group-wide models into credit decision process of all business segments and for the purpose of regulatory capital calculation.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the ČSOB level:

Credits departments

Departments within Credits are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors.

The key responsibilities of the Credits departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

SEPARATE FINANCIAL STATEMENTS

Asset and Liability Management Department (ALM Department)

The ALM Department is responsible for managing the assets and liabilities of ČSOB's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALM Department is also primarily responsible for managing the funding and liquidity position of ČSOB. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses risk and capital management processes throughout ČSOB examining both the adequacy of its risk and capital management procedures and the Bank's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

Members of NAPPs process are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department and Compliance Department) seeks to ensure that no product may be offered to ČSOB's customers unless all significant risks have been analysed and mitigated and residual risks have been accepted. ČSOB pays special attention to protecting ČSOB against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the ČSOB Group with respect to credit risk. The members of the CSC are a member of ČSOB BoD responsible for Credits, who is the CSC's chairman, and the Head of ČSOB Credits Head for Credits for Corporates and Banks; Head for Corporate Advice and Underwriting; Head of Corporate Banking; Head of Specialized and Institutional Banking and Executive Director SME and appointed Risk Manager. The CSC reports to the Board of Directors.

Bilateral Meetings

Bilateral Meetings (formerly known as Business Risk Meetings) are established for each Business Line in ČSOB Holding (including subsidiaries and ČSOB Insurance) where business specific risk issues are regularly discussed. Currently, Bilateral Meetings do not take place within Hypoteční banka and ČSOBS where the same CRO as in ČSOB is appointed.

The CRO has sole decision rights within the delegated decision authorities, which can always be escalated to the BoD on request of the BoD member responsible for that area.

As a general approach, RCOC approves (majority of) limits, while CRO approves (via Bilateral Meetings) risk measurement methods and methodology.

Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP)

The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) require banks to have in place processes to assess and maintain adequate levels of internal capital and liquidity buffers.

The ICAAP is seen as an integral part of the overall management and control system of the Bank, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC Group, ČSOB has adopted a unified KBC Group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the European Central Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Bank's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications. Moreover, results of Internal Capital Model which is currently used for internal calculation of the ČSOB capital adequacy are quarterly reported to the Board of Directors.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Bank will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP the following:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results.

including the methods of reflecting these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

ICAAP and ILAAP address the following material risks to which the Bank is or may be exposed:

- Credit and counterparty risk, (including concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Business risk
- Funding and liquidity risk

Other risks, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital needed is calculated for the ČSOB Group as a separate entity within the KBC Group at the probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC Group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

According to the relevant EBA Guidelines the Internal Liquidity Assessment Process (ILAAP) is a process to identify, measure, manage and monitor liquidity, implemented by the bank pursuant to the CRD. It discloses all the qualitative and quantitative information about the systems, processes and methodologies to measure and manage liquidity and funding risk, which is necessary to underpin the risk appetite and business strategy both in normal and stressed scenarios.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is provided to the top management and all other relevant members of the Bank on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Bank, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc.).

38.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party’s insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Bank monitors exposures in relation to these limits. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Bank is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on the principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The model results are used for the capital calculation and for credit decision purposes too.

The Bank implemented a new default definition as of March 2020. This implementation is in line with relevant European and local regulations. The impacts of this implementation are, among other things, in the method of calculating days past due. Overdue days are newly defined as the number of consecutive days when the "arrears" of the client facility are continuous and simultaneously above both "materiality thresholds" (absolute threshold and relative materiality threshold).

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without ČSOB seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards ČSOB is more than 90 days past the due date.

At ČSOB, default status may occur when a forbearance measure-concession is granted. Forbearance measures is concessions towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled.. For more, see the section "Forbearance measures".

Non-retail exposure

Rating system: PD (Probability of Default)

The Bank manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains: (i) customers where the relevant Bank credit decision authority has judged the exposure to be "unlikely to pay" and none of the obligations are more than 90 days overdue and no Bank credit decision authority has judged the exposure to be 'partly or fully lost' without recourse to credit protection.

PD 11 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, where Bank credit decision authority has judged the exposure to be "partly or fully lost" without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, among other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Bank's risk categories, including the internal and external ratings, for non-retail exposure:

ČSOB risk categories for Non-retail exposure

Category	PD Rating	PD %	S&P's Rating	Stage	Performance	Impairment	Default
Normal	1-7	0.0-6.4	AAA - B	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Monitored	8-9	6.4-100	(B-) - C	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Uncertain	10	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Doubtful	11	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Irrecoverable	12	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credits departments in the Bank. These Credits departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credits department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credits department above the certain threshold. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the "four eyes principle", i.e. at least two persons with appropriate delegation authority need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to non-retail exposures (corporate, large non-retail SME). For small non-retail SME an automated behavioural monitoring process is being used. Credit exposures with a rating between PD 1 – 8 (non-retail SME) / PD 1 – 9 (corporate) are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 (non-retail SME) / PD 10 – 12 (corporate) are reviewed by the Bad Debt department, which is a sub-department of the Credits Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subject to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt department. The credit customer relationship is transferred to the Bad Debt department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Bank's risk categories for retail exposure:

ČSOB risk categories for Retail exposure

Category	PD rating	Stage	Performance	Impairment	Default
Normal	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Monitored	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Uncertain	10	Stage 3	Non-performing	Model based	Defaulted
Doubtful	11	Stage 3	Non-performing	Model based	Defaulted
Irrecoverable	12	Stage 3	Non-performing	Model based	Defaulted

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are fully automated based on scorecards in the vast majority of cases. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and the development of Credit Cost Ratios within the different sub-portfolios.

Collection Process

The collection process in retail consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is few days overdue and may involve the restructuring of the loan. Late collection is focused on legal proceedings and the recovery of collateral. All collection units within the Bank are monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Bank, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Bank provides guarantees and letters of credit on behalf of its customers, as a result of which the Bank may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Bank to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Bank:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Bank has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Bank's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Bank to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Bank manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government – e-Toll), where the risk is limited as counterparties are either highly rated banks, government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2020 and 2019. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

(CZKm)	2020 Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	2,265	14,853	-	-	17,118
Financial assets held for trading (Note: 15)	-	4,778	35,269	-	40,047
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,792	-	-	1,792
Financial assets FVOCI (Note: 16)	2,473	28,532	-	-	31,005
Financial assets FVOCI pledged as collateral	-	6,328	-	-	6,328
Financial assets at AC	277,405	1,070,329	-	1,578	1,349,312
Financial assets at AC pledged as collateral	-	40,930	-	-	40,930
Fair value adjustments of the hedged items in portfolio hedge	-	4,686	-	-	4,686
Derivatives used for hedging	-	10,023	-	-	10,023
Other assets (Note: 23)	-	-	-	844	844
Total	282,143	1,182,251	35,269	2,422	1,502,085
Contingent liabilities (Note: 33)	40,859	4,117	-	328	45,304
Commitments – irrevocable (Note: 33)	120,289	730	-	-	121,019
Total	161,148	4,847	-	328	166,323
Total credit risk exposure	**443,291**	**1,187,098**	**35,269**	**2,750**	**1,668,408**

(CZKm)	2019 Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	1,673	30,637	-	-	32,310
Financial assets held for trading (Note: 15)	-	2,710	28,224	-	30,934
Non-trading financial assets mandatorily at fair value through profit or loss	-	948	-	-	948
Financial assets FVOCI (Note: 16)	2,428	26,436	-	-	28,864
Financial assets FVOCI pledged as collateral	-	6,465	-	-	6,465
Financial assets at AC	287,692	938,436	-	3,510	1,229,638
Financial assets at AC pledged as collateral	-	43,007	-	-	43,007
Fair value adjustments of the hedged items in portfolio hedge	-	(3,477)	-	-	(3,477)
Derivatives used for hedging	-	8,318	-	-	8,318
Other assets (Note: 23)	-	-	-	912	912
Total	291,793	1,053,480	28,224	4,422	1,377,919
Contingent liabilities (Note: 33)	43,991	5,796	-	329	50,116
Commitments – irrevocable (Note: 33)	104,592	1,267	-	-	105,859
Total	148,583	7,063	-	329	155,975
Total credit risk exposure	**440,376**	**1,060,543**	**28,224**	**4,751**	**1,533,894**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Bank before and after taking into account the collateral held:

(CZKm)	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure	2019 Gross maximum exposure	2019 Financial effect of collateral	2019 Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 14)	17,118	-	17,118	32,310	-	32,310
Financial assets held for trading (incl. assets pledged as collateral)	40,047	1,350	38,697	30,934	961	29,973
Financial derivatives	39,945	1,350	38,595	30,934	961	29,973
Financial assets other than derivatives	102	-	102	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	1,792	-	1,792	948	-	948
Financial assets FVOCI (incl. assets pledged as collateral)	37,333	-	37,333	35,329	-	35,329
Financial assets at amortised cost (incl. assets pledged as collateral)	1,390,242	749,808	640,434	1,272,645	716,269	556,376
of which non-performing assets	*5,205*	*3,287*	*1,918*	*4,456*	*1,510*	*2,946*
Fair value adjustments of the hedged items in portfolio hedge	4,686	-	4,686	(3,477)	-	(3,477)
Derivatives used for hedging	10,023	54	9,969	8,318	282	8,036
Other assets (Note: 23)	844	-	844	912	-	912
Total	1,502,085	751,212	750,873	1,377,919	717,512	660,407
Contingent liabilities and commitments – irrevocable (Note: 33)	166,323	45,904	120,419	155,975	39,501	116,474
of which non-performing exposures	*663*	*363*	*300*	*948*	*574*	*374*
Total credit risk exposure	**1,668,408**	**797,116**	**871,292**	**1,533,894**	**757,013**	**776,881**

Set out below is an analysis of the non-performing exposure to credit risk of the Bank before and after taking into account the collateral held by type of the business:

(CZKm)	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure	2019 Gross maximum exposure	2019 Financial effect of collateral	2019 Net maximum exposure
Non-performing exposures total						
Corporate	*3,132*	*1,843*	*1,289*	*3,588*	*1,277*	*2,311*
SME	*2,294*	*1,802*	*492*	*1,432*	*803*	*629*
Retail	*396*	*1*	*395*	*316*	*1*	*315*
Other	*46*	*4*	*42*	*68*	*3*	*65*
Total non-performing exposures	***5,868***	***3,650***	***2,218***	***5,404***	***2,084***	***3,320***

Financial effect of collateral represents a fair value of collateral received by the Bank against a credit exposure limited to the outstanding amount of the exposure.

The credit portfolio is structured according to the type of the business the Bank enters into:

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	164,725	36,981	65,877	**267,583**	(3,868)	(321)	**263,394**
SME	91,047	4,058	42,200	**137,305**	(4,890)	(68)	**132,347**
Retail	34,117	-	12,276	**46,393**	(1,747)	(17)	**44,629**
Other	2,777	49	118	**2,944**	(18)	(5)	**2,921**
Total credits	**292,666**	**41,088**	**120,471**	**454,225**	**(10,523)**	**(411)**	**443,291**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	171,925	39,860	55,120	**266,905**	(2,097)	(243)	**264,565**
SME	90,659	4,247	38,074	**132,980**	(3,236)	(60)	**129,684**
Retail	33,846	-	11,534	**45,380**	(1,193)	(17)	**44,170**
Other	1,903	70	5	**1,978**	(14)	(7)	**1,957**
Total credits	**298,333**	**44,177**	**104,733**	**447,243**	**(6,540)**	**(327)**	**440,376**

The following tables show a reconciliation of the allowances for impairment losses on credit portfolio for 2019 and 2020 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2019	**2,157**	**3,483**	**1,191**	**23**	**6,854**
Stage 1					
At 1 January 2019	**140**	**196**	**149**	**1**	**486**
Origination and acquisition	148	87	78	-	313
Change in credit risk not leading to stage transfers	(47)	20	(31)	-	(58)
Change in credit risk leading to stage transfer	(7)	(13)	(4)	-	(24)
Modification without derecognition	-	(1)	-	-	(1)
Derecognition	-	(23)	(34)	-	(57)
Foreign currency translation	-	-	2	-	2
At 31 December 2019	**234**	**266**	**160**	**1**	**661**
Origination and acquisition	72	49	63	-	184
Change in credit risk not leading to stage transfers	(25)	(71)	(34)	-	(130)
Change in credit risk leading to stage transfer	(5)	(25)	(3)	-	(33)
Modification without derecognition	(12)	(26)	(4)	-	(42)
Derecognition	-	(31)	(28)	-	(59)
Foreign currency translation	-	5	(4)	-	1
At 31 December 2020	**264**	**167**	**150**	**1**	**582**
Stage 2					
At 1 January 2019	**76**	**406**	**300**	**-**	**782**
Origination and acquisition	73	37	56	-	166
Change in credit risk not leading to stage transfers	(36)	23	14	3	4
Change in credit risk leading to stage transfer	17	102	2	-	121
Modification without derecognition	-	(15)	(1)	-	(16)
Derecognition	-	(44)	(29)	-	(73)
Foreign currency translation	(4)	9	(39)	-	(34)
At 31 December 2019	**126**	**518**	**303**	**3**	**950**
Origination and acquisition	-	-	-	-	-
Change in credit risk not leading to stage transfers	877	1,667	540	-	3,084
Change in credit risk leading to stage transfer	134	57	29	-	220
Modification without derecognition	17	25	4	-	46
Derecognition	-	(50)	(24)	-	(74)
Foreign currency translation	-	3	(6)	-	(3)
At 31 December 2020	**1,154**	**2,220**	**846**	**3**	**4,223**

Stage 3					
At 1 January 2019	**1,928**	**2,837**	**739**	**22**	**5,526**
Origination and acquisition	42	95	36	-	173
Change in credit risk not leading to stage transfers	(143)	(89)	34	5	(193)
Change in credit risk leading to stage transfer	153	228	197	-	578
Modification without derecognition	-	136	3	-	139
Derecognition	-	(123)	(31)	-	(154)
Write-offs	(250)	(667)	(252)	(5)	(1,174)
Foreign currency translation	-	-	-	(12)	(12)
At 31 December 2019	**1,730**	**2,417**	**726**	**10**	**4,883**
Origination and acquisition	-	-	-	-	-
Change in credit risk not leading to stage transfers	(36)	(88)	33	-	(91)
Change in credit risk leading to stage transfer	548	359	258	1	1,166
Modification without derecognition	200	234	54	-	488
Derecognition	-	(102)	(27)	-	(129)
Write-offs	-	(363)	(295)	-	(658)
Foreign currency translation	1	-	-	3	4
At 31 December 2020	**2,443**	**2,457**	**749**	**14**	**5,663**
POCI					
At 1 January 2019	**13**	**44**	**3**	**-**	**60**
Change in credit risk not leading to stage transfers	(6)	1	4	-	(1)
Change in credit risk leading to stage transfer	-	-	(2)	-	(2)
Derecognition	-	(8)	-	-	(8)
(Write-offs) / recoveries	-	(2)	(1)	-	(3)
At 31 December 2019	**7**	**35**	**4**	**-**	**46**
Change in credit risk not leading to stage transfers	-	8	1	-	9
Change in credit risk leading to stage transfer	-	5	(2)	-	3
Derecognition	-	(1)	-	-	(1)
(Write-offs) / recoveries	-	(1)	(1)	-	(2)
At 31 December 2020	**7**	**46**	**2**	**-**	**55**

In 2020 and 2019, the most significant changes in gross carrying amount of credit exposures that have an impact on ECL allowance include: origination and acquisition of new assets, changes in credit risk leading to transfers between stages (Note: 17), derecognition of loans and write-offs.

The following table shows a consistence of the movements of expected credit losses with the impairment losses as reported in the consolidated statement of income:

(CZKm)	2020	2019
Balance of allowances for credit losses at 1 January	6,540	6,854
Balance of allowances for credit losses at 31 December	10,523	6,540
Net increase of allowances for credit losses for the year	**3,983**	**(314)**
Adjusted for:		
Write-offs	650	1,103
Recoveries	(322)	(542)
Sales of loans	10	74
Foreign currency translation	(2)	44
Net impairment losses as reported in the income statement	**4,319**	**365**

An industry sector analysis of the Bank's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

Sector	2020 Granted exposure (CZKm)	2020 Percentage of total exposure	2019 Granted exposure (CZKm)	2019 Percentage of total exposure
Distribution	64,097	14.1	60,559	13.5
Services	60,576	13.3	62,147	13.9
Commercial Real Estate	58,609	12.9	58,770	13.2
Private persons	43,296	9.5	42,404	9.5
Building and Construction	42,626	9.4	41,087	9.2
Automotive	32,650	7.2	30,487	6.8
Oil, Gas and other Fuels	22,130	4.9	18,449	4.1
Authorities	16,574	3.6	17,236	3.9
Machinery and Heavy Equipment	16,082	3.5	15,861	3.5
Metals	14,964	3.3	13,178	2.9
Finance and Insurance	11,206	2.6	12,282	2.8
Electricity	8,559	1.9	10,645	2.4
Electrotechnics	7,905	1.7	7,566	1.7
Food producers	5,644	1.2	5,134	1.1
Chemicals	5,379	1.2	6,986	1.6
Telecommunications	3,870	0.9	5,498	1.2
Other sectors	40,058	8.8	38,954	8.7
Total	**454,225**	**100.0**	**447,243**	**100.0**

The investment portfolio is structured according to the type of the instrument:

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	494,396	-	-	(65)	**494,331**
Loans and receivables within investment portfolio	658,268	4,117	730	(3)	**663,112**
Derivatives used for hedging	10,023	-	-	-	**10,023**
Derivatives held for trading	4,778	-	-	-	**4,778**
Cash, balances with central banks and other demand deposits	14,853	-	-	-	**14,853**
Total investment	**1,182,318**	**4,117**	**730**	**(68)**	**1,187,097**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	390,751	-	-	(58)	**390,693**
Loans and receivables within investment portfolio	621,126	5,796	1,267	(4)	**628,185**
Derivatives used for hedging	8,318	-	-	-	**8,318**
Derivatives held for trading	2,710	-	-	-	**2,710**
Cash, balances with central banks and other demand deposits	30,637	-	-	-	**30,637**
Total investment	**1,053,542**	**5,796**	**1,267**	**(62)**	**1,060,543**

The following tables show a reconciliation of the allowances for impairment losses on investment portfolio for 2019 and 2020 by classes of financial instruments:

(CZKm)	Debt securities: Financial assets FVOCI	Debt securities: Financial assets at amortised cost	Total
Stage 1			
At 1 January 2019	**5**	**54**	**59**
Change in credit risk not leading to stage transfers	-	1	1
At 31 December 2019	**5**	**55**	**60**
Change in credit risk not leading to stage transfers	1	7	8
At 31 December 2020	**6**	**62**	**68**
Stage 2			
At 1 January 2019	**-**	**2**	**2**
Change in credit risk not leading to stage transfers	-	-	-
At 31 December 2019	**-**	**2**	**2**
Change in credit risk not leading to stage transfers	-	(2)	(2)
At 31 December 2020	**-**	**-**	**-**

The investment portfolio is monitored from a counterparty sector point of view:

Sector	2020 Granted exposure (CZKm)	2020 Percentage of total exposure	2019 Granted exposure (CZKm)	2019 Percentage of total exposure
Central banks	634,576	53.4	623,475	58.8
General government	204,865	17.3	121,947	11.5
Credit institutions	317,254	26.7	278,960	26.3
Corporate	30,402	2.6	36,161	3.4
Total investment	**1,187,097**	**100.0**	**1,060,543**	**100.0**

The trading portfolio is structured according to the type of the instrument:

2020 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	102	-	-	102
Derivatives held for trading	35,167	-	-	35,167
Total trading portfolio	**35,269**	-	-	**35,269**

2019 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Derivatives held for trading	28,224	-	-	28,224
Total trading portfolio	**28,224**	**-**	**-**	**28,224**

The trading portfolio is monitored from counterparty sector point of view:

Sector	2020 Granted exposure (CZKm)	2020 Percentage of total exposure	2019 Granted exposure (CZKm)	2019 Percentage of total exposure
Credit institutions	30,271	85.8	25,706	91.1
Corporate	4,998	14.2	2,518	8.9
Total trading portfolio	**35,269**	**100.0**	**28,224**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2020 Total risk	2020 of which General government	2019 Total risk	2019 of which General government
Czech Republic	1,564,231	199,565	1,437,099	116,376
Slovak Republic	14,581	6,942	13,306	6,996
Greece	2	-	37	-
Italy	407	-	1,431	-
Spain	1,098	-	1,093	-
Belgium	38,697	-	28,950	-
Hungary	480	-	491	-
Other Europe	39,182	7,327	40,872	7,630
Other	9,730	-	10,615	-
Total	**1,668,408**	**213,834**	**1,533,894**	**131,002**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

Client	2020 Granted exposure (CZK m)	2020 % of total credit portfolio	2019 Granted exposure (CZK m)	2019 % of total credit portfolio
1 largest client	9,636	2.1	10,826	2.4
10 largest clients	69,594	15.3	66,390	14.8
25 largest clients	110,482	24.3	107,406	24.0

The largest exposures to single clients in the investment portfolio as at 31 December 2020 and 31 December 2019 were:

Client	2020 Granted exposure (CZK m)	2020 % of total investment portfolio	2019 Granted exposure (CZK m)	2019 % of total investment portfolio
CNB	634,577	53.5	623,475	58.8
Hypoteční banka	288,257	24.3	266,427	25.1
Czech Ministry of Finance (S&P's rating AA)	190,599	16.1	107,322	10.1

The largest exposures to single clients in the trading portfolio as at 31 December 2020 and 31 December 2019 were:

Client	2020 Granted exposure (CZK m)	2020 % of total trading portfolio	2019 Granted exposure (CZK m)	2019 % of total trading portfolio
KBC Bank	24,173	68.5	20,435	72.4

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2020 and 31 December 2019 were:

Rating (S&P)	2020 Granted exposure (CZK m)	2020 % of total portfolio	2019 Granted exposure (CZK m)	2019 % of total portfolio
Investment portfolio				
AAA up to and including A-	861,693	72.6	759,534	71.6
BBB+ up to and including BB-	274	0.0	598	0.1
Unrated	325,130	27.4	300,411	28.3
Total	**1,187,097**	**100.0**	**1,060,543**	**100.0**
Trading portfolio				
AAA up to and including A-	25,849	73.3	21,421	75,9
BBB+ up to and including BB	333	0.9	3,388	12.0
Unrated	9,087	25.8	3,415	12.1
Total	**35,269**	**100.0**	**28,224**	**100.0**

Included in the item unrated, there are loans granted to the ČSOB's subsidiaries Hypoteční banka, ČSOB Leasing and ČSOB Factoring, as well as securities issued by these companies held by the Bank as part of the investment portfolio.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, trade receivables and inventory;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Bank complies with CNB recommendation regarding retail loans secured by residential properties. The Bank continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

Within concluding derivatives transaction to hedge counterparty´s risk the Bank uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment

The Bank complies with the IFRS 9 accounting standard and as a result uses the expected credit loss model methodology to calculate its impairments.

The portfolio can be divided into three stages while the main considerations for stage allocation include whether there has been a significant increase in credit risk since initial recognition, any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract.

A symmetric 5-tier waterfall staging approach was developed to assess whether there has been a significant increase in credit risk since initial recognition triggering transfer to stage 2. The five tiers are following:

1. Increase of internal rating (mapped to Basel probability of default) by 2 notches or more since initial recognition, for Retail exposures 400% increase of probability of default being equivalent of 2 notches;
2. The exposure is forborne;
3. The exposure is more than 30 days past due;
4. The internal PD rating is 9 or its equivalent for Retail exposures;
5. Collective assessment – manual expert judgement based on forward looking information not captured by PD models such as social, political, regional, economic conditions.

A default event triggers transfer directly to stage 3.

The Bank takes the advantage of low credit risk exemption for its debt securities in the Treasury and ALM portfolios, i.e. all such exposures internally rated PD1 - PD3 stay in stage 1.

The accounting standard introduced also staging rules for purchased or originated credit impaired (so called POCI) assets which upon cure event move from stage 3 to stage 2, but may never transfer to stage 1. This concerns also modified financial assets in case the modification resulted into derecognition of the original asset and recognition of a new forborne asset.

The expected credit loss (impairment) is calculated on 12-month basis for stage 1 and on lifetime basis for stage 2 and stage 3.

Various IFRS 9 models were developed within the Bank for certain combinations of products and types of counterparty to arrive at the impairment as a sum of discounted products of IFRS 9 Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD) adjusted for survival factor across the 12 months or lifetime to maturity for stage 1 or stage 2 and stage 3, respectively. The final impairment is a weighted sum of calculated impairments resulting from three different macroeconomic scenarios.

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively calculated ECL (i.e. without the ECL on individually assessed files of CZK 3,560 m at year-end 2020 and CZK 2,618 m in 2019), shows that the base scenario results in an ECL of CZK 7,147 m (CZK 3,987 in 2019), which is CZK 93 m lower than the "down"-scenario (CZK 126 m in 2019) and CZK 206 m higher than the "up"-scenario (CZK 15 m in 2019). The collectively calculated weighted ECL results (which was booked) amounts to CZK 7,094 m (CZK 4,009 m in 2019). Note that these amounts take into account the COVID-19 related management overlay (per scenario) at the end of 2020 (Note: 2.2).

Different macroeconomic factors are taken into consideration and the Bank applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

Management has the possibility to reflect its expertise in the final result of the impairment numbers in the exceptional case that the model-based calculation does not result in relevant and reliable impairment amounts based on available forward looking information.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Bank sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Bank's credit rating system as at 31 December 2020 and 2019:

Credit portfolio	2020					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	176,548	19,783	4,310	-	1,065	201,706
SME	74,570	15,725	2,753	182	1,875	95,105
Retail	30,379	2,591	226	143	778	34,117
Other	1,929	835	-	-	62	2,826
Total	**283,426**	**38,934**	**7,289**	**325**	**3,780**	**333,754**

Credit portfolio	2019					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	190,761	15,749	4,140	-	1,135	211,785
SME	79,736	11,279	1,435	401	2,055	94,906
Retail	30,539	2,260	132	138	777	33,846
Other	1,878	8	6	-	81	1,973
Total	**302,914**	**29,296**	**5,713**	**539**	**4,048**	**342,510**

Loan portfolio breakdown by risk class (in gross amounts) based on internal rating scale:

	2020			2019		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-defaulted assets						
PD 1 (default probability 0:00% - 0.10%)	18,050	386	-	18,789	65	-
PD 2 (0.10% - 0.20%)	35,942	87	-	37,517	44	-
PD 3 (0.20% - 0.40%)	42,612	290	-	52,302	150	-
PD 4 (0.40% - 0.80%)	63,896	1,589	-	71,236	726	-
PD 5 (0.80% - 1.60%)	64,080	6,737	-	67,662	5,772	-
PD 6 (1.60% - 3.20%)	42,683	10,738	-	40,793	7,334	-
PD 7 (3.20% - 6.40%)	13,183	7,413	-	12,537	6,445	-
PD 8 (6.40% - 12.80%)	2,831	5,637	-	1,932	2,873	-
PD 9 (> 12.80%)	94	6,049	-	146	5,887	-
Unrated	55	8	-	-	-	-
Defaulted assets						
PD 10	-	-	7,289	-	-	5,713
PD 11	-	-	325	-	-	539
PD 12	-	-	3,780	-	-	4,048
Total	**283,426**	**38,934**	**11,394**	**302,914**	**29,296**	**10,300**

Investment portfolio	2020			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	494,396	-	-	494,396
Loans and receivables within investment portfolio	663,115	-	-	663,115
Derivatives used for hedging	10,023	-	-	10,023
Derivative contracts held for trading	4,778	-	-	4,778
Cash, balances with central banks and other demand deposits	14,853	-	-	14,853
Total	**1,187,165**	**-**	**-**	**1,187,165**

Investment portfolio	2019			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	390,419	332	-	390,751
Loans and receivables within investment portfolio	628,189	-	-	628,189
Derivatives used for hedging	8,318	-	-	8,318
Derivative contracts held for trading	2,710	-	-	2,710
Cash, balances with central banks and other demand deposits	30,637	-	-	30,637
Total	**1,060,273**	**332**	**-**	**1,060,605**

Trading portfolio	2020		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Loans and advances	102	-	102
Derivative contracts held for trading	35,167	-	35,167
Total	**35,269**	**-**	**35,269**

Trading portfolio	2019		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Derivative contracts held for trading	28,224	-	28,224
Total	**28,224**	**-**	**28,224**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2020 Neither past due nor defaulted	2020 Past due (< 30 days) but not defaulted	2020 Past due (> 30 days) but not defaulted	2019 Neither past due nor defaulted	2019 Past due (< 30 days) but not defaulted	2019 Past due (> 30 days) but not defaulted
Corporate	159,771	-	-	167,445	8	7
SME	85,980	290	37	86,177	570	63
Retail	32,247	602	121	32,052	627	120
Other	2,764	-	-	1,884	-	-
Total	**280,762**	**892**	**158**	**287,558**	**1,205**	**190**

Performing assets reported within neither past due nor defaulted consist of Normal risk category assets based on the Bank's credit rating system.

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of non-performing financial assets included in the credit portfolio and the related impairment are as follows:

(CZKm)	2020 Gross amount	2020 Impairment	2019 Gross amount	2019 Impairment
Credit portfolio				
Corporate	5,375	(2,634)	5,275	(1,917)
SME	4,810	(2,516)	3,891	(2,457)
Retail	1,147	(751)	1,047	(731)
Other	62	(17)	87	(20)
Total	**11,394**	**(5,918)**	**10,300**	**(5,125)**

There are no individually impaired financial assets included in the investment portfolio.

Forbearance measures

Forbearance measure is concession towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as "Forborne credits". Such an approach enables the Bank to control and limit potential future losses stemming from troubled credits.

In the context of IFRS 9, a forbearance measure is considered as a significant increase in credit risk. Therefore, a forborne tag always leads to a transfer of the file to stage 2 (in case of non-default) or stage 3 (in case of default). Consequently, impairment is measured at an amount equal to lifetime expected credit losses instead of 12-month expected credit losses, while the forborne tag is attached.

The minimum probation period for forbearance measures is 2 years after the date the forborne facility has been considered as non-default. However, according to the default definition, a client/facility remains in default at least 1 year, which brings in that case the total minimum probation period to 3 years.

Here, it is important to mention, that COVID-19 related concessions provided under public and private moratoria schemes (e.g. imposed by Czech government in the form of the law) are not considered as forborne facilities in line with Czech National Bank expectations and in line with European Banking Authority guidelines.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2020 and 2019 are as follows:

(CZKm)	2020 Outstanding gross amount	Forborne exposures Total exposure	Forborne exposures Percentage of outstanding gross amount (%)	Forborne exposures Total impairment	Forborne exposures Collateral and financial guarantees
Corporate	164,725	5,932	3.60	1,490	2,044
SME	91,047	5,859	6.43	1,276	3,563
Retail	34,117	873	2.56	179	-
Other	2,777	29	1.03	4	16
Total	**292,666**	**12,693**	**4.34**	**2,949**	**5,623**

(CZKm)	2019 Outstanding gross amount	Forborne exposures Total exposure	Forborne exposures Percentage of outstanding gross amount (%)	Forborne exposures Total impairment	Forborne exposures Collateral and financial guarantees
Corporate	171,927	1,307	0.76	326	642
SME	90,659	1,004	1.11	582	192
Retail	33,846	84	0.25	37	-
Other	1,903	2	0.12	-	-
Total	**298,335**	**2,397**	**0.80**	**945**	**834**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2020 and 2019 are as follows:

(CZKm)	2020 Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	2,848	-	3,084	1,365	125
SME	3,837	10	2,022	903	373
Retail	697	36	176	88	91
Other	26	-	3	1	3
Total	**7,408**	**46**	**5,285**	**2,357**	**592**

(CZKm)	2019 Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	892	-	415	310	16
SME	46	2	958	580	2
Retail	19	2	65	36	1
Other	-	-	2	-	-
Total	**957**	**4**	**1,440**	**926**	**19**

The following table shows a reconciliation of Gross amounts of forborne exposure for 2020 and 2019 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2019	**1,547**	**1,013**	**109**	**1**	**2,670**
Loan which have become forborne	138	375	32	1	546
Loans which are no longer considered to be forborne	-	(69)	(12)	-	(81)
Increase of exposure	3	12	1	-	16
Decrease of exposure	(382)	(327)	(45)	-	(754)
At 31 December 2019	**1,307**	**1,004**	**84**	**2**	**2,397**
Loan which have become forborne	5,626	5,170	826	27	11,649
Loans which are no longer considered to be forborne	(863)	(20)	(11)	-	(894)
Increase of exposure	-	5	-	-	5
Decrease of exposure	(138)	(300)	(26)	-	(464)
At 31 December 2020	**5,932**	**5,859**	**873**	**29**	**12,693**

The following table shows a reconciliation of Impairments of forborne exposures for 2020 and 2019 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2019	**516**	**565**	**52**	**-**	**1,133**
Loan which have become forborne	2	174	13	-	189
Loans which are no longer considered to be forborne	-	(12)	-	-	(12)
Increase of exposure	-	33	3	-	36
Decrease of exposure	(192)	(178)	(31)	-	(401)
At 31 December 2019	**326**	**582**	**37**	**-**	**945**
Loan which have become forborne	1,184	834	156	4	2,178
Loans which are no longer considered to be forborne	(18)	(4)	(2)	-	(24)
Increase of exposure	-	43	3	-	46
Decrease of exposure	(2)	(179)	(15)	-	(196)
At 31 December 2020	**1,490**	**1,276**	**179**	**4**	**2,949**

38.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Bank pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Bank's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Bank can address an adverse liquidity development in several ways. Most typically, the Bank would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Bank can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015 the Bank reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions.

The LCR during the year 2020 and 2019 was as follows:

(%)	2020	2019
31 March	124.9	128.7
30 June	131.8	127.9
30 September	131.3	128.5
31 December	133.8	125.6

The LCR ratio is regularly monitored and reported to the top management of the Bank.

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank uses 'E-NSFR', KBC Group adjusted the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). It has been developed by KBC Group to better reflect ČSOB's business and penalize funding concentrations in order for the ratio to provide a better picture about funding profile's stability. The strategy of the Bank is to maintain the value of the E-NSFR well above one. That means the Bank aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

While NSFR is monitored on a monthly basis and regularly reported to the top management of the Group, E-NSFR is monitored at Group level and its segments and subsidiaries levels (for instance Retail, Corporate, CMSS, HB, etc.). Both E-NSFR and NSFR are not monitored at Bank level.

In addition to internally defined limits, the Bank must also comply with a regulatory limit on the basis of mandatory minimum reserve deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual undiscounted repayment obligations (outflows shown as negative; inflows as positive).

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2020:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(3,040)	(238)	-	(3,278)
Financial liabilities designated at fair value through profit or loss	-	(988)	(23,135)	(3,139)	(27,262)
Financial liabilities at amortised cost	(905,469)	(449,713)	(26,899)	(31,499)	(1,413,580)
of which lease liabilities	*-*	*(494)*	*(1,584)*	*(1,080)*	*(3,158)*
Fair value adjustments of the hedged items in portfolio hedge	(3,083)	-	-	-	(3,083)
Other liabilities (Note: 26)	-	(3,230)	-	-	(3,230)
Contractual cash flows excluding derivatives	**(908,552)**	**(456,971)**	**(50,272)**	**(34,638)**	**(1,450,433)**
Net settled derivatives	**-**	**(16,368)**	**(25,759)**	**(6,562)**	**(48,689)**
Trading derivatives	-	(9,592)	(16,566)	(6,020)	(32,178)
Hedging derivatives	-	(6,776)	(9,193)	(542)	(16,511)
Gross settled derivatives	**-**	**(7,345)**	**(1,968)**	**103**	**(9,210)**
Trading derivatives	-	(6,788)	(1,779)	103	(8,464)
Inflows	-	*485,176*	*96,210*	*6,316*	*587,702*
Outflows	-	*(491,964)*	*(97,989)*	*(6,213)*	*(596,166)*
Hedging derivatives	-	(557)	(189)	-	(746)
Inflows	-	*8,493*	*3,918*	-	*12,411*
Outflows	-	*(9,050)*	*(4,107)*	-	*(13,157)*
Contractual cash flows from derivatives	**-**	**(23,713)**	**(27,727)**	**(6,459)**	**(57,899)**
Contractual cash flows from financial liabilities	**(908,552)**	**(480,684)**	**(77,999)**	**(41,097)**	**(1,508,332)**
Loan commitments – irrevocable (note 33)	(121,201)	-	-	-	(121,201)
Loan commitments – revocable (note 33)	(53,114)	-	-	-	(53,114)
Financial guarantees (note 33)	(43,466)	-	-	-	(43,466)
Other commitments (note 33)	(2,067)	-	-	-	(2,067)
Contractual cash flows from contingent liabilities	**(219,848)**	**-**	**-**	**-**	**(219,848)**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2019:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(20,275)	(2,342)	-	(22,617)
Financial liabilities designated at fair value through profit or loss	-	(13,925)	(27,192)	(3,065)	(44,182)
Financial liabilities at amortised cost	(764,629)	(468,808)	(20,380)	(25,681)	(1,279,498)
of which lease liabilities	-	*(574)*	*(1,623)*	*(1,368)*	*(3,565)*
Fair value adjustments of the hedged items in portfolio hedge	3,564	-	-	-	3,564
Other liabilities (Note: 26)	-	(3,543)	-	-	(3,543)
Contractual cash flows excluding derivatives	**(761,065)**	**(506,551)**	**(49,914)**	**(28,746)**	**(1,346,276)**
Net settled derivatives	**-**	**(9,026)**	**(19,314)**	**(7,447)**	**(35,787)**
Trading derivatives	-	(6,512)	(12,220)	(5,929)	(24,661)
Hedging derivatives	-	(2,514)	(7,094)	(1,518)	(11,126)
Gross settled derivatives	**-**	**(7,301)**	**(4,631)**	**(302)**	**(12,234)**
Trading derivatives	-	(7,280)	(4,329)	(310)	(11,919)
Inflows	-	*662,285*	*139,972*	*6,463*	*808,720*
Outflows	-	*(669,565)*	*(144,301)*	*(6,773)*	*(820,639)*
Hedging derivatives	-	(21)	(302)	8	(315)
Inflows	-	*2,538*	*11,406*	*1,039*	*14,983*
Outflows	-	*(2,559)*	*(11,708)*	*(1,031)*	*(15,298)*
Contractual cash flows from derivatives	**-**	**(16,327)**	**(23,945)**	**(7,749)**	**(48,021)**
Contractual cash flows from financial liabilities	**(761,065)**	**(522,878)**	**(73,859)**	**(36,495)**	**(1,394,297)**
Loan commitments – irrevocable (note 33)	(106,000)	-	-	-	(106,000)
Loan commitments – revocable (note 33)	(55,517)	-	-	-	(55,517)
Financial guarantees (note 33)	(47,553)		-		(47,553)
Other commitments (note 33)	(2,749)	-	-	-	(2,749)
Contractual cash flows from contingent liabilities	**(211,819)**	**-**	**-**	**-**	**(211,819)**

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Bank's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Bank is not managed based on the remaining contractual maturities of the financial instruments, as such the Bank's expected cash flows on these instruments vary significantly from this analysis (Note: 32). For example, undrawn loan commitments are not expected to be drawn down immediately.

38.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio was managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables in 2019. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. As from October 2018, within the programme of trading portfolios centralization on the KBC group level, open positions were gradually transferred to the department KBC Central European Financial Markets. As from September 2019, only residual technical position remains in the Bank trading portfolio after the last phase implementation. New positions in trading portfolio are immediately closed by back-to-back transactions to the department KBC Central European Financial Markets. The Bank trading portfolio is not exposed to market risk from that time. VaR application has been stopped and only BPV sensitivity analysis is used for trading portfolio since January 2020. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The limits of acceptable risk were significantly decreased over 2019 in connection with sequential transfer of open positions and finally VaR limits were cancelled from January 2020. The Bank applied a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank used a full linear VaR model for interest rate and foreign exchange rate risk till end of the year 2019. These calculations were based on historic scenarios derived from a two-year history. VaR calculation was stopped from the beginning of 2020 due to transfer of trading positions to KBC in 2019. The Bank has no net position in FX options, nor any position in equity. A nominal technical limit for reminder products, in particular interest rate options, and structured bonds. Positions in these products are not allowed to be material as back-to-back approach is required.

Standard VaR calculations were supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analysed scenarios, dependent and independent of the Bank’s position. Also, real historical scenarios were evaluated on a regular basis.

To enhance the system of risk management, the Bank also used other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits. Only minimal BPV limits are applied since January 2020 after transfer of trading positions to KBC.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results was verified through back-testing in 2019.

VaR assumptions

When measuring risks, the Bank applied VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank used historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

The VaR model was back tested on a daily basis. Daily VaR (1 day holding period) was compared with theoretic profit or loss from holding previous day position. Daily VaR was also compared with the actual profit or loss made by the trading book over year 2019.

The Bank has held regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks. The Bank asked regulator for abolition to use the internal VaR for the calculation of capital requirements for interest rate and foreign exchange risks after last phase implementation of the trading portfolio transfer to the department KBC Central European Financial Markets. The Bank request was approved by regulator on December 2019. The capital requirements for interest rate and foreign exchange risks are calculated by application of standardized method since January 2020.

ČSOB has calculated a Stress VaR to fulfil CRR / CRD IV requirements for market risk capital requirements calculation. A one year historic stress period was used for determining of stress scenarios. All other assumptions were identical to the standard VaR measurement. Also Stress VaR has not been used for the calculation of capital requirements for interest rate and foreign exchange risks since January 2020, after regulatory approval about abolition of the internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

The table below shows potential gains or (losses) analysed using VaR 10D 99% model in 2019:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2019	1	-	-	1
Average during the period	11	1	(1)	11
Highest	73	1	(1)	73
Lowest	-	-	-	-

Market risk – Investment portfolio

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Financial assets at fair value through other comprehensive income, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Bank’s investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2020:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(2.3)	1.3	(5.3)	(74.3)	(80.5)
EUR	+ 10	(0.1)	2.6	(2.0)	(6.7)	(6.2)
USD	+ 10	-	-	-	-	-
CZK	- 10	2.3	(1.3)	5.3	74.3	80.5
EUR	- 10	0.1	(2.6)	2.0	6.7	6.2
USD	- 10	-	-	-	-	-

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	2.0	(1.2)	(6.1)	(135.9)	(141.2)
EUR	+ 10	0.1	0.1	(8.2)	(9.6)	(17.7)
USD	+ 10	-	-	-	-	-
CZK	- 10	(2.0)	1.2	6.1	135.9	141.2
EUR	- 10	(0.1)	(0.1)	8.2	9.6	17.7
USD	- 10	-	-	-	-	-

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2019:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	2.4	(2.7)	(46.7)	(87.5)	(134.5)
EUR	+ 10	1.7	5.0	(1.8)	(2.6)	2.3
USD	+ 10	-	-	-	-	-
CZK	- 10	(2.4)	2.7	46.7	87.5	134.5
EUR	- 10	(1.7)	(5.0)	1.8	2.6	(2.3)
USD	- 10	-	-	-	-	-

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	1.4	-	31.2	(164.7)	(132.1)
EUR	+ 10	(0.3)	0.5	(4.6)	(22.1)	(26.5)
USD	+ 10	-	-	-	-	-
CZK	- 10	(1.4)	-	(31.2)	164.7	132.1
EUR	- 10	0.3	(0.5)	4.6	22.1	26.5
USD	- 10	-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Bank sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2020 and 2019:

	2020			2019		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	42	2	(2)	23	1	(1)

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments included in Financial assets at fair value through other comprehensive income) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

	Change in equity price (%)	Effect on equity	
(CZKm)		2020	2019
Visa Inc. quotation	- 10	(72)	(60)
	+ 10	72	60

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored and assessed. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

38.5 Operational risk

The Bank defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, fraud and tax risks. The impact of incidents on the Bank's reputation is taken into consideration when assessing the Bank's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the ČSOB, as well as an assessment of the Bank's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by the decision of an accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance. Risk events that cannot be prevented may be also mitigated by business continuity arrangements.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision making in business units. Operational risk management governance is promoted by the CRO and the Risk Function.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of non-financial risks (also responsible for first-line business continuity and information security agendas). Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Bank has also established a crisis management infrastructure. Major incidents within the Bank are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Bank has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Deep Dive

The *Deep Dive* (formerly Detailed Risk Scan) aims to identify and quantify operational risks in products, activities, processes and systems. The risks are subsequently either accepted or mitigated via action plans.It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Process of Change Management

Besides above mentioned NAPP addressing product changes, Process of Change Management dealing with non-product changes is also used. Each material change must be analysed and identified risks are further managed according to valid rules.

Risk Scan

Every year, before the risk appetite statement is defined, the Bank executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

Group Key Controls, Zero Tolerances and Local Risk and Control Assessment (GKC ZT)

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach called Local Risk and Control Assessment aims to identify new key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Risk assessment and its approval

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels, where financial limits and also non-financial criteria are taken into account. Risk is then approved by respective managerial level based on its impact.

Action plans

Action plans are activities set up by 1st LoD that mitigate risk. Action plans are reported by LORMs to risk management application Bwise on a Q basis. By using risk based approach, NFRD checks selected action plans when they are proposed for closing by 1st LoD.

39. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in- house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Bank fully follows the KBC Group Capital Adequacy Policy stating that fully owned subsidiaries within the Group shall hold the regulatory minimum capital. All capital in excess of the targeted level shall be held at the KBC Group level.

For the purpose of the ICAAP process, available capital of the Pillar II in the Bank coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

ČSOB reports its solvency calculated on the basis of IFRS balances taking into account all relevant regulatory requirements. Solvency targets based on external regulatory capital requirements were met throughout 2020 and 2019 with adequate buffers above the regulatory minimum standards, underpinning the very strong capital position of the Bank.

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with capital adequacy legislation requirements, the Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place. The ICAAP examines both the current and future capital situation. To assess the latter situation, a four-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. The Bank uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

According to European Directive and Regulation (CRD / CRR), the legal minimum tier-1 ratio is set to 6.0% of risk weighted assets (with a minimum common equity ratio of 4.5%). On top of this, the institution shall hold the following capital buffers: the capital conservation buffer, the buffer for systemic risk, and the countercyclical buffer The Bank has incorporated these requirements into the regular management of the risk and capital positions.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain the optimum capital structure, the bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue capital instruments.

It is expected that COVID-19 crisis will hit the banking sector materially. As a result, national regulator recommended not to pay any dividends from 2019 profits to the shareholders. The Bank decided to fully follow this recommendation and strengthened its capital for expected portfolio worsening. Full profit of 2019, amounting to CZK 22,016 m was retained. Furthermore, for the purposes of the capital management in 2020, the Bank was granted the ČNB permission to include a part of the interim profit of the Bank to the Common Equity Tier 1 before taking a formal decision confirming the final net profit of the Bank for the year. On 16 March 2021, ČNB distributed to the banks an information about the limits for the dividend payments from net profits generated in 2019 and 2020 (Notes: 13, 37) and the Bank will consider profit distribution in line with amended ČNB rules.

The following table shows the capital, capital requirements and CAD ratio as of 31 December 2020 and 31 December 2019 for ČSOB:

(CZKm)	2020	2019
Tier 1 capital	100,571	76,137
Tier 2 capital	1,375	-
Total capital	**101,946**	**76,496**
Regulatory capital requirements	30,116	28,695
Risk weighted assets	**376,444**	**358,689**
Capital adequacy ratio	27.08%	21.33%

RELATED PARTIES REPORT

Report of the Board of Directors of Československá obchodní banka, a. s. on Relations between Related Entities

1. Controlled Entity

Československá obchodní banka, a. s., with its registered office at Prague 5, Radlická 333/150, Postcode 150 57, identification number 000 01 350, incorporated in the Commercial Registry maintained by the Municipal Court in Prague, Section B XXXVI, Entry 46 (hereinafter "ČSOB").

2. Controlling Entity

KBC Bank NV, with its registered office at Havenlaan 2, B-1080 Brussels, Kingdom of Belgium, is the sole shareholder in ČSOB.

All shares issued by KBC Bank NV are held (directly or indirectly) by the KBC Group NV (legal entity).

3. Structure of the relationships between the Controlling Entity and the Controlled Entity, as well as between the Controlled Entity and Entities Controlled by the same Controlling Entity

KBC Bank NV is a bank governed by the Belgian National Bank. It is a part of the banking-insurance financial group KBC Group. KBC Group is primarily active in the markets in the Kingdom of Belgium, the Czech Republic, Slovak Republic, Republic of Bulgaria, Hungary and Ireland. To a limited extent, it also pursues its business in other countries.

Shares issued by KBC Group NV (legal entity) are traded on the Euronext Stock Exchange in Brussels, Kingdom of Belgium; none of its shareholders owns a stake in the company exceeding 20%.

Annex 1 to this report gives an overview of the ČSOB and KBC group companies, which is also available at www.kbc.com.

In the period that was monitored, the ČSOB had relations mainly with the following related entities:

Trade name	Registered office	
Bankovní informační technologie, s.r.o.	Radlická 333/150, 150 57 Prague 5	Czech Republic
CBC Banque SA	Grand-Place 5, 1000 Brussels	Kingdom of Belgium
Československá obchodná banka, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Advisory, a.s.	Radlická 333/150, 150 57 Prague 5	Czech Republic
ČSOB Asset Management, a.s., investiční společnost	Radlická 333/150, 150 57 Prague 5	Czech Republic
ČSOB Factoring, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Leasing, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Leasing, a.s.	Žižkova 11, 815 10 Bratislava	Slovak Republic
ČSOB Penzijní společnost, a. s., člen skupiny ČSOB	Radlická 333/150, 150 57 Prague 5	Czech Republic
ČSOB Poisťovňa, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Pojišťovací makléř, s.r.o.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Pojišťovací servis, s.r.o., člen holdingu ČSOB	Masarykovo náměstí 1458, 530 02 Pardubice - Zelené předměstí	Czech Republic
ČSOB Pojišťovna, a. s., člen holdingu ČSOB	Masarykovo náměstí 1458, 530 02 Pardubice - Zelené předměstí	Czech Republic
ČSOB stavebná sporiteľňa, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB stavební spořitelna, a.s.	Radlická 333/150, 150 57 Prague 5	Czech Republic
Eurincasso, s.r.o.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Hypoteční banka, a.s.	Radlická 333/150, 150 57 Prague 5	Czech Republic
KBC Asset Management NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Bank NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Group NV (legal entity)	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Group, Shared Service Center CZ	Radlická 333/150, 150 57 Prague 5	Czech Republic
KBC Investments Ltd	111 Old Broad Street, EC2N 1FP London	United Kingdom
KBC Securities NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
K & H BANK Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
K & H Biztosító Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
K&H Payment Services Kft	Lechner Ödön fasor 9, 1095 Budapest	Hungary
MallPay s.r.o.	U garáží 1611/1, Holešovice, 170 00 Prague 7	Czech Republic
Patria Finance, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Patria Corporate Finance, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Patria investiční společnost, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Radlice Rozvojová, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Top-Pojištění.cz s.r.o.	Lomnického 1742/2a, 140 00 Prague 4	Czech Republic
Ušetřeno.cz Finanční služby, a.s.	Lomnického 1742/2a, 140 00 Prague 4	Czech Republic
Ušetřeno.cz s.r.o.	Lomnického 1742/2a, 140 00 Prague 4	Czech Republic

4. Role of the Controlled Entity, Measures and Means of Control

The KBC Group NV indirectly, or KBC Bank NV as a direct controlling entity controls ČSOB as a sole shareholder acting in the capacity of the General Meeting under Section 12(1) of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations Act) (hereinafter referred to as the **"CA"**).

The controlling entity also exercises its influence through its representatives on the governing bodies of ČSOB, i.e. the Supervisory Board and/or the Board of Directors. First and foremost, this involves cooperation and coordination of activities related to consolidated risk management, auditing and compliance with the prudential rules that apply to banks and other financial institutions, and the legal requirements.

ČSOB is a bank within the meaning of Act No. 21/1992 Coll., on banks, operating on the Czech financial services market. It specializes in banking services for individuals and business entities. ČSOB is subject to supervision by the Czech National Bank.

ČSOB is a controlling entity of most companies within the ČSOB Group (the Czech part of the multinational KBC Group, a further info can be found at *https://www.csob.cz/portal/csob/about-the-csob-group*) (hereinafter referred to as the **"ČSOB Group"**) and it usually provides these highly specialized companies (factoring, leasing, etc.) with a range of support services (e.g. HR and Personnel, IT, Internal Audit).

ČSOB operates a large network of branches, is also a point of distribution for the products offered by ČSOB Group companies. Within the ČSOB Group, ČSOB also ensures that prudential rules are followed on a consolidated basis.

5. Review of Activities in the Accounting Period, Induced by the Interest of the Controlling Entity or its Controlled Entities

Unless otherwise stated, no activities were carried out in the accounting period initiated by or in the interest of the controlling entity or its controlled entities that would affect more than 10% of the equity of ČSOB, including transactions in the ordinary course of business.

During the accounting period, ČSOB repeatedly accepted liabilities towards KBC Bank NV, including short-term money market trading deposits and promissory notes, the value of which exceeded 10% of the company's equity. These activities aim at improving the efficiency of the use of the financial assets within the group. The aforementioned commitments arise from current transactions and are subject to comparable terms and conditions (including interest rates and securing) to transactions with third parties and as such they have not been detrimental to the ČSOB.

ČSOB, in cooperation with ČSOB Leasing, a.s., implements an exchange program with a limit of CZK 18 billion. In 2020, the highest volume of ČSOB exposure under this exchange program was CZK 14.9 billion. It is a standard banking product that is also provided to unrelated persons under comparable terms and conditions, and the ČSOB has not incurred any damage or loss as a result of the performance of the contract.

6. Review of Mutual Agreements between the Controlled Entity and the Controlling Entity or among the Controlled Entities

During the accounting period, ČSOB had various relations with the controlling entity, as well as other companies controlled by the controlling entity (for the purpose of this Related Parties Report also referred to as "counterparties") based on common business activities.

The contractual relations took place in the following areas:

BANKING SERVICES

Accounts, Deposit Products, Domestic and International Payments Services, Domestic and International Cash Management

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to provide services for maintaining various types of accounts – current and term accounts, interbank deposits, (including amendments on the early termination (default) of some deposits, along with settling interest and compensation payments), accounts for the deposit of funds intended to acquire or increase a partnership in a company, and to provide the following products and domestic and international payments services, such as Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling. During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods in the field of financial market trading. The contracts were concluded under standard business terms and conditions.

Payment cards

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to issue, accept and process payment card transactions. The contracts were concluded under standard business terms and conditions.

Electronic Banking

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following electronic banking products: ČSOB Phone banking, ČSOB Smartbanking, ČSOB Internet banking, ČSOB Internetbanking 24, ČSOB Businessbanking 24, ČSOB CEB, and ČSOB MultiCash 24. The contracts were concluded under standard business terms and conditions.

Cheques and Bills of Exchange

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for procuring bills of exchange and their custody, and contracts for securing the bill-of-exchange programme. The contracts were concluded under standard business terms and conditions.

Credit Products and Guarantees

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following credit products: overdrafts, commercial loans, revolving loans, specific-purpose credit facilities, subordinated loans, interbank loans (including amendments on the early termination (default) of some loan agreements, along with interest settlements and payment of compensation) and current account overdrafts, and accepted and issued guarantees, confirmed or open letters of credit, and/or bought back claims from letters of credit, and provided guarantees. The counterparties paid contractual fees, remuneration and interest for these services. The contracts were concluded under standard business terms and conditions.

Investment Services

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for purchasing and selling investment instruments, ISDA contracts, escrow agreements, contracts for settling investment instrument transactions, contracts for administering securities, depository contracts, agreements on the contact bank, on the provision of specialized consultancy and agreements on the authorization of fax instructions for settling and administering securities. The remuneration provided by the counterparties consisted of commissions and contractual fees. The contracts were concluded under standard business terms and conditions.

Mortgage Bonds and Bonds

During the accounting period, ČSOB concluded or had concluded mandate contracts or mandate contracts for the provision of the issuance of mortgage bonds issued on the domestic market under the bond programme and mandate contracts for the provision of the issuance of bonds, contracts for subscription and the purchase of mortgage bonds/bonds and contracts for the management of the issuance and provision of payments. The counterparties provided contractual rewards for these services. The contracts were concluded under standard business terms and conditions.

Receivables

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for the management or assignment of claims/receivables. The ČSOB provided contractual rewards to the counterparties for these services. The contracts were concluded under standard business terms and conditions.

Collateral Services Agreement

On the basis of this agreement, KBC Bank NV provides changes in collateral by ČSOB OTC derivatives transactions. The contract was concluded under standard business terms and conditions.

OTHER RELATIONS

Insurance Policies

During the accounting period, ČSOB concluded insurance policies or had concluded insurance policies in previous accounting periods. The consideration consisted of insurance and indemnity. The contracts were concluded under standard business terms and conditions.

Lease and Rent Contracts

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for renting/leasing non-residential areas, parking places, movable assets, and on the settlement of technical improvement. The consideration consisted of contractual prices or the lease of certain items, parts thereof or groups of items. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Employee Benefits

During the accounting period, ČSOB concluded cooperation agreements – employee benefits – or had concluded contracts in previous accounting periods. The consideration consisted of providing employee benefits. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Selling Products and Services

During the accounting period, ČSOB concluded cooperation agreements and framework, mandate and commission agent's contracts or had concluded these contracts and agreements in previous accounting periods, particularly concerning cooperation on product sales, product sales agency, sales support and the use of technology for this purpose, consultancy, and opportunity-seeking. The consideration consisted of cooperation, contractual commissions, contractual rewards or the sale of products. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Joint Observance of Tax Obligations (VAT)

On 9 December 2016, ČSOB concluded an agreement with some of the entities controlled by the same controlling entity on cooperation in the joint observance of tax obligations (VAT) on behalf of the group. The agreement remained valid and effective during the accounting period. The consideration consisted of observance of tax obligations. The agreement was entered into under standard business terms and conditions.

In 2020, the agreement included ČSOB, ČSOB stavební spořitelna, a.s., ČSOB Advisory, a.s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Penzijní společnost, a.s., člen skupiny ČSOB, ČSOB Pojišťovna, a. s., člen holdingu ČSOB, Hypoteční banka, a.s., Patria Corporate Finance, a.s., Patria Finance, a.s., Patria investiční společnost, a.s. and Nadační fond Patria.

Agreements in the field of ICT Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods on providing ICT services. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Call Centre

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide call centre services. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Back Office and Other Related Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide back-office services and supporting processes, i.e. risk management cooperation, developing models, management consultancy, central procurement, accounting and tax services and processing foreign payments. The consideration consisted of contractual rewards and consultations. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Facilities Management

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide management services for facilities, i.e. accounting and asset administration, food vouchers and catering, accommodation, postal services, document archiving, telephone exchange, fleet management and parking administration and transferring or purchasing movable assets. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Processing Financial Reporting

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide the processing of financial reports for external users services, especially for the Czech National Bank. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – advertising, marketing, internal and external communication

During the accounting period, ČSOB concluded agreements in the fields of advertising, marketing and internal and external communication with clients, e.g. purchasing of media, communication strategies, event marketing, sponsorship and clients' trade name (brand) management. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – other support services

In the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods for cooperation and the provision of services in the fields of internal auditing, compliance, risk management, legal support, project management, administrative support in finances, including accounting, human resources management, including labour relations and the use of the workforce and administrative support. In the accounting period, ČSOB entered into agreements for cooperation and the processing and exchange of information in the field of macroeconomic analyses, scenarios and forecasts. ČSOB entered into agreements for the processing of personal data or information provision, confidentiality agreements, etc. ČSOB also entered into agreements on the provision of processing automation services, such as robotization and communication automation, and agreements on the provision of data analysis services, and modelling. The consideration consisted of services and contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on the provision of voluntary monetary contributions

In the accounting period, ČSOB entered into agreements on voluntary monetary contributions in excess of registered capital. The contributions were posted as strengthening of capital resources. The contracts were concluded under standard business terms and conditions.

Such agreements have been executed by and between ČSOB and the following companies: MallPay, s.r.o., Radlice Rozvojová, a.s., Hypoteční banka a.s., Ušetřeno.cz, s.r.o., Patria Finance, a.s., K&H Payment Services Kft. and Bankovní informační technologie, s.r.o.

Holding agreement

ČSOB as the controlling entity, entered with other companies falling into ČSOB Holding (their current overview is available at: *https://www.csob.cz/portal/csob/about-the-csob-group/csob-holding*) into a holding agreement that lays out the holding interest and defines some rights and obligations of controlled entities in the holding. The partial areas of unified management are defined by special Holding policies, which are the fundamental tools to implement the Holding interest and are issued by the ČSOB Board of Directors and accepted by the controlled entities.

MISCELLANEOUS

On 1 February 2020 (registered with the Commercial Register on 17 April 2020), the 100% share in Top-pojištění, s.r.o., owned by ČSOB, was transferred to Ušetřeno.cz, s.r.o.

On 1 January 2021, the inland merger by acquisition of Top-Pojištění.cz, s.r.o. (acquiring company), and Ušetřeno.cz Finanční služby, a.s. (acquired company) came into effect; within this merger transaction, the company name of Top-Pojištění.cz, s.r.o. changed to Ušetřeno s.r.o.

As of 12 March 2021, Českomoravská stavební spořitelna, a.s. has changed its business name to ČSOB Stavební spořitelna, a.s.

SHARE IN PROFITS AND OTHER FACTS

KBC Bank NV as a sole shareholder acting in the capacity of the General Meeting decided on 29 June 2020 that the net profit equal to CZK 22 billion will be posted as retained earnings from previous years. The volume of this activity was in the total 22% of the equity of ČSOB.

In the accounting period, ČSOB received profit share from ČSOB stavební spořitelna, a.s., ČSOB Leasing, a.s., ČSOB Factoring, a.s., Hypoteční banka, a.s., Bankovní informační technologie, s.r.o., and Patria Finance, a.s.

In addition, ČSOB made a decision within the competence of the sole shareholder/partner of the companies where it is the sole shareholder/partner. The decision primarily concerns the approval of the financial statements, decisions about the settlement of profits, payment of shares in profit and payment from capital funds, election and removal of members of the bodies, including approval of their remuneration, changes in the Articles of Association, appointment of the auditor, an increase/decrease in capital stock and changes in the form of shares.

7. Assessing the occurrence of the loss incurred by the Controlled Entity

The contractual and other relations between ČSOB and the controlling entity, or other related entities, have not caused any damage to ČSOB.

8. Evaluation of the relationships between the Controlling Entity and the Controlled Entity, as well as between the Controlled Entity and the Entities Controlled by the same Controlling Entity

Joint synergy within the ČSOB Group or KBC Group brings positive effects in the areas of cost-effectiveness and human resources and it helps set up the processes so that they are in line with ČSOB corporate strategy. The cooperation also helps limit certain transactional risks, such as the risks associated with the provision of sensitive information and data to third parties.

The ČSOB primarily provides banking services to companies within the ČSOB Group, which mainly include loans, overdrafts, interest-bearing deposits, current accounts and other services.

Receivables and payables with KBC Bank NV and the enterprises under joint control mainly consist of the fair value of derivative financial instruments, debt instruments, repo transactions and deposit notes.

The mutual cooperation of companies within the KBC Group and ČSOB Group and/or other companies that are controlled by ČSOB helps strengthen its common position on the market and enables the extension of the range of financial services provided to clients in the areas of building savings and mortgages, asset management, collective investment, contributory pension schemes, leasing, factoring, distribution of life and non-life insurance and services relating to securities trading in financial markets.

9. Accounting period

This report describes the relations for the accounting period from 1 January 2020 to 31 December 2020.

10. Conclusion

The Board of Directors of ČSOB hereby declares that this report has been prepared within the statutory time limit and in accordance with Section 82 of CA. While compiling the report, the ČSOB Board of Directors proceeded with due professional diligence and its scope reflects the purpose of the legislation governing the report under CA in relation to the ownership structure of ČSOB.

Prague, 31 March 2021

on behalf of the Board of Directors of Československá obchodní banka, a. s.

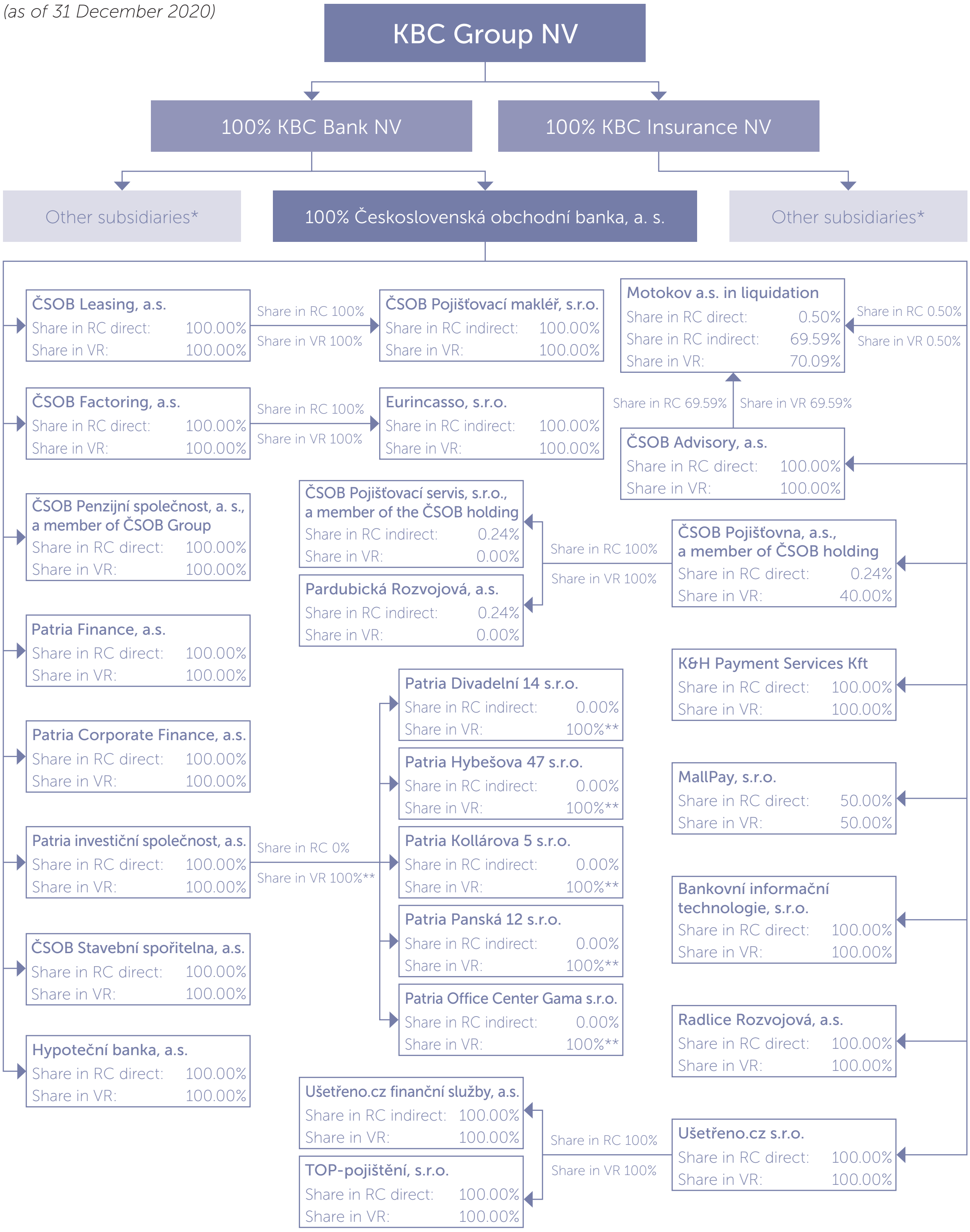
John Arthur Hollows
chairman of the Board of Directors

Jiří Vévoda
member of the Board of Directors

Appendix to the Related Parties Report

List of entities controlling Československá obchodní banka, a.s. and entities controlled by the same controlling entity

(as of 31 December 2020)



Explanatory notes

Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.
All shares of KBC Bank and KBC Insurance are held (directly or indirectly) by the KBC Group.
ČSOB is 100% owned and fully controlled by KBC Bank.
** For complete overview of "Other subsidiaries" of the KBC Group please refer to KBC's corporate website www.kbc.com, where other details regarding the KBC Group are available.*
*** to the account of shareholders in the funds of qualified investors*

RC: registered capital (deposit)
VR: voting rights

ADDITIONAL INFORMATION

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2020
ISIN	CZ0008000288
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	292,750,002
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,040
Amount of share capital	**CZK 5,855,000,040**
Paid up in full	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, is the sole shareholder of ČSOB.

Shares issued by the ČSOB (hereinafter referred to as the "ČSOB Shares") are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 286 of the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations act). In 2020, ČSOB neither held any own shares, nor issued stock certificates.

Rights Attached to ČSOB Shares

Rights and obligations of a shareholder are stipulated by legal regulations, in particular by the Act on Commercial Companies and Cooperatives and the Articles of Association of ČSOB.

Shareholder rights attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.
b) The right to ask the Board of Directors to convene a Meeting in accordance with legal regulations.
c) The right to attend the General Meeting of Shareholders. At a General Meeting, shareholders have the right to
   1. vote;
   2. request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
   3. put forward proposals and counter-proposals.
d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

Voting rights attached to ČSOB shares are unlimited. One share confers one vote.

ČSOB Securities

Bonds and Investment Certificates

(outstanding)

In the Czech Republic, ČSOB is an issuer of bonds issued under the ČSOB's bond issuance program. ČSOB is issuing bonds under bond issuance program (program is lasting for 30 years) with a maximum amount of CZK 100 bn of outstanding bonds.

By 31 December 2020, ČSOB recorded the following **bond issues** in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Dluhopisy ČSOB likvidní var 2024 6M	CZ0003704678	3. 10. 2018	CZKm	876.40
Dluhopisy ČSOB var 2021 3M	CZ0003704702	12. 12. 2018	CZKm	7,350.00
Dluhopisy ČSOB var 6M PRIBOR 2022	CZ0003704710	5. 3. 2019	CZKm	129.00
Dluhopisy ČSOB LIKVIDNÍ DLUHOPIS 04/2022	CZ0003704736	25. 4. 2019	CZKm	502.00
Dluhopisy ČSOB var 2025 1M	CZ0003705477	11. 09. 2020	CZKm	5,216.30

None of CSOB bonds is listed (publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

Since 2012, ČSOB is an issuer of investment certificates issued under the certificate issuance program (public or non public) in the Czech Republic.

By 31 December 2020, ČSOB recorded the following investment certificate issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investiční certifikát XXIX. (Eurostoxx50)	CZ0000300587	15. 4. 2015	USDm	5.89
ČSOB IC XXXIX. (Defensive SX5E)	CZ0000300702	22. 7. 2015	CZKm	142.41
Participation SX5E 2021	CZ0000300843	9. 2. 2016	CZKm	62.60
ČSOB Investiční certifikát Unit link VII.	CZ0000300884	22. 2. 2016	CZKm	763.20
Participation SX7P 2021	CZ0000300892	16. 3. 2016	CZKm	39.89
ČSOB Investiční certifikát Unit link VIII.	CZ0000300900	11. 4. 2016	CZKm	194.83
ČSOB Investiční certifikát Unit link IX.	CZ0000300959	24. 5. 2016	CZKm	191.50
ČSOB Investiční certifikát Unit link X.	CZ0000300983	15. 7. 2016	CZKm	124.30
ČSOB Investiční certifikát Unit link XI.	CZ0000301031	12. 9. 2016	CZKm	116.25
Evropská inflace a Euro Stoxx 50 2021	CZ0000301049	21. 9. 2016	CZKm	82.15
ČSOB Investiční certifikát Unit link XII.	CZ0000301064	24. 10. 2016	CZKm	324.95
Solactive Participation 2021	CZ0000301072	3. 11. 2016	CZKm	220.34
ČSOB Investiční certifikát Unit link XIV.	CZ0000301148	12. 12. 2016	CZKm	502.41
ČSOB Investiční certifikát Unit link XIII.	CZ0000301130	29. 12. 2016	CZKm	582.26
ČSOB Investiční certifikát Unit link XV.	CZ0000301189	30. 12. 2016	CZKm	129.80
ČSOB Investiční certifikát Unit link XVI.	CZ0000301197	10. 2. 2017	CZKm	191.23
ČSOB Investiční certifikát Unit link XVII.	CZ0000301239	10. 3. 2017	CZKm	125.18
Defensive Eurostoxx 4,6 2024 III.	CZ0000301254	15. 3. 2017	CZKm	308.85
ČSOB TOP 70 EVROPSKÝCH SPOLEČNOSTÍ 1	CZ0000301247	5. 4. 2017	CZKm	316.61

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investiční certifikát Unit link XVIII.	CZ0000301304	12. 4. 2017	CZKm	103.47
NXS Momentum Fund Stars ER Participation 2022	CZ0000301296	19. 4. 2017	CZKm	917.64
ČSOB Investiční certifikát Unit link XIX.	CZ0000301338	10. 5. 2017	CZKm	137.20
ČSOB Investiční certifikát Unit link XX.	CZ0000301361	14. 6. 2017	CZKm	124.03
ČSOB Investiční certifikát Unit link XXII.	CZ0000301387	13. 7. 2017	CZKm	249.80
ČSOB Investiční certifikát Unit link XXI.	CZ0000301379	14. 7. 2017	CZKm	97.00
BNP Income Fund Stars ER 2022	CZ0000301395	19. 7. 2017	CZKm	695.00
Europe Dividend basket 7 2022	CZ0000301437	6. 9. 2017	CZKm	405.00
ČSOB Investiční certifikát Unit link XXIII.	CZ0000301429	14. 8. 2017	CZKm	86.57
ČSOB Investiční certifikát Unit link XXIV.	CZ0000301445	14. 9. 2017	CZKm	193.20
ČSOB Investiční certifikát Unit link XXV.	CZ0000301460	23. 10. 2017	CZKm	16.74
ČSOB Investiční certifikát Unit link XXVI.	CZ0000301478	11. 10. 2017	CZKm	233.94
ČSOB Investiční certifikát Unit link XXIX.	CZ0000301510	14. 11. 2017	CZKm	184.63
NXS Momentum Fund Stars ER Participation 2022 II.	CZ0000301502	22. 11. 2017	CZKm	170.00
ČSOB Investiční certifikát Unit link XXVII.	CZ0000301536	22. 12. 2017	CZKm	550.92
Europe 5 2024	CZ0000301544	27. 12. 2017	CZKm	342.71
Defensive Eurostoxx 4,6 2024	CZ0000301551	28. 12. 2017	CZKm	438.74
ČSOB Investiční certifikát Unit link XXX.	CZ0000301528	29. 12. 2017	CZKm	226.57
ČSOB Investiční certifikát Unit link XXXI.	CZ0000301577	12. 2. 2018	CZKm	103.76
Best of Participation 2023	CZ0000301627	7. 3. 2018	CZKm	141.60
ČSOB Investiční certifikát Unit link XXXII.	CZ0000301635	12. 3. 2018	CZKm	96.70
Banky 5 2023	CZ0000301643	21. 3. 2018	CZKm	416.92
Defensive SX5E USD 5.4 2025	CZ0000301650	7. 3. 2018	USDm	3.11
Autocall SX5E EUR 4.6 2023	CZ0000301668	7. 3. 2018	EURm	2.01
Evropský výběr 1	CZ0000301718	23. 4. 2018	CZKm	201.90
Autocall Defensive SX5E 4.6 2025	CZ0000301692	2. 5. 2018	CZKm	181.00
Global Multi Asset Strategy 2023	CZ0000301676	4. 5. 2018	CZKm	336.00
Autocall Euronext France Germany Leaders 5.4 2025	CZ0000301684	10. 5. 2018	CZKm	373.00
Autocall Klasik iSTOXX 70 EWD5 6.2 2023	CZ0000301700	16. 5. 2018	CZKm	327.00
Top 50 Evropských společností 1	CZ0000301726	4. 7. 2018	CZKm	167.50
BNP Multi-Asset Diversified	CZ0000301759	1. 8. 2018	CZKm	200.00
Defensive SX5E 3 rok 4.6 2025	CZ0000301783	3. 8. 2018	CZKm	103.70
Evropské banky 2023	CZ0000301809	18. 9. 2018	CZKm	75.00
Ropné společnosti 2023	CZ0000301791	24. 10. 2018	CZKm	127.00
ČSOB Investiční certifikát Unit link XXXIII.	CZ0000301841	24. 10. 2018	CZKm	397.70
Capped PRIBOR Floater 05/2022	CZ0000301858	7. 11. 2018	CZKm	865.00
ČSOB Investiční certifikát Unit link XXXV.	CZ0000301882	20. 12. 2018	CZKm	351.86
ČSOB Investiční certifikát Unit link XXXIV.	CZ0000301874	27. 12. 2018	CZKm	149.43
Capped Pribor Floater 2022 2	CZ0000301890	27. 12. 2018	CZKm	1,650.00
Capped PRIBOR Floater 09/2022	CZ0000301924	6. 3. 2019	CZKm	782.00
100 % Sustainable Development Goals World 2024	CZ0000301940	7. 3. 2019	CZKm	52.37
ČSOB Investiční certifikát Unit link XXXVI.	CZ0000301932	12. 3. 2019	CZKm	233.64

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
100% European Value Select Jump 30 % 2024	CZ0000301981	3. 4. 2019	CZKm	127.51
ČSOB Investiční certifikát Unit link XXXVII.	CZ0000301973	12. 4. 2019	CZKm	187.50
Technologie budoucnosti	CZ0000301999	26. 4. 2019	CZKm	168.00
Capped PRIBOR Floater 10/2022	CZ0000302005	26. 4. 2019	CZKm	430.00
Evropský výběr 6.3% 2026	CZ0000302013	26. 4. 2019	CZKm	223.60
ČSOB Investiční certifikát Unit link XXXIX.	CZ0000302021	10. 5. 2019	CZKm	184.90
ČSOB Investiční certifikát Unit link XXXVIII.	CZ0000302054	10. 6. 2019	CZKm	119.50
ČSOB Investiční certifikát Unit link XL.	CZ0000302096	10. 7. 2019	CZKm	28.20
100 % Global Diversity Jump 25 % 2024	CZ0000302138	24. 7. 2019	CZKm	205.00
Capped PRIBOR Floater 01/2023	CZ0000302120	24. 7. 2019	CZKm	515.00
Síla české koruny	CZ0000302112	5. 8. 2019	CZKm	327.00
Capped PRIBOR Floater 03/2023	CZ0000302179	4. 9. 2019	CZKm	100.00
ČSOB Investiční certifikát Unit link XLI.	CZ0000302146	10. 9. 2019	CZKm	267.50
Severní Amerika a Evropa Defenzivní 6 % 2026	CZ0000302161	18. 9. 2019	CZKm	432.00
Defensive Eurostoxx 4.6 10/2026	CZ0000302187	3. 10. 2019	CZKm	74.00
Capped PRIBOR Floater 04/2023	CZ0000302245	3. 10. 2019	CZKm	172.00
AMERIČTÍ A EVROPŠTÍ LÍDŘI 7.5 % 2024	CZ0000302195	3. 10. 2019	CZKm	138.00
Capped PRIBOR Floater 2.3 04-2023	CZ0000302302	22. 10. 2019	CZKm	350.00
ČSOB Investiční certifikát Unit link XLII.	CZ0000302211	23. 10. 2019	CZKm	140.30
Autocall iSTOXX Transatlantic 100 EWD 6.3 2024	CZ0000302260	5. 11. 2019	CZKm	191.00
Defensive Eurostoxx 4.6 12/2026	CZ0000302252	5. 11. 2019	CZKm	65.00
Capped PRIBOR Floater 05/2023	CZ0000302328	13. 11. 2019	CZKm	96.00
Polovodiče 5.5 2024	CZ0000302286	20. 11. 2019	CZKm	141.00
ČSOB Investiční certifikát Unit link XLIII.	CZ0000302294	10. 12. 2019	CZKm	90.20
ČSOB Investiční certifikát eSport Autocall Plus 2027	CZ0000302336	30. 12. 2019	CZKm	228.00
ČSOB Investiční certifikát Unit link XLIV.	CZ0000302369	12. 2. 2020	CZKm	112.40
Capped PRIBOR Floater 08/2023	CZ0000302401	12. 2. 2020	CZKm	200.00
Defensive Eurostoxx 4.6 03/2027	CZ0000302419	19. 2. 2020	CZKm	167.00
Bonusový Autocall Emerging Markets 2027	CZ0000302435	28. 2. 2020	CZKm	168.00
ČSOB Investiční certifikát Unit link XLV.	CZ0000302443	25. 3. 2020	CZKm	163.00
Capped PRIBOR Floater 09/2023	CZ0000302484	25. 3. 2020	CZKm	96.00
Defensive Eurostoxx 4.6 05/2027	CZ0000302492	28. 4. 2020	CZKm	180.00
Defensive Eurostoxx USD 4.5 2027	CZ0000302500	28. 4. 2020	USDm	2.00
Farmacie Defenzivní 5 2027	CZ0000302567	17. 6. 2020	CZKm	325.00
Defensive Profitability leaders 5 2027	CZ0000302591	1. 7. 2020	CZKm	80.00
Defensive Innovative Technologies 5 2027	CZ0000302625	24. 7. 2020	CZKm	162.00
Stay Online 5 2027	CZ0000302633	21. 8. 2020	CZKm	91.00
Defensive Eurostoxx 4.3 10/2027	CZ0000302690	16. 9. 2020	CZKm	43.00
Defensive Artificial Intelligence 5.25 2027	CZ0000302708	7. 10. 2020	CZKm	162.00
Lookback Racer Transatlantic 2026	CZ0000302724	21. 10. 2020	CZKm	297.00
Autocall Nové příležitosti 4.7 % 2025	CZ0000302773	29. 10. 2020	CZKm	34.60
Trendy Budoucnosti Defenzivní 5 2028	CZ0000302815	2. 12. 2020	CZKm	102.00
Lookback Racer Transatlantic 2027	CZ0000302864	30. 12. 2020	CZKm	100.00

In the first three months 2021*. ČSOB issued the following investment certificates issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Piling Racer Severní Amerika a Evropa 2027	CZ0000302823	24. 02. 2021	CZKm	144.00
Defensive New Pharma 5,5 2028	CZ0000302948	17. 03. 2021	CZKm	270.00

** Issued until 31. March 2021*

All ČSOB's investment certificates are unlisted (not publicly tradable on any official regulated market in either an EU member state. or an EEC member state).

The prospectus of investment certificates. amendments thereto and pricing supplements are available at ČSOB's website www.csob.cz.

The purpose of the issuance of bonds and of investment certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic.

As a legal entity subject to the Czech law, ČSOB follows the applicable legislation in force in the territory of the Czech Republic. Its activities are regulated primarily under the Banking Act, the Capital Market Undertakings Act and by the Corporations Act. A single banking licence is of fundamental importance for ČSOB's business activities. ČSOB is also authorized to provide services of a tied insurance intermediary and is participant of the Central Depository.

Main Areas of Activities

ČSOB's Scope of Business is defined in the Articles of Association of ČSOB (in the part III. Scope of Business).

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, it accepts deposits from the public and provides loans.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

- Investment in securities on the Bank's own account,
- Financial leasing,
- Payments and clearance,
- Issuance and administration of payment instruments,
- Provision of guarantees,
- Issuance of letters of credit,
- Provision of collection services,
- Provision of all investment services according to a special law,
- Issuance of mortgage bonds,
- Financial brokerage,
- Provision of depository services,
- Exchange office services (purchase of foreign exchange),

- Provision of banking information,
- Trading in foreign exchange values and gold on the Bank's own account or on a client's account,
- Rental of safe-deposit boxes,
- Activities directly related to the activities mentioned above, and
- Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

ČSOB Holding

On the day of March 1, 2019, the ČSOB has published in accordance with Sec 79/3 of the Act No. 90/2012 Coll., the Corporations Act ("CA"), on its web site the existence of ČSOB Holding, where ČSOB is a controlling person within the meaning of Sec 79/1 of the CA. More detailed information about ČSOB Holding can be found here https://www.csob.cz/portal/csob/about-the-csob-group/csob-holding.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

With effect from 1st January 2018, ČSOB and Česká pošta, s.p. (the "Czech Post") concluded the Agreement on the Provision of Services and related Implementation Agreement. Under these Agreements, the Czech Post provides financial services and related activities for ČSOB. The Agreements were concluded for ten years.

Trademarks, Licenses, Patents

Being aware of the ever-growing importance of intellectual property as a vital and integral part of the modern society, ČSOB pays extraordinary attention to the intellectual property rights and their protection.

ČSOB is the applicant/owner of more than a hundred **trademarks** registered with the trademark authorities established to protect industrial or other intellectual property rights and uses the trademarks for product and service identification when performing its business activities.

ČSOB is a holder of many **licenses**, mainly software products licenses, to support ČSOB's business activities.

ČSOB is not a **patent** applicant/owner.

Governmental, Legal or Arbitration Proceedings

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

For information on court disputes please refer to the Separate Financial Statements for the year 2020 (Notes 27 and 33) and to the Consolidated Financial Statements for the year 2020 (Notes 30 and 36).

The most significant ČSOB's court disputes as at 31 December 2020, are shown in the following table including the dispute amount (with accessories).

Litigation against ČSOB (the Defendant)

Counterparty of the Dispute	Liability (CZKm)
ICEC-HOLDING, a.s., Boleslavova 710/19, Ostrava	25,257

According to ČSOB, this legal dispute does not constitute any risk, given its absolute unreasonableness. If, however it is improbable situation, ČSOB would be obliged to provide any payment on the basis of the legally binding decision in this dispute, ČSOB would consider to claim the reimbursement of such payment from CNB, under the Agreement and Indemnity concluded in connection with the sale of the IPB Enterprise.

Expenses on Research and Development

In 2020, ČSOB had outlays of CZK 1,475 m for research and development (2019: CZK 1,233 m). Most of these outlays were related to investments into large information technologies projects focused on development of digital services for clients and non-clients, robotization and automation of processes and also on development of existing applications and systems.

Other Information

Remuneration Charged by Auditors for 2020

Information in accordance with Section 118 (4) (k) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

(CZKths; excl. VAT*)	Audit services	Other assurance services	Other services	Total
ČSOB	16,947	1,126	5	18,078
Other consolidated companies	11,329	-	485	11,814
Total	**28,276**	**1,126**	**490**	**29,892**

The costs of audit services are stated including the costs of preparing The Report on the adequacy of the measures taken in order to protect the customer's property ("MiFiD Report"), for the review of quarterly consolidated special standard statements KBC Group N.V. ("Group Financial Statements") and for the statutory audit of Radlice Rozvojová a.s. and Patria Corporate Finance a.s.

Services in addition to the Statutory Audit Provided by Statutory Auditor and its Affiliated Company during 2020

Company	Recipient of the service	Service description	Price without VAT* (CZKths.)
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Review of accounting information for special purposes	1,087
PricewaterhouseCoopers Hungary	K&H Payment Services Kft	IT examination relating to the license	282
PricewaterhouseCoopers Hungary	K&H Payment Services Kft	IFRS readiness	128
PricewaterhouseCoopers Hungary	K&H Payment Services Kft	Capital increase examination	75
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Auditor's confirmations for insolvency proceedings	39
PricewaterhouseCoopers Česká republika, s.r.o.	ČSOB, a.s.	Training and conferences	5
Total			**1,616**

** Published information includes relevant part of VAT, which is not deductible.*

Contribution to the Securities Traders Guarantee Fund

Information in accordance with Section 16 (1) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

Contribution to the Securities Traders Guarantee Fund for 2020 (CZKths)	ČSOB	Consolidated ČSOB Group
Basis for calculation of the contribution	1,303,306	1,683,781
The contribution	**26,066**	**33,676**

Information Published within this Annual Report

Information	Reference[1]
Important Events and Significant Changes in 2020	Report of the Board of Directors
	Corporate Governance Policy
	Note 3[2]
New Products and Services Introduced in 2020	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile
	Report of the Board of Directors
Profit Distribution	Note 15
Activities Undertaken in the Area of Environmental Protection[3]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2020	Companies of the ČSOB group
	Note 3[2]
Expected Economic and Financial Situation of ČSOB in 2021	Report of the Board of Directors

1) *The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for the year 2020 (unless stated otherwise).*
2) *The content refers to a note in Notes to the Consolidated Financial Statements for the year 2020.*
3) *Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2020.*

Annex to Additional Information

Information according to Annex 14 of the Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Events after the Reporting Period

Chapter	Part
Corporate Governance	Managing and Supervisory Bodies, ČSOB's Organisation Chart
Additional Information	Bonds and Investment Certificates
Notes to the Consolidated Financial Statements for the year 2020	Events after the Reporting Period (Note 40)
Notes to the Separate Financial Statements for the year 2020	Events after the Reporting Period (Note 37)

Information on the Publication of the ČSOB Annual Report 2020

ČSOB will publish its Annual Report 2020 on its Internet website at www.csob.cz.

The **Czech National Bank** will add the ČSOB Annual Report 2020 to the collection of deeds of the **Register of Companies** pursuant to Section 21a of the Accounting Act.

Information in accordance with Section 99 of Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Annual reports and other obligatory information are available (by the date of release of this Annual Report) on ČSOB's Internet website in the section ČSOB – Obligatory Published Information (Povinně uveřejňované informace):

https://www.csob.cz/portal/csob/obligatory-published-information#annual-reports.

Annex to Additional Information

About the Report

This Report integrates the mandatory information as traditionally published in the Annual Report with additional non-financial information as required by Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial reporting, implemented in the territory of the Czech Republic by means of the Act on Accounting.

The Report describes ČSOB's approach to socially responsible sustainable business undertaken in the form of not only economy-oriented activities but also a number of related non-business activities which take into consideration the needs and interests of society in the Czech Republic where ČSOB is doing business. To be able to identify and respond to them accordingly, we regularly communicate with our key partners through questionnaires, public surveys or specific events targeting relevant addressees. These are clients, employees, investors, suppliers, representatives of state institutions and NGOs and, last but not least, our competitors, the regulator and government authorities.

The Report applies to all members of ČSOB Group and reports events during the period of January 1 – December 31, 2020. This means it links to the time reported by the preceding Annual Report and ČSOB Group Social Responsibility Report 2019.

We have chosen the globally recognised Global Reporting Initiative, specifically the GRI Standards, Core Option, as the most appropriate inspiration for our Report compilation. The non-financial information in the Report has not been verified by an external auditor.

Key Themes from the Stakeholders' Perspective (Material Aspects)

Aspect	Justification	Solution
Responsible behaviour and business ethics	Ethics and integrity are essential components of sound business practice. Responsible behaviour and business ethics are an integral part of the ethical standards to which we adhere.	Integrity Policy, Code of Conduct.
Compliance	Compliance is part of CSOB Group's corporate culture and emphasises particularly the support for ethical standards and compliance with legal regulations in business. We apply internal sustainability policies to our business activities with regard to human rights, the environment, climate and biodiversity, and business ethics. We update these policies every two years to keep up with company expectations.	Status Compliance ČSOB, Code of Conduct, Act on the Protection of Competition, Anti-Money Laundering Act, Tax Fraud Prevention, Anti-Corruption Program, Gift Policy, Whistle Blowing Policy.
Privacy and Data Protection	Credibility is a basic prerequisite for a bank undertaking business in the financial sector.	MiFID regulations for investor protection, consumer right protection in the field of consumer loans and mortgages, unfair business practices, client complaint handling.
Economic performance	Striving to ensure sustainable profit growth.	Developing a unique collaboration between the banking and insurance business to allow us to better understand our clients and devise suitable, complex solutions.
Risk management	Respecting the limits for the determining the risk, capital and liquidity in our business activities.	Risk management rules, principles and measures, activities of the Risk and Compliance Committee.
Product and service quality	Aiming to become the first company to come to mind when people think about financial products and services or consider purchasing investment instruments.	Placing the client's interest first, honesty in our business and correctness in our relationships; discretion and responsibility in business handlings.

Strategic Objectives and Fundamental Corporate Values (Management Approach)

Social

Stimulating Czech economy, preparing solutions to potential future problems and developing innovative tools to manage the current social challenges, we aim to contribute to the whole Czech society and are involved in socially sensitive topics. We intend to become the first company that springs to mind when people think about financial products and services, or search for an interesting job. We wish to be first choice for investors considering a purchase of investment instruments.

Economic

Striving to ensure sustainable profit growth, intending to defend and further facilitate our corporate existence in the long term. Respecting the limits for the determination of risk, capital and liquidity in our business activities. Developing a unique collaboration between banking and insurance businesses to allow us to better understand our clients and devise suitable complex solutions. We wish to be the quality standard in the field of bank-insurance in the Czech market.

Environmental

We are aware of the climate threats posed by global warming and are ready to contribute to a faster transition to a more sustainable society and a low-carbon economy through new business models. ČSOB has its own environmental and energy policies incorporating the company's commitments to environmental protection, pollution prevention, permanent improvement of the environmental management system and other specific commitments in full compliance with the requirements of ČSN EN ISO 14001:2016 (EMS) and ISO 50001 (EnMS).

Ways of Achieving This

Strictly complying with legal standards and regulations on one hand, and acting politely and respectfully to express equal partnership on the other hand. We approach mutual collaboration with our partners with an open mind, we listen to them and learn about their needs in order to be able to meet them. We place the client's interest first; we are honest in business and correct in relationships, discreet and responsible in negotiations. We believe that respect to those values reflected in our behavior will not only help us build trust in our company but will also serve as a reference for both existing and new partners.

Global Reporting Initiative (GRI) Content index*

General Standard Disclosures

General disclosures 2020	Description	cross-reference
Organizational Profile		
102-1	Name of the organization	Annual Report 2020, p. 1.
102-2	Activities, brands, products, and services	Annual Report 2020, p. 12, 24-25, 39-46, 311-314, 322-323.
102-3	Location of headquarters	Annual Report 2020, p. 1.
102-4	Location of operations	Annual Report 2020, p. 6, 12, 25, 39, 322.
102-5	Ownership and legal form	Annual Report 2020, p. 1, 24, 26-27.
102-6	Markets served	Annual Report 2020, p. 6, 12, 25, 39, 322.
102-7	Scale of the organization	Annual Report 2020, p. 2, 12, 25.
102-8	Information on employees and other workers	Annual Report 2020, p. 2, 11, 14, 25, 28, 31, 34-38, 107-108; ČSOB Group Report to Society 2020.
102-9	Supply chain	Suppliers Policy, ČSOB Group Report to Society 2020.
102-10	Significant changes to the organization and its supply chain	Annual Report 2020, p. 7-8, 50.
102-11	Precautionary Principle or approach	ČSOB Integrity Policy, Statut Compliance ČSOB, Code of Conduct, Code of Administration and Management, Annual Report 2020, p. 11, 28-33; ČSOB Group Report to Society 2020.
102-12	External initiatives	Annual Report 2020, p. 28, 30-34, 324; ČSOB Group Report to Society 2020.
102-13	Members of associations	not stated
Strategy		
102-14	Statement from CEO	Annual Report 2020, p. 3.
Ethics and Integrity		
102-16	Values, principles, standards and norms of behavior	Code of Conduct, ČSOB Integrity Policy, ČSOB Compliance Statut, Annual Report 2020, p. 7, 11, 27, 28-31, 35-38, 49, 60; ČSOB Group Report to Society 2020.
Governance		
102-18	Governance structure	Annual Report 2020, p. 66.
Stakeholder Engagement		
102-40	List of stakeholder groups	ČSOB Group Report to Society 2020.
102-42	Identifying and selecting stakeholders	ČSOB Group Report to Society 2020.
102-43	Approach to stakeholder engagement	ČSOB Group Report to Society 2020.
102-44	Key topics and concerns raised	ČSOB Group Report to Society 2020.

** This sustainability Report has been prepared in accordance with the GRI Standards, "Core" option, non-financial data have not been externally audited.*

General disclosures 2020	Description	cross-reference
Report Profile		
102-45	Entities included in the consolidated financial statements	Annual Report 2020, p. 98–101.
102-46	Defining report content and topic boundaries	Annual Report 2020, p. 4.
102-47	List of material topics	Annual Report 2020, p. 328; ČSOB Group Report to Society 2020.
102-49	Changes in reporting	Annual Report 2020, p. 97, 217.
102-50	Reporting period	Annual Report 2020, p. 327.
102-51	Date of most recent report	Annual Report 2020, p. 327, 335.
102-52	Reporting cycle	Annual Report 2020, p. 327.
102-53	Contact point for questions regarding the report	Annual Report 2020, p. 347.
Specific GRI Standards		
103-1	Explanation to the material topic and its boundary	Integrity Policy ČSOB, ČSOB Compliance Statut, Code of Conduct; ČSOB Group Report to Society 2020.
103-2	The management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Code of Conduct, Annual Report 2020, p. 3, 7, 11, 16, 28, 32-33, 60; ČSOB Group Report to Society 2020.
103-3	Evaluation of the management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Code of Conduct; ČSOB Group Report to Society 2020.
Economic (GRI 200)		
201-1	Direct economic value generated and distributed	Annual Report 2020, p. 2, 7, 12-15, 21.
201-2	Financial implications and other risk and opportunities due to climate change	Annual Report 2020, p. 5, 10, 17.
203-1	Infrastructure investments and services supported	Annual Report 2020, p. 18-22, 25, 322-324.
203-2	Significant indirect economic impacts	Annual Report 2020, p. 5, 10, 17.
205-1	Operations assessed for risks related to corruption	Annual Report 2020, p. 60.
205-2	Communication and training about anti-corruption policies and procedures	ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group.
Environmental (GRI 300)		
302-1	Energy consumption within the organization	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.
302-4	Reduction of energy consumption	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.

General disclosures 2020	Description	cross-reference
305-1	Direct (Scope 1) GHG emissions	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.
305-2	Energy indirect (Scope 2) GHG emissions	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.
305-3	Other indirect (Scope 3) GHC emissions	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.
305-5	Reduction of GHG emissions	Annual Report 2020, p. 30; ČSOB Group Report to Society 2020; ČSOB Environmental Policy.

Social (400)

401-1	New employee hires and employee turnover	Annual Report 2020, p. 2, 25, 37, 107-108.
404-1	Average hours of training per year per employee	ČSOB Group Report to Society 2020.
404-3	Percentage of employees receiving regular performance and careed development reviews	100%, Collective Agreement
405-1	Diversity of governance bodies and employees	Annual Report 2020, p. 35-38; ČSOB Group Report to Society 2020.

Own indicators

	Initiatives to improve access to financial services for disadvantaged people	Annual Report 2020, p. 3, 8, 29, 31; ČSOB Group Report to Society 2020.
	Anti-corruption policies and procedures	ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group; ČSOB Group Report to Society 2020.
	Policies with specific environmental and social components applied to business lines.	ČSOB Environmental Policy, ČSOB Energetic Policy; ČSOB Group Report to Society 2020.
	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	ČSOB Environmental Policy, ČSOB Energetic Policy, ČSOB Anticorruption Policy, ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program; ČSOB Group Report to Society 2020.

Information according to Annex 14 of Decree No. 163/2014 Coll.,

on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013

(CZKths)		the Bank 31. 12. 2020	Regulated Cons. Unit 31. 12. 2020
Items from Statement of Financial Position	**Total Shareholders' Equity**	**104,985,729**	**107,458,153**
	Share capital	5,855,000	5,855,000
	Share premium	20,092,666	20,928,552
	Accumulated Other comprehensive income	968,282	395,169
	Reserve funds	18,686,648	18,686,648
	Retained earnings for the previous periods	47,882,550	53,108,105
	Own shares	0	0
	Net profit for the period	11,500,584	8,484,679
	Non-controlling interest	0	0
Adjustments to CET1	**Total Adjustments to CET1**	**(4,414,358)**	**(10,267,164)**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	(58,048)	(26,062)
	Additional value adjustment	(148,388)	(109,680)
	Goodwill	(2,178,017)	(6,455,054)
	Other intangible assets, net of tax	(2,006,139)	(3,629,995)
	Insufficient coverage of expected credit losses (lack of provisions)	(23,766)	(23,766)
	Unusable profit	0	0
	Non-controlling interest	0	0
	Deferred tax assets	0	(22,607)
	Other transitional adjustments to CET 1	0	0
Tier 2 Capital	**Total Tier 2 Capital**	**1,374,860**	**0**
	IRB Excess of provisions over expected losses eligible	1,374,860	0
	Total Capital	**101,946,231**	**97,190,989**
	Tier 1 (T1) Capital	**100,571,371**	**97,190,989**
	Common Equity Tier 1 (CET1) Capital	**100,571,371**	**97,190,989**
	Tier 2 (T2) Capital	**1,374,860**	**0**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2020	Regulated Cons. Unit 31. 12. 2020
In the case of institutions that calculate the exposure values according to part three title II chapter 2. 8% of the exposure value for each category of exposure indicated in Article 112 of Regulation (EU) 575/2013	Exposures to central governments or central banks	Article 438 (c)	0	0
	Exposures to regional governments or local authorities		0	0
	Exposures to public sector entities		0	0
	Exposures to multilateral development banks		0	0
	Exposures to international organisations		0	0
	Exposures to institutions		0	28,627
	Exposures to corporates		0	552,817
	Retail exposures		0	29,733
	Exposures secured by mortgages on immovable property		0	11,907
	Exposures in default		0	5,228
	Exposures associated with particularly high risk		0	0
	Exposures in the form of covered bonds		0	0
	Items representing securitisation positions		0	0
	Exposures to institutions and corporates with a short-term credit assessment		0	0
	Exposures in the form of units or shares in collective investment undertakings		0	0
	Equity exposures		5,758,658	158,841
	Other items		0	461,010
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	32,937	25,159
	For large exposures exceeding the limits set in Articles 395 to 401, if the institution is permitted to exceed these limits		0	0
	For currency risk		0	8,699
	For settlement risk		0	0
	For commodity risk		0	0
Capital requirements calculated according to part three title III chapters 2, 3 and 4 of Regulation (EU) 575/2013 and made available separately	Capital requirement pursuant to title III chapter 2	Article 438 (f)	0	0
	Capital requirement pursuant to title III chapter 3		4,937,748	5,343,898
	Capital requirement pursuant to title III chapter 4		0	0
In the case of institutions that calculate the exposure values according to part three title II chapter 3, 8% of the exposure value for each category of exposure indicated in Article 147. In the case of the retail exposure category, this requirement is used for each category of exposure that corresponds to differing correlation according to Article 154 (1) to (4) of Regulation (EU) 575/2013.	Exposures to central governments or central banks	Article 438 (d)	1,081,364	1,215,373
	Exposures to institutions		4,139,578	1,000,217
	Exposures to corporates		8,930,105	8,764,007
	Retail exposures		1,663,133	10,410,453
	Equity exposures		0	0
	Items representing securitisation positions		0	0
	Other assets not having the character of a credit liability		2,517,288	3,731,466
In the case of the equity exposures category this requirement is used for	Equity exposures traded on regulated markets		0	0
	Equity exposures not traded on regulated markets in sufficiently diversified portfolios and other exposures		0	0
	Exposures that in the area of capital requirements are subject to transitional supervision rules		0	0
	Exposures that in the area of capital requirements are subject to provisions relating to retention of legal effects		0	0
	Each of the approaches indicated in Article 155		0	0
*Risk exposure for credit valuation adjustment **			*214,886*	*214,886*
*Risk exposure amount for Position, foreign exchange and commodities risks under internal models **			*0*	*0*

** These items have been added in order to maintain the scope of mandatory reporting CNB.*

Capital Ratios

	the Bank 31. 12. 2020	Regulated Cons. Unit 31. 12. 2020
Capital ratio for Equity capital Tier 1	26.72%	23.70%
Capital ratio for Tier 1 capital	26.72%	23.70%
Capital ratio for Total capital	27.08%	24.16%

Ratios Indicators

		the Bank 31. 12. 2020
Return on average assets (ROAA)		0.67%
Return on average Tier 1 capital (ROAE)		12.96%
Assets per employee*	CZKths	217,759
Administrative costs per employee*	CZKths	1,940
Profit after tax per employee*	CZKths	1,569

** According to CNB's methodology (Registered number of employees).*

DOCUMENTS

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2020

hereby declare that, to their best knowledge, the ČSOB Annual Report 2020 gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results and on non-financial information.

In Prague, 20 April 2021

Československá obchodní banka, a. s.

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

Independent Auditor's Report

Independent auditor's report

To the shareholder of Československá obchodní banka, a. s.

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of Československá obchodní banka, a. s., with its registered office at Radlická 333/150, Prague 5 (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2020, of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union, and
- the separate financial statements give a true and fair view of the separate financial position of the Bank as at 31 December 2020, of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2020;
- the consolidated statement of other comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the consolidated statement of cash flows for the year ended 31 December 2020; and
- the notes to the consolidated financial statements including significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2020;
- the separate statement of other comprehensive income for the year ended 31 December 2020;
- the separate statement of financial position as at 31 December 2020;
- the separate statement of changes in equity for the year ended 31 December 2020;
- the separate statement of cash flows for the year ended 31 December 2020; and
- the notes to the separate financial statements including significant accounting policies and other explanatory information.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

Basis for opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council (the “EU Regulation”) and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together the “Audit regulations”). These standards consist of International Standards on Auditing as supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report.

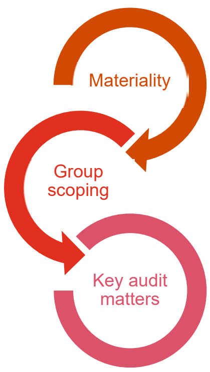
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors of the Czech Republic, with the Act on Auditors and with the EU Regulation. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, Act on Auditors and EU Regulation.

Our audit approach

Overview



The overall materiality for the consolidated financial statements represents 5% of the three-year average from the Group’s profit before tax and before non-recurring transactions and has been determined as CZK 824 million. The overall materiality for the separate financial statements represents 5% of the three-year average from the Bank’s profit before tax and before non-recurring transactions and has been determined as CZK 939 million.

Our audit work addressed 98.1% of the Group’s assets and 92.8% of the Group’s profit before tax.

Risk of impairment of loans and advances in a situation of the ongoing covid-19 pandemic

Valuation of complex financial instruments

As part of designing our audit, we determined the materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together the “financial statements”). In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on each set of financial statements as a whole.

Overall Group materiality	CZK 824 million (CZK 1,024 million for the previous period)
Overall Bank materiality	CZK 939 million (CZK 1,186 million for the previous period)
How we determined it	Materiality for the Group and the Bank was determined as 5% of the three-year average from the Group's and the Bank's profit before tax and before non-recurring transactions for the years 2018 - 2020.
Rationale for the materiality benchmark applied	We have chosen the three-year average from profit before tax as the benchmark for estimating materiality, as the Group and the Bank are profit-oriented entities. We understand that profit before tax is one of the key performance indicators for the Group's and the Bank's stakeholders. The covid-19 pandemic has significant impact on the profitability of the Group and the Bank and therefore we have eliminated the consequential high volatility of materiality using the three-year average. We excluded significant and non-recurring transactions that occurred in 2019 from the benchmark calculation. These transactions were the gain on sale of ČSOB Asset Management, impacting both the consolidated and separate profit before tax, and the gain on fair value remeasurement of 55% share in ČSOB stavební spořitelna (before Českomoravská stavební spořitelna) during acquisition of the remaining 45%, impacting only the consolidated profit before tax. We have chosen 5%, which is within the range of acceptable quantitative materiality thresholds for Public Interest Entities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of each set of 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	How our audit addressed the key audit matter
Risk of impairment of loans and advances in a situation of the ongoing covid-19 pandemic	
The Group recognized client credit portfolio in the amount of CZK 1,395,837 million in the Consolidated statement of financial position. The Bank recognized client credit portfolio in the amount of CZK 910,333 million in the Separate statement of financial position. The risk of non-payment of loans is an inherent part of banking activities. The provision for impairment of loans represents the most significant estimate and highly complex area with a direct and significant impact on the financial results. Management's approach to assumptions with the most significant impact on the appropriate estimation of the value of loans is described in Notes 2 to the consolidated and separate financial statements, in Note 41 to the consolidated financial statements and in Note 38 to the separate financial statements. The provision for impairment of loans is calculated using models that reflect the impact of current economic conditions, credit status of loans as well as forward-looking information and forecasts of macroeconomic variables on the credit portfolio of the Group and the Bank. The continuing pandemic of covid-19 had significant impact on credit risk and results for the year 2020. It led to introduction of credit moratorium, year-on-year decrease in the Czech gross domestic product and it significantly impacted revenues and profitability of a number of affected industries and debtors, contributing to increased uncertainty. This specific situation required a critical approach to the identification of the significant increase in credit risk. The identification of the credit-impaired status and the expected future cash flows requires complex accounting estimates. The Group's and the Bank's management concluded that its present system for loan	Our current year audit procedures relating to credit risk and loan impairment, were specifically focused on the impact of covid-19 pandemic, for the purposes of an assessment of its effect on the loan portfolio value and the calculated provision for impairment. Our approach was based on testing of the internal control system established by the Group and the Bank for this area and on direct testing of the financial balances recognized in the Group's and the Bank's financial statements. We primarily assessed the existing policies on provisioning for loan impairment, including the system of collateral valuation, their compliance with the requirements of IFRS 9 and we also assessed adherence to the existing control system. We engaged our financial risk modelling experts in assessing the models (including the model for the calculation of the management overlay) used for the quantification of expected credit losses. We also assessed the approach to classification of debtors who applied for the credit moratoria and the approach to identification of the significant increase in credit risk in the respective loans, taking into consideration regulatory recommendations and optimal approach. Due to the key role of banking systems and internal control systems in the identification of the significant increase in credit risk and the quantification of expected credit losses, including the assignment of internal rating or credit score and pooling, we involved our information technology specialists, who verified access rights, data processing and automated calculations in the core systems, including the calculation of expected credit losses. For a sample of loans, we verified the classification of loans into three stages as

impairment assessment might not be fully appropriate under the current circumstances. Therefore, the Group and the Bank recognized an additional amount of provision for loan impairment ("management overlay"), which is based on complex models reflecting the anticipated development of loan portfolios. Due to the uniqueness of the current situation, the impact of back testing of credit models was limited.

defined by IFRS 9. We also checked the identification of the significant increase in credit risk and quantification of the probability of default, the amount of credit exposure and the loss given default and also the reflection of forward-looking information, as these factors have crucial impact on the calculation of credit losses, both incurred and expected.

We also reviewed appropriateness of disclosures required by the respective IFRS standards.

Valuation of complex financial instruments

Measuring fair value of securities and derivative instruments requires a number of observable and unobservable valuation inputs, which may be subjective in nature. Uncertainty and volatility of these valuation inputs increased due to covid-19 pandemic that impacted both financial and capital markets.

Additionally, in accordance with IFRS 13, the Group and the Bank need to disclose mandatory information regarding fair value measurement for financial instruments in the financial statements. Major area of our focus relates to financial instruments classified within level 3 of the fair value hierarchy. These financial instruments include illiquid securities, exotic derivatives and structured products.

Refer to Note 33 to the consolidated financial statements and Note 30 to the separate financial statements for fair value disclosures, valuation techniques and significant unobservable inputs used by management to determine fair values of these financial instruments.

In respect of fair values of level 3 financial instruments we focused our audit procedures on the adequacy of valuation methodology, completeness and accuracy of amounts related to these financial instruments within the Group's and the Bank's information systems including valuation inputs assumed.

In particular, our procedures consisted of:

Assessment of valuation methodology and valuation models;

Independent benchmarking of a sample of observable valuation inputs to market data;

Validation of inputs into market value adjustments and assessing their consistency with independent market sources;

Testing accuracy and reasonableness of significant unobservable valuation inputs considering the impact of covid-19 on their volatility and uncertainty;

Testing a set of automated, IT dependent and manual controls aimed on completeness and accuracy of data held within the Group's and the Bank's information systems;

Circularisation of a sample of counterparties to confirm existence of financial instruments;

Independent recalculation of fair value on a sample of financial instruments.

We also reviewed appropriateness of disclosures required by respective standards.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each set of financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group and the Bank operate.

Decisions regarding multi-location scoping require a significant degree of professional judgment based on the unique facts and circumstances of each entity. Most importantly, we considered each entity's contribution to total assets and profit before tax of the Group.

Our coverage for the 2020 year-end audit of the consolidated financial statements of the Group is 98.1% of total consolidated assets (after eliminations), which is covered by full scope audit procedures, and additional 1.2% covered by specified procedures on the company ČSOB Leasing, a.s. At the same time, this also represents 92.8% of the consolidated profit before tax covered by full scope audit procedures and 1.7% covered by specified procedures on the company ČSOB Leasing, a.s.

Other information

The board of directors is responsible for the other information. As defined in Section 2(b) of the Act on Auditors, the other information comprises the Annual Report but does not include both of the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Bank obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

Based on the procedures performed in the course of our audit, to the extent we are able to assess it, in our opinion:

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this regard.

Responsibilities of the board of directors, supervisory board and audit committee of the Bank for the financial statements

The board of directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Group and the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The supervisory board of the Bank is responsible for overseeing the financial reporting process.

The audit committee of the Bank is responsible for monitoring of the financial statements' preparation process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 the Audit regulations 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 financial statements.

As part of an audit in accordance with the Audit regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the 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 controls.
- obtain an understanding of internal controls 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 and the Bank's internal controls.
- 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 and the Bank'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 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 Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the 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, supervisory board and 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 showing that we have complied with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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From the matters communicated with the supervisory board and audit committee, we determine those matters that were of most significance in the audit of the 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 other legal and regulatory requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the audit opinion with the additional report to the audit committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on today in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Bank for years 2019 to 2021 by the general meeting of shareholders of the Bank on 9 July 2019. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 5 years.

Provided non-audit services

To the best of our knowledge and belief, we declare that PwC Network has not provided to the Bank and its subsidiaries non-audit services that are prohibited under Article 5 (1) of the EU Regulation, as amended by the Czech law following Article 5 (3) of the EU Regulation.

The non-audit services we have provided to the Bank and its subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in Section Additional information of the Annual Report.

20 April 2021

PricewaterhouseCoopers Audit, s.r.o.
represented by Partner

Marek Richter
Statutory Auditor, Licence No. 1800

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)
ČSOB group; the Group	group of companies of the ČSOB group (not a legal entity)

Abbreviation	Business Company
BANIT	Bankovní informační technologie, s.r.o.
Bankovní identita / Bank ID	Bankovní identita, a.s.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČSOB Advisory	ČSOB Advisory, a.s.
ČSOB AM / ČSOB Asset Management	ČSOB Asset Management, a.s., investment company
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB Leasing	ČSOB Leasing, a.s.
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB PS / ČSOB Penzijní společnost	ČSOB Penzijní společnost, a. s., a member of the ČSOB group
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB SK	Československá obchodná banka, a. s. (Slovak Republic)
ČSOBS	ČSOB Stavební spořitelna, a.s.[1)] (previously Českomoravská stavební spořitelna, a.s.)
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC Group Czech Branch	KBC Group NV Czech Branch, organizational unit
KBC Insurance / KBC Verzekeringen	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta C	KBC Participations Renta C SA
KBC Securities	KBC Securities NV
K&H Payment Services	K&H Payment Services Kft
MallPay	MallPay, s.r.o.
MF CR	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
Patria Corporate Finance	Patria Corporate Finance, a.s.
Patria Finance	Patria Finance, a.s.
Patria investiční společnost / Patria IS	Patria investiční společnost, a.s.
Radlice Rozvojová	Radlice Rozvojová, a.s.
Top-Pojištění	Top-Pojištění.cz s.r.o.
Transformed fund / Transformed pension fund	Transformovaný fond Stabilita ČSOB Penzijní společnosti, a. s., a member of the ČSOB group
Ušetřeno	Ušetřeno.cz, s.r.o.
Ušetřeno finanční služby	Ušetřeno.cz finanční služby, a.s.

1) With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).

FINANCIAL CALENDAR

Financial Calendar for 2021

ČSOB Group Unaudited Financial Results Releases
(according to EU IFRS)

Financial Results		Date of Release
as at 31 December 2020	4Q / FY 2020	11 February 2021
as at 31 March 2021	1Q 2021	11 May 2021
as at 30 June 2021	2Q / 1H 2021	5 August 2021
as at 30 September 2021	3Q / 9M 2021	12 November 2021
as at 31 December 2021	4Q / FY 2021	10 February 2022

Note:
This schedule is indicative only; terms might be subject to change during the year.

CONTACT DETAILS

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