ANNUAL REPORT 2021

Československá obchodní banka, a. s.

ČSOB

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	2021	2020	2019
Financial Statements Figures			
Balance sheet at the year end *(CZKm)*			
Total assets	1,805,479	1,756,440	1,630,597
Financial assets at amortised cost	1,624,653	1,579,942	1,459,211
Deposits received from other than credit institutions	1,156,901	1,072,771	957,221
Debt securities in issue	402,164	425,293	415,818
Shareholders' equity [1]	117,378	106,992	98,678
Statement of income *(CZKm)*			
Operating income	35,724	35,251	42,404
– of which Net interest income	24,310	26,102	32,004
– of which Net fee and commission income	7,828	7,591	8,518
Operating expenses	19,834	19,252	19,034
Impairment on financial assets at amortised cost/loans and receivables [9]	3,637	(5,556)	(313)
Profit before tax	19,079	10,030	23,185
Profit for the year [1]	16,160	8,488	19,691
Ratios *(%)*			
Return on average equity (ROAE) [8]	14.3	8.2	20.7
Return on average assets (ROAA) [8]	0.88	0.49	1.20
Cost / income ratio [8]	55.5	54.6	44.9
Capital adequacy ratio [2, 8]	22.7	24.2	19.2
Leverage ratio [3, 8]	4.65	5.02	4.04
Net stable funding ratio [3, 8]	171.3	170.6	161.5
Loan-to-deposit ratio [8]	71.1	71.6	79.4
General Information (as at 31 December)			
Number of employees – the ČSOB group	8,087	8,349	8,626
Number of clients – the ČSOB group (in millions) [4]	4.225	4.231	4.240
Number of branches – the Bank [5]	208	213	225
Number of ATMs [6]	1,017	1,025	1,068

ČSOB's Credit Rating [7] (as at 31 December 2021)

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) Attributable to equity holders of the Bank.
2) 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.
3) According to CRR rules; for definition please refer to page 25.
4) Includes all clients of ČSOBS.
5) Includes ČSOB branches and PSB financial centers, i.e. without approximately 2,500 post offices.
6) Including ATMs of cooperating banks.
7) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.
8) Values for 2019 were influenced by one-off transactions (acquisition of remaining 45% share in ČSOBS and sale of share in ČSOB Asset Management).
9) (-) net creation/cost; (+) net release/revenue

OPENING STATEMENT

Providing certainty in turbulent times.

I feel compelled to open this message with the hot topic of the last weeks. We are deeply saddened by the developments in Ukraine. We condemn all forms of military conflict and trust that a sustainable peaceful solution will be found as soon as possible. War has returned to Europe. We understand that many people are in an extremely difficult situation, and we try to come up with help and support. Immediately after the outbreak of the war in Ukraine, the ČSOB group announced the SOS Ukraine fundraiser in cooperation with People in Need. In just 12 days, the target amount of CZK 25 million was reached and subsequently doubled by us. However, this is an ongoing initiative because helping people in Ukraine as well as Ukrainian refugees in our country is still urgent. Apart from financial assistance we try to support all newcomers and make it as easy as possible for them to start their life in the Czech Republic.

ČSOB is now offering Ukrainian citizens a current account with several benefits, including an initial deposit of CZK 2,500. There is also a special client line in Ukrainian: 800 200 290.

In today's turbulent times, banking remains a safe and stable environment for the entire Czech economy and all customer groups – citizens, entrepreneurs, companies and public institutions. In our ČSOB Bank Insurance Group, we are continuing our "Digital with a Human Touch" strategy and are able to react quickly and meet our clients' wishes and goals in a way that is the safest and the most convenient for them.

We are available online 24/7 and our investments into digitisation and continuous innovations save clients time and money. As the first bank on the Czech market, we offered fully online current account opening for companies as well as previously for our retail clients. However, we want to remain the most accessible group in the country, which is why we continue to build on personal meetings and together with Czech Post are developing and modernising our wide business network to meet the requirements and demands of the largest possible number of clients.

We have launched the single ČSOB Smart mobile application for clients of ČSOB and Poštovní spořitelna, making clients' communication with us as easy as possible. With the first-rate security thanks to ČSOB Identity, the application features our virtual assistant Kate, a concept we were the first to introduce on the Czech market. The number of active ČSOB Smart banking users increased by nearly a half last year. The combination of data science and our virtual assistant Kate allows us to offer personal service to clients in new and previously unimaginable ways.

We were one of the first banks to enable clients to use their banking identity to access the online services of public institutions and companies, including signing with a guaranteed signature for the business sector. The functionality of the bank identity service is proven by the fact that 100,000 ČSOB clients used it last year. There is also remarkable interest in ČSOB Drobné application with which customers can round up each transaction and automatically invest the difference in the ČSOB Bohatství mutual fund, the largest fund on the Czech market. This investment service combining investing with shopping has already attracted more than 100,000 users. The multifunctional application DoKapsy from ČSOB is also arousing interest and has been activated by over 67,000 people who can use it for example for parking in dozens of towns, including Prague.

Digitisation, technological innovation, and the main engine of these developments, namely robotics with artificial intelligence, will certainly remain a major trend in retail and corporate banking. Our unique ČSOB Innovation Index survey confirms this view and indicates that 83 percent of Czechs are accepting innovation and 11 percent are enthusiastic about it.

The long-term basis of our corporate philosophy is sustainability along with environmental friendliness in which we are the market leader and a role model for our clients. We have opened regional headquarters in Hradec Králové, for which we aim to obtain the internationally recognised LEED Platinum certification, which has already been granted to our Radlice Campus in Prague. Since 2015, we have reduced our carbon footprint by more than three-quarters and no longer have any direct exposure to coal-related companies. In contrast, KBC group, to which ČSOB belongs, have set a goal of providing 65 percent of total financing in the energy sector to renewable energy by 2030 at the latest.

We offer assistance and financing to companies and entrepreneurs seeking to shift their business towards sustainability, thus ensuring their future competitiveness. Our experience suggests that European climate and energy measures represent not only a great challenge for Czech companies, but also a great opportunity. An opportunity to transform and advance a number of sectors in terms of technology thanks to EU funding. Decarbonisation is an opportunity to reduce production costs, develop and introduce modern technologies, create new jobs, and ultimately improve the environment and our quality of life. Since every second Czech company is our client, it is a very demanding mission.

We support sustainable solutions with our products for housing and electromobility, but also for everyday life. In September 2021, we therefore challenged Česká spořitelna and its employees to a friendly duel to see who could accumulate more green kilometres when commuting to work by public transport, on foot, by bike or in an electric car. We collectively accumulated incredible 864,731 kilometres and thus saved 97 tons of CO_2. We believe that we have inspired people and other companies in the Czech Republic with the Green Incentive.

As the ČSOB group, we maintain our strong capital position and excellent liquidity. Our business volumes continue to grow, we have increased our market share in mutual funds, consumer finance and insurance, and the quality of our loan portfolio remains excellent. The share of non-performing loans in the entire loan portfolio was at low value of 1.83% at the end of last December, the lowest value since 2008.

All of our colleagues therefore rightfully deserve a huge acknowledgement for their outstanding results, dedication, and commitment in another extremely challenging year, which we managed successfully. I would like to add special thanks to the employees who took part in the immediate assistance to the families affected by the devastating tornado in south Moravia.

John Arthur Hollows
Chairman of the Board and CEO of ČSOB

TABLE OF CONTENTS

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.

During 2021, the Czech Republic experienced two more waves of the pandemic, which had a negative effect on its overall economic performance. The short-term downturn in the economy in the first quarter was primarily the result of restrictive anti-epidemic measures aimed mainly at the services sector, especially trade and tourism. However, the positive developments in the industrial sector not only prevented a deeper slump but also put the economy back on its growth path, although the industrial enterprises continued to face the issue of dysfunctional supply chains, delayed and more expensive international transport and, not least, sharp increases in raw material and energy prices.

As the economic growth resumed, the labour market situation began to change. While the number of unemployed has gradually declined since the spring, vacancies in the economy have been increasing, and a significant number of firms, particularly in the construction and industrial sectors, have started facing a shortage of skilled and supporting workers. This combination of trends was reflected in increased wage pressures across the economy.

The economic recovery in 2021 was also linked to the growth of inflationary pressures requiring intervention by the central bank. Already at the end of June, the CNB raised its prime interest rate by a quarter of a percentage point to 0.50% and continued increasing interest rates at each of its subsequent meetings. In December, the CNB's base interest rate reached 3.75%, in February 2022, it reached the 20-year high of 4.5%, and in March 2022 it further increased to 5.0%. The central bank's vigorous action was also reflected in the medium- and long-term interest rates.

The widening spread between the koruna and euro rates increased the attractiveness of the Czech currency, which strengthened as a result, and by the end of the year, the exchange rate had already fallen below the 25 CZK/EUR level. However, due to rising commodity and energy prices, the inflationary pressures in the economy did not ease and the annual inflation reached 6.6% at the end of the year, while the production inflation in the industry even reached 13.2%. The increased costs of dealing with the pandemic, compensation to the business sector, and tax changes resulted in the state running a deficit of almost CZK 420 billion in 2021. Due to the favourable situation on the financial markets and the country's own position as one of the least indebted countries in the EU, it was still possible to finance this deficit smoothly.

The uncertainty and risks caused by the recurrent pandemic waves were reflected in the increased household savings rate or above-average increase in deposits of this segment. The greater deposit growth was also evident in the case of non-financial corporations. On the other hand, the initial difficulties in the economy were not associated with any slowdown in lending activities, which did not abate even in the period of rising interest rates. The quality of the domestic banking sector's loan portfolios was also very positive, with the share of so-called non-performing loans falling to 1.5% in the case of households and 3.8% in the case of firms.

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

Indicator [1]	Measurement Unit	2021	2020	2019	2018	2017
Nominal GDP	CZKbn	6,127	5,694	5,790	5,410	5,111
Real GDP growth	% change, Y / Y	3.3	(5.8)	3.0	3.2	5.4
Real GDP per capita	CZKths	491.4	466.9	497.1	484.4	471.0
Real GDP growth per capita	% change, Y / Y	5.2	(6.1)	2.6	2.8	5.2
Inflation rate (CPI)	%, year end	6.6	2.3	3.2	2.0	2.4
Unemployment rate	%, average	2.8	2.6	2.0	2.2	2.9
General government budget balance / Nominal GDP [3]	%	(5.9)	(5.8)	0.3	0.9	1.5
General government debt [3]	CZKbn	2,567	2,149	1,740	1,735	1,750
General government debt / Nominal GDP [3]	%	41.9	37.7	30.1	32.1	34.2
Exports of goods and services [2]	% change, Y / Y	11.2	(6.7)	2.7	3.1	6.4
Imports of goods and services [2]	% change, Y / Y	17.9	(8.2)	2.3	5.1	6.6
Trade balance / Nominal GDP [2]	%	(0.1)	3.2	2.5	1.8	3.2
Interest rate (three month PRIBOR) [2]	%, average	1.13	0.86	2.12	1.27	0.41
CZK / EUR exchange rate [2]	average	25.6	26.4	25.7	25.6	26.3

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 2021

- **The net profit of ČSOB reached CZK 16.2 billion** (+90% year-on-year).
- **The volume of loans amounted to CZK 835 billion** (+5% year-on-year).
- **The volume of deposits grew to CZK 1,157 billion** (+8% year-on-year).
- **The total volume of assets under management increased to CZK 288 billion** (+16% year-on-year).
- **Operating income reached CZK 35.7 billion** (+1% year-on-year).
- **Operating expenses excluding banking taxes increased to CZK 18.5 billion** (+2% year-on-year). Staff expenses increased +3% year-on-year.
- **Loan loss provisions amounted to net release of CZK -3.6 billion** due to partial release of management overlay (CZK 2.7bn) and releases in most segments as a result of excellent portfolio quality and low number of NPLs. **Credit cost ratio** for the full year 2021 was -0.42%. The **ratio of non-performing loans** decreased to 1.83%.
- ČSOB has a strong capital position and excellent liquidity. The **loan-to-deposit ratio** decreased year on year to 71.1%. The **net stable funding ratio** (NSFR) was 171.3%. **Tier 1 (CET 1)** ratio reached 22.4%.

Corporate Social Responsibility and Sustainability

We provided green loans in line with the **EU Taxonomy** guidelines in the amount of CZK 3.2bn and fulfilled our commitment to **exit direct coal financing**. Moreover, ČSOB also successfully completed its first euro-denominated corporate bond mandate worth CZK 1bn in accordance with the ICMA **Green Bond** Standards. We reduced our GHG emissions by 76% compared to 2015 mainly thanks to consumption of **100% electricity from renewable energy sources**. Relocations of our HQ departments to ČSOB Kampus saved ca 400t of CO2 due to lower consumption of gas, heating, and water. We strengthened our offer of SRI funds and reached CZK 3.4bn in gross sales. Clients increasingly opt for our green solutions which newly include ČSOBS Bridging Loan for Economical Housing. As part of the program ČSOB helps the regions and in response to the tornado disaster in South Moravia, we opened a charity fund to help our affected colleagues and communities that raised almost CZK 2.5m in a short time.

The ČSOB group started the **SOS Ukraine** charity fundraiser for the People in Need organization immediately after the outbreak of the war in Ukraine. The target donation amount of CZK 25 million was reached in just **12 days** and doubled to CZK 50 million by ČSOB. However, we did not stop the fundraiser and keep helping people in Ukraine and Ukrainian refugees as it is still urgent.

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

Dividends Paid

Based on a sole shareholder decision from 4 November 2021, and in accordance with the recommendation and approval of the national regulator, a dividend of CZK 14.01 per share was paid, representing a total dividend of CZK 4,100m. The decision of a profit allocation for 2021 has not been taken before the date of issue of the annual report.

Due to COVID-19 crisis and in accordance with the recommendation of the national regulator, no dividend was paid for 2019.

Changes to Scope of Consolidation and Business Combinations

- With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).
- Ušetřeno.cz and K&H Payment Services were included into the consolidated financial statements of the Group in 2021.
- In 2021, ČSOB acquired a stake in the company Igluu. The company was not included in the consolidation due to insignificance.

Changes in ČSOB's Managing and Supervisory Bodies

- Petr Hutla, Marcela Suchánková and Jan Sadil were re-elected for the new term of office beginning on 2 March 2021.
- Ján Lučan replaced Petr Knapp in Board of Directors since June 2021 and became the new Senior Executive Officer responsible for Relationship Banking.
- Michaela Lhotková joined the Board of Directors in July 2021 as a Senior Executive Officer responsible for Innovations.

The appointment of Tom Blanckaert as the new Senior Executive Officer responsible for Group Risk Management was announced, replacing Hélène Goessaert from March 2022.

The appointment of Aleš Blažek as the new Chief Executive Officer was announced, replacing John Hollows from 5 May 2022.

Distribution Platform and Client Base

As of 31 December 2021, the ČSOB group had **4.2 million clients in the Czech Republic**. The client base comprises of 4.1 million group retail clients, 5 thousand corporate clients, 136 thousand SME clients and 10 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 +77 ths year on year**.

	2021	2020	Y/Y change (%)
Clients of ČSOB group (mil.)	4.225	4.231	(0.1)

Clients benefit from ČSOB's **wide sales network** of 186 retail or shared retail / SME branches, approximately 2,500 outlets of the Czech Post network (234 have specialized banking counters) and additional approximately 700 Czech Post franchise outlets.

Clients can use a wide network of 1,017 ATMs, including 737 contactless, 288 enabling cash deposits and 997 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. Hypoteční banka centers were integrated into Retail branch network.

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.

Innovations

As of 31 December 2021, the number of **mobile banking** active users rose +48% year on year, the number of **internet banking** active users increased +9% year on year. The number of transactions entered via **mobile banking** increased +56% year on year, while number of transactions via **internet banking** declined -4% year on year.

Active users (ths)	2021	2020	Y/Y change (%)
Internet banking	1,122	1,030	9.0
Mobile banking	756	511	47.8

Transactions (ths)	2021	2020	Y/Y change (%)
Internet banking	33,654	35,052	(4.0)
Mobile banking	27,872	17,820	56.4

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

In 2021, more than 40 thousand **consumer loans were initiated online**, up +39% Y/Y. **Online sales of travel insurance** grew +11% Y/Y thanks to the rebound in international travel in 2021. The number of **online initiated current accounts** increased +48% Y/Y and the number of **online initiated saving accounts** rose +91% Y/Y.

Online initiated new sales (ths)	2021	2020	Y/Y change (%)
Consumer finance	40,040	28,900	38.5
Travel insurance	26,170	23,617	10.8
Current accounts	23,490	15,914	47.6
Saving accounts	29,568	15,488	90.9

Innovation Achievements in 2021

We launched our personal, fully **digital assistant Kate** in 2020 and further developed and improved it in 2021. Kate is a virtual assistant powered by artificial intelligence that makes life easier for our clients and helps them in spoken as well as written form. Our ultimate objective continues to be ensuring maximum convenience of our financial services for our clients and Kate is an essential part of it. As of the end of 2021, Kate was able to resolve particular rejected card transactions, recommend setting up an automatic credit card repayment, give tips about discounts at gas stations, keep the validity of clients ID in check and much more. Apart from DoKapsy app and ČSOB Smart, Kate is also available in CEB Mobile for entrepreneurs, SME and Corporate clients. At the end of December 2021, our virtual covered more than **460 topics** via Q&A, helped more than **350 thousand clients** and could understand 8 out of 10 questions asked.

- Our improved mobile banking **ČSOB Smart** replaced ČSOB Smartbanking. Smart offers first-class security thanks to ČSOB Identity and brought voice assistant Kate. At the end of December, Smart was already used by more than **750 thousand clients**. One click current account was also introduced in Smart, the client is fully authenticated after logging in to Smart and the process is therefore faster. In addition, Smart offers a redirect to Mortgage zone, Insurance zone and ČSOBS client zone to unify digital environment for all ČSOB group customers.

- ČSOB offers investment apps and platforms for experienced as well as new investors.
  - Roboadvisory and automated investment platform **indigo** has already attracted **7 thousand clients** who invested over **CZK 380m**.
  - 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. ČSOB Drobné became extremely popular among our customers and reached a milestone of **100 thousand clients**.
  - Investment solution **NaMíru** was launched in April 2021. NaMíru does not require advanced knowledge of markets and clients have perfect control of their investment in the Investment portal. **NaMíru responsibly** is an attractive option for investors looking for socially responsible investments.
- **DoKapsy** app offers all payment and loyalty cards in a single app, Find&pay for parking spot, Discounts and special offers from the World of Rewards and Virtual assistant Kate. In 2021, DoKapsy app was activated by more than **65 thousand people**. Parking service expanded to more than 50 locations throughout the Czech Republic, ticket service has been launched and now users can pay for public transport in 5 Czech cities.
- ČSOB extended the **banking identity service** and launched the identity services for the private sector from June 2021 under the BankID brand. During 2021, we successfully completed the client migration to ČSOB Identity with a total of **1.6 million retail clients**. Moreover, with the new BankID SIGN service, it is possible to sign contractual documentation with more than 70 private companies participating in BankID.

Awards

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

- "Best Bank in the Czech Republic" and "Best SME Bank in the Czech Republic" (Global Finance)
- "Financial Leader in Sustaining Communities in CEE, the Outstanding Leader in Resource Management in CEE and the Outstanding Leader in Sustainability Transparency in CEE" (Sustainable Finance Awards by Global Finance)
- ČSOB Private Banking: "Best Private Bank in the Czech Republic" (Euromoney)
- ČSOB Private Banking: "Best Private Bank in the Czech Republic" (PWM – The Banker)
- "Best payment card" (Zlatá koruna awards)
- "Mortgage of the Year" (Mastercard Bank of the Year awards)

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

The Board of Directors' Assessment of 2021 and Expectations for 2022

The ČSOB group delivered an excellent performance in 2021, even as the COVID-19 pandemic continued to affect the Czech banking sector. The outlook remains challenging due to the risks the financial sector may face in the post-pandemic period. Our excellent credit quality, strong capital adequacy, robust funding and liquidity position give us the stability and confidence to support our customers and deliver value for all of our stakeholder groups in 2022.

Over the past year, the COVID-19 pandemic continued to affect the Czech banking sector. However repeated waves of the pandemic didn't affect the performance of the Czech economy as significantly as in the previous period. The availability of vaccines and treatments created the basis to partially lift the restrictions to contain the virus and remove some of the government's relief measures

While the economy continued to recover in 2021, it was adversely impacted by delays and disruptions in production and supply chains. The economic recovery was linked to the growth of inflationary pressures requiring intervention by the central bank. Already at the end of June, the CNB raised its prime interest rate and continued increasing interest rates at each of its subsequent meetings.

The volume of total bank loans and deposits increased. Despite the pandemic, the activity on the mortgage market has further accelerated and the amount of new mortgage loans provided reached a record high in 2021. At the end of the year, the CNB decided to set upper limits on the LTV, DTI and DSTI credit ratios.

ČSOB bank-insurance franchise performed without interruptions. ČSOB services operated smoothly and remained physically accessible. The COVID-19 pandemic has accelerated the digital transition. The usage of ČSOB online channels continued to grow significantly. The number of active ČSOB Smart banking users increased strongly. Virtual assistant Kate is increasingly popular.

In September 2021, ČSOB opened its first regional headquarters in Hradec Králové and approximately one thousand employees moved into the new building, which meets the strictest ecological standards.

ČSOB continued to play an active role in the transition to a low-carbon economy and in 2021 we fulfilled our commitment to exit direct coal financing.

The net profit of ČSOB group increased year on year as a result of net impairment release, higher net results from financial instruments at fair value, slightly higher net fee and commission income and lower general administrative expenses, partly offset by lower net interest income and higher staff expenses. Total loans grew mainly thanks to mortgages. The loan portfolio quality remained excellent. Deposits and assets under management increased strongly. ČSOB maintains strong capital position and excellent liquidity ratios.

At the time the The Board of Directors' Assessment was being prepared the invasion of Russia in Ukraine required additional attention. ČSOB group has very limited direct exposure to Ukraine and Belarus and Russia (mainly stemming from trade financing). It is the first priority of The Board of Directors' to maintain banking, insurance and other financial services at a high level of quality and reliability to our clients and to society as a whole. The Group is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spill over effects to the Group and its clients, both financially and operationally, with a high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

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 growth especially in insurance and wealth management areas.
- Increase the number of clients using its mobile applications, 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.

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2021 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

	2021 (%)	2020 (%)	Y/Y change (pp)
Return on average equity (ROAE)	14.3	8.2	6.1
Return on average assets (ROAA)	0.88	0.49	0.39
Net interest margin	2.08	2.31	(0.23)
Cost / income ratio	55.5	54.6	0.9
Cost / income ratio excl. banking taxes	51.8	51.5	0.3
Credit cost ratio	(0.42)	0.67	(1.09)

	31. 12. 2021 (%)	31. 12. 2020 (%)	Y/Y change (pp)
Loan-to-deposit ratio	71.1	71.6	(0.5)
Capital adequacy ratio	22.7	24.2	(1.5)
Leverage ratio	4.65	5.02	(0.37)
Net stable funding ratio	171.3	169.9	1.4

Note:

pp = percentage point

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

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

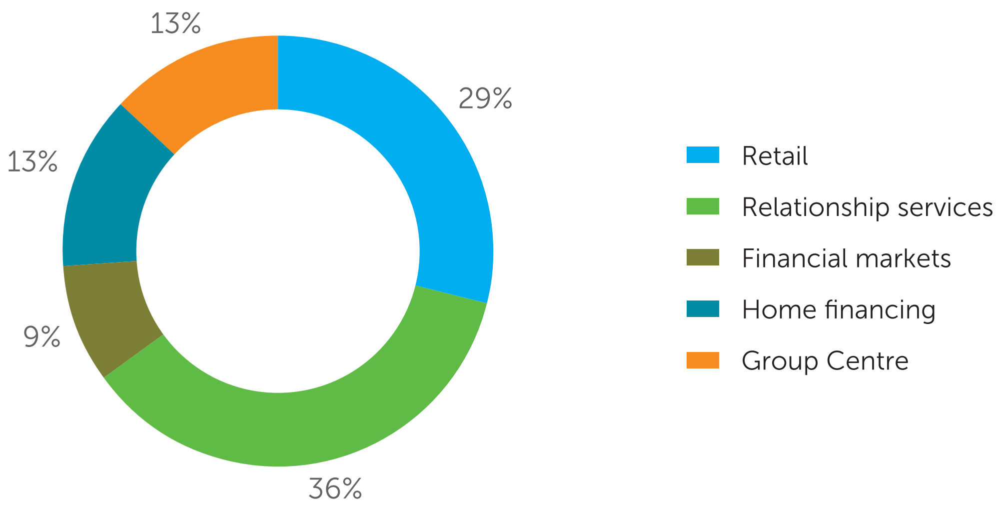
Consolidated Statement of Income

(CZKm)	2021	2020	Y/Y change (%)
Interest income calculated using the effective interest rate method	35,203	33,490	5.1
Other similar income	1,772	2,190	(19.1)
Interest expense calculated using the effective interest rate method	(10,825)	(7,275)	48.8
Other similar expense	(1,840)	(2,303)	(20.1)
Net interest income	**24,310**	**26,102**	(6.9)
Fee and commission income	13,227	11,933	10.8
Fee and commission expense	(5,399)	(4,342)	24.3
Net fee and commission income	**7,828**	**7,591**	3.1
Dividend income	17	15	13.3
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	2,289	180	>100%
Net realised gains on financial instruments at fair value through other comprehensive income	1	14	(92.9)
Income from operating lease	1,632	1,967	(17.0)
Expense from operating lease	(1,470)	(1,839)	(20.1)
Other net income	1,117	1,221	(8.5)
Operating income	**35,724**	**35,251**	1.3
Staff expenses	(9,512)	(9,254)	2.8
General administrative expenses	(7,980)	(7,843)	1.7
Depreciation and amortisation	(2,342)	(2,155)	8.7
Operating expenses	**(19,834)**	**(19,252)**	3.0
Impairment losses	**3,253**	**(5,926)**	+/-
on financial assets at amortised cost and at fair value through other comprehensive income (OCI) and finance leases	3,637	(5,556)	+/-
on goodwill	(181)	-	n/a
on other financial and non-financial assets	(203)	(370)	(45.1)
Share of profit of associates and joint ventures	(64)	(43)	48.8
Profit before tax	**19,079**	**10,030**	90.2
Income tax expense	(2,919)	(1,542)	89.3
Profit for the year	**16,160**	**8,488**	90.4
Attributable to:			
Owners of the parent	16,160	8,488	90.4
Non-controlling interests	-	-	n/a

Discussion of the Statement of Income Main Items

With a 68% share, the **net interest income** (NII) is the largest part of the operating income. The ČSOB group's NII decreased -6.9% year on year due to NII from loans, NII from deposits and other NII, however got on a growth trajectory quarter on quarter. NII decreased in all segments except for Group Centre. The **net interest margin** (NIM) fell to 2.08% in 2021 from 2.31% in 2020 driven mainly by NII from loans.

Net interest income by reported segment



The **net fee and commission income** (NFCI) represented 22% of operating income. In 2021, NFCI grew +3.1% year on year as a result of higher asset management fees as well as network income and payment cards, offset by lower other fees, account fees and distribution fees.

All other income items of the Statement of Income combined represented 10% of 2021 operating income and increased by more than 100% year on year driven by significantly higher net gains from financial instruments at FVPL.

Staff expenses represented 48% of the ČSOB group's operating expenses in 2021. Staff expenses rose +2.8% year on year as a result of higher accruals for bonuses partly offset by lower average number of FTEs (-290 Y/Y).

General administrative expenses (GAE) contributed 40% to the ČSOB group's operating expenses in 2021 and increased +1.7% year on year. General administrative expenses excluding banking taxes decreased -1.6% year on year mainly thanks to savings in marketing.

Information technologies related expenses decreased -2.0% year on year and remained the largest part of GAE (38%). Banking taxes, including deposit insurance premium, Securities Traders Guarantee Fund and contribution to the Single Resolution Mechanism increased (17% of GAE; +22.6% year on year). Marketing expenses contributed 6% to total GAE and decreased -17.0% year on year.

Depreciation and amortization increased +8.7% year on year.

Impairment losses amounted to CZK -3,523m (net release) in 2021. Loan loss provisions declined due to partial release of management overlay (CZK 2.7bn) and releases in most segments as a result of excellent portfolio quality and low number of NPLs.

As a result of the trends described above, the **2021 net profit attributable to owners of the parent equaled CZK 16,160m** which is +90.4% higher than the figure for 2020.

Consolidated Statement of Financial Position

(Excerpt)

(CZKm)	2021	2020	Y/Y change (%)
ASSETS			
Financial assets at amortised cost	1,613,504	1,566,492	3.0
Total assets	**1,805,479**	**1,756,440**	2.8
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost	1,605,831	1,557,853	3.1
Total liabilities	**1,688,101**	**1,649,488**	2.3
Total equity	**117,378**	**106,992**	9.7
Total liabilities and equity	**1,805,479**	**1,756,440**	2.8

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB group increased +2.8% year on year.

Financial assets at amortised cost, the largest item thereof with 89% share, increased +3.0% year on year.

Total consolidated liabilities of ČSOB group grew +2.3% year on year.

Financial liabilities at amortised cost, the largest item thereof with 95% share, increased +3.1% year on year.

Total equity grew +9.7% year on year.

No treasury shares were held by the ČSOB group at 31 December 2021 and 2020.

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	2021	2020	Y/Y change (%)
Total regulatory capital	**93,554**	**99,075**	(5.6)
– (Common Equity) Tier 1 Capital	92,585	97,191	(4.7)
– Tier 2 Capital	970	1,884	(48.5)
Total risk weighted assets	**412,628**	**410,027**	0.6
– Credit risk	347,370	342,805	1.3
– Market risk	427	423	0.9
– Operational risk	64,830	66,799	(2.9)
(Common Equity) Tier 1 ratio	**22.4%**	**23.7%**	(1.3)pp
Total capital ratio	**22.7%**	**24.2%**	(1.5)pp

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 decrease of (Common Equity) Tier 1 capital is due to partial profit distribution from retained earnings of previous years.

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.

Repeated waves of the pandemic in 2021 didn't affect the performance of the Czech economy as significantly as in the previous period. The negative consequences of the restrictions were felt mainly by tourism, while dysfunctional supply chains adversely affected the situation in the automotive industry. The development of the economic environment in which the ČSOB group operates will be influenced mainly by the negative supply shock on foreign markets.

- The Russian invasion to Ukraine is to be seen as additional significant stagflation shock for the Czech economy – leading to higher inflation and lower growth in 2022. Although uncertainty connected with the ultimate impact of the conflict is enormous, we assume much higher energy inflation over 2022.
- Businesses and consumers will continue to face a significant increase in inflationary pressures, which will negatively affect consumer sentiment and their willingness to spend and invest. The CNB is likely to keep interest rates at unusually high levels.
- Higher interest rates are likely to limit the demand for credit by the population and firms. Moreover, for households, the tightening of credit conditions for mortgages will also affect demand for housing loans.
- The continuity of subcontracting for the domestic industry remains a challenge - especially the automotive and electronics industries - represents the main uncertainty in the further development of the economy. The improvement can be further delayed by the disruption of the supplies from the Ukraine.
- The gradual easing of anti-pandemic restrictions will create conditions for a post-accident restart of services, including international tourism. On the other hand, firms will no longer be able to rely on public aid to improve their cash flow.
- Financial markets will be subject to increased volatility associated with geopolitical uncertainty. We assume CNB to limit the excessive FX volatility.

Evolution of Key Business Volumes

Loan portfolio (selected business categories) grew to CZK 835.1 bn in 2021. The increase makes +5.4% year on year and was driven by growth in mortgages and corporate loans.

Outstanding gross amount, selected business categories CZK bn	2021	2020	Y/Y change (%)
Mortgage loans	362.1	335.2	8.0
Building savings loans	125.1	122.9	1.7
Consumer loans	35.2	34.1	3.1
Corporate	174.8	164.7	6.1
SME	93.5	91.0	2.7
Leasing	38.8	39.0	(0.4)
Factoring	5.6	5.4	4.7
Other	0.0	0.1	n/a
Loan portfolio	**835.1**	**792.5**	**5.4**

The outstanding amount of mortgages increased +8.0% year on year supported by strong new volume production. The outstanding amount of building savings loans grew +1.7% year on year. Consumer finance increased +3.1% year on year due to better economic conditions after COVID-19 recovery supported by competitive pricing. Outstanding amount of corporate loans rose +6.1% year on year thanks to market recovery and growing investment demand of corporate customers. SME loans increased +2.7% year on year thanks to growing core SME lending (micro, small and mid-sized companies). Outstanding amount of Leasing remained stable year on year as a result of decrease in corporate and financial products for dealers being fully compensated by increase in SME and Retail. Factoring outstanding amount increased +4.7% year on year driven by new volumes transacted mainly in the automotive sector.

Deposits received from other than credit institutions increased to CZK 1,156.9 bn. This represents a 7.8% increase. Deposits increased driven by current accounts and term deposits while savings deposits decreased. The decrease of savings deposits in favor of term deposits was given by increasing interest rates on term deposits.

Deposits received from other than credit institutions, CZK bn	2021	2020	Y/Y change (%)
Current accounts and overnight deposits	705.0	652.9	8.0
Term deposits	52.2	25.5	>100
Savings deposits	369.7	385.7	(4.1)
of which savings deposits excluding building savings deposits	229.3	246.4	(6.9)
of which building savings deposits	140.4	139.2	0.8
Repo and other deposits	30.0	8.7	>100
Total	**1,156.9**	**1,072.8**	**7.8**

Total assets under management increased year on year by 15.9% to CZK 288.3bn. Mutual funds and other AM increased due to strong net sales and 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	2021	2020	Y/Y change (%)
Pension funds	69.2	63.9	8.2
Mutual fund and other AM	219.1	184.7	18.6
Total AUM	**288.3**	**248.6**	**15.9**

ČSOB Group Market Position

In 2021, ČSOB gained market share in mutual funds, leasing, consumer lending and insurance.

Position			
1st	**Mortgages** [1]	**25.0%**	↓
	Building savings loans [1]	36.7%	↓
	Building savings deposits [1]	39.0%	↓
2nd	**Total Loans** [1]	**20.3%**	↓
	Total Deposits [1]	**20.8%**	↓
	Mutual funds [1]	23.7%	↑
	Leasing [1, 2]	17.9%	↑
3rd	Pension Funds [3]	14.8%	→
	SME/corporate loans [1]	14.4%	→
	Consumer lending [1, 4]	13.9%	↑
	Factoring [5]	16.7%	↓
4th	Insurance [6] – combined	8.5%	↑
	Non-life insurance [6]	9.0%	↑
	Life insurance [6]	7.5%	↓

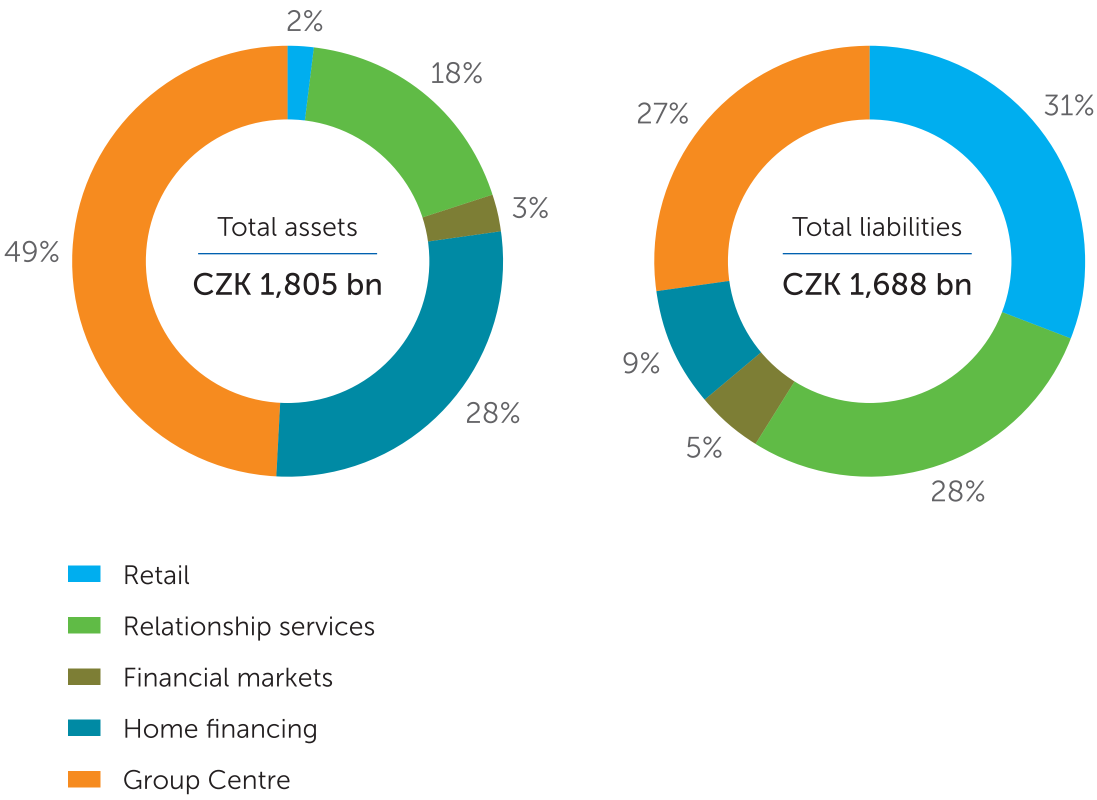
Arrows show Y/Y change.
Market shares as of 31 December 2021.
The ranking is ČSOB's estimate. Market position in the insurance reflects combined position of the insurers belonging to the same business group.

1) Outstanding at the given date (including ČSOBS)
2) According to ČLFA
3) Number of total clients at the given date
4) Retail loans excluding mortgages and building savings loans
5) New business in the year to the given date
6) New business in the year according to gross written premium

Segment View

ČSOB group has five segments, which are the group's strategic business units: **Retail, Relationship services, Financial markets, Home financing** and **Group Centre**. The Group's segment reporting was modified following the change of organisational structure of the Group.

Total assets and liabilities by reported segments



Retail

The ČSOB Retail segment represented 2% of ČSOB's assets and 31% of ČSOB's liabilities as at the 31 December 2021.

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 18% of assets and 28% of liabilities of the ČSOB group as at the 31 December 2021.

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 3% of ČSOB group's assets and 5% of its liabilities as at the 31 December 2021.

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.

Home Financing

The ČSOB Home financing segment represented 28% of ČSOB group's assets and 9% of its liabilities as at 31 December 2021.

This segment contains mortgages, building savings and building saving loans. Net fee and commission income of this segment contains administration of credits, distribution fees and other fees.

Group Centre

The Group Centre comprised 49% of ČSOB group's assets and 27% of its liabilities as at 31 December 2021.

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 Home financing 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 of 31 December 2021, ČSOB Pojišťovna reached a 9.0% market share in non-life gross written premium and a 7.5% market share in life gross written (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. As at 31 December 2021, ČSOB Pojišťovna had approximately 1.230 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)	2021	2020	Y/Y change (%)
Single life insurance	1,165	1,957	(40.5)
Regular life insurance	3,521	3,485	1.1
Life insurance total	**4,686**	**5,442**	(13.9)
Non-life insurance total	**9,022**	**8,326**	8.4
Total	**13,708**	**13,768**	(0.4)
Number of cases settled	237,705	224,671	5.8

ČSOB's bank-insurance model is already delivering numerous commercial synergies. For example, around five out of ten ČSOB group clients who took out home loans with the bank in 2021 also purchased home insurance from the group. There was a further increase of approximately 8% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group, while the number of active clients with at least two banking and two insurance products from the group increased by 13%. At the end of 2021, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 85% 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.*

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

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.

2020 Českomoravská stavební spořitelna (ČMSS) was renamed to ČSOB Stavební spořitelna (ČSOBS), 100% ownership remains.

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, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Factoring, Patria Finance and Ušetřeno.cz.

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 1,805.5 bn as at 31 December 2021 and a total net profit of CZK 16.2 bn in 2021 **the ČSOB group is one of the top three banking groups in the Czech Republic**. As at 31 December 2021, the ČSOB group had CZK 1,157 bn of group deposits and a loan portfolio of CZK 835 bn.

ČSOB Group in Figures

	31. 12. 2021	31. 12. 2020
ČSOB group's clients (mil.)	**4.225**	**4.231**
ČSOB branches (bank only)	**208**	**212**
ČSOB Retail/SME branches incl. dual branded (ČSOB + PSB)	186	190
ČSOB Private Banking branches	11	11
ČSOB Corporate branches	11	11
ČSOB Pojišťovna branches	**95**	**97**
Hypoteční banka centers / housing finance branches [1)]	**16**	**29**
ČSOBS advisory centers	**246**	**262**
Leasing branches	**6**	**7**
PSB outlets of the Czech Post network	**ca. 2,500**	**ca. 2,500**
– of which specialized banking counters	234	230
Czech Post franchise outlets	**ca. 700**	**ca. 700**
ATMs [2)]	**1,017**	**1,025**
– of which contactless	737	601
– of which deposit	288	267

1) As of 1 April 2021 Hypoteční banka centers were integrated into Retail branch network

2) Including ATMs of cooperating banks.

Employees *(FTEs)*	31. 12. 2021	31. 12. 2020
Employees of the ČSOB group (FTEs)	8,087	8,349
– of which the Bank	7,135	7,117

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

KBC Group Profile

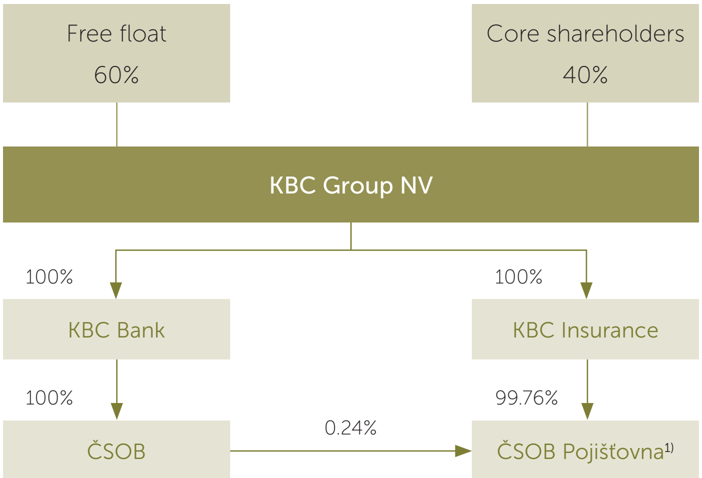
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

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 2021, the KBC Group served 12 million clients in its home markets, and employed approximately 40,000 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 2021)



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. 2021	31. 12. 2020
Total assets	EURbn	340.3	320.7
Loans and advances to customers (excl. rev.repo's)	EURbn	159.7	159.6
Deposits from customers (excl. repo's)	EURbn	199.5	190.6
Net profit, group share	EURm	2,614	1,440
Common equity ratio, group level (Basel III, fully loaded)	%	15.5	17.6
Cost / income ratio, group	%	58	58

Long-term ratings (as at 11 February 2022)

	Fitch	Moody's	S & P
KBC Bank	A+	A2	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, 1080 Brussels, 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 2021.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2021 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 responsibility and sustainability

Last year was extremely challenging, changing the lives of everyone in our country. COVID-19 has clearly shown how important the values of togetherness, respect, helping and consideration for others are to all of us. It is therefore with even greater commitment that we continue to develop our social responsibility and keep up our traditional support for non-profit organisations and local communities.

An important principle, upon which we base our work, is sustainability. We care about the condition in which we pass on the planet to the next generation. We are actively engaged in reducing the impacts of global climate change and supporting the transition to a low-carbon economy. We started with ourselves - our Prague and Hradec Králové headquarters are among the most environmentally friendly buildings in Europe, and we are reducing our own carbon footprint (compared to 2015, we have reduced it by 76% and are targeting 80% by 2030). We support electromobility, the use of renewable energy and finance further energy saving projects.

Sustainability in entrepreneurship

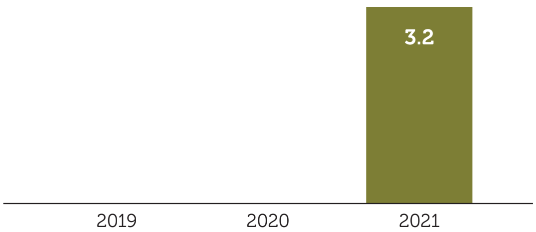
Sustainability has been an integral part of ČSOB's corporate social responsibility for many years. However, in recent months it has become increasingly important globally in the context of the frequently quoted climate change. Within the KBC Group, the Bank launched detailed analysis of the impact of key sectors on the climate change in 2020 and in 2021 has already 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.

We implement our sustainability strategy through three basic positions:

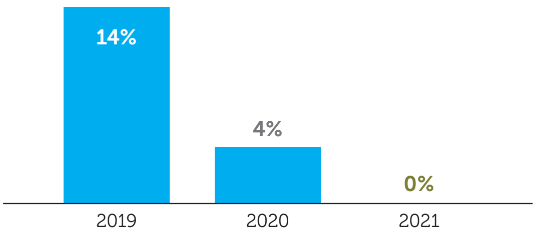
- Reducing the negative impact on society by strict compliance with binding policies and legal regulations in the field of respect for human rights, environmental protection, promoting business ethics and resolving controversial societal issues, as well as reducing of own carbon footprint (see **ČSOB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

Facts and figures of Sustainable Business

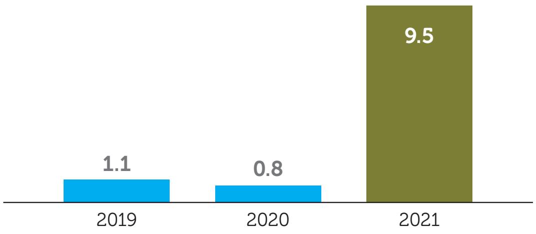
COR/SME green loans
(In CZK bn)



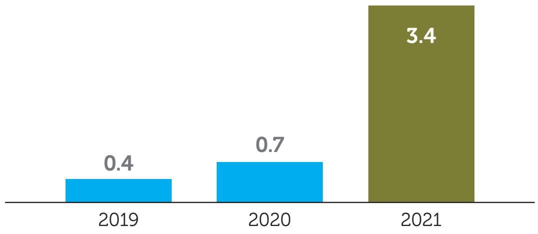
Direct coal financing exposure
(In % compared to 2016)



Loans for economical housing
(new sales in CZK bn)



SRI funds
(gross sales in CZK bn)



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. Since mid-2021, ČSOB does not provide financing, insurance or consultancy for energy companies that operate based on coal-fired power generation.

Together with our customers, we set out to explore new business opportunities in financing as well as consulting. Our aim is to help them not only in sustainable business activities such as photovoltaics or e-mobility, but also in their transition from carbon-intensive to low-carbon and therefore more sustainable business models. In 2021, the Bank granted its first 6 loans of CZK 3.2 billion which are fully compliant with the EU taxonomy and can be classified as green loans.

A typical example of this is Northman Outdoor, a leading Czech sock manufacturer based in Bruntál, North Moravia. Two of its projects, consulted by the ČSOB EU Centre team, will be co-financed out of the EU funds to the value of CZK 20 million. Jan Jenderej, CEO Northman Outdoor, says: *"The implementation of these projects, especially the installation of a heat pump in our energetics and the complete replacement of energy-intensive production technology, will help us significantly reduce CO_2 emissions."*

Another example would be the tea-producing company Sonnentor, whose production plant was built on a brownfield site. As the company's main bank, ČSOB provided a loan of EUR 6.8 million to finance investments in the expansion of the facility, energy savings and the installation of photovoltaic systems. *"We hope that our new project will inspire others to build with respect for nature, employing local materials and circular economy in a sustainable way,"* says Josef Dvořáček, Sonnentor CEO.

ČSOB also assists its corporate clients with the preparation of energy audits and technical documentation for their enterprises. Over the last three years, ČSOB has supported 45 energy-saving projects with a total value of CZK 2 billion.

Another area of interest is linking responsible investment with the environment. In 2021, we launched an investment certificate connected to forest restoration, so far unique within the Czech Republic. Through it, we are raising the awareness of responsible investing while helping with the current issue of bark beetle infestation. For every thousand euros invested in selected ESG investment certificates (i. e. those meeting the responsible investment requirements), we shall plant a tree in Vysočina, one of the most bark beetle-ravaged areas of the Czech Republic. For 2021 we have committed to planting at least 30,000 deciduous and coniferous trees on an area of over 3.5 hectares.

Sustainable business is not the exclusive responsibility of large companies; ČSOB also transfers it to its retail client segment. ČSOB has prepared a range of products and services through which retail clients can show their consideration in the use of natural resources and the effort to preserve a healthy environment for future generations:

- Low-energy and passive housing can be financed through a low-energy housing mortgage with a reduced interest rate and other benefits. Therefore, financing for energy-efficient homes increased by 81 % quarter-on-quarter and by 185 % year-on-year.

- When buying a car with ecological drive (electric, hybrid, hydrogen cells, CNG), clients can use a clean mobility car rental with a favourable and guaranteed rate.
- Our next exemplary products 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. The volume of investments in socially responsible funds (SRI) grew by 34 % quarter-on-quarter, i. e. by 179 % year-on-year.
- Clients starting their current account with us are offered an innovative payment card. In addition to being made of recyclable plastic that does not pollute the environment, it also has a unique design that will please anyone who cares about the fate of our planet.
- In our "World of Rewards" loyalty program, we have prepared an eco-gifts section for clients and the opportunity to contribute their points to tree planting or the safe return of endangered species to their original habitats. In 2021, CZK 1.6 million to support biodiversity was raised.

Strategic pillars of ČSOB's corporate social responsibility and sustainability and their main initiatives

For nature

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 assists POHO2030 with financial advice and the necessary publicity for one of its key sustainability projects in northern Moravia.

In addition to that, we are a partner of the Modern Energy Association (SME), with whom we organize roundtables and joint seminars on innovation in the energy sector, for the fourth year in a row. Last year we also became one of the founder banks of the expert Platform for Sustainable Finance at the Czech Banking Association (CBA), which aims to set up an effective cooperation with public administration in the implementation of national and EU ESG (Environmental, Social and Governance - the main factors of socially responsible investment) objectives.

Nature stays on our mind even during our own activities within the Bank. ČSOB has established its own environmental and energy policy and management in accordance with ČSN EN ISO 14001 and ČSN EN ISO 50001 technical standards. These contain the company's commitments to protect the environment and prevent its pollution. We aim to achieve climate neutrality by 2040 at the latest. So far, we have managed to reduce our carbon footprint by 76.2% compared to 2015, but thanks to carbon offsets we have already achieved climate neutrality in Scope 1 and 2 in 2021.

In 2021, we opened a new headquarters building in Hradec Králové, which, together with our Prague headquarters, ranks among the most environmentally friendly buildings in our country and as well as the ČSOB Campus, is among the greenest buildings in Europe, as confirmed by the LEED Gold (NHQ) and LEED Platinum (SHQ) certifications, awarded for attributes including:

ČSOB Campus

- 177 geothermal wells with 4 heat pumps as a source of renewable energy producing cold and heat
- energy-efficient control system that saves energy
- a green roof that cools the building, improves the climate and supports urban biodiversity
- rainwater being used to irrigate green roofs and greenery
- buildings equipped with charging points for electric cars and electric bikes

ČSOB Hradec Králové

- 108 geothermal wells up to 200 metres deep, harnessing energy from the Earth's rock-mass for heating and cooling
- biometric systems for building entrances control
- lighting seamlessly controlled according to the presence of workers and the intensity of daylight
- facilities equipped with 290 standard parking spaces, together with a dedicated bicycle parking (including a bike wash) and locker rooms
- recreational roof gardens that also serve to retain rainwater and improve the microclimate
- 56 trees planted around the building, 177 shrubs and another 23 multi-stemmed trees growing on the roof and 4 beds, each with 370 plants, in the interior of the building.

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 and the optimisation of the branch network can be mentioned as examples of sustainability. We use LED sources for lighting and are gradually switching to autonomous lighting control. As a result, we have **reduced electricity consumption** by 17,033 MWh, saved 6,509 MWh of heat and **reduced our own carbon footprint by more than 76.2%** over the past 6 years.

We reduce the frequency of journeys by company vehicles in favour of modern technologies that allow our colleagues to collaborate remotely. We systematically **reduce the amount of office waste**, which we sort consistently. Great savings have been achieved by switching to biometric signatures, allowing us to record bulky client documentation only electronically.

ČSOB strives for rational use of available resources, regularly assessing the monitored values at entire ČSOB group level since 2020. In view of the change in the reporting period and improving data availability, we have refined our reporting and adjusted the values retrospectively. In comparison with 2015 year, we reduced paper consumption to 71.4%, electricity consumption to 59.8%, waste production to 39.4% and GHG emissions to 23.8%:

Year	Water consumption (m^3)	Electricity consumption (kWh)	Paper consumption (t)	Waste production (t)	Direct CO_2 emissions (t)	Indirect CO_2 emissions (t)
2015*	138,435	152,653	1,176	2,256	10,088	34,454
2019	125,016	117,395	856	1,120	6,950	16,104
2020	96,459	108,492	608	1,116	3,243	14,206
2021	76,735	91,333	839	889	2,841	7,742

** The year 2015 has been set as a reference year in view of the conclusions of the UN Climate Change Conference in Paris and the adoption of the Paris Agreement.*

For education

ČSOB has a unique educational programme **ČSOB financial and digital education for schools.** Since 2016, employee volunteers have been visiting Czech schools to educate children in financial literacy. The lessons aimed at increasing children's general financial literacy are delivered interactively in six separate units: Money, Household Finance, Modern Technologies, Taking on Debt Responsibly, Financial Products and now also Environmental and Economic sustainability.

During the lessons we use presentations, videos and new technologies using tablets and mobile phones. Lessons either take place directly in the school, or we can provide rooms in the ČSOB buildings or other suitable premises (e. g. Science centres). By the end of 2021, 545 of our employee ambassadors delivered a total of 4,840 lessons to more than 40,000 pupils and students from 500 schools visited. The lessons are completely free of charge for the schools. We are not selling the ČSOB brand or products, but the idea of higher education.

In 2021, we added the **FILIP** app to the programme. This app is designed as a guide to the world of finance for children, showing real situations they might encounter on the road to adulthood. It is available on the Google Store and Appstore and has so far seen more than 5,000 downloads.

Our strategic partnership with the Police of the Czech Republic in educating children in cyber security is progressing well, although many of our joint lessons have had to be moved online. Police officers and bankers teamed up to prepare a special programme **Tvoje cesta #onlinem (Your journey #online)** highlighting the current digital environment threats. In 2021, we boosted the collaboration by recording more educational podcasts. We created a ten-part series with the contribution of the Czech Association of Science Centres and Palacký University in Olomouc. The **podcasts** were created as a tool for educators in teaching financial and digital literacy.

We continue to **prevent the debt trap** in cooperation with the **People in Need** organization and co-finance free debt counselling through the **Financial Distress Counselling 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 a branch).

For business

The most important activity of the "For business" pillar is our acceleration programme **Start it @ČSOB**. Within this programme we mostly work with B2B technology startups entering the go-to-market phase. We help startups avoid common mistakes and provide mentoring and workshops in key startup areas.

In 2021, we supported 19 different start-ups, started cooperation with the "Compete and Become an Entrepreneur" business education program for high school students, and strengthened our active role in the start-up community by organizing lectures for graduates, meetings with investors, etc.

Our startups' achievements for 2021:

- Investments our startups received include Resistant.AI (USD 16.6 million), Happenee (EUR 1.5 million) and Pointee (CZK 10 million).
- Blocks is building a network of 3,000 package delivery boxes for the Pilulka pharmacy.
- WeBoard won E15's Startup validation contest, while Twigsee won the Woman startup competition.
- Resistant.AI is the selected supplier for the entire KBC group in the area of credit process fraud prevention.
- Our automatization team saves up to 60% of costs thanks to Pointee's automated processes streamlining.

Our startup's satisfaction, as measured by NPS (Net Promoter Score) reached 100% in 2021. The project also generated the equivalent of 3.6 million CZK of advertising value:

Start it@ČSOB in numbers	2021	2020	2019
Number of startups	19	24	13
Net Promoter Score	100%	86%	80%
Media Value	CZK 3.6m	CZK 1.8m	CZK 1.2m

In addition to large corporations and medium-sized businesses, **ČSOB supports start-ups and small businesses as well**. Our start-up offers includes assistance with obtaining a loan with COSME guarantee of the European Investment Fund up to CZK 250,000 for entrepreneurs without history, information and advisory portal **www.pruvodcepodnikanim.cz** and participation in **Business Academy for Starting Entrepreneurs**. Thanks to the regularly updated information on the pandemic impacts on our customers, the portal reached 70,000 unique visitors portal per month.

We actively engage in public debates, forums and expert meetings, where ČSOB representatives defend the interests of entrepreneurs and work to eliminate legislative barriers that small and middle enterprises face.

For longevity

Within the "For Longevity" pillar, ČSOB focuses primarily on elderly clients, their families and their specific needs related to ageing or disability. For our clients aged 70+, we have created a special line in the ČSOB call centre. On this line, our call centre colleagues handled 81,000 calls, which is almost 1,600 calls per week, in 2021. Senior citizens are also the target group of our new guide (e-book), providing practical advice related to finances and insurance.

We find inspiration for our activities in the senior centres, with which we have long-term cooperation. We are successfully developing a joint project **Neztratit se ve stáří (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. Our bank's employees round out the range with financial information. The main ambition and advantage of this project is the comprehensiveness of the information and its immediate availability at one place (i. e. on the web, by phone or in person). For 2021, we record 1,700 consultations provided, a 13% increase in the number of new users to 75,289 and total site traffic converted to 92,037 page views. During the year, this project is followed up with personal consultations at ČSOB or Czech Post branches and online "webinars" covering selected topics.

Not only clients, but also our colleagues of a certain age get to 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 experience, knowledge and skills and allow them to **fully use their potential** on one hand and increase the stability of teams of different ages on the other hand. Our goal is to reduce the early retirement rate of managers, for example due to high workload, reduce pressure and stress they encounter and enable them to regenerate better.

ČSOB strives to be perceived as a **barrier-less bank**, therefore it pays special attention to people with various health complications and difficulties. Thanks to a special software, our ATMs enable secure self-service during financial transactions for **visually impaired customers**. To make sure that our **branches are truly barrier-less**, we work with the Czech Paraplegic Association (CZEPA) to **audit all our branches** aiming to identify and correct any deficiencies. This audit shall be completed in 2022.

Philanthropy at ČSOB and partnerships with non-profit organisations in 2021

Supporting philanthropy, developing individual donorship of our clients and employees and linking the business world to the non-profit sector is an integral part of ČSOB's corporate social responsibility. **We have been cooperating with renowned non-profit organisations 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 include: **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 2021 was the most successful in history, and despite the ongoing coronavirus pandemic, 110 projects in the total amount of CZK 11 million received grant support. We also offered the ČSOB Helps Regions programme flexibly in response to the tornado in South Moravia, aiming to support affected colleagues and communities. The amount of financial contributions from the public reached CZK 5,526,880 which non-profit organizations received according to their fundraising capabilities on the website **www.csobpomaharegionum.cz** together with another CZK 5,661,750 as a donation from the bank. Thus, a total of CZK 61,845,852 was distributed over the 9 years of the program.

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. In the 2021/2022 school year, 72 students will receive the scholarship.

From the beginning of the program until the end of 2021, we provided scholarships to 642 students. Another 610 students received a one-time contribution for education or study aids. In total, we have already donated more than CZK 37.3 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 ninth 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 2021, we supported ten winning projects in the amount of CZK 500,000. In total, we distributed more than CZK 8 million in the program among 53 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. Despite the coronavirus pandemic and limited opportunities for volunteer help due to the lockdown, we were able to register 1 133 volunteers in 2021, including 1,033 from the ČSOB Helping Together volunteer programme and 100 financial and digital literacy ambassadors.

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 contributions, therefore, thanks to the Goodwill Card, we have together donated almost CZK 18 million (of which CZK 2.3 million in 2021) during the period of operation and helped more than 300 people in need.

Premium Card

We also offer a payment card with charity functionality to clients from the Premium segment. The proceeds from the donations made for using the payment card go towards the **education and training of guide dogs**. In addition to the contributions from clients, ČSOB and the Master Card Association will donate the same amount, thus tripling 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 2021, we jointly donated an amount exceeding 3.5 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 he must do is to organize a charity collection on the **www.darujspravne.cz** portal for the benefit of his favourite, or to combine it with any charity event and involve other colleagues from the bank and people from the surroundings. The bank then donates the same amount that was collected (maximum CZK 30,000 per project). During 2021, employees – allies of various non-profit organizations – organized a total of 11 allied collections. The bank added CZK 686,024 to their contributions in the amount of CZK 327,600, so together we donated CZK 1,013,624 to a good cause.

ČSOB Corporate Social Responsibility Award in 2021

Donor Forum Awards 2021:

- 1st place for the financial literacy educational project "Filip"
- 2nd place for the Annual Corporate Social Responsibility Report of the ČSOB Group

Business for Society:

- TOP Responsible Large Company
- TOP Responsible Women-Friendly Company
- TOP Responsible Company in Reporting
- In addition, our CEO John Hollows was voted TOP Responsible Leader in Diversity

Ocenění Kolibřík (The Hummingbird Award):

- Awarded for outstanding integration of colleagues with disabilities

Global Finance (Sustainable Finance Awards 2021):

- Finance Leader in Sustainability in Central and Eastern Europe for 2021
- Leader in Resource Management in Central and Eastern Europe for 2021
- Leader in Transparent Sustainability Reporting in Central and Eastern Europe for 2021

Global Finance (Best Bank):

- Best Bank in the Czech Republic for 2021 for its activities during the pandemic and intensive assistance to clients

Ocenění Zlatá koruna (The Golden Crown Award):

- 3rd place in the Social Responsibility category for the ČSOB Helps Regions program

Ocenění Lemur (The Lemur Award):

- 2nd place in the Annual Report category for the Annual Report on Corporate Social Responsibility of the ČSOB Group

More information can be found in the 2021 ČSOB Group Annual Social Responsibility Report and at 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. We are convinced that diversity, in the broad sense of the word, means a greater diversity of opinions, different styles of work and management for the company. Ultimately, it means sustainable long-term higher performance through people commitment and motivation. **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. However, we do not only remain at the level of equal opportunities, but we create a higher awareness among employees as to why there is value in Diversity. We consider **flexibility as a key precondition for Diversity**, flexibility is our focus already for a long time – e.g. part-time jobs, home-office. COVID-19 pandemic time proved that our ability to provide flexible working conditions is crucial for all employees and we are proud that we were ready to offer 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 advantages that we want to further improve. We have been working on more balanced ratio of women in managerial positions and gradually decreasing the gap not only in the quantity (2015: 32% women in management, 2021: 36%), but also in wages comparison of women to men („gender pay-gap" 2015: 6%, 2021: 2.6%).
2. **Program for parents** has been already supporting parents of small children for many years. It is newly being expanded with a concept of ČSOB kindergartens.
3. Age diversity: **Program 55+** - experience is an advantage, was broadened with the offer of expertise volunteering.
4. LGBT+: the memorandum of Pride business forum signed, the fairness of benefits implemented, the new employee group PROUD has been established.
5. We include disabled colleagues in the Diversity Programs, e.g. 70 handicapped people already working on various agendas in ČSOB Operations. We cooperate with the social company Kolibřík.

We are well aware of our role as a big employer, therefore 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 and to inspire each other. In 2020 we were the partner of two parts of Diversity Day and we attended panel discussions and employer meetings (e.g. the support for parents or Silver economics). We challenged other employers to join common initiative of Business for society and ČSOB which wants to comment on a legislation for nurseries and kindergartens.
- Non-profit organization Pride business forum, whose principles we proudly accepted by signing their memorandum. In 2021, a conference about the equality in the workplace was held under the sponsorship of ČSOB, focusing on financial institutions.
- A worldwide initiative She loves data whose target is to support and develop women in data and innovation areas.
- Czechitas, a non-profit organization, that aims to increase diversity in IT and fights for higher expertise of women and the new generation in the world of digitization.

Activities in 2021 and plans for 2022

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 the application of both principles is beneficial for decision making.

We are currently focusing on these two activities:

- In 2020 and 2021, an extensive series of management workshops with the topic of male and female principles has been taking place; we continued 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 which was completed by 40 women colleagues in 2021.

2. Program for parents and ČSOB kindergarten concept

Parental support is our long-term priority in the field of Diversity. The goal is to make the return to work from parental leave easier and faster. 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.
- Employee application where all the information about the program is available as well as the information about maternity/parental leaves.
- An opportunity to find a job during parental leave in the form of part-time job or the employment agreement, either at the original department or at a different 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, 5 meetings available for parents.
- Workshops for parents who leave 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 lower availability of suitable childcare. The existence of a company kindergarten has a positive effect on company culture and signals the importance of the employees' family situation to 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, our subsidiary ČSOBS*) has been operating its own kindergarten PampeLiška for several years. A great success of both kindergartners has led us to further deepen the concept.
- In September 2021, we opened a new kindergarten in Hradec Králové, and in the upcoming years, we will significantly expand the kindergarten at the headquarters.
- On top of that, we refund half of the cost for any nursery, kindergarten or nanny, if parents work during or instead of a 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, 17% 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, it represents dozens of high-quality employees that we would not find on the labor market easily.

As a reaction to the pandemic situation:

- In 2021, all ČSOB employees had the opportunity to use 5 days of extra paid leave (so-called care days), either to take care of children or relatives, or for the symptoms after vaccination.
- We are trying to increase the opportunities to work from home for parents of small children who do not have many chances to find a job during parental leave, especially if they are from the branch network and regions.
- We are launching a new Academy for Parents, a pilot in the Hradec Králové region, with the aim to prepare parents for a smooth return to work and to actively establish contacts between parents, managers and HR. Parents will complete six workshops focused on the development of soft skills, supplemented by online training that will help them regain their lost confidence, self-presentation and broaden the horizons in the area of digital technologies used in the bank.

3. Age diversity: Program 55plus – experience is an advantage

Last year, we successfully continued the "55plus – experience is an advantage" program. The objective of the program is to use the experience of these employees to mentor younger colleagues, increase team stability through the age diversity of team members, reduce pressure and stress, prevent burnout syndrome (including expert volunteering for nonprofit organizations) and to increase the regeneration thanks to 2 days of extra paid leave. We also offer free services of employment law consultancy.

In 2021, we significantly expanded the possibilities of expert volunteering. In case of volunteering for non-profit organizations, our 55plus 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 they retire.

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

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 the 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 a leave for accompanying the partner's child to a doctor's appointment. These are some of the examples of how we review the fairness of benefits, clarify the definitions and how we work on discrimination elimination.

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

Awards in Diversity area for ČSOB in 2021

Top responsible company (Business for society competition)

John Hollows as **TOP Diversity leader**,

ČSOB as a **"Women friendly company"**

Overall, ČSOB ranks 4th place as the best company on the market of all large companies in the field of sustainability.

Gender Studies:

"Company of the Year, equal opportunities" (focused on flexible work and women during COVID-19).

LGBT friendly employer 2021

The best LGBT + staff group.

Award of the Senate of the Czech Republic for the integration of disabled people

COMPANIES OF THE ČSOB GROUP

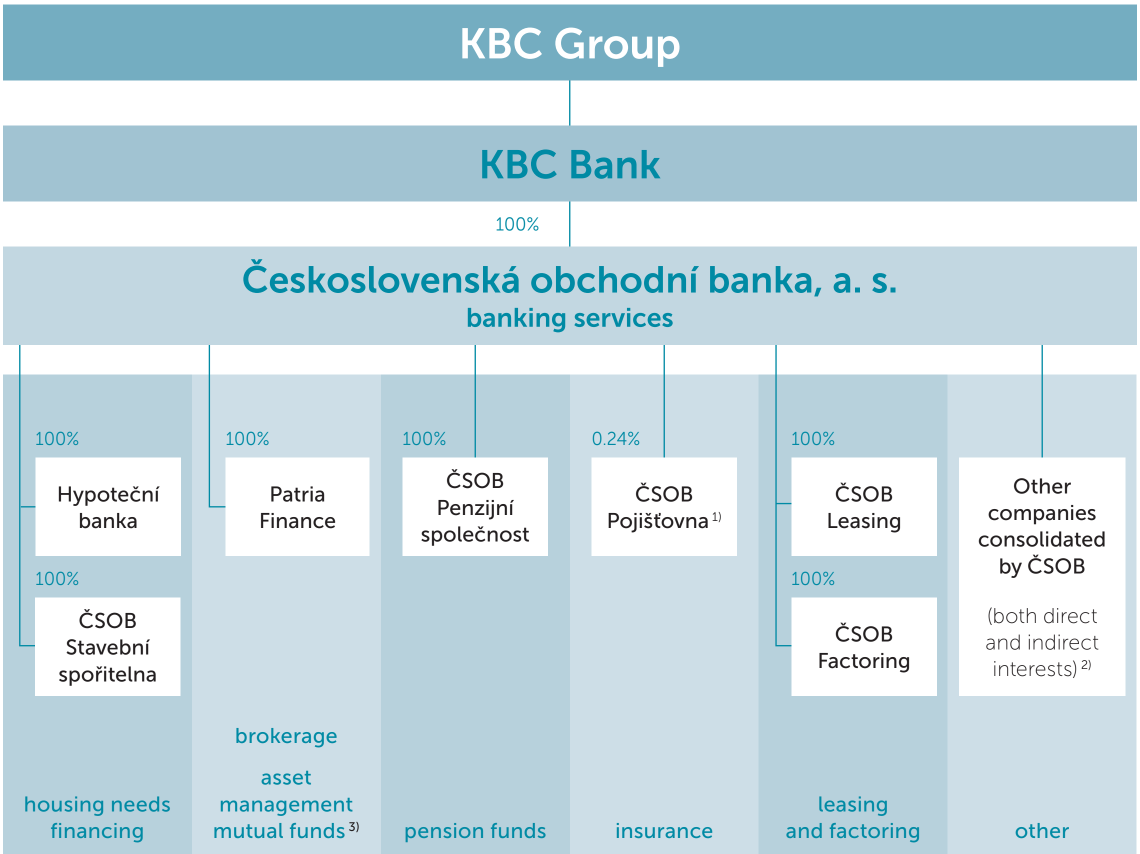
ČSOB Group

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 2021, ČSOB had ownership interests in 30 legal entities and, in addition to ČSOB, other 26 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 funds, pension funds, insurance, leasing and factoring.



Percentages show ČSOB's ownership interests on company's equity as at 31 December 2021.

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) 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:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,336 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 00 Praha 5
Telephone:	+420 224 116 515
E-mail:	info@hypotecnibanka.cz
Internet:	www.hypotecnibanka.cz

Indicator		2021	2020
Total assets*	CZKm	368,462	346,505
Loans and advances to customers*	CZKm	361,321	333,835
Total equity*	CZKm	53,585	47,077
Profit for the year after tax*	CZKm	1,478	1,566
Total volume of new mortgage loans (according to the Ministry of Regional Development; CZ)	CZKm	105,352	61,625

** EU IFRS, audited.*

Branches	28*	29
Agents and brokers	6,156	3,623

** As of 31. 3. 2021. As of 1 April 2021 Hypoteční banka centers were integrated into Retail branch network.*

Hypoteční banka is a home mortgage specialist that has long had a reputation among both its trading partners and clients as a strong, stable and reliable company that sets the tone for the entire market with its innovation and products. As a part of the ČSOB group and in conjunction with ČSOB Stavební spořitelna, Hypoteční banka holds a clear position as the Czech market leader in housing finance.

Last year was a record year in many respects. The volume of mortgages provided in 2021 amounted to a staggering CZK 430 billion, a 69% increase over the previous year. Hypoteční banka surpassed the magic mark of 100 billion mortgage loans arranged in one year. We can therefore be satisfied with the final result of 105 billion, which at the beginning of the year seemed like a pipe dream. This despite the fact that we need to realise that it will be exceedingly difficult to repeat such a result this year, due in no small part to rising interest rates, which already reached 3.75% in December 2021 and are expected to continue to increase. Together with ČSOB Stavební spořitelna, last year we helped 49,367 households on their journey to own a home financed by a mortgage or a loan from a building savings. From this perspective, we are the leader on the Czech housing market, which is truly something the ČSOB group can be proud of.

We again continued with digital solutions for our clients and business partners last year. Digitalisation is an equally important aspect of our products and customer communication, and every year we strive to push the boundaries of digital services. And since our clients already routinely handle most of their banking transactions electronically, we see no reason why this should be any different with mortgages. By introducing exclusive delivery to the Mortgage Zone, all paper communication will be eliminated, and we are fast approaching our goal of introducing a fully digital mortgage by 2023.

Last year, we also received awards for our products and services, and in addition to second place in the Zlatá koruna competition, we again took first place in the Bank of the Year 2021 awards in the Mortgage of the Year category. We won over the expert jury mainly thanks to our client-friendly services and Hypotéka na dosah, thanks to which clients can easily determine whether they qualify for financing for their chosen real estate and obtain a preliminary assessment of the loan. The jury also praised the bank's other digitisation activities. With this victory, the ČSOB group confirmed its position as the leader in the housing sector.

Offering sustainable housing is part of our long-term strategy. For all interested clients, we were the first bank years ago to offer a mortgage that supports and motivates decision-making towards sustainability. Our Hypotéka na úsporné bydlení was very popular with clients last year and we are delighted that it accounted for a full 8% of our business. And there are many more product innovations within the ČSOB group that support our clients' preference for sustainability. We believe that this is the only right path for the future and we want to support our customers in their journey towards sustainable housing to the greatest extent in the years to come.

ČSOB Stavební spořitelna, a.s.

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 00 Praha 5
Telephone:	+420 225 225 225
E-mail:	info@csobstavebni.cz
Internet:	www.csobstavebni.cz

Indicator		2021	2020
Total assets*	CZKm	150,909	149,823
Volume of loans and bridging loans (Retail)*	CZKm	122,771	120,034
Volume of client deposits*	CZKm	141,628	140,551
Total equity*	CZKm	8,420	6,986
Profit for the year after tax*	CZKm	680	493

** EU IFRS, auditováno.*

Advisory centers	246	262
Tied agents	1,544	1,735

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 150,9 bn as at 31 December 2021. In the long run, it has been the biggest provider of the building savings product (in the year 2021, achieved 163 ths. pieces of the new savings contracts, which represented a market share of 31,4 %) and of building savings loans (new loans provided in the year 2021 amounted to a total of CZK 32,9 bn, including construction loans and bridging loans /2nd place in the building society market/, which was a market share of 30,0 % w/o commercial loans - estimation). Market share of new loans in comparison to the previous year decreased by 8,4 p.p.. Currently, 1.132 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.

Patria Finance, a.s.

PATRIA FINANCE

Date od 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 00 Praha 5
Telephone:	+420 221 424 240
E-mail:	patria@patria.cz
Internet:	www.patria.cz

Indicator		2021	2020
Profit for the year after tax*	CZKm	207	159
Number of orders realized through personal brokers and the online trading platform WebTrader (Patria Finance)	ca.	362,814	341,211
Number of clients (Patria Finance)	ca.	42,839	36,000

** 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.finance.patria.cz.

In 2021, securities trading focused dominantly on stock markets. Patria Finance, serves more than 42 ths. clients with the volume of AUM exceeding CZK 78 bn.

ČSOB Penzijní společnost, a. s., člen skupiny ČSOB

Date of establishment:	26. 10. 1994*
Business activities:	Activities related to the pension saving
Identification number:	61859265
Registered capital:	CZK 300 m
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		2021	2020
Funds registered in favour of participants of the Transformed fund Stabilita*	CZKm	55,117	53,026
Participant funds in participation funds*	CZKm	14,054	10,889
Profit for the year after tax**	CZKm	249	172

** Nekonsolidováno.*

*** EU IFRS, neauditováno.*

Customers	Number (ths)	656	654

Pension savings has been perceived as a basic 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 2021, the company had 656 thousand clients who have entrusted it and its funds with CZK 69.2 bn.

ČSOB Pojišťovna, a. s., člen holdingu ČSOB

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

ČSOB Pojišťovna

Contact

Address:	Masarykovo nám. 1458 530 02 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		2021	2020
Total assets*	CZKm	51,934	51,825
Total equity*	CZKm	7,664	6,517
Profit for the year after tax*	CZKm	1,763	1,436
Gross written premium life insurance	CZKm	4,686	5,442
Gross written premium non-life insurance	CZKm	9,022	8,326

** EU IFRS, audited.*

Branches		95	97
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	1,230,079	1,250,992

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 2021, ČSOB Pojišťovna posted a net profit of CZK 1,763 m mainly thanks to good business results. Gross written premium reached CZK 13.7 bn. Market share increased by 0.1 percentage point to 8.5% in 2021.

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:	+420 230 029 111
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

Indicator		2021	2020
Total assets*	CZKm	40,554	40,675
Amounts due from clients (gross)*	CZKm	38,843	38,984
Total equity*	CZKm	8,311	7,191
Profit for the year after tax*	CZKm	786	2
Volume of new leasing business**	CZKm	16,246	13,149

** EU IFRS, unaudited.*

*** According to methodology of Czech Leasing and Financial Association (ČLFA); Initial investment*

Branches	6	7

ČSOB Leasing has long been one of the largest asset finance provider 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 own distribution of parent company ČSOB, cooperating asset vendors and also via www).

ČSOB Leasing is also nonbanking provider of tied consumer loan.

In 2021 ČSOB Leasing was awarded by Silver Crown for its product ČSOB Zelená Autopůjčka (Car loan for e-cars and plug-in 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		2021	2020
Total assets*	CZKm	5,320	5,073
Amounts due from clients (gross)*	CZKm	5,622	5,367
Total equity*	CZKm	950	931
Profit for the year after tax*	CZKm	81	62
Turnover of receivables	CZKm	39,138	36,106

** EU IFRS, unaudited.*

ČSOB Factoring has been offering factoring services to its clients since 1992. It is one of the pioneers of factoring financing on the Czech market and has long maintained its position among the TOP 3 Czech factoring companies. The company offers its clients flexible financing in various forms of recourse and non-recourse cooperation. In 2021, the company made available to its clients a modern portal for online communication.

In 2021, the volume of receivables assigned to ČSOB Factoring increased by 8,4 % to CZK 39.1 bn.

Companies of the ČSOB Group

(as at 31 December 2021)

Legal Entity: 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									
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
09513817	**Bankovní identita, a.s.** Activities connected with data processing and web hosting	Praha 8, Smrčkova 2485/4	3,000,000	17.00	17.00	none	17.00	none	Y
49241397	**ČSOB Stavební spořitelna, a.s** [1)] Building savings bank	Praha 5, Radlická 333/150	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	305,000,000	50.00	50.00	none	50.00	none	Y
09763465	**Igluu s.r.o.** web portal	V celnici 1031/4, Nové Město, 110 00 Praha 1	10 000	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

Legal Entity				Share of ČSOB in:						
ID No.	Business Name of Legal Entity Business Activities	Registered Office	Registered Capital	Registered Capital: Total	Registered Capital: Direct	Registered Capital: Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
			CZK	%	%	%	%		Y/N
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
28188667	**Ušetřeno s.r.o.** Arranging loans	Praha 4, Lomnického 1742/2a	200,000	100.00	none	100.00	100.00	Ušetřeno.cz	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** [2)] 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) *With effect from 12 March 2021 Českomoravská Stavební spořitelna, a.s. (ČMSS) changed its name to ČSOB Stavební spořitelna, a.s. (ČSOBS).*
2) *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. 2021

MallPay s.r.o. – increase of registered capital as of 6 of April and 1 of October 2021

Igluu, s.r.o. – establishment of a new company as of 12 August 2021

On 1 January 2021, a domestic acquisition of Top-Pojištění.cz, s.r.o. (taking over the company), and Ušetřeno.cz Finanční služby, a.s. (acquired company) has taken effect; within this merger transaction, the name of the company will be Top-Pojištění.cz, s.r.o. changed to Ušetřeno s.r.o.

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 2021

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) until 31. 5. 2021	Senior Executive Officer, Relationship Services
Ján Lučan	Member	1. 6. 2021	1. 6. 2021	Senior Executive Officer, Relationship Services
Petr Hutla	Member	27. 2. 2008	2. 3. 2021 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	2. 3. 2021 3)	Senior Executive Officer, IT and Operations
Jan Sadil	Member	1. 3. 2017	2. 3. 2021 3)	Senior Executive Officer, Retail
Hélène Goessaert	Member	1. 3. 2018	1. 3. 2018	Senior Executive Officer, Group Risk Management
Michaela Lhotková	Member	1. 7. 2021	1. 7. 2021	Senior Executive Officer, Innovations

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 2019, 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 2021 please refer to ČSOB's Organisation Chart, page 70 of this Annual Report. Descriptions of work and decision-making processes are given in Corporate Governance chapter of this Annual Report, page 64.

The Supervisory Board in 2021

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 2021

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 2021

Since June 2021, Ján Lučan replaced Petr Knapp in the Board of Directors. Since July 2021, the Board of Directors was expanded by a new member, Michaela Lhotková, who is responsible for innovation. Petr Hutla, Jan Sadil and Marcela Suchánková were elected for another term in office.

Changes in ČSOB's Managing and Supervisory Bodies in 2022

Since March 2022, a change in the Board of Directors was announced, where Hélène Goessaert was replaced by Tom Blanckaert. During the year 2022, the term of office of three members of the Supervisory Board and the Chairman of the Board of Directors ends. The appointment of Aleš Blažek as the new Chief Executive Officer was announced, replacing John Hollows from 5 May 2022.

The Composition of ČSOB's Board of Directors since 1 March 2022:

John Arthur Hollows (Chairman), Petr Hutla, Ján Lučan, Jiří Vévoda, Hélène Goessaert (term in office ended 1. 3. 2022, since 2. 3. 2022 replaced by Tom Blanckaert), Marcela Suchánková, Jan Sadil, Michaela Lhotková.

Abbreviated curriculum vitaes of the members of the Board of Directors can be found on pages 56-58.

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 which may negatively influence the execution of their 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.

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
Česká republika

INTRODUCING MEMBERS OF ČSOB'S BOARD OF DIRECTORS

ČSOB's Board of Directors in 2021

JOHN ARTHUR HOLLOWS

Born on 12 April 1956

Chairman of the Board of Directors

Mr. Hollows 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 HUTLA

Born on 24 August 1959

Member of the Board of Directors

Credits Management

Mr. Hutla 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:
- 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

Mr. 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 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 and subsequently he acted as the Chief Risk Officer. Since 2014, Jiří Vévoda has been appointed as the Chief Finance Officer. From 2018 is Jiří Vévoda responsible for ČSOB Group's 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), ČSOB Stavební spořitelna (CZ), ČSOB Asset Management (CZ), Ušetřeno.cz (CZ)

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 Finance (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), Hypoteční banka, a.s. (CZ), ČSOB Stavební spořitelna, a.s. (CZ), Association for Real Estate Market Development (CZ)

MICHAELA LHOTKOVÁ

Born on 24 July 1978

Member of the Board of Directors

Chief Innovation Officer for KBC Group in the Czech Republic

Ms. Lhotková graduated from Prague University of Economics and Business and obtained the CEMS Master of International Management.

Ms. Lhotková began her career at the International Corporate Desk at KBC Group in 2002. Two years later she moved to the Loans Department at ČSOB, where she was gradually in charge of various agendas and already led a team of three hundred people responsible for loans for small and medium-sized companies before her maternity leave in 2011. In 2013, she moved to the business side in the position of Director of the Corporate Banking Segment, followed by the role of a member of the Board of Directors responsible for risk and finance at HB. In mid-2017, she returned to ČSOB and took charge of the transformation of the payment solutions and consumer financing area. In her current position, she heads the so-called Daily Banking of one of the largest Czech banks and has the position of Chief Innovation Officer. Since July 2021, Michaela Lhotková has been a member of the Board of Directors of the ČSOB Group and her agenda has expanded to include Data and the entire Digital. Michaela is responsible for accelerating the group's digital transformation in the Czech Republic, specifically for the development and implementation of virtual assistant Kate, digital applications, data usage and the implementation of a new strategy.

JÁN LUČAN

Born on 18 September 1972

Member of the Board of Directors

Relationship Services

Mr. Lučan graduated from Prague University of Economics and Business and also has Post Graduate degree from the Faculty of Law of Charles University in Prague.

Mr. Lučan started his professional career at IPB Bank in 1997. Three years later, he joined ČSOB where he held managerial position and was responsible for the management of cases arising from the acquisition of IPB Bank. In 2003, he became the Director of the Legal Services Department and was responsible for all of the bank's legal agenda, including significant litigation in various jurisdictions following the acquisition of IPB Bank. He also personally participated in the negotiation of the bank's key agreements, including the cooperation agreement with the Czech Post. From 2012 to 2018, he held the position of Executive Director for Corporate and Institutional Banking. At the beginning of February 2018, Ján Lučan joined top management of ČSOB Slovakia and became a member of the Board of Directors and Chief Financial Officer. He was primarily in charge of finance, risk management, controlling, asset and liability management, data quality management and procurement. He returned to ČSOB Czech Republic in April 2021 and was appointed a member of the Board of Directors responsible for Relationship Services from 1 June 2021.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: ČSOB Advisory (CZ), ČSOB Factoring (CZ), ČSOB Leasing (CZ)
- Member of the Supervisory Board in Patria Corporate Finance (CZ)
- Member of the Board of the Arbitration court attached to the Czech Chamber of Commerce and the Agricultural Chamber of the Czech Republic

Dozorčí rada ČSOB

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 Advisory Board of Czech Journal of Economics and Finance (Editor-in-Chief, 1997-1999)
- Member of the Supervisory Board of The Aspen Institute Central Europe

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 completed 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)

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 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 has been working at the Department of Financial Accounting (VŠE), where he was initially assistant, then deputy to the head of the department. In 2006 he was appointed as Head of the Financial Accounting and Auditing Department. In 2014 and 2018, he was elected as the dean of the Faculty of Finance and Accounting. In 1993 Mr. Mejzlík obtained a license as a statutory auditor of the Chamber of Auditors (CACR), and in the years 2010–2014, he was elected twice as the First Vice President of CACR. Mr. Mejzlík has been representing the Faculty of Finance and Accounting of UEP in the National Accounting Council since 2004. In addition, since 2004, he was elected twice as the National Representative for the Czech Republic in the European Accounting Association Board of Representatives. Mr. Mejzlík focuses professionally on using information and communication technology in accounting and auditing and 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 twice elected 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), Kofola ČeskoSlovensko (CZ), ČSOB penzijní společnost (CZ) and ČSOBS (CZ) • Member of the Audit Committees Severomoravské vodovody a kanalizace (CZ), MERO (CZ), Philip Morris (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.

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., is also governed by the Guidelines on internal governance issued by the European Banking Authority (EBA).

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. ČSOB's Board of Directors and ČSOB's Supervisory Board are notified of resolutions adopted by the sole shareholder in writing by the delivery of a written notice.

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 2021, ČSOB's Board of Directors had eight members and worked in the following composition: John Arthur Hollows (Chairman), Hélène Goessaert, Petr Hutla, Michaela Lhotková, Ján Lučan, Marcela Suchánková Jan Sadil and Jiří Vévoda.

Personnel changes in ČSOB's Board of Directors during the year 2021 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.

Chairman of the Committee: Ján Lučan

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.

Chairman of the Committee: Jan Sadil

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 simultaneously to create value for shareholders.

Chairman of the Committee: Jiří Vévoda

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 2021, 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 2021 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, the Supervisory Board held four meetings in 2021 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 and member(s) of statutory bodies of other entities controlled by ČSOB ("Controlled Subsidiaries"), submits recommendations to the Supervisory Board as to removal of current member(s) of the ČSOB Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries. 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 and member(s) of statutory bodies of the Controlled Subsidiaries including fixed as well as variable parts, and recommendations to the Supervisory Board as to principles of remuneration of the head of the internal audit. The members of both Committees are regularly informed about changes and rotations of key identified employees and their remuneration.

In 2021, the Nomination Committee was composed of the following members Christine Van Rijsseghem, Zdeněk Tůma and Willy Kiekens.

In 2021, the Remuneration Committee was composed of the following members Zdeněk Tůma, Ladislava Spielbergerová and Willy Kiekens.

The Nomination and Remuneration Committees held **four meetings in 2021**.

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 Articles of Association of ČSOB and 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 2021, 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 2021**.

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 2021, 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 2021**.

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 quarterly 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 2021 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2021 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 2021 prepared in accordance with EU IFRS and to Note 41.5 to the Consolidated Financial Statement for the year 2021 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.

ČSOB ORGANISATION CHART *(as of 31. 12. 2021)*

Chief Executive Officer
John Hollows
- Internal Audit
- Group Communication

Innovations, Digital and Data
Michaela Lhotková
- KATE (B-2)
- Strategy (B-2)
- Strategic Partnerships, OBI and Innovation (B-2)
- Innovation M&A (B-2)
- Lead Management and Kate (B-2)
- Data
- Daily banking
- Digital
- Banit
- Ušetřeno.cz
- Mallpay
- Bank ID

Finance Management
Jiří Vévoda
Senior Executive Officer
- Investments
- Finance
- Asset and Liabilities Management
- Financial Markets
- Patria Corporate Finance
- Patria Finance
- ČSOB Penzijní společnost

Group Risk Management
Hélène Goessaert
Senior Executive Officer
- Central Credit Risk and Loss Measur. Valid. (team)
- Non-financial Risk Management (B-2)
- Financial Risk Management (B-2)
- Transactional Modeling (B-2)
- Credit Risk Management (B-2)
- Compliance

Relationship Services
Ján Lučan
Senior Executive Officer
- Transaction team (team)
- Corporate and Institutional Banking
- SME Branch Network
- Private Banking
- Segments, Prod. and Dev. of Relat. Serv.
- ČSOB Leasing
- ČSOB Factoring
- ČSOB Advisory
- Patria investiční společnost

Retail
Jan Sadil
Senior Executive Officer
- Transformation and Retail Development (B-2)
- Group Broker Management (B-2)
- ČSOB Retail Network
- ČSOB Group Segment Management
- Retail Business Support
- ČSOB Pojišťovna
- ČSOB Stavební spořitelna
- Hypoteční banka

Credits Management
Petr Hutla
Senior Executive Officer
- Corporate Sustainability and Responsibility (tým)
- Strategic Projects (tým)
- Public Affairs (B-2)
- Credits
- Retail Credits

IT and Operations
Marcela Suchánková
Senior Executive Officer
- ČSOB Group Human Resources
- Facilities management
- Business information technology
- Projects and Architecture
- Operations and Procurement
- Legal

Legend:
- *ČSOB BoD Member*
- *Bank Unit*
- *Subsidiary*
- *Joint Venture*

FINANCIAL PART

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
Interest income calculated using the effective interest rate method	5	35,203	33,490
Other similar income	5	1,772	2,190
Interest expense calculated using the effective interest rate method	6	(10,825)	(7,275)
Other similar expense	6	(1,840)	(2,303)
Net interest income		**24,310**	**26,102**
Fee and commission income	7	13,227	11,933
Fee and commission expense	7	(5,399)	(4,342)
Net fee and commission income		**7,828**	**7,591**
Dividend income		17	15
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	8	2,289	180
Net realised gains on financial instruments at fair value through other comprehensive income		1	14
Income from operating lease	9	1,632	1,967
Expense from operating lease	9	(1,470)	(1,839)
Other net income	10	1,117	1,221
Operating income		**35,724**	**35,251**
Staff expenses	11	(9,512)	(9,254)
General administrative expenses	12	(7,980)	(7,843)
Depreciation and amortisation	23, 24	(2,342)	(2,155)
Operating expenses before impairment losses		**(19,834)**	**(19,252)**
Impairment losses	13	**3,253**	**(5,926)**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI) and finance leases		3,637	(5,556)
on goodwill		(181)	-
on other financial and non-financial assets		(203)	(370)
Share of profit / (loss) of associates and joint ventures	21	(64)	(43)
Profit before tax		**19,079**	**10,030**
Income tax expense	14	(2,919)	(1,542)
Profit for the year		**16,160**	**8,488**
Attributable to:			
Owners of the parent		16,160	8,488
Non-controlling interests		-	-

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
Profit for the year		**16,160**	**8,488**
Other comprehensive income – to be reclassified to the statement of income			
Exchange differences on translating foreign operation		(22)	-
Net (loss) / gain on cash flow hedges		(1,440)	309
Net (loss) on financial debt instruments at fair value through other comprehensive income		(620)	(79)
Share of other comprehensive income of associates and joint ventures		-	-
Income tax benefit / (expense) relating to components of other comprehensive income		350	(15)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	32	**(1,732)**	**215**
Other comprehensive income – not to be reclassified to the statement of income			
Net gain / (loss) on financial equity instruments at fair value through other comprehensive income		77	(193)
Income tax benefit relating to components of other comprehensive income		76	36
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	32	**153**	**(157)**
Other comprehensive income for the period, net of tax		**(1,579)**	**58**
Total comprehensive income for the year, net of tax		**14,581**	**8,546**
Attributable to:			
Owners of the parent		14,581	8,546
Non-controlling interests		-	-

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
ASSETS			
Cash, balances with central banks and other demand deposits	16	39,762	29,595
Financial assets held for trading	17	44,087	36,131
Non-trading financial assets mandatorily at fair value through profit or loss	17	1,410	1,792
Financial assets at fair value through other comprehensive income	18	18,566	16,016
Financial assets at fair value through other comprehensive income pledged as collateral	18	221	6,328
Financial assets at amortised cost	19	1,613,504	1,566,492
Financial assets at amortised cost pledged as collateral	19	33,904	40,930
Finance lease receivables	20	11,149	13,450
Fair value adjustments of the hedged items in portfolio hedge	22	(18,223)	5,413
Derivatives used for hedging	22	30,276	9,969
Current tax assets		1,020	239
Deferred tax assets	14	1,324	1,612
Investment in associates and joint ventures	21	97	139
Property and equipment	23	13,643	14,690
Goodwill and other intangible assets	24	11,164	10,767
Non-current assets held-for-sale	25	20	15
Other assets	26	3,555	2,862
Total assets		**1,805,479**	**1,756,440**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	27	44,686	39,692
Financial liabilities designated at fair value through profit or loss	27	24,544	25,575
Financial liabilities at amortised cost	28	1,605,831	1,557,853
Fair value adjustments of the hedged items in portfolio hedge	22	(23,280)	2,759
Derivatives used for hedging	22	28,346	14,885
Current tax liabilities		80	53
Deferred tax liabilities	14	943	962
Other liabilities	29	6,411	6,832
Provisions	30	540	837
Total liabilities		**1,688,101**	**1,649,448**
Share capital	31	5,855	5,855
Share premium		20,929	20,929
Statutory reserve		18,687	18,687
Retained earnings		73,091	61,126
Revaluation reserve from financial assets at fair value through other comprehensive income	31	(22)	369
Cash flow hedge reserve	31	(1,140)	26
Foreign currency translation reserve		(22)	-
Shareholders' equity		117,378	106,992
Non-controlling interests, presented within equity		-	-
Total equity		**117,378**	**106,992**
Total liabilities and equity		**1,805,479**	**1,756,440**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Attributable to equity holders of the parent					Total
(CZKm)	Share capital (Note: 31)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 31)	Equity
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**
At 1 January 2021	**5,855**	**20,929**	**18,687**	**61,126**	**395**	**106,992**
Profit for the year	-	-	-	16,160	-	16,160
Other comprehensive income for the year (Note: 32)	-	-	-	-	(1,579)	(1,579)
Total comprehensive income for the year	-	-	-	16,160	(1,579)	14,581
Equity investments disposed (Note: 33)	-	-	-	51	-	51
Dividends paid (Note: 15)	-	-	-	(4,100)	-	(4,100)
Changes in consolidation scope (Note: 3)	-	-	-	(146)	-	(146)
At 31 December 2021	**5,855**	**20,929**	**18,687**	**73,091**	**(1,184)**	**117,378**

(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 14 April 2022 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 2021

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

(CZKm)	Note	2021	2020
OPERATING ACTIVITIES			
Profit before tax		**19 079**	**10,030**
Adjustments for:			
Interest income	5	(36,975)	(35,680)
Interest expense	6	12,665	9,578
Dividend income (other than from associates and joint ventures)		(17)	(15)
Non-cash items included in profit before tax	34	(3,269)	5,081
Net losses / (gains) from investing activities		68	(294)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(8,449)**	**(11,300)**
Change in operating assets	34	(96,661)	(109,318)
Change in operating liabilities	34	64,125	107,087
Change in assets under operating leases		306	597
Income tax paid		(3,064)	(2,805)
Interest paid		(12,624)	(9,570)
Interest received		38,080	36,509
Dividend received (other than from associates and joint ventures)		17	15
Net cash flows (used in) / from operating activities		**(18,270)**	**11,215**
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(3,389)	(5,314)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		1,529	2,047
Capital decrease / increase in associates and joint ventures		12	(96)
Net cash flows used in investing activities		**(1,848)**	**(3,363)**
FINANCING ACTIVITIES			
Repayment of bonds (Note: 34)		(3,399)	(3,307)
Issue of subordinated debts (Note: 28)		19,439	-
Payments of principal on leases		(483)	(472)
Dividends paid	15	(4,100)	-
Net cash flows from / (used in) financing activities		**11,457**	**(3,779)**
Net (decrease) / increase in cash and cash equivalents		**(8,661)**	**4,073**
Cash and cash equivalents at the beginning of the year	34	238,239	234,166
Net (decrease) / increase in cash and cash equivalents		(8,661)	4,073
Cash and cash equivalents at the end of the year	34	**229,578**	**238,239**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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, identification services within the meaning of the Act on Banks. 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

The Coronavirus pandemic significantly affected the global economy both in 2020 and 2021. The substantial deterioration in the economic outlook has resulted in an unprecedented monetary policy response from central banks and governments around the world.

Meanwhile, we have been working hard with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals.

All of the EBA-compliant moratoria have now expired and for almost all of these loans, payments have fully resumed. In addition, we granted some CZK 18.6 bn in loans that fall under the various coronavirus-related government guarantee schemes in the Czech Republic.

Details related to the impact of the COVID-19 crisis on the loan impairments

Referring to the disclosure in our annual report of 2021, our Expected Credit Loss (ECL) models are not able to adequately reflect all the specifics of the COVID-19 crisis or the various government measures implemented in the different countries to support households, SMEs and Corporates through this crisis.

Therefore, an expert-based calculation at portfolio level is required via a management overlay. In the fourth quarter of 2021, ČSOB group performed an update of its COVID-19 impact assessment which resulted in a total collective COVID-19 ECL of CZK 1.6 bn (versus CZK 4.2 bn at year-end 2020).

As of 3Q 2021, an additional risk assessment was performed over non-retail segments on ČSOB Bank and ČSOB Leasing. ČSOB group has decided to capture part of the collective COVID-19 ECL via a collective transfer to Stage 2 of Stage 1 portfolios for which the repayment is still uncertain. Portfolio segments from COVID-19 critically vulnerable business sectors have been transferred into Stage 2 (specific CREDACs from Aviation, Commercial Real Estate, Distribution, Horeca, Services and Shipping). The related files might be reverted back to Stage 1 in subsequent period, after a probation period of 6 months, in case no other signs of an increase in credit risk are detected. The total exposure moved from stage 1 to stage 2 amounted to CZK 2.4 bn.

In 4Q 2021, an additional CZK 16.3 bn of stage 1 exposure was transferred to stage 2 in Hypoteční Banka and in ČSOB Stavební spořitelna based on additional collective assessment to cover potential risks of increasing interest rates. The exposure transferred represents household loans approaching the end of their fixation period, where the expected increase in interest rate is over 200 b.b.

Economic scenarios

The pandemic still plays a prominent role in shaping the macroeconomic landscape, with the Omicron variant serving as a reminder of this. New lockdown measures and deteriorating economic sentiment (risk aversion), caused by this variant, are temporarily weighing on economic activity. However, they are not derailing the ongoing path of the economic recovery. Fiscal and monetary policy will continue to support growth, albeit at a somewhat more moderate scale than right after the start of the pandemic. Overall, we maintain a positive economic outlook, despite new uncertainties surrounding the path back to normality, created by such factors as the spread of the Omicron variant and persistent supply chain disruptions.

Because of this uncertainty, we continue working with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario (Note: 41.2). The definition of each scenario reflects the latest pandemic and related economic developments, with the following probabilities: 80% for the base-case, 10% for the pessimistic and 10% for the optimistic scenario (in line with 3Q 2021).

The following table (in line with the ČSOB forecast of December 2021) gives these three scenarios for three key indicators (GDP growth, unemployment rate and house price index):

Macroeconomic indicator - CZE	2021			2022		
Scenario	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
Real GDP	2.8%	2.6%	2.4%	5.4%	4.2%	1.8%
Unemployment	3.0%	3.0%	3.1%	2.3%	2.6%	3.5%
House price index	13.0%	12.8%	12.0%	6.0%	5.2%	1.5%

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 2021

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 2020, 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.

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 has been 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. ČSOB group incorporated all necessary changes in reference rates related to Benchmark reform based on EU directive 2016/1011 Benchmark regulation (BMR) and the process of changing from LIBOR to new risk-free rates was completed before January 1, 2022. All contracts based on GBP and EUR LIBOR were renegotiated to new risk-free rates as of January 1st 2022. Legacy loans based on LIBOR will be renegotiated with clients to new risk-free rates by 31 May 2022. Derivatives based on LIBOR will be transferred to new risk-free rates during 2022.

	Carrying amount at 31 Dec 2021		Notional amount at 31 Dec 2021
(CZKm)	Loans and advances	Deposits	Derivatives
referenced to -IBOR (all tenors)			
of which: USD (LIBOR)	1,902	54	31,392
of which: GBP (LIBOR)	-	1	-
of which: EUR (LIBOR)	75	1	-

CONSOLIDATED FINANCIAL STATEMENTS

Effective after 1 January 2021

The following standards, amendments and interpretations have been issued and are effective after 1 January 2021. 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.

IFRS 17 Insurance Contracts (including Amendments to IFRS 17) is effective for annual periods beginning on or after 1 January 2023 and has 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. Implementation of IFRS 17 will not have significant impact on the Bank. The Bank assesses the extent of the impact within the KBC Group implementation project.

Initial Application of IFRS 17 and IFRS 9 – Comparative Information is effective for annual periods beginning on or after 1 January 2023 and has not yet been endorsed by the EU. A narrow-scope amendment to the transition requirements of IFRS 17 Insurance Contracts. The amendment affects any entity that first applies IFRS 17 and IFRS 9 Financial Instruments at the same time. The amendment avoids temporary accounting mismatches between financial assets and insurance contract liabilities.

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 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 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 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 been endorsed by the EU.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments narrow the exemptions from recognition of deferred tax asset or liability. If on initial recognition the transaction gives rise to equal taxable and deductible temporary differences, the exemption no longer applies.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16) is effective for periods on or after 1 April 2021 and has been endorsed by the EU. The amendments extend the exemption from assessment of whether rent concession is a lease modification to lease payments on or before 30 June 2022.

Definition of Accounting Estimates (Amendments to IAS 8) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments introduce a new definition of an accounting estimate. Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

Disclosure of Accounting Policies (Amendments to IAS 1) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments clarify that an entity is required to disclose material accounting policy and the amendments also explain how to identify such policy. Accounting policy is material if it can influence decisions that the users of financial statements make on the basis of the financial statements.

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 been endorsed by the EU.

2.4 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.

If the financial guarantee is both integral to the guaranteed loan and not recognised separately, fees paid for the guarantee are an integral part of the loan's effective interest rate as transaction costs. If the guaranteed loans are measured at amortised cost, the ability to recover cash flows from financial guarantee is considered in assessing whether significant increase in credit risk occurred, however, the expected cash flows from the financial guarantee are included in the measurement of ECL of the guaranteed loan.

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 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 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.

(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	3 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	5 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.

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	% 2021	% 2020
Subsidiaries				
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
ČSOB Stavební spořitelna, a.s.	ČSOBS	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
K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság	K&H Payment Services	Hungary	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

Loss of significant influence over Bankovní identita

ČSOB together with Komerční banka and Česká spořitelna established the company Bankovní identita, a.s. for cooperation in providing the banking identity services in 2020. The direct share of ČSOB in Bankovní identita at 31 December 2020 was 33.3%, having a carrying amount of CZK 21m. In February 2021, an agreement was reached with other Czech banks on accession and cooperation within the company Bankovní identita. In April 2021, other 7 Czech banks became shareholders of the Bankovní identita. At 31 December 2021, ČSOB has a share on equity and voting rights of 17%, carrying amount of the investment amounts to CZK 36m.

Following the sale, Bankovní identita cessed a status of an associated company and, as a result, the Group stopped accounting for this entity using equity method in 2Q 2021.

Consolidation of K&H Payment Services

In 2019, ČSOB established a 100% owned subsidiary K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság (K&H Payment Services) in Budapest to operate payment services for the Hungarian customers. The initial investment of the Bank into the share capital of K&H Payment Services amounted to CZK 3m. The entity became material in 2021 when K&H Payment Services purchased a part of the former business of K&H Bank. Accordingly, the investment of ČSOB into the equity of the entity was increased up to CZK 342 m already in 2020. K&H Payment Services was included into the consolidated financial statements of the Group using full method of consolidation in 2021. For the first-time consolidation, a pooling of interest method was applied, i.e. assets and liabilities of the entity at their carrying amounts have been recognized in the consolidated statement of financial position. A difference between the purchase price and net asset value of the entity has been recognized directly in the consolidated equity at 31 December 2021.

Set out below is an analysis of the financial effect of the business combination of K&H Payment Services into the consolidated financial statements of the Group:

Assets acquired and liabilities assumed

(CZKm)	30 June 2021
ASSETS	
Cash and other demand deposits	202
Financial assets at amortised cost	14
Property and equipment	99
Intangible assets	34
Other assets	1
Total assets	**350**
LIABILITIES	
Other liabilities	154
Total liabilities	**154**
Total identifiable net assets	**196**
Decrease of consolidated Retained earnings	146
Cash consideration transferred	**342**

There is no contingent consideration resulting from the transaction.

Merger of Ušetřeno Finanční služby and Top-Pojištění.cz.s.r.o. (further Top-Pojištění)

Until the end of 2020, Ušetřeno.cz s.r.o., as a 100% subsidiary of ČSOB Bank providing intermediation services to retail clients in the field of energy and telecommunication via online acquisition of clients' demand, had financial investments in two entities: Ušetřeno.cz Finanční služby, a.s. and Top-Pojištění.cz s.r.o. Ušetřeno Finanční služby was subconsolidated together with Ušetřeno into the Group's figures since the date of acquisition, because of material goodwill and intangible asset recognized on the Group level and expected cash-flows generated by both companies. Top-Pojištění has never been consolidated due to immateriality.

In January 2021, Ušetřeno Finanční služby merged with Top-Pojištění. A successor company Ušetřeno s.r.o. was assessed as not material. As a result, the entity has not been included into the consolidated financial statements and reported as an investment with insignificant impact, measured at fair value in the consolidated financial statements of the Group at 31 December 2021.

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 pension 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.

Home financing: This segment contains mortgages, building savings and building savings loans. 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.

Segment reporting information by customer segments for 2021

(CZKm)	Retail	Relationship services	Financial markets	Home financing	Group Centre	Total
Statement of income						
Net interest income	7,066	8,780	2,124	3,242	3,098	**24,310**
Net fee and commission income	2,166	3,474	1,032	647	509	**7,828**
Dividend income	-	-	1	-	16	**17**
Net gains / (losses) from financial instruments at fair value through profit or loss	63	1,768	38	(420)	840	**2,289**
Net realised gains on financial instruments at fair value through other comprehensive income	-	-	-	-	1	**1**
Income from operating lease	-	1,632	-	-	-	**1,632**
Expense from operating lease	-	(1,470)	-	-	-	**(1,470)**
Other net income	100	84	13	181	739	**1,117**
Operating income	**9,395**	**14,268**	**3,208**	**3,650**	**5,203**	**35,724**
of which:						
External operating income	*9,298*	*19,277*	*3,208*	*3,809*	*132*	*35,724*
Intersegment operating income	*97*	*(5,009)*	*-*	*(159)*	*5,071*	*-*
Depreciation and amortisation	(20)	(53)	(71)	(393)	(1,805)	**(2,342)**
Other operating expenses	(6,279)	(4,171)	(616)	(1,711)	(4,715)	**(17,492)**
Operating expenses before impairment losses	**(6,299)**	**(4,224)**	**(687)**	**(2,104)**	**(6,520)**	**(19,834)**
Impairment losses	181	2,343	-	991	(262)	3,253
Share of profit of associates and joint ventures	4	-	-	-	(68)	**(64)**
Profit before tax	**3,281**	**12,387**	**2,521**	**2,537**	**(1,647)**	**19,079**
Income tax expense	(1,005)	(2,543)	(484)	(478)	1,591	**(2,919)**
Segment profit	**2,276**	**9,844**	**2,037**	**2,059**	**(56)**	**16,160**
Attributable to:						
Owners of the parent	2,276	9,844	2,037	2,059	(56)	**16,160**
Non-controlling interest	-	-	-	-	-	**-**
Assets and liabilities						
Segment assets	34,712	315,790	60,266	505,817	888,777	**1,805,362**
Investment in associates and joint ventures	20	-	-	-	77	**97**
Non-current assets held-for-sale	-	20	-	-	-	**20**
Total assets	**34,732**	**315,810**	**60,266**	**505,817**	**888,854**	**1,805,479**
Total liabilities	**524,360**	**477,947**	**85,341**	**145,738**	**454,715**	**1,688,101**
Capital expenditure	**200**	**360**	**55**	**358**	**2,606**	**3,579**

Segment reporting information by customer segments for 2020

(CZKm)	Retail	Relationship services	Financial markets	Home financing	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 / (losses) 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 before impairment losses	**(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**

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)	2021	2020
Interest income on financial instruments calculated using effective interest rate method		
Cash, balances with central banks and other demand deposits	225	167
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	9,497	8,033
Other than credit institutions	22,256	22,968
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	346	379
Derivatives used for hedging (Note: 8)	2,012	883
Negative interest from financial liabilities measured at amortised cost	867	1,060
	35,203	33,490
Interest income on other financial instruments		
Finance lease receivables	257	334
Financial assets held for trading, incl. assets pledged as collateral (Note: 8)	240	143
Derivatives used as economic hedges (Note: 8)	1,219	1,663
Negative interest from financial liabilities measured at fair value (Note: 8)	56	50
	1,772	2,190
Interest income	**36,975**	**35,680**

6. INTEREST EXPENSE

(CZKm)	2021	2020
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	17	2
Credit institutions	1,753	579
Other than credit institutions	4,820	4,850
Debt instruments in issue	1,088	1,372
Derivatives used for hedging (Note: 8)	3,147	472
	10,825	7,275
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 8)	285	179
Financial liabilities designated at fair value through profit or loss (Note: 8)	149	332
Derivatives used as economic hedges (Note: 8)	1,364	1,736
Lease liabilities	40	54
Discount amortisation on other financial liabilities	2	2
	1,840	2,303
Interest expense	**12,665**	**9,578**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2021	2020
Fee and commission income		
Banking services		
Payment service fees	5,629	5,063
Credit / Guarantee related fees	1,269	1,288
Network income	978	839
Securities	493	430
Other	857	916
Asset management services		
Custody fees	272	256
Mutual funds entry fees	315	244
Management fees	639	532
Distribution		
Mutual funds	1,109	869
Banking and insurance products	1,666	1,496
	13,227	**11,933**
Fee and commission expense		
Banking services		
Payment services	3,347	2,622
Credit / Guarantee related fees	287	279
Securities	185	190
Other	393	274
Asset management services		
Custody fees	112	103
Distribution		
Banking and insurance products	1,075	874
	5,399	**4,342**
Net fee and commission income	**7,828**	**7,591**

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)	2021	2020
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,289**	**180**
Net interest income (Notes: 5, 6)	(1,418)	20
	871	**200**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	(983)	128
Foreign exchange	4,437	(3,809)
Equity contracts	1,140	(250)
Commodity contracts	1	20
	4,595	(3,911)
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	1,793
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	(521)	(297)
Foreign exchange differences	(4,613)	2,615
Financial instruments at fair value through profit or loss and foreign exchange	**871**	**200**

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)	2021	2020
Income from operating lease		
Revenues from operating leases	375	450
Revenues from disposal of assets under operating leases	895	1,164
Revenues from other services relating to operating leases	362	353
	1,632	**1,967**
Expense from operating lease		
Depreciation of assets under operating leases (Note: 23)	(277)	(349)
Expenses from disposal of assets under operating leases	(835)	(1,108)
Other services relating to operating leases	(358)	(382)
	(1,470)	**(1,839)**

10. OTHER NET INCOME

(CZKm)	2021	2020
ICT services	711	718
Services provided to the parent and to entities under common control (excluding income from ICT services)	264	297
Net decrease / (increase) in provisions for legal issues and other losses	177	(31)
Net gain on disposal of property and equipment	77	9
Net gain on disposal of liabilities at amortised cost	36	-
Net gain on disposal of associates, joint ventures and subsidiaries	34	-
Other services provided by ČSOB Leasing	6	14
Net gain on disposal of non-current assets held-for-sale	3	-
Net loss on disposal of intangible assets	(1)	(9)
Net (loss) / gain on disposal of investments measured at amortised cost	(280)	174
Other	90	49
	1,117	**1,221**

11. STAFF EXPENSES

(CZKm)	2021	2020
Wages and salaries	6,823	6,568
Salaries and other short-term benefits of top management	95	89
Social security charges	2,235	2,145
of which pension security charges (obligatory)	*1,392*	*1,333*
Pension (voluntary) and similar expenses	187	185
Net increase in provisions for Restructuring programme	53	79
Other	119	188
	9,512	**9,254**

Number of personnel of the Group

The number (in full-time equivalents) of personnel of the Group was 8,087 at 31 December 2021 (31 December 2020: 8,349).

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 (50%) and to the share price of KBC Group (50%). 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 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 2021 (2020: CZK Nil).

12. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2021	2020
Information technologies	3,053	3,114
Contribution to the Single Resolution Mechanism	979	772
Professional fees	618	494
Other building expenses	600	617
Retail service fees	547	537
Marketing	511	616
Communication	414	397
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	357	318
Administration	214	171
Travel and transportation	137	145
Payment cards and electronic banking	129	124
Insurance	48	57
Training	44	38
Rental expenses on land and buildings - minimum lease payments	51	50
Car expenses	16	17
Other	262	376
	7,980	**7,843**

13. IMPAIRMENT LOSSES

(CZKm)	2021	2020
Impairment of financial assets at amortised cost - loans and advances (Notes: 34, 41.2)	3,413	(5,207)
Impairment of financial assets at amortised cost - debt securities (Notes: 34, 41.2)	(70)	(5)
Impairment of finance lease receivables (Note: 34)	206	(235)
Provisions for loan commitments and guarantees (Notes: 30, 34)	88	(109)
Impairment of property, plant and equipment (Notes: 23, 34)	(74)	23
Impairment of goodwill (Notes: 24, 34)	(181)	-
Impairment of intangible assets (Notes: 24, 34)	(38)	(214)
Impairment of other financial assets (Note: 34)	-	(6)
Impairment of other non-financial assets (Note: 34)	(15)	(38)
Modification losses (Note: 34, 41.2)	(76)	(135)
	3,253	**(5,926)**

14. INCOME TAX

The components of income tax expense for the years ended 31 December 2021 and 2020 are as follows:

(CZKm)	2021	2020
Current tax expense	2,307	2,646
Previous year over accrual of current tax	(10)	(13)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	622	(1,091)
	2,919	**1,542**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2021 and 2020 is as follows:

(CZKm)	2021	2020
Profit before taxation	19,079	10,030
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,625	1,906
Previous year over accrual of current tax	(10)	(13)
Tax effect of non-taxable income	(1,351)	(937)
Tax effect of non-deductible expenses	655	586
	2,919	**1,542**

The applicable tax rate for 2021 was 19% (2020: 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)	2021	2020
At 1 January	**650**	**(463)**
Statement of income	(622)	1,091
Financial assets FVOCI (Note: 32)		
Fair value remeasurement	49	24
Transfer to net profit or retained earnings	12	57
Cash-flow hedges (Note: 32)		
Fair value remeasurement	251	(116)
Transfer to net profit (Note: 22)	23	57
Impact of business combinations	17	-
At 31 December	**380**	**650**

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

(CZKm)	2021	2020
Deferred tax asset		
Impairment losses on loans and advances at amortised cost and credit risk provisions	343	753
Initial fee income	331	255
Interest rate bonus	329	260
Employee benefits	313	253
Cash-flow hedging derivatives	285	(14)
Temporary difference resulting from tax depreciation	232	173
Temporary difference resulting from tax depreciation related to acquisition of ICT function	107	113
Provisions for other risks and charges	65	97
Unused tax losses applicable in the next periods	31	27
Impairment losses on debt securities	17	13
Impairment of tangible and intangible assets	11	10
Revaluation of financial assets and liabilities at fair value through profit or loss	(109)	276
Debt securities at fair value through other comprehensive income	(134)	(92)
Amortisation of goodwill	(511)	(511)
Other temporary differences	14	(1)
	1,324	**1,612**

(CZKm)	2021	2020
Deferred tax liability		
Temporary difference resulting from tax depreciation	890	775
Debt securities at fair value through other comprehensive income	167	164
Revaluation of financial assets and liabilities at fair value through profit or loss	37	45
Unused tax losses applicable in the next periods	30	11
Cash-flow hedging derivatives	(4)	162
Employee benefits	(8)	(15)
Finance lease valuation	(12)	58
Provisions for other risks and charges	(18)	(20)
Impairment losses on loans and advances at amortised cost and credit risk provisions	(42)	(149)
Initial fee expense	(66)	(52)
Other temporary differences	(31)	(17)
	943	**962**

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

(CZKm)	2021	2020
Initial fee income	90	36
Finance lease valuation	70	(47)
Interest rate bonus	69	29
Employee benefits	53	(57)
Impairment losses on debt securities	4	2
Impairment of tangible and intangible assets	1	1
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(6)	(5)
Debt securities at fair value through other comprehensive income	64	(96)
Unused tax losses applicable in the next periods	(15)	14
Provisions for other risks and charges	(34)	27
Temporary difference resulting from tax depreciation	(56)	-
Revaluation of financial assets and liabilities at fair value through profit or loss	(377)	388
Impairment losses on loans and advances at amortised cost and credit risk provisions	(517)	804
Other temporary differences	32	(5)
	(622)	**1,091**

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 2021 has not been taken before the date of issue of the financial statements (Notes: 40, 42).

Based on a sole shareholder decision from 4 November 2021, and in accordance with the recommendation and approval of the national regulator, a dividend of CZK 14.01 per share was paid from retained earnings, representing a total dividend of CZK 4,100m.

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.

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

(CZKm)	2021	2020
Cash (Note: 34)	8,310	8,664
Mandatory minimum reserves (Notes: 34, 35, 41.2)	19,469	13,573
Other balances with central banks (Notes: 34, 35, 41.2)	9,267	4,443
Other demand deposits in credit institutions (Notes: 34, 35, 41.2)	2,716	2,915
	39,762	**29,595**

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 5,000 m at 31 December 2021 (31 December 2020: CZK Nil). 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)	2021	2020
Financial assets held for trading		
Loans and advances		
Other loans and advances	1	102
Equity securities		
Credit institutions	22	-
Corporate	21	3
Derivative contracts (Note: 22)		
Trading derivatives	43,001	35,205
Derivatives used as economic hedges	1,042	821
	44,087	**36,131**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	1,410	1,792
	1,410	**1,792**
Financial assets at fair value through profit or loss	**45,497**	**37,923**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2021	2020
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	16,138	12,731
Credit institutions	1,710	1,916
Corporate	174	185
Equity securities		
Corporate	545	1,184
Gross carrying amount	18,567	16,017
Allowance for impairment losses	(1)	(1)
	18,566	**16,016**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	221	6,328
	221	**6,328**

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 Nil (2020: CZK 6,188 m) or securities lending in the amount of CZK 221 m (2020: CZK 140 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)	2021 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	191,167	-	-	-	191,167
Credit institutions	3,444	-	-	-	3,444
Other legal entities	6,776	139	-	-	6,915
Debt securities – gross carrying amount	201,387	139	-	-	201,526
Allowance for impairment losses	(8)	(69)	-	-	(77)
	201,379	**70**	**-**	**-**	**201,449**
Loans and advances					
Central banks	603,026	-	-	-	603,026
General government	8,870	128	-	-	8,998
Credit institutions	3,328	1	-	-	3,329
Other legal entities	212,177	29,762	8,198	353	250,490
Private individuals	514,768	35,626	7,071	42	557,507
Loans and advances – gross carrying amount	1,342,169	65,517	15,269	395	1,423,350
Allowance for impairment losses	(727)	(2,953)	(7,577)	(38)	(11,295)
	1,341,442	**62,564**	**7,692**	**357**	**1,412,055**
Total financial assets at amortised cost	**1,542,821**	**62,634**	**7,692**	**357**	**1,613,504**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	33,904	-	-	-	33,904
Debt securities – gross carrying amount	33,904	-	-	-	33,904
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**33,904**	**-**	**-**	**-**	**33,904**

(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**

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 2021 and 2020 than they were at the beginning of the financial year or their initial recognition:

	2021					
	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	102	42	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other legal entities	7,554	5,686	870	281	502	58
Private individuals	23,139	6,175	1,098	691	980	260
Total	**30,795**	**11,903**	**1,968**	**972**	**1,482**	**318**

(CZKm)	2020 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	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**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 603,026 m at 31 December 2021 (31 December 2020: CZK 632,330 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 Nil (2020: CZK 30,401 m) or securities lending in the amount of CZK 33,904 m (2020: CZK 10,529 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 10,870 m (2020: CZK 12,462 m) pledged as collateral of term deposits and financial guarantees.

20. FINANCE LEASE RECEIVABLES

(CZKm)	2021 Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Other legal entities	9,035	736	119	5	9,895
Private individuals	1,212	180	128	6	1,526
Gross carrying amount	10,247	916	247	11	11,421
Allowance for impairment losses	(17)	(77)	(177)	(1)	(272)
	10,230	**839**	**70**	**10**	**11,149**

(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**

Finance lease receivables may be analysed as follows:

(CZKm)	2021	2020
Total amount of the future minimum lease payments	**11,489**	**13,883**
At not more than one year	3,098	3,877
At more than one but not more than two years	2,192	2,822
At more than two but not more than three years	1,937	1,899
At more than three but not more than four years	1,706	1,120
At more than four but not more than five years	850	1,926
At more than five years	1,706	2,239
Unearned future finance income on finance leases	(341)	(434)
Present value of the future minimum lease payments	**11,149**	**13,450**
At not more than one year	3,006	3,756
At more than one but not more than two years	2,127	2,733
At more than two but not more than three years	1,880	1,840
At more than three but not more than four years	1,655	1,085
At more than four but not more than five years	824	1,867
At more than five years	1,656	2,169
Accumulated allowance for uncollectible minimum lease payments receivable	(272)	(478)

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

As at 31 December 2021, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 20 m (2020: CZK 15 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 based on non-audited IFRS compliant financial statements:

	ČSOB Pojišťovna		MallPay		Bankovní identita	
(CZKm)	2021	2020	2021	2020	2021	2020
The associate's and joint venture's assets and liabilities						
Assets	53,305	53,226	217	254	-	72
of which current assets	456	368	43	69	-	35
Liabilities	45,641	46,709	63	41	-	19
of which current liabilities	4,032	2,915	32	11	-	1
Net assets	**7,664**	**6,517**	**155**	**213**	**-**	**53**
Carrying amount of the investment	**19**	**16**	**78**	**106**	**-**	**17**
The associate's and joint venture's results						
Interest income	859	867	-	-	-	-
Interest expense	(189)	(181)	-	-	-	-
Total revenues	14,458	14,481	5	2	-	-
Depreciation and amortisation	(133)	(109)	(28)	(28)	(1)	(1)
Income tax expense	(407)	(329)	4	1	-	-
Profit for the year	1,763	1,437	(127)	(85)	(13)	(10)
Profit for the year – share of the Group	4	3	(64)	(43)	(4)	(3)
Dividend – share of the Bank	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	4	3	(64)	(43)	(4)	(3)

CONSOLIDATED FINANCIAL STATEMENTS

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 2021 and 2020 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

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	1,225,838	34,700	35,731	1,495,942	27,757	28,309
Forwards	3,000	-	-	1,000	-	-
Options	16,075	220	187	17,197	45	106
	1,244,913	**34,920**	**35,918**	**1,514,139**	**27,802**	**28,415**
Foreign exchange contracts						
Swaps / Forwards	545,883	6,295	5,886	823,407	5,950	6,103
Cross currency interest rate swaps	64,608	1,338	1,327	82,685	910	895
Options	29,470	354	340	35,473	351	337
	639,961	**7,987**	**7,553**	**941,565**	**7,211**	**7,335**
Commodity contracts						
Swaps / Options	1,360	94	89	4,166	192	174
Total trading derivatives (Notes: 17, 27)	**1,886,234**	**43,001**	**43,560**	**2,459,870**	**35,205**	**35,924**

Positions of ALM – economic hedges

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	2,950	182	378	29,195	42	292
Foreign exchange contracts						
Cross currency interest rate swaps	2,157	96	-	2,247	82	-
Equity contracts						
Swaps	4,993	174	65	6,654	280	233
Options	7,760	590	-	9,045	417	10
	12,753	**764**	**65**	**15,699**	**697**	**243**
Total derivatives used as economic hedges (Notes: 17, 27)	**17,860**	**1,042**	**443**	**47,141**	**821**	**535**

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 2021 and 2020 are set out as follows:

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	34,589	460	1,797	54,101	1,139	801
Cross currency interest rate swaps	996	-	17	5,229	7	353
Total hedging derivatives	**35,585**	**460**	**1,814**	**59,330**	**1,146**	**1,154**

In 2021, a loss of CZK 47 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2020: gain of CZK 29 m).

In 2021, 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 25 m from equity to the statement of income (2020: CZK Nil). 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 2021 and 2020 covered by the Group's hedging strategies:

	2021			2020		
	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	(1,530)	32	(1,616)	19	53	29

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2021	2020
Interest income (Note: 32)	142	273
Net gains from financial instruments at fair value through profit or loss (Note: 32)	(22)	29
Taxation (Note: 14)	(23)	(57)
Net gains	**97**	**245**

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 2021 and 2020:

	2021		2020	
(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	300	-	3,239	-
More than 3 months but not more than 6 months	3,600	996	8,839	4,234
More than 6 months but not more than 1 year	4,290	-	7,193	-
More than 1 year but not more than 2 years	3,713	-	8,216	996
More than 2 years but not more than 5 years	8,824	-	9,606	-
More than 5 years	13,862	-	17,007	-
	34,589	**996**	**54,100**	**5,230**

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 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 2021 and 2020 are set out as follows:

(CZKm)	2021 Notional amount	2021 Fair value Positive	2021 Fair value Negative	2020 Notional amount	2020 Fair value Positive	2020 Fair value Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	81,875	9,520	1,150	120,700	2,386	3,304
Fair value portfolio hedges	776,442	20,297	25,364	629,269	6,437	10,324
Cross currency interest rate swaps						
Fair value micro hedges	923	-	17	923	-	104
Total hedging derivatives	**859,240**	**29,816**	**26,532**	**750,892**	**8,823**	**13,732**

The following table contains details of the hedged items as at 31 December 2021 and 2020 covered by the Group's hedging strategies:

(CZKm)	2021 Carrying amount of hedged item	2021 Accumulated amount of fair value adjustments on the hedged items Assets	2021 Accumulated amount of fair value adjustments on the hedged items Liabilities	2021 Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	63,181	(9,467)	-	(8,405)
Financial assets at fair value through other comprehensive income	9,549	(686)	-	(983)
Financial liabilities at amortised cost	-	-	-	481
Total	72,730	(10,153)	-	(8,907)
Fair value portfolio hedges				
Financial assets at amortised cost	434,455	(18,223)	-	(23,957)
Financial liabilities at amortised cost	362,383	-	(23,280)	26,109
Total	796,838	(18,223)	(23,280)	2,152
Total hedged items	**869,568**	**(28,376)**	**(23,280)**	**(6,755)**

(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	-	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**

In 2021, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised losses of CZK 2 m (2020: 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 2021, the net losses in the amount of CZK 6,755 m (2020: gains of CZK 1,883 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 gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 6,837 m (2020: gains of CZK 2,117 m).

23. PROPERTY AND EQUIPMENT

(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
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: 9, 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)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2021	10,672	2,046	697	5,215	2,510	21,140
Depreciation and impairment at 1 January 2021	(4,113)	(1,457)	(461)	(2,800)	-	(8,831)
Net book value at 1 January 2021	**6,559**	**589**	**236**	**2,415**	**2,510**	**12,309**
Transfers	2,376	431	125	614	(3,546)	-
Additions	-	-	-	-	2,115	2,115
Additions through business combination	-	99	-	-	-	99
Disposals	(1,372)	(5)	(6)	(376)	-	(1,759)
Depreciation	(410)	(386)	(43)	(246)	-	(1,085)
Depreciation related to assets leased by lessor under operating leasing contracts (Note: 9, 34)	-	-	-	(277)	-	(277)
Impairment	(12)	-	-	15	-	3
Foreign currency translation	-	(7)	-	-	-	(7)
Net book value at 31 December 2021	**7,141**	**721**	**312**	**2,145**	**1,079**	**11,398**
of which						
Cost	11,450	2,345	787	4,872	1,079	20,533
Depreciation and impairment	(4,309)	(1,624)	(475)	(2,727)	-	(9,135)

Right of use assets

(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)

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2021	3,093	214	-	3,307
Depreciation and impairment at 1 January 2021	(878)	(48)	-	(926)
Net book value at 1 January 2021	2,215	166	-	2,381
Additions	491	7	14	512
Disposals	(156)	-	(1)	(157)
Depreciation	(365)	(48)	(1)	(414)
Impairment	(77)	-	-	(77)
Net book value at 31 December 2021	2,108	125	12	2,245
of which				
Cost	3,428	221	13	3,662
Depreciation and impairment	(1,320)	(96)	(1)	(1,417)

ČSOB Leasing owns assets leased out under operating leases (mainly vehicles and production facilities), which represent 63% (2020: 70%) 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 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
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)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2021	8,061	6,392	3,454	661	940	19,508
Amortisation and impairment at 1 January 2021	(1,095)	(5,452)	(1,613)	(581)	-	(8,741)
Net book value at 1 January 2021	**6,966**	**940**	**1,841**	**80**	**940**	**10,767**
Transfers	-	179	1,067	41	(1,287)	-
Additions	-	-	-	-	1,464	1,464
Additions through business combination	-	-	-	34	-	34
Disposals	-	(35)	-	-	-	(35)
Amortisation	-	(330)	(478)	(35)	-	(843)
Impairment (Note: 13)	(181)	-	-	(38)	-	(219)
Foreign currency translation	-	-	-	(4)	-	(4)
Net book value at 31 December 2021	**6,785**	**754**	**2,430**	**78**	**1,117**	**11,164**
of which						
Cost	8,061	6,316	4,521	725	1,117	20,740
Amortisation and impairment	(1,276)	(5,562)	(2,091)	(647)	-	(9,576)

Internally developed software in the net amount of CZK 1,067 m as at 31 December 2021 (31 December 2020: CZK 850 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)	2021	2020
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries	4,274	4,455
	6,785	**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 9.7% in 2021 (2020: 10.3%) and no long term growth rates were used in 2021 and 2020.

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 9.9% has been applied (2020: 10.6%). This reflects a risk-free rate 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". 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. A period of twenty years is used to design expected growth rates in the longer period. This approach is applied specifically for start-ups.

Cash flows in Ušetřeno.cz 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 13.8% (2020: 9.2%) and no long-term growth rates were used in 2021.

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 has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Ušetřeno.cz an average risk discount rate of 14.2% (2020: 10.6%) has been applied. This reflects a risk-free rate 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 an excess of carrying amount of Ušetřeno.cz over the recoverable amount of the CGU. As a result, the Group impaired the whole goodwill recognized in the acquisition in the amount of CZK 181 m into the Impairment losses of the consolidated statement of income for the year ended 31 December 2021 (Note: 13).

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 8.8% (2020: 9.3%) 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 9.8% (2020: 10.5%) has been applied. This reflects a risk-free rate 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.

There is a negative sensitivity of the value-in-use to the risk discount rate, as a key assumption. An increase / (decrease) of the discount rate by 1% would (decrease) / increase the recoverable amount of the CGU by CZK 1,773 m and CZK 2,406 m. Such a potential change in the key assumption on which the recoverable amount is based would result in the impairment of the goodwill.

25. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	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	-	-

(CZKm)	Other (Note: 20)	Total
Net book value at 1 January 2021	**15**	**15**
Additions	72	72
Disposals	(67)	(67)
Net book value at 31 December 2021	**20**	**20**
of which		
Cost	20	20
Impairment	-	-

26. OTHER ASSETS

(CZKm)	2021	2020
Other financial assets		
Receivables from pension funds (Notes: 33, 35, 36, 41.2)	1,405	534
Other debtors, net of provisions (Notes: 33, 35, 41.2)	679	823
Accrued income (Notes: 33, 35, 41.2)	472	393
Other receivables from clients (Notes: 33, 35, 41.2)	80	54
	2,636	**1,804**
Other non-financial assets		
Prepaid charges	729	792
Assets subject of terminated operating leasing contracts	23	96
VAT and other tax receivables	20	30
Other	147	140
	919	**1,058**
Total other assets	**3,555**	**2,862**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2021 and 2020:

	2021			2020		
(CZKm)	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Other financial assets						
Gross carrying amount	2,650	11	2,661	1,815	14	1,829
Allowance for impairment losses	(19)	(6)	(25)	(18)	(7)	(25)
	2,631	**5**	**2,636**	**1,797**	**7**	**1,804**

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)	2021	2020
Financial liabilities held for trading		
Derivative contracts (Note: 22)		
Trading derivatives	43,560	35,924
Derivatives used as economic hedges	443	535
Term deposits	530	430
Repo transactions	153	579
Bonds and investment certificates issued	-	2,224
	44,686	**39,692**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	6,412	5,407
Investment certificates	18,132	20,168
	24,544	**25,575**
Financial liabilities at fair value through profit or loss	**69,230**	**65,267**

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 342 m lower than the carrying amount at 31 December 2021 (31 December 2020: lower by CZK 500 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)	2021	2020
Deposits received from credit institutions		
Current accounts and overnight deposits	15,537	10,972
Term deposits	9,521	9,653
Repo transactions	-	36,796
	25,058	**57,421**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	704,966	652,898
Term deposits	52,195	25,539
Savings deposits	369,704	385,653
Pension funds clients deposits	11	7
Repo transactions	8,350	12
Other deposits	21,675	8,662
	1,156,901	**1,072,771**
Debt securities in issue		
Bonds and investment certificates issued	2,739	6,138
Promissory notes	399,425	419,155
	402,164	**425,293**
Subordinated debt	**19,439**	**-**
Lease liabilities	**2,269**	**2,368**
Financial liabilities at amortised cost	**1,605,831**	**1,557,853**

At 31 December 2021, the Group accumulated cash deposits from retail investors in the amount of CZK 11,530 m used for the subscription of the Czech sovereign bonds. These financial liabilities have been recognized as Other deposits measured at amortised cost. The liabilities were settled on 3 January 2022.

From 1 January 2022, the Group has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB and therefore ČSOB issued the subordinated debts described below (Notes: 35, 39).

In December 2021, the Group issued subordinated debt in the nominal amounts of EUR 276 m (CZK 6,861 m) to KBC Bank NV. Subordinated debt is repayable after 5 years. Its coupon rate is EURIBOR 3M + 0.75% for the first four-year period (0.55% reflecting the initial credit spread and 0.20% reflecting the Issue Price above par) and EURIBOR 3M + 0.55% for last year before maturity date. The Group may prepay the debt at any time following the first four-year period.

In December 2021, the Group issued subordinated debt in the nominal amounts of EUR 500 m (CZK 12,430 m) to KBC Bank NV. Subordinated debt is repayable after 6 years. Its coupon rate is EURIBOR 3M + 0.75% for the first five-year period (0.60% reflecting the initial credit spread and 0.15% reflecting the Issue Price above par) and EURIBOR 3M + 0.60% for last year before maturity date. The Group may prepay the debt at any time following the first five-year period.

The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

29. OTHER LIABILITIES

(CZKm)	2021	2020
Other financial liabilities		
Payables to employees including social security charges (Notes: 33, 35, 41.3)	2,454	2,140
Accrued charges (Notes: 33, 35, 41.3)	1,824	3,182
Other creditors (Notes: 33, 35, 41.3)	1,519	818
Other debts to clients (Notes: 33, 35, 41.3)	161	127
Other (Notes: 33, 35, 41.3)	53	48
	6,011	**6,315**
Other non-financial liabilities		
Income received in advance	92	125
VAT and other tax payables	308	392
	400	**517**
Total other liabilities	**6,411**	**6,832**

Other liabilities are assessed as current liabilities.

30. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2020	**245**	**121**	**-**	**366**
Additions	192	79	-	271
Amounts utilised	(148)	(93)	-	(241)
Unused amounts reversed	(22)	-	-	(22)
At 31 December 2020	**267**	**107**	**-**	**374**
Additions	15	80	23	118
Amounts utilised	(181)	(81)	(2)	(264)
Unused amounts reversed	(14)	(27)	(10)	(51)
At 31 December 2021	**87**	**79**	**11**	**177**

Loan commitments and guarantees (Note: 36):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	**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**
Origination and acquisition	114	2	-	116
Change in credit risk not leading to stage transfers	(78)	(12)	(89)	(179)
Change in credit risk leading to stage transfer	(4)	4	-	-
Derecognition	(17)	(1)	(8)	(26)
Foreign currency translation	9	(12)	(8)	(11)
At 31 December 2021	**138**	**41**	**184**	**363**

Restructuring

During 2020 and 2021, the Group started a new restructuring programme, resulting in the creation of a provision of CZK 79 m and CZK 80 m, respectively. In the framework of this restructuring programme the total number of personnel will be reduced in the period of 2021 - 2022.

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 2021, the Group had a provision for pending legal issues and other losses in the total amount of CZK 87 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 2021, the total authorised share capital was CZK 5,855 m (31 December 2020: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2020: 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 2021 and 2020.

On 31 December 2021, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2020: 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 2021 and 2020 are as follows:

(CZKm)	Revaluation reserve from financial assets at fair value through OCI	Cash flow hedge Reserve	Foreign translation reserve	Total
At 1 January 2020	**561**	**(224)**	**-**	**337**
Other comprehensive income (Note: 32)	(192)	250	-	58
At 31 December 2020	**369**	**26**	**-**	**395**
Other comprehensive income (Note: 32)	(391)	(1,166)	(22)	(1,579)
At 31 December 2021	**(22)**	**(1,140)**	**(22)**	**(1,184)**

32. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2021	2020
Other comprehensive income – to be reclassified to the statement of income		
Exchange differences on translating foreign operation	(22)	-
Cash flow hedges		
Net unrealised (losses) / gains on cash flow hedges	(1,320)	611
Net gains on cash flow hedges reclassified to the statement of income (Note: 22)	(120)	(302)
Tax effect relating to cash flow hedges (Note: 14)	274	(59)
	(1,166)	250
Financial debt instruments FVOCI		
Net unrealised losses on financial debt instruments FVOCI	(619)	(65)
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on disposal	(1)	(14)
Tax effect relating to financial debt instruments FVOCI (Note: 14)	76	44
	(544)	(35)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(1,732)**	**215**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	140	101
Net realised gains on financial equity instruments FVOCI reclassified to the retained earnings on disposal	(63)	(294)
Tax effect relating to financial equity instruments FVOCI	76	36
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**153**	**(157)**
Other comprehensive income for the year, net of tax attributable to owners of the parent	**(1,579)**	**58**
Non-controlling interests	-	-
Other comprehensive income for the year, net of tax	**(1,579)**	**58**

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 2021:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	1	-	1
Equity securities	43	-	-	43
Derivative contracts	-	43,178	865	44,043
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,410	-	1,410
Financial assets FVOCI				
Debt securities	15,520	-	2,501	18,021
Equity securities	-	-	545	545
Financial assets FVOCI pledged as collateral				
Debt securities	221	-	-	221
Fair value adjustments of the hedged items in portfolio hedge	-	(18,223)	-	(18,223)
Derivatives used for hedging	-	30,276	-	30,276
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	43,837	166	44,003
Term deposits	-	530	-	530
Repo transactions	-	153	-	153
Bonds and investment certificates issued	-	-	-	-
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	24,544	24,544
Fair value adjustments of the hedged items in portfolio hedge	-	(23,280)	-	(23,280)
Derivatives used for hedging	-	28,346	-	28,346

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

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 (1-year) to 39 bps (20-year) in 2020 and 5 bps (1-year) to 47 bps (20-year) in 2021.

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 are used for ČEB bonds. 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. In 2021, Visa A-class shares were sold out of the Group. A gain realised on the sale amounted to CZK 51 m (net of tax) directly recognized in Retained earnings in equity.

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)	Financial derivatives	Debt securities	Equity securities	
At 1 January 2020	**862**	**2,657**	**746**	**4,265**
Total gains / (losses) recorded in profit or loss	115	3	-	118
Total gains 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**
At 1 January 2021	**729**	**2,779**	**798**	**4,306**
Total gains / (losses) recorded in profit or loss	1,141	(64)	-	1,077
Total gains / (losses) recorded in OCI	-	(148)	25	(123)
Purchases	-	-	64	64
Settlement	(1,005)	-	-	(1,005)
K&H Payment Services transferred from financial assets at FVOCI to consolidated entities (Note: 3)	-	-	(342)	(342)
Foreign currency differences	-	(66)	-	(66)
At 31 December 2021	**865**	**2,501**	**545**	**3,911**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	1,141	(64)	-	**1,077**

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		Financial liabilities designated at fair value through profit or loss	Total
	Debt instruments	Financial derivatives	Debt instruments	
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
At 1 January 2021	**2,224**	**340**	**25,575**	**28,139**
Total (gains) / losses recorded in profit or loss	(186)	(39)	(158)	(383)
Issued	-	-	6,410	6,410
Sales	(1)	-	(6,094)	(6,095)
Settlement	(2,037)	(135)	(1,189)	(3,361)
At 31 December 2021	**-**	**166**	**24,544**	**24,710**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	-	(39)	(260)	(299)

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 2021, 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 17 m and CZK 6 m, respectively (2020: CZK 25 m and CZK 10 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 2020 and 2021, 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:

(CZKm)	2021 Carrying value	2021 Fair value	2020 Carrying value	2020 Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	39,762	39,762	29,595	29,595
Financial assets at amortised cost	1,613,504	1,535,978	1,566,492	1,553,430
Debt securities	*201,449*	*194,502*	*170,655*	*178,858*
Loans and advances	*1,412,055*	*1,341,476*	*1,395,837*	*1,374,572*
Financial assets at amortised cost pledged as collateral	33,904	33,452	40,930	40,436
Finance lease receivables	11,149	11,120	13,450	13,499
Other assets (Note: 26)	2,636	2,636	1,804	1,804
Financial liabilities				
Financial liabilities at amortised cost	1,605,831	1,604,973	1,557,853	1,556,823
Deposits	*1,181,959*	*1,182,035*	*1,130,192*	*1,130,835*
Debt securities in issue	*402,164*	*401,230*	*425,293*	*423,620*
Subordinated debt	*19,439*	*19,439*	-	-
Lease liabilities	*2,269*	*2,269*	*2,368*	*2,368*
Other liabilities (Note: 29)	6,011	6,011	6,315	6,315

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 2021:

(CZKm)	2021 Level 1	2021 Level 2	2021 Level 3	2021 Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,310	31,452	-	39,762
Financial assets at amortised cost	179,602	589,556	766,820	1,535,978
Debt securities	*179,602*	*21*	*14,879*	*194,502*
Loans and advances	-	*589,535*	*751,941*	*1,341,476*
Financial assets at amortised cost pledged as collateral	33,452	-	-	33,452
Finance lease receivables	-	-	11,120	11,120
Other assets (Note: 26)	-	2,636	-	2,636
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,423,552	181,420	1,604,973
Deposits	-	*1,026,023*	*156,012*	*1,182,035*
Debt securities in issue	-	*395,261*	*5,970*	*401,230*
Subordinated debt	-	-	*19,439*	*19,439*
Lease liabilities	-	*2,269*	-	*2,269*
Other liabilities (Note: 29)	-	6,011	-	6,011

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 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)	2021	2020
Cash, balances with central banks and other demand deposits (Note: 16)	39,762	29,595
Loans and advances to credit institutions and central banks	604,818	638,944
Financial liabilities at amortised cost to credit institutions and central banks	(15,577)	(11,145)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(399,425)	(419,155)
Cash and cash equivalents	**229,578**	**238,239**

Change in operating assets

(CZKm)	2021	2020
Net change in financial assets held for trading (incl. assets pledged as collateral)	(7,956)	(7,114)
Net change in non-trading financial assets mandatorily at fair value through profit or loss	382	(844)
Net change in financial assets at FVOCI (incl. assets pledged as collateral)	2,590	(5,757)
Net change in financial assets at amortised cost	(69,223)	(95,315)
Net change in derivatives used for hedging	(21,747)	(435)
Net change in other assets	(707)	147
	(96,661)	**(109,318)**

Change in operating liabilities

(CZKm)	2021	2020
Net change in financial liabilities held for trading	4,994	(11,766)
Net change in financial liabilities designated at fair value through profit or loss	(1,031)	(16,656)
Net change in financial liabilities at amortised cost	47,202	131,155
Net change in derivatives used for hedging	13,461	3,918
Net change in other liabilities	(501)	436
	64,125	**107,087**

Non-cash items included in profit before tax

(CZKm)	2021	2020
Depreciation and amortisation	2,342	2,155
Depreciation related to operating leases assets (Note: 23)	277	349
Impairment on goodwill and other intangible assets (Note: 13)	219	214
Impairment on property, plant and equipment (Note: 13)	74	(23)
Impairment on financial investments (Note: 13)	70	6
Share of profit of associates and joint ventures	64	43
Impairment on other assets (Note: 13)	15	44
Provisions	(195)	8
Net change in fair value adjustments of the hedged items in portfolio hedge	(2,403)	(3,266)
Allowances and provisions for credit losses (Note: 13)	(3,707)	5,551
Other	(25)	-
	(3,269)	**5,081**

The table below sets out the movements of the debt instruments issued by the Group and lease liabilities in 2021 and 2020. 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 2020	**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**
Cash flows in respect of issuance, repayment and interest paid on bonds	16,040	-
Cash flows in respect of payments for the principal of lease liabilities	-	(483)
Cash flows in respect of payments for the interest of lease liabilities	-	(40)
Non-cash adjustments	-	424
At 31 December 2021	**22,178**	**2,269**

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 2021:

(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)	39,762	-	-	-	**39,762**
Financial assets held for trading					
Financial derivatives	13,582	23,170	7,291	-	**44,043**
Other than financial derivatives	-	-	-	44	**44**
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	-	-	-	**1,410**
Financial assets FVOCI	3,723	8,532	5,766	545	**18,566**
Financial assets FVOCI pledged as collateral	-	-	221	-	**221**
Financial assets at amortised cost	757,011	255,812	600,681	-	**1,613,504**
Financial assets at amortised cost pledged as collateral	11,581	7,120	15,203	-	**33,904**
Finance lease receivables	3,006	6,487	1,656	-	**11,149**
Fair value adjustments of the hedged items in portfolio hedge	(6,333)	(10,914)	(976)	-	**(18,223)**
Derivatives used for hedging	7,776	16,752	5,748	-	**30,276**
Other assets (Note: 26)	2,636	-	-	-	**2,636**
Total carrying value	**834,154**	**306,959**	**635,590**	**589**	**1,777,292**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	13,472	23,271	7,260	-	**44,003**
Other than financial derivatives	683	-	-	-	**683**
Financial liabilities designated at fair value through profit or loss	9,626	10,381	4,537	-	**24,544**
Financial liabilities at amortised cost	722,676	439,515	443,640	-	**1,605,831**
of which lease liabilities	*361*	*1,197*	*711*	-	***2,269***
Fair value adjustments of the hedged items in portfolio hedge	(6,090)	(13,335)	(3,855)	-	**(23,280)**
Derivatives used for hedging	7,795	16,103	4,448	-	**28,346**
Other liabilities (Note: 29)	6,315	-	-	-	**6,315**
Total carrying value	**754,477**	**475,935**	**456,030**	-	**1,686,442**

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 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**

36. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2021 and 2020 are as follows:

(CZKm)	2021	2020
Loan commitments – irrevocable (Note: 41.2)	188,388	152,987
Loan commitments – revocable	50,218	47,746
Financial guarantees (Note: 41.2)	42,815	39,347
Other commitments (Note: 41.2)	2,499	2,067
	283,920	**242,147**
Provisions for loan commitments and guarantees (Notes: 30, 41.2)	363	463

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).

Based on the pension fund system reform in the Czech Republic in 2013, the net assets of the forming pension funds were split to the group of net assets of pension fund shareholders forming the pension fund management company ČSOB Penzijní společnost and to the group of net assets of pension scheme participants forming the Transformed fund (as a part of Pillar III), which is closed to new participants. ČSOB PS is responsible for management of the Transformed fund. This company is entitled to up to 15% of the profits of the Transformed fund in addition to a regular assets management fee and needs to guarantee the positive results and equity position of the Transformed fund. Activities and decision-making powers of the Transformed fund are strictly limited by law and by conservative investment policy embedded in the Statutes. The management fees received by ČSOB PS are in line with market norms when compared to other funds and taking into account the guarantee provided. The exposure of the ČSOB PS to variability of expected returns is low and consistent with the market terms for remuneration of the asset managers. With regard to these characteristics, ČSOB PS has a position of an agent of the Transformed fund. As a result, the Group does not exercise a control over the Transformed fund and therefore the entity has been excluded from the consolidation scope.

As a result of the increase of market interest rates in 2021, Transformed fund recognized unrealised losses from the revaluation of financial assets at fair value through other comprehensive income. Given that fact, the Group used the guarantee and increased the equity of the Transformed fund by CZK 747 m. In the consolidated statement of financial position, this was recognized as a receivable from pension funds in Other assets.

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)	2021	2020
Not later than 1 year	266	307
Later than 1 year and not later than 5 years	262	349
Later than 5 years	1	-
	529	**656**

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)	2021	2020
Financial assets		
Financial assets at amortised cost	605,737	635,099
	605,737	**635,099**

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 2021 was CZK 676,221 m, of which CZK 48,208 m has been either sold or repledged (31 December 2020: CZK 682,952 m and CZK 38,325 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)	2021	2020
Financial liabilities		
Financial liabilities held for trading	153	579
Financial liabilities at amortised cost	8,350	36,808
	8,503	**37,387**

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 2021:

(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	72,143	-	72,143
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,176	-	2,176
Total trading and hedging derivatives	**74,319**	**-**	**74,319**
Repurchase agreements set-off	27,092	27,092	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	605,737	-	605,737
Total repurchase agreements (Note: 37)	**632,829**	**27,092**	**605,737**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	63,250	-	63,250
Derivatives not set-off that are not subject to an enforceable master netting arrangement	9,099	-	9,099
Total trading and hedging derivatives	**72,349**	**-**	**72,349**
Repurchase agreements set-off	27,092	27,092	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	8,503	-	8,503
Total repurchase agreements (Note: 37)	**35,595**	**27,092**	**8,503**

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 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 and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2021:

(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	72,143	61,053	10,509	-	581
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	-	-	-	-	-
Total carrying value	**72,143**	**61,053**	**10,509**	**-**	**581**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	63,250	54,820	1,444	-	6,986
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	-	-	-	-	-
Total carrying value	**63,250**	**54,820**	**1,444**	**-**	**6,986**

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 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.

Counterparties are on a daily basis exchanging their current exposure (MTM) of derivative position and then based upon agreed parameters in CSA (Credit Support Annex) are exchanging collateral (variation margin) to cover this exposure and its daily changes.

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 2021 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
KBC Bank	1,057	28,655	1,410	322	28,690	-
Entities under common control						
ČSOB SK	15	1	-	-	-	-
Other	395	22	-	-	-	-
Joint ventures						
MallPay	-	-	-	43	-	-
Associates						
ČSOB Pojišťovna	-	15	-	-	-	69

The outstanding balances of liabilities from related party transactions as at 31 December 2021 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	36	-	69
KBC Bank	24,311	417,468	26,794	-
Entities under common control				
ČSOB AM	-	670	-	-
ČSOB SK	8	81	-	-
K&H Bank Zrt.	-	25	-	-
Other	-	148	-	36
Associates				
ČSOB Pojišťovna	518	1,093	-	11

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
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

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 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, subordinated debts (Notes: 28, 42) 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:

	2021		2020	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank	2,410	5,468	2,967	3,389
Entities under common control				
ČSOB AM	-	5	-	6
ČSOB SK	-	12	-	11
Other	4	3	2	2
Associates				
ČSOB Pojišťovna	-	72	-	65

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2021		2020	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	86	18	54	43
Entities under common control				
ČSOB AM	559	56	369	53
ČSOB SK	20	-	16	-
KBC Asset Management	506	-	436	-
Other	18	8	14	1
Associates				
ČSOB Pojišťovna	1,040	4	950	4

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 2021, the Group received income of CZK 179 m (2020: CZK 181 m) from the provision of administration services and paid expense of CZK 511 m (2020: CZK 494 m) for IT services, including rental expenses on information technologies.

In 2021, the Group received income of CZK 632 m (2020: CZK 593 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:

	2021		2020	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	2,173	146	2,345	113
Entities under common control				
ČSOB SK	1,695	12	1,979	12
K&H Bank Zrt.	287	400	171	-

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

At the time, the annual consolidated financial statements were being prepared, the invasion of Russia in Ukraine required additional attention at Group level. As this event happened on 24 February 2022, it is considered as non-adjusting subsequent event. ČSOB group has a very limited direct exposure to Ukraine, Belarus and Russia, mainly stemming from trade financing. The Group is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spill-over effects to the Group and its clients, both financially and operationally, with a high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

The war in Ukraine, continuously increasing inflation and sharp interest rates increase (CNB 2W repo rate has increased from 3.75% at the year-end 2021 to 5.00% in April 2022) will have the impact on Group's results in 2022 (but not have any impact on our financial position at year-end 2021). As this event happened in 2022, it is considered as non-adjusting subsequent event. It is impossible at this stage to make a reliable estimate of what the consequences will be for the economy and, more specifically, for the Group. We are, of course, closely monitoring the situation. As always, the Group is adopting a cautious and conservative approach, even though our strong capital and liquidity positions are such that we are able to withstand even highly adverse scenarios. In 1Q 2022, the Group will create specific impairment to cover credit risk raising from this situation.

On 30 March 2022, ČSOB reached agreement to acquire remaining 50% share in MallPay from Titancoin International a.s. Until 31 March 2022, MallPay was included into the consolidated financial statements of the Group as a joint-venture using equity valuation of the interest. Based on the transaction, ČSOB has assumed 100% ownership control over MallPay and, as a consequence, MallPay lost its status of joint-venture and became a ČSOB's subsidiary. As a result, the Group has started including MallPay into the consolidated financial statements using full method of consolidation since 1 April 2022.

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.

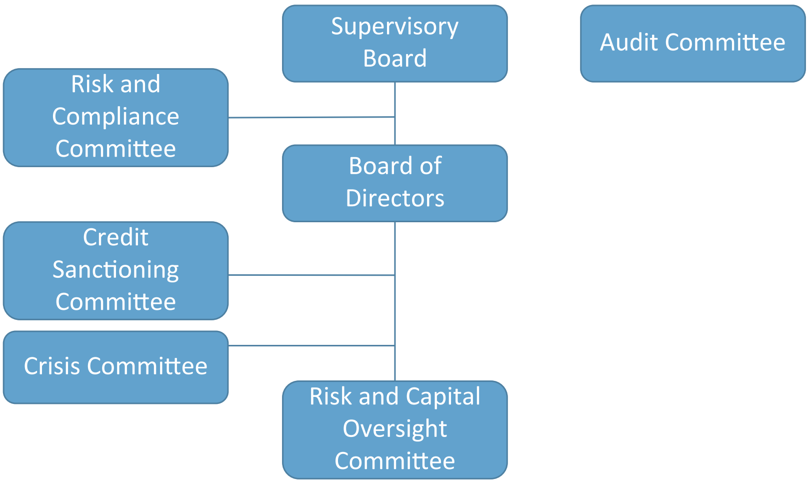
41. RISK MANAGEMENT

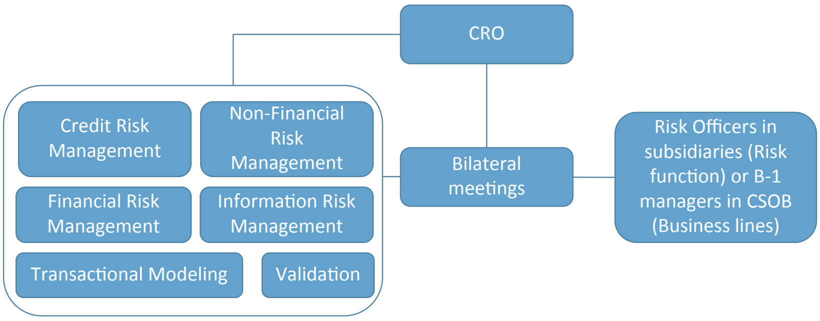
41.1 Introduction

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. This section is focused on our risk governance model and the most material risks the Group faces.

Risk and Capital Management Governance

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).

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.

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.

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.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors with risk and capital monitoring within the Group. 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.

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 all risk management functions / departments.

Risk Officer

Role of Risk officer is crucial for effective 2nd line in the entities of ČSOB Holding. The Risk officer thus acts as a CRO of the particular company based on a delegation from ČSOB CRO.

Risk Function

The risk function is organized in the following risk specific departments: Financial Risk Management, Non-financial Risk Management, Group Information Management, Transactional Modeling and Credit Risk Management which are complemented by one team responsible for Central Credit risk and loss Measurement Validation. 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. 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.

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.

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 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.

Components of sound risk management

Risk management refers to the coordinated set of activities to proactively identify and manage the many risks that can affect the Group in its ability to achieve its objectives and in order to support the realisation of the Group strategy.

The KBC Risk Management Framework (RMF) sets strict governance and clear rules and procedures on how risk management should be performed throughout the Group. It also refers to a set of minimum standards and risk methods, processes and tools that all entities and risk-type specific RMF must adhere to for which Group Risk is primarily responsible.

In the risk management process, the process steps are not strictly sequential and interact with one another. The generic risk management process steps are dealt with in more detail under each risk type separately in the sections below.

Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the Group's strategic objectives today and in the future.

One of the tools used for risk identification is the 'New and Active Products Process' (NAPP). This process is set up to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. The NAPP is a formalised process applicable throughout the Group. Within the Group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. All NAPP proposals are reviewed on a periodic basis, both by Group and local risk in order to assess the impact of these proposals on the Group's risk profile. A Group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting phase, has been rolled out in all material entities of the Group.

Risk measurement

Risk measurement aims to quantify the various risks that we are exposed to. Once risks have been identified, certain attributes can be assessed, such as impact, probability of occurrence, size of exposure, etc. with the help of risk measures. Each risk-type-specific framework provides an overview of the risk measures in use within the Group (both regulatory and internally defined).

Setting and cascading risk appetite

How much risk we are prepared to assume and our tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in our overall (risk) management function, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – how much and what kind of risk we want to take. The ability to accept risk (risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders. A key component in defining risk appetite is therefore an understanding of the organisation's key stakeholders and their expectations.

Risk appetite within the Group is set out in a 'risk appetite statement' (RAS), which is produced at both Group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to corporate strategy and provides a qualitative description of KBC's playing field. These high-level risk appetite objectives are further specified in qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is specified as High, Medium or Low based on the metrics and thresholds stipulated in the 'risk appetite underpinning exercise' performed for the main risk types. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give management an increased level of transparency by ensuring a comprehensive, forward-looking and ex-post view of the changing risk profile and the context in which the Group operates. In addition to internal reporting, external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, the output should be complete, well balanced, easy to understand and focused on key messages/proposed actions. It is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

Stress testing is a tool that supports the decision-making process and encompasses various techniques used to assess the potential negative impact on KBC's (financial) condition, caused by specific events and/or movements in risk factors ranging from plausible to exceptional or even extreme.

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 are 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 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 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 the 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 2021 and 2020. The maximum exposure is shown as net carrying amount without taking account of any collateral and other credit enhancements.

	2021				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	1,832	29,621	-	-	31,453
Financial assets held for trading (Note: 17)	-	1,042	43,002	-	44,044
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,410	-	-	1,410
Financial assets FVOCI (Note: 18)	1,948	16,073	-	-	18,021
Financial assets FVOCI pledged as collateral	-	221	-	-	221
Financial assets at AC	811,076	800,507	-	1,921	1,613,504
Financial assets at AC pledged as collateral	-	33,904	-	-	33,904
Finance lease receivables	11,149	-	-	-	11,149
Fair value adjustments of the hedged items in portfolio hedge	-	(18,223)	-	-	(18,223)
Derivatives used for hedging	-	30,276	-	-	30,276
Other assets (Note: 26)	-	-	-	2,636	2,636
Total	826,005	894,831	43,002	4,557	1,768,395
Contingent liabilities (Note: 36)	44,840	-	-	310	45,150
Commitments – irrevocable (Note: 36)	188,190	-	-	-	188,190
Total	233,030	-	-	310	233,340
Total credit risk exposure	**1,059,035**	**894,831**	**43,002**	**4,867**	**2,001,735**

	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 at AC	761,368	803,549	-	1,575	1,566,492
Financial assets at 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**

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)	2021 Gross maximum exposure	2021 Financial effect of collateral	2021 Net maximum exposure	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 16)	31,453	-	31,453	20,931	-	20,931
Financial assets held for trading (incl. assets pledged as collateral)	44,044	10,414	33,630	36,128	1,350	34,778
Financial derivatives	44,043	10,414	33,629	36,026	1,350	34,676
Financial assets other than derivatives	1	-	1	102	-	102
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	-	1,410	1,792	-	1,792
Financial assets FVOCI (incl. assets pledged as collateral) (Note: 18)	18,242	-	18,242	21,160	-	21,160
Financial assets at amortised cost (incl. assets pledged as collateral)	1,647,408	1,215,979	431,429	1,607,422	1,204,948	402,474
of which non-performing assets	*7,947*	*6,198*	*1,749*	*9,088*	*6,622*	*2,466*
Finance lease receivables	11,149	9,238	1,911	13,450	11,036	2,414
Fair value adjustments of the hedged items in portfolio hedge	(18,223)	-	(18,223)	5,413	-	5,413
Derivatives used for hedging	30,276	259	30,017	9,969	54	9,915
Other assets (Note: 26)	2,636	-	2,636	1,804	-	1,804
Total	1,768,395	1,235,890	532,505	1,718,069	1,217,388	500,681
Contingent liabilities and Commitments – irrevocable (Note: 36)	233,340	65,911	167,429	193,203	56,217	136,986
of which non-performing exposures	*527*	*327*	*200*	*672*	*365*	*307*
Total credit risk exposure	**2,001,735**	**1,301,801**	**699,934**	**1,911,272**	**1,273,605**	**637,667**

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)	2021 Gross maximum exposure	2021 Financial effect of collateral	2021 Net maximum exposure	2020 Gross maximum exposure	2020 Financial effect of collateral	2020 Net maximum exposure
Non-performing exposures						
Mortgage loans	1,892	1,892	-	2,090	2,082	8
Building savings loans	1,179	772	407	1,496	1,026	470
Consumer loans	514	4	510	396	1	395
SME	1,959	1,648	311	2,294	1,802	492
Leasing	154	132	22	245	229	16
Corporate	2,716	2077	639	3,132	1,843	1,289
Factoring	49	-	49	61	-	61
Other	11	-	11	46	4	42
Total non-performing exposures	**8,474**	**6,525**	**1,949**	**9,760**	**6,987**	**2,773**

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:

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	362,127	-	46,134	**408,261**	(789)	(17)	**407,455**
Building savings loans	125,050	-	11,218	**136,268**	(1,806)	(23)	**134,439**
Consumer loans	35,159	-	12,391	**47,550**	(1,546)	(16)	**45,988**
SME	93,494	4,800	49,184	**147,478**	(3,155)	(95)	**144,228**
Leasing	38,843	-	-	**38,843**	(828)	-	**38,015**
Corporate	174,816	40,192	69,350	**284,358**	(3,120)	(210)	**281,028**
Factoring	5,622	-	-	**5,622**	(374)	-	**5,248**
Other	2,513	12	111	**2,636**	(1)	(1)	**2,634**
Total credits	**837,624**	**45,004**	**188,388**	**1,071,016**	**(11,619)**	**(362)**	**1,059,035**

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**

The following tables show a reconciliation of the allowances for impairment losses on credit portfolio for 2020 and 2021 by classes of financial instruments:

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
At 1 January 2020	**1,249**	**2,357**	**1,193**	**3,236**	**560**	**2,098**	**343**	**14**	**11,050**
STAGE 1									
At 1 January 2020	**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**
Origination and acquisition	3	24	76	60	45	71	-	-	279
Change in credit risk not leading to stage transfers	(24)	(10)	(85)	(8)	(31)	(133)	(1)	(1)	(293)
Change in credit risk leading to stage transfer	(4)	(2)	(4)	(4)	(2)	2	-	-	(14)
Modification without derecognition	-	-	(3)	-	-	-	-	-	(3)
Derecognition	(5)	(16)	(32)	(21)	(9)	-	-	-	(83)
Write-offs	-	(1)	-	-	-	-	-	-	(1)
Foreign currency translation	-	-	54	-	-	(4)	-	-	50
At 31 December 2021	**7**	**89**	**156**	**194**	**97**	**200**	**5**	**-**	**748**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 2									
At 1 January 2020	**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**
Origination and acquisition	5	45	-	-	62	-	-	-	112
Change in credit risk not leading to stage transfers	(288)	(157)	(124)	(1,313)	(155)	(533)	(10)	(2)	(2,582)
Change in credit risk leading to stage transfer	(29)	10	24	31	(173)	(13)	40	-	(110)
Modification without derecognition	(2)	(4)	2	(10)	-	-	-	-	(14)
Derecognition	(13)	(50)	(28)	(57)	(31)	-	-	-	(179)
Write-offs	-	(1)	-	-	-	-	-	-	(1)
Foreign currency translation	-	-	(151)	(2)	-	6	-	-	(147)
At 31 December 2021	**57**	**492**	**569**	**869**	**237**	**614**	**247**	**1**	**3,086**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 3									
At 1 January 2020	**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**
Origination and acquisition	-	9	-	-	2	-	-	-	11
Change in credit risk not leading to stage transfers	(82)	(76)	42	(16)	63	(418)	(13)	27	(473)
Change in credit risk leading to stage transfer	10	95	273	140	12	292	(1)	41	862
Modification without derecognition	24	53	71	51	-	-	-	-	199
Derecognition	(136)	(200)	(46)	(201)	(37)	-	-	-	(620)
Write-offs	(54)	(251)	(272)	(362)	(53)	(12)	(12)	(82)	(1,098)
Foreign currency translation	-	-	-	(3)	-	(1)	-	-	(4)
At 31 December 2021	**725**	**1,226**	**817**	**2,066**	**486**	**2,306**	**122**	**-**	**7,748**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
POCI									
At 1 January 2020	**-**	**-**	**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**
Change in credit risk not leading to stage transfers	-	-	2	3	(2)	(3)	-	-	-
Change in credit risk leading to stage transfer	-	-	-	(6)	(2)	-	-	-	(8)
Derecognition	-	-	-	(7)	(6)	-	-	-	(13)
Write-offs	-	-	-	(10)	-	(4)	-	-	(14)
At 31 December 2021	**-**	**-**	**4**	**26**	**7**	**-**	**-**	**-**	**37**

In 2021 and 2020, 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)	2021	2020
Balance of allowances for credit losses at 1 January	15,763	11,050
Balance of allowances for credit losses at 31 December	11,619	15,763
Net increase of allowances for credit losses for the year	**(4,144)**	**4,713**
Adjusted for:		
Write-offs	1,114	1,141
Recoveries	(607)	(484)
Sales of loans	(13)	79
Foreign currency translation	101	(2)
Net impairment (gains) / losses as reported in the income statement	**(3,549)**	**5,447**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2021		2020	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	589,882	55.2	532,828	53.9
Distribution	85,962	8.1	70,515	7.1
Services	61,143	5.7	64,930	6.6
Commercial Real Estate	58,229	5.4	58,642	5.9
Building and Construction	50,335	4.7	41,115	4.2
Automotive	45,375	4.2	45,605	4.6
Oil, Gas and other Fuels	20,633	1.9	22,133	2.2
Metals	17,512	1.6	17,430	1.8
Authorities	17,472	1.6	16,645	1.7
Machinery and Heavy Equipment	16,973	1.6	18,241	1.8
Agriculture, Farming and Fishing	16,020	1.5	14,548	1.5
Finance and Insurance	12,008	1.1	11,557	1.2
Other sectors	79,472	7.4	74,327	7.5
Total	**1,071,016**	**100.0**	**988,516**	**100.0**

The investment portfolio is structured according to the type of the instrument.

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	241,924	-	-	(13)	**241,911**
Loans and receivables within investment portfolio	591,981	-	-	-	**591,981**
Derivatives used for hedging	30,276	-	-	-	**30,276**
Derivatives held for trading	1,042	-	-	-	**1,042**
Cash, balances with central banks and other demand deposits	29,621	-	-	-	**29,621**
Total investment	**894,844**	**-**	**-**	**(13)**	**894,831**

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**

The investment portfolio is monitored from a counterparty sector point of view:

(CZKm)	2021		2020	
	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	617,476	69.0	648,223	72.0
General government	240,027	26.8	206,852	23.0
Credit institutions	37,154	4.1	39,118	4.3
Corporate	174	0.1	5,775	0.7
Total investment	**894,831**	**100.0**	**899,968**	**100.0**

The trading portfolio is structured according to the type of the instrument.

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	1	-	-	**1**
Derivatives held for trading	43,001	-	-	**43,001**
Total trading portfolio	**43,002**	**-**	**-**	**43,002**

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**

The trading portfolio is monitored from a counterparty sector point of view:

Sector	2021		2020	
	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Credit institutions	40,425	94.0	31,477	89.2
Corporate	2,577	6.0	3,830	10.8
Total trading portfolio	**43,002**	**100.0**	**35,307**	**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:

(CZKm)	2021 Total risk	2021 of which General government	2020 Total risk	2020 of which General government
Czech Republic	1,865,565	237,470	1,795,149	214,185
Belgium	58,835	-	38,877	-
Slovak Republic	20,644	6,592	19,275	6,942
Hungary	1,804	-	522	-
Spain	1,507	-	1,130	-
Belarus	1,074	-	1,589	-
Russia	803	-	843	-
Ukraine	421	-	403	-
Italy	168	-	503	-
Greece	22	-	18	-
Other Europe	40,492	6,353	41,449	7,327
Other	10,400	-	11,514	-
Total	**2,001,735**	**250,415**	**1,911,272**	**228,454**

Credit risk exposures of the Group towards the countries are reported before taking into account of collateral. Gross credit exposure to Belarus, Russia and Ukraine amounts to CZK 2,298 m at 31 December 2021 (31 December 2020: CZK 2,835 m). If collaterals, guarantees and other credit enhancements received by the Group to limit the exposure are taken into account, then the net unsecured exposure to Belarus, Russia and Ukraine decreases to CZK 665 m at 31 December 2021 (31 December 2020: CZK 565 m).

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	2021 Granted exposure (CZKm)	2021 Percentage of total exposure	2020 Granted exposure (CZKm)	2020 Percentage of total exposure
1 largest client	9,607	0.9	9,639	1.0
10 largest clients	68,788	6.4	70,377	7.1
25 largest clients	114,470	10.7	113,202	11.5

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2021 and 31 December 2020 were:

Client	2021 Granted exposure (CZKm)	2021 % of total investment portfolio	2020 Granted exposure (CZKm)	2020 % of total investment portfolio
Investment portfolio				
Czech Ministry of Finance (S&P's rating AA)	227,693	25.4	205,175	22.8
CNB	631,762	70.6	648,223	72.0
Trading portfolio				
KBC Bank	25,256	58.7	24,173	68.5

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2021 and 31 December 2020 were:

	2021		2020	
Rating (S&P)	Granted exposure (CZKm)	% of total portfolio	Granted exposure (CZKm)	% of total portfolio
Investment portfolio				
AAA up to and including A-	893,440	99.8	892,132	99.1
BBB+ up to and including BB-	1,387	0.2	274	0.1
Unrated	4	0.0	7,562	0.8
Total	**894,831**	**100.0**	**899,968**	**100.0**
Trading portfolio				
AAA up to and including A-	35,575	82.7	25,850	73.3
BBB+ up to and including BB-	6,150	14.3	333	0.9
Unrated	1,277	3.0	9,124	25.8
Total	**43,002**	**100.0**	**35,307**	**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 3,783 m at year-end 2021 and CZK 4,095 m in 2020), shows that the base scenario results in an ECL of CZK 7,821 m (CZK 11,209 m in 2020), which is CZK 663 m lower than the "down"-scenario (CZK 1,697 m in 2020) and CZK 264 m higher than the "up"-scenario (CZK 1,172 m in 2020). The collectively calculated weighted ECL results (which was booked) amounts to CZK 7,861 m (CZK 11,686 m in 2020). Note that these amounts take into account the COVID-19 related management overlay (per scenario) (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 2021 and 2020:

Credit portfolio

	2021					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	338,059	21,450	1,487	478	653	362,127
Building savings loans	112,584	10,061	771	148	1,486	125,050
Consumer loans	31,414	2,410	406	148	781	35,159
SME	78,721	15,517	2,353	207	1,496	98,294
Leasing	35,241	2,879	-	124	599	38,843
Corporate	194,565	15,639	3,740	-	1,064	215,008
Factoring	3,943	1,508	-	65	106	5,622
Other	2,513	-	-	-	12	2,525
Total	**797,040**	**69,464**	**8,757**	**1,170**	**6,197**	**882,628**

	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**

Loan portfolio breakdown by risk class (in gross amounts) based on internal rating scale:

	2021			2020		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-defaulted assets						
PD 1 (default probability 0.00% - 0.10%)	24,674	7	-	47,473	387	-
PD 2 (0.10% - 0.20%)	75,390	687	-	45,394	483	-
PD 3 (0.20% - 0.40%)	324,632	1,964	-	284,972	778	-
PD 4 (0.40% - 0.80%)	90,556	2,282	-	93,900	2,977	-
PD 5 (0.80% - 1.60%)	172,885	19,804	-	171,959	9,047	-
PD 6 (1.60% - 3.20%)	72,193	10,466	-	72,780	11,802	-
PD 7 (3.20% - 6.40%)	30,458	11,119	-	31,355	11,470	-
PD 8 (6.40% - 12.80%)	5,599	11,052	-	6,294	11,042	-
PD 9 (> 12.80%)	652	12,050	-	684	14,439	-
Unrated	2	33	-	56	66	-
Defaulted assets						
PD 10	-	-	8,756	-	-	9,629
PD 11	-	-	1,170	-	-	1,640
PD 12	-	-	6,197	-	-	7,640
Total	**797,041**	**69,464**	**16,123**	**754,867**	**62,491**	**18,909**

Investment portfolio

(CZKm)	2021 Non-defaulted assets Normal	Monitored	Defaulted assets Irrecoverable	Total
Debt securities	241,911	-	-	**241,911**
Loans and receivables within investment portfolio	591,981	-	-	**591,981**
Derivatives used for hedging	30,276	-	-	**30,276**
Derivative contracts held for trading	1,042	-	-	**1,042**
Cash, balances with central banks and other demand deposits	29,621	-	-	**29,621**
Total	**894,831**	**-**	**-**	**894,831**

(CZKm)	2020 Non-defaulted assets Normal	Monitored	Defaulted assets Irrecoverable	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**

Trading portfolio

(CZKm)	2021 Non-defaulted assets Normal	Defaulted assets Irrecoverable	Total
Loans and advances	1	-	1
Derivative contracts held for trading	43,001	-	43,001
Total	**43,002**	**-**	**43,002**

(CZKm)	2020 Non-defaulted assets Normal	Defaulted assets Irrecoverable	Total
Loans and advances	102	-	102
Derivative contracts held for trading	35,205	-	35,205
Total	**35,307**	**-**	**35,307**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2021 Neither past due nor defaulted	2021 Past due (< 30 days) but not defaulted	2021 Past due (> 30 days) but not defaulted	2020 Neither past due nor defaulted	2020 Past due (< 30 days) but not defaulted	2020 Past due (> 30 days) but not defaulted
Mortgage loans	359,144	246	118	331,791	307	92
Building savings loans	122,162	358	126	119,194	466	176
Consumer loans	33,471	299	54	32,553	339	79
SME	89,303	154	27	86,203	89	14
Leasing	37,498	540	82	37,050	640	121
Corporate	170,271	-	-	159,721	50	-
Factoring	5,451	-	-	5,159	-	-
Other	2,513	-	-	2,764	-	-
Total	**819,813**	**1,597**	**407**	**774,435**	**1,891**	**482**

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)	2021 Gross amount	2021 Impairment	2020 Gross amount	2020 Impairment
Mortgage loans	2,618	(725)	3,043	(970)
Building savings loans	2,405	(1,226)	3,091	(1,597)
Consumer loans	1,335	(821)	1,147	(751)
SME	4,055	(2,097)	4,810	(2,516)
Leasing	724	(489)	1,173	(510)
Corporate	4,803	(2,447)	5,374	(2,634)
Factoring	171	(122)	208	(147)
Other	12	(1)	63	(17)
Total	**16,123**	**(7,928)**	**18,909**	**(9,142)**

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.

COVID-19 related concessions provided under public and private moratoria schemes (e.g. imposed by Czech government in the form of the law) were 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 2021 and 2020 are as follows:

	2021				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Mortgage loans	362,127	2,212	0.6	96	2,116
Building savings loans	125,050	650	0.5	279	294
SME	93,494	5,193	5.6	1,080	3,262
Leasing	38,843	157	0.4	46	71
Corporate	174,816	5,441	3.1	1,571	2,769
Other	43,294	1,128	2.6	264	4
Total	**837,624**	**14,781**	**1.8**	**3,336**	**8,516**

	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**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2021 and 2020 are as follows:

	2021				
(CZKm)	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Mortgage loans	1,212	22	1,000	94	2
Building savings loans	77	-	573	278	1
SME	3,136	14	2,057	978	102
Leasing	94	7	63	42	4
Corporate	2,003	-	3,438	1,529	42
Other	723	31	405	199	65
Total	**7,245**	**74**	**7,536**	**3,120**	**216**

(CZKm)	2020 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**

The following table shows a reconciliation of Gross amounts of forborne exposures for 2021 and 2020 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2020	**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**
Loans which have become forborne	890	471	740	344	50	513	3,008
Loans which are no longer considered to be forborne	(1,111)	(571)	(185)	(96)	(57)	(165)	(2,185)
Increase of exposure	447	51	8	-	-	2	508
Decrease of exposure	(717)	(617)	(484)	(148)	(77)	(124)	(2,167)
At 31 December 2021	**5,441**	**5,193**	**2,212**	**650**	**157**	**1,128**	**14,781**

The following table shows a reconciliation of impairments of forborne exposure for 2021 and 2020 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2020	**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**
Loans which have become forborne	284	115	31	7	2	117	556
Loans which are no longer considered to be forborne	(90)	(170)	(3)	(5)	(5)	(29)	(302)
Increase of exposure	124	186	15	136	7	43	511
Decrease of exposure	(237)	(327)	(75)	(110)	(15)	(51)	(815)
At 31 December 2021	**1,571**	**1,080**	**96**	**279**	**46**	**264**	**3,336**

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. Liquidity and funding are managed centrally in the Group. To align internal management approach with regulatory view, the Group established, following approval of ČNB, a liquidity subgroup as laid down by Capital Requirements Regulation (CRR). The liquidity subgroup comprised ČSOB and Hypoteční banka, with ČSOB Stavební spořitelna having joined as of June 2021. 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 a 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 ČNB 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 2021 and 2020 was as follows:

(%)	2021	2020
31 March	148.7	128.1
30 June	144.6	136.0
30 September	145.6	137.1
31 December	143.5	137.5

The LCR ratio is regularly monitored and reported to the regulator and 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 the strategic liquidity management, the Group 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 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. NSFR is also quarterly reported to the regulator.

The NSFR / E-NSFR during 2021 and 2020 were as follows:

(%)	NSFR 2021	NSFR 2020	E- NSFR 2021	E- NSFR 2020
31 March	164.0	161.3	131.4	133.0
30 June	171.1	168.9	137.1	137.0
30 September	177.2	169.9	136.7	135.4
31 December	171.3	170.6	135.6	133.7

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 2021:

(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	-	(700)	-	-	(700)
Financial liabilities designated at fair value through profit or loss	-	(9,875)	(11,637)	(5,638)	(27,150)
Financial liabilities at amortised cost	(945,183)	(596,165)	(62,165)	(31,485)	(1,634,998)
of which lease liabilities	-	*(369)*	*(1,352)*	*(954)*	*(2,675)*
Fair value adjustments of the hedged items in portfolio hedge	23,281	-	-	-	23,281
Other liabilities (Note: 29)	-	(6,140)	-	-	(6,140)
Contractual cash flows excluding derivatives	**(921,902)**	**(612,880)**	**(73,802)**	**(37,123)**	**(1,645,707)**
Net settled derivatives	-	(20,577)	(42,702)	(5,303)	(68,582)
Trading derivatives	-	(12,044)	(23,685)	(2,324)	(38,053)
Hedging derivatives	-	(8,533)	(19,016)	(2,979)	(30,528)
Gross settled derivatives	-	(8,235)	(1,519)	(197)	(9,951)
Trading derivatives	-	(8,261)	(1,578)	(197)	(10,036)
Inflows	-	*255,967*	*85,651*	*8,878*	*350,496*
Outflows	-	*(264,228)*	*(87,229)*	*(9,075)*	*(360,532)*
Hedging derivatives	-	25	59	-	84
Inflows	-	*2,878*	*1,097*	-	*3,975*
Outflows	-	*(2,853)*	*(1,038)*	-	*(3,891)*
Contractual cash flows from derivatives	**-**	**(28,812)**	**(44,221)**	**(5,500)**	**(78,533)**
Contractual cash flows from financial liabilities	**(921,902)**	**(641,692)**	**(118,023)**	**(42,623)**	**(1,724,240)**
Loan commitments – irrevocable (note 36)	(188,388)	-	-	-	(188,388)
Loan commitments – revocable (note 36)	(50,218)	-	-	-	(50,218)
Financial guarantees (note 36)	(42,815)	-	-	-	(42,815)
Other commitments (note 36)	(2,499)	-	-	-	(2,499)
Contractual cash flows from contingent liabilities	**(283,920)**	**-**	**-**	**-**	**(283,920)**

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 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 is managed and monitored using Basis Point Value (BPV) sensitivity. As from September 2019, only residual technical position remains in the Group's trading portfolio after the full implementation of the programme of trading portfolios centralization on the KBC group level. 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. 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 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.

Only minimal BPV limits are applied for individual products and portfolios since January 2020 after transfer of trading positions to KBC Bank.

The capital requirements for interest rate and foreign exchange risks are calculated by application of standardized method since January 2020.

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 2021:

		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	0.1	0.8	(5.7)	(54.5)	(59.3)
EUR	+ 10	(0.2)	0.2	(11.0)	(1.7)	(12.7)
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	(0.1)	(0.8)	5.7	54.5	59.3
EUR	- 10	0.2	(0.2)	11.0	1.7	12.7
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	6.1	12.0	24.6	44.0
EUR	+ 10	0.0	(0.1)	0.0	0.0	(0.1)
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	(1.3)	(6.1)	(12.0)	(24.6)	(44.0)
EUR	- 10	0.0	0.1	0.0	0.0	0.1
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 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

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 2021 and 2020:

	2021			2020		
(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	10	-	-	38	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:

	Change in equity price (%)	Effect on equity	
(CZKm)		2021	2020
Visa Inc. quotation	- 10	(36)	(72)
	+ 10	36	72

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.

Operational Risk Management Framework

Operational Risk Management Framework consists of four key building blocks:

1. Risk identification
2. Risk measurement
3. Risk response
4. Reporting & follow-up

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, business and reputational impact. 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 (NFR)

The NFR is responsible for management and monitoring in the non-financial risk management area and business continuity and is responsible for the reporting in the area of non-financial risk. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Information Risk Management Department (IRM)

The IRM is responsible for management, monitoring and reporting in the information risk management area.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of non-financial risks. Their role is to monitor, analyse and prevent operational risk events, informational risks and business continuity events. Beside frequent contacts, regular meetings of LORMs are organised by the NFR every quarter for training and exchange of information.

Key Elements of Risk Identification and of Operational Risk Management

Loss Data Collection Process

Loss Data Collection is a process of analysing and collection of realized or potential loss events resulting from an operational risk event. This method is a key element for estimation of future expected losses.

Operational loss data are used for reporting towards the regulator and management. They are also used as an important source of information for identification of gaps in the internal control environment.

The bank collects data about loss events with both direct and indirect impact, as well as events which could potentially impact the profit & loss but which do not lead to a financial impact – so called near misses. Losses and near misses are registered into a loss database GLORY.

Deep Dive

The Deep Dive aims to identify and quantify operational risks in products, activities, processes and systems. This method is usually selected when there has not been any previous risk assessment in a process or its part or there are other reasons for risk reassessment, e.g. unexpected increase of the operational loss events, breach of the risk appetite or repetitive breaches of the Key Risk Indicators.

NAPP and the Process of Change Management

New and Active Product Process (NAPP) ensures that all products and services offered to clients are analysed in order to identify and assess operational risks. NAPP applies to all the subjects in the ČSOB group in the financial sector or acting as an independent intermediary, and to all the products, services and processes with an impact on external clients.

Besides NAPP, a 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.

Outsourcing

A specific area of operational risk management are the risks related to outsourcing of activities, which is a subject to a specific regulation. Outsourcing is any agreement between ČSOB and a product provider (intra-group or external), based on which the service provider performs a process, service or activity, which would or could be otherwise performed by ČSOB itself.

Outsourcing contract is categorized as critical or non-critical, whereby the intention to outsource a critical activity needs to be report to the regulator beforehand. The final accountability for the risks related to the outsourced activity cannot be transferred to a third party.

Business Continuity Management

Business continuity is based on two main pillars:

- Proactive approach (prevention): setting up the strategy, tactical solutions and processes towards solving various non-standard situations. It is based on risk assessment of individual activities in the bank with the aim to identify vulnerabilities, assess their probabilities and impact. Based on this assessment, business continuity plans are defined in order to ensure business continuity in case of non-standard situations (4 main scenarios).
- Reactive approach (crisis management): deals with originated crisis situations. Based on the severity of potential impact of the non-standard situations, 3 levels of crisis management are defined for each type of crisis.

Global 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 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 (LRCA)

LRCA is a process used for identification and measurement of local Key Risks of individual processes and the related Key Controls which mitigate the potential inherent impact of the identified risks. On the Group level, the Group Key Controls and Zero Tolerances (GKC/ZT) determine the basic control objectives to mitigate key & killer non-financial risks that are inherent to the processes of the business entities. Each GKC/ZT contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach aims to identify new local key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Operational Risk Measurement

The basic aim of the risk measurement is quantification of their impact. Risk impacts of identified risks are reflected in the overall risk exposure of the Group which is measured using defined risk indicators.

Uniform Risk Scale

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels (low-medium-high-critical risk), where financial limits and also non-financial criteria are taken into account.

Key Risk Indicators (KRI)

KRIs inform on the state of the control environment in a given process. Indicators are linked to particular risks, i.e. they must include at the minimum their owner, limit for a breach, frequency and way of measurement and escalation process.

Measurement of risk exposure – GORA

The approach and indicators for measurement of risk exposure towards the risk appetite of the Bank, are defined on the Group level, using a Group-wide GORA measurement tool. GORA includes a uniform set of quantitative and qualitative risk indicators for every sub-risk type.

Risk Assessment Approval and Risk Response

The final accountability for the operational risk management lies within the line management, which ensures adherence to the established working procedures and implementation of the operational risk management building blocks in their departments. Risks are approved by the respective managerial level based on the level of their risk impact.

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.

Action plans

The aim of the action plan is to close the identified control deficiencies and thus mitigate the risk exposure. The action plan must include description of the measures taken, their owners and deadlines. These measures should be measurable and reachable in the defined timeframe. For evidence and follow-up of the action plans a group-wide application BWise is used.

Reporting

The goal of operational risk reporting is to provide the management with the information about risk exposure in order to support their decision-making. NFR reports amongst others about breaches of the Zero Tolerances, highest operational risk events, breaches of the risk appetite, follow-up of the ICS strategies and others. In the yearly Internal Control Statement the internal control system of the Group is evaluated for the individual GKC processes independently by the three lines of defence.

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 2021 and 2020 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 was expected that COVID-19 crisis would hit the banking sector materially. As a result, national regulator recommended not to pay any dividends from 2020 and 2019 profits to the shareholders. The Group decided to fully follow this recommendation and strengthened its capital for expected portfolio worsening by retaining the full profits for year 2020 and 2019. During 2021, when the COVID-19 was remarkedly overcome, ČNB relaxed its position regarding dividend payout and set up limits for the distribution of the previous year profits taking place by the year end 2021. The Group paid out CZK 4,100 m out of retained earnings to the sole shareholder in line with amended ČNB rules.

From 28 June 2021, the Group has to meet the minimum leverage ratio at the level of 3%. The requirement has been met with a sufficient buffer.

From 1 January 2022, the Group has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB. This requirement will increase to the ultimate level as of 1 January 2024. The Group manages MREL positions altogether with capital position and leverage ratio exposure.

The following table shows the capital, capital requirements and CAD ratio as of 31 December 2021 and 31 December 2020 for the Group.

(CZKm)	2021	2020
Tier 1 capital	92,585	97,191
Tier 2 capital	970	1,884
Total capital	**93,554**	**99,075**
Regulatory capital requirements	33,010	32,802
Risk weighted assets	**412,628**	**410,027**
Capital adequacy ratio	22.67%	24.16%
Eligible liabilities	19,439	-
Leverage ratio	4.65%	5.02%

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
Interest income calculated using the effective interest rate method	4	28,588	26,311
Other similar income	4	1,506	1,218
Interest expense calculated using the effective interest rate method	5	(8,564)	(5,925)
Other similar expense	5	(1,761)	(1,384)
Net interest income		**19,769**	**20,220**
Fee and commission income	6	10,656	9,496
Fee and commission expense	6	(4,891)	(4,159)
Net fee and commission income		**5,765**	**5,337**
Dividend income	13	2,361	4,243
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	7	1,190	1,492
Net realised gains on financial instruments at fair value through other comprehensive income		1	11
Other net income	8	1,598	1,691
Operating income		**30,684**	**32,994**
Staff expenses	9	(8,238)	(7,594)
General administrative expenses	10	(6,644)	(6,627)
Depreciation and amortisation	20, 21	(1,631)	(1,519)
Operating expenses before impairment losses		**(16,513)**	**(15,740)**
Impairment losses	11	**1,858**	**(4,579)**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)		2,364	(4,414)
on other financial and non-financial assets		(506)	(165)
Profit before tax		**16,029**	**12,675**
Income tax expense	12	(1,947)	(1,174)
Profit for the year		**14,082**	**11,501**

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

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
Profit for the year		**14,082**	**11,501**
Other comprehensive income – to be reclassified to the statement of income			
Net (loss) / gain on cash flow hedges		(1,570)	348
Net (loss) / gain on financial debt instruments at fair value through other comprehensive income		(997)	399
Income tax benefit / (expense) relating to components of other comprehensive income		488	(142)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	29	**(2,079)**	**605**
Other comprehensive income – not to be reclassified to the statement of income			
Net gain / (loss) on financial equity instruments at fair value through other comprehensive income		78	(192)
Income tax (expense) / benefit relating to components of other comprehensive income		(15)	36
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	29	**63**	**(156)**
Other comprehensive income for the period, net of tax		**(2,016)**	**449**
Total comprehensive income for the year, net of tax		**12,066**	**11,950**

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

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

(CZKm)	Note	2021	2020
ASSETS			
Cash, balances with central banks and other demand deposits	14	37,290	25,782
Financial assets held for trading	15	56,257	40,047
Non-trading financial assets mandatorily at fair value through profit or loss	15	1,410	1,792
Financial assets at fair value through other comprehensive income	16	34,036	32,128
Financial assets at fair value through other comprehensive income pledged as collateral	16	221	6,328
Financial assets at amortised cost	17	1,386,904	1,349,312
Financial assets at amortised cost pledged as collateral	17	33,904	40,930
Fair value adjustments of the hedged items in portfolio hedge	19	(11,052)	4,686
Investments in subsidiaries, associates and joint ventures	18	79,464	70,006
Derivatives used for hedging	19	23,533	10,023
Current tax assets		654	93
Deferred tax assets	12	765	632
Property and equipment	20	8,797	8,456
Goodwill and other intangible assets	21	5,323	4,695
Other assets	23	1,374	1,478
Total assets		**1,658,880**	**1,596,388**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	57,170	43,186
Financial liabilities designated at fair value through profit or loss	24	24,544	25,575
Financial liabilities at amortised cost	25	1,454,930	1,402,137
Fair value adjustments of the hedged items in portfolio hedge	19	(22,731)	3,083
Derivatives used for hedging	19	27,912	13,330
Other liabilities	26	3,602	3,359
Provisions	27	450	732
Total liabilities		**1,545,877**	**1,491,402**
Share capital	28	5,855	5,855
Share premium		20,093	20,093
Statutory reserve		18,687	18,687
Retained earnings		69,417	59,384
Revaluation reserve from financial assets at fair value through other comprehensive income	28	165	909
Cash flow hedge reserve	28	(1,214)	58
Total equity		**113,003**	**104,986**
Total liabilities and equity		**1,658,880**	**1,596,388**

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

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

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 2020	**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**
Profit for the year	-	-	-	14,082	-	14,082
Other comprehensive income for the year (Note: 29)	-	-	-	-	(2,016)	(2,016)
Total comprehensive income for the year	-	-	-	14,082	(2,016)	12,066
Equity investments disposed (Note: 30)	-	-	-	51	-	51
Dividends paid (Note: 13)	-	-	-	(4,100)	-	(4,100)
At 31 December 2021	**5,855**	**20,093**	**18,687**	**69,417**	**(1,049)**	**113,003**

[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 14 April 2022 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 2021

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

(CZKm)	Note	2021	2020
OPERATING ACTIVITIES			
Profit before tax		**16,029**	**12,675**
Adjustments for:			
Interest income	4	(30,094)	(27,529)
Interest expense	5	10,325	7,309
Dividend income	13	(2,361)	(4,243)
Non-cash items included in profit before tax	31	(10,507)	4,601
Net losses / (gains) from investing activities		182	(683)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(16,426)**	**(7,870)**
Change in operating assets	31	(92,981)	(104,116)
Change in operating liabilities	31	70,761	99,217
Income tax paid		(2,180)	(2,049)
Interest paid		(10,269)	(7,248)
Interest received		31,817	28,976
Dividend received	13	2,361	4,243
Net cash flows (used in) / from operating activities		**(16,917)**	**11,153**
INVESTING ACTIVITIES			
Acquisition and equity increase of subsidiary, associate and joint venture companies		(9,570)	(3,580)
Purchase of property, equipment and intangible assets		(1,764)	(1,424)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		-	-
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		72	205
Net cash flows used in investing activities		**(11,262)**	**(4,799)**
FINANCING ACTIVITIES			
Issue of subordinated debts (Note: 25)		19,439	-
Payments of principal on leases		(590)	(530)
Dividends paid	13	(4,100)	-
Net cash flows from / (used in) financing activities		**14,749**	**(530)**
Net (decrease) / increase in cash and cash equivalents		**(13,430)**	**5,824**
Cash and cash equivalents at the beginning of the year	31	231,526	225,702
Net (decrease) / increase in cash and cash equivalents		(13,430)	5,824
Cash and cash equivalents at the end of the year	31	**218,096**	**231,526**

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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, identification services within the meaning of the Act on Banks. 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

The Coronavirus pandemic significantly affected the global economy both in 2020 and 2021. The substantial deterioration in the economic outlook has resulted in an unprecedented monetary policy response from central banks and governments around the world.

Meanwhile, we have been working hard with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals.

All of the EBA-compliant moratoria have now expired and for almost all of these loans, payments have fully resumed. In addition, we granted some CZK 18.6 bn in loans that fall under the various coronavirus-related government guarantee schemes in the Czech Republic.

Details related to the impact of the COVID-19 crisis on the loan impairments

Referring to the disclosure in our annual report of 2021, our Expected Credit Loss (ECL) models are not able to adequately reflect all the specifics of the COVID-19 crisis or the various government measures implemented in the different countries to support households, SMEs and Corporates through this crisis.

Therefore, an expert-based calculation at portfolio level is required via a management overlay. In the fourth quarter of 2021, ČSOB performed an update of its COVID-19 impact assessment which resulted in a total collective COVID-19 ECL of CZK 1.2 bn (versus CZK 3.2 bn at year-end 2020).

As of 3Q 2021, an additional risk assessment was performed over non-retail segments. ČSOB has decided to capture part of the collective COVID-19 ECL via a collective transfer to Stage 2 of Stage 1 portfolios for which the repayment is still uncertain. Portfolio segments from COVID-19 critically vulnerable business sectors have been transferred into Stage 2 (specific CREDACs from Aviation, Commercial Real Estate, Distribution, Horeca, Services and Shipping). The related files might be reverted back to Stage 1 in subsequent period, after a probation period of 6 months, in case no other signs of an increase in credit risk are detected. The total exposure moved from stage 1 to stage 2 amounted to CZK 2.4 bn.

Economic scenarios

The pandemic still plays a prominent role in shaping the macroeconomic landscape, with the Omicron variant serving as a reminder of this. New lockdown measures and deteriorating economic sentiment (risk aversion), caused by this variant, are temporarily weighing on economic activity. However, they are not derailing the ongoing path of the economic recovery. Fiscal and monetary policy will continue to support growth, albeit at a somewhat more moderate scale than right after the start of the pandemic. Overall, we maintain a positive economic outlook, despite new uncertainties surrounding the path back to normality, created by such factors as the spread of the Omicron variant and persistent supply chain disruptions.

Because of this uncertainty, we continue working with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario (Note: 38.2). The definition of each scenario reflects the latest pandemic and related economic developments, with the following probabilities: 80% for the base-case, 10% for the pessimistic and 10% for the optimistic scenario (in line with 3Q 2021).
The following table (in line with the ČSOB forecast of December 2021) gives these three scenarios for three key indicators (GDP growth, unemployment rate and house price index):

Macroeconomic indicator - CZE	2021			2022		
Scenario	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
Real GDP	2.8%	2.6%	2.4%	5.4%	4.2%	1.8%
Unemployment	3.0%	3.0%	3.1%	2.3%	2.6%	3.5%
House price index	13.0%	12.8%	12.0%	6.0%	5.2%	1.5%

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 2021

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 2020, 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.

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 has been 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. ČSOB incorporated all necessary changes in reference rates related to Benchmark reform based on EU directive 2016/1011 Benchmark regulation (BMR) and the process of changing from LIBOR to new risk-free rates was completed before January 1, 2022. All contracts based on GBP and EUR LIBOR were renegotiated to new risk-free rates as of January 1st 2022. Legacy loans based on LIBOR will be renegotiated with clients to new risk-free rates by 31 May 2022. Derivatives based on LIBOR will be transferred to new risk-free rates during 2022.

	Carrying amount at 31 Dec 2021		Notional amount at 31 Dec 2021
(CZKm)	Loans and advances	Deposits	Derivatives
referenced to -IBOR (all tenors)			
of which: USD (LIBOR)	1,728	54	31,392
of which: GBP (LIBOR)	-	1	-
of which: EUR (LIBOR)	75	1	-

Effective after 1 January 2021

The following standards, amendments and interpretations have been issued and are effective after 1 January 2021. 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.

IFRS 17 Insurance Contracts (including Amendments to IFRS 17) is effective for annual periods beginning on or after 1 January 2023 and has 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.
Implementation of IFRS 17 will not have significant impact on the Bank. The Bank assesses the extent of the impact within the KBC Group implementation project.

Initial Application of IFRS 17 and IFRS 9 – Comparative Information is effective for annual periods beginning on or after 1 January 2023 and has not yet been endorsed by the EU. A narrow-scope amendment to the transition requirements of IFRS 17 Insurance Contracts. The amendment affects any entity that first applies IFRS 17 and IFRS 9 Financial Instruments at the same time. The amendment avoids temporary accounting mismatches between financial assets and insurance contract liabilities.

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 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 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 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 been endorsed by the EU.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments narrow the exemptions from recognition of deferred tax asset or liability. If on initial recognition the transaction gives rise to equal taxable and deductible temporary differences, the exemption no longer applies.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16) is effective for periods on or after 1 April 2021 and has been endorsed by the EU. The amendments extend the exemption from assessment of whether rent concession is a lease modification to lease payments on or before 30 June 2022.

Definition of Accounting Estimates (Amendments to IAS 8) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments introduce a new definition of an accounting estimate. Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

Disclosure of Accounting Policies (Amendments to IAS 1) is effective for periods on or after 1 January 2023 and has not yet been endorsed by the EU. The amendments clarify that an entity is required to disclose material accounting policy and the amendments also explain how to identify such policy. Accounting policy is material if it can influence decisions that the users of financial statements make on the basis of the financial statements.

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 been endorsed by the EU.

2.4 Significant accounting policies

The principal accounting policies applied in the preparation 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.

If the financial guarantee is both integral to the guaranteed loan and not recognised separately, fees paid for the guarantee are an integral part of the loan's effective interest rate as transaction costs. If the guaranteed loans are measured at amortised cost, the ability to recover cash flows from financial guarantee is considered in assessing whether significant increase in credit risk occurred, however, the expected cash flows from the financial guarantee are included in the measurement of ECL of the guaranteed loan.

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 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 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 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 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.

(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 Other similar 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	3 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	5 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.

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 2021

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,066	7,876	2,095	2,732	19,769
Net fee and commission income	2,476	3,051	186	52	5,765
Dividend income	-	-	-	2,361	2,361
Net gains / (losses) from financial instruments at fair value through profit or loss	63	1,763	(50)	(585)	1,190
Net realised gains on financial instruments at fair value through OCI	-	-	-	1	1
Other net income	100	15	11	1,472	1,598
Operating income	**9,705**	**12,705**	**2,242**	**6,033**	**30,684**
of which:					
External operating income	*4,392*	*10,083*	*2,242*	*13,968*	*30,684*
Intersegment operating income	*5,313*	*2,622*	*-*	*(7,935)*	*-*
Depreciation and amortisation	(20)	(5)	-	(1,606)	(1,631)
Other operating expenses	(6,279)	(3,439)	(271)	(4,893)	(14,882)
Operating expenses before impairment losses	**(6,299)**	**(3,444)**	**(271)**	**(6,499)**	**(16,513)**
Impairment losses	181	2,068	-	(391)	1,858
Profit before tax	**3,587**	**11,329**	**1,971**	**(857)**	**16,029**
Income tax expense	(1,005)	(2,349)	(373)	1,780	(1,947)
Segment profit	**2,582**	**8,980**	**1,598**	**923**	**14,082**
Assets and liabilities					
Segment assets	34,732	268,526	55,580	1,300,041	1,658,880
Total assets	**34,732**	**268,526**	**55,580**	**1,300,041**	**1,658,880**
Total liabilities	**524,360**	**465,451**	**84,197**	**471,870**	**1,545,878**
Capital expenditure	**200**	**21**	**-**	**1,543**	**1,764**

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 instruments 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 before impairment losses	**(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**

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)	2021	2020
Interest income on financial instruments calculated using effective interest rate method		
Cash balances with central banks and other demand deposits	213	158
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	14,083	12,220
Other than credit institutions	10,565	11,140
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	764	809
Derivatives used for hedging (Note: 7)	2,094	923
Negative interest from financial liabilities measured at amortised cost	869	1,061
	28,588	26,311
Interest income on other financial instruments		
Financial assets held for trading incl. assets pledged as collateral (Note: 7)	239	142
Derivatives used as economic hedges (Note: 7)	1,211	1,026
Negative interest from financial liabilities measured at fair value (Note: 7)	56	50
	1,506	1,218
Interest income	**30,094**	**27,529**

5. INTEREST EXPENSE

(CZKm)	2021	2020
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	17	2
Credit institutions	2,076	875
Other than credit institutions	2,772	2,899
Debt instruments in issue	992	1,187
Derivatives used for hedging (Note: 7)	2,707	962
	8,564	5,925
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 7)	285	179
Financial liabilities designated at fair value through profit or loss (Note: 7)	149	332
Derivatives used as economic hedges (Note: 7)	1,271	812
Lease liabilities	55	59
Discount amortisation on other financial liabilities	1	2
	1,761	1,384
Interest expense	**10,325**	**7,309**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2021	2020
Fee and commission income		
Banking services		
Payment service fees	5,533	5,070
Credit / Guarantee related fees	1,078	1,079
Network income	978	839
Securities	182	157
Other	281	295
Asset management services		
Custody fees	274	256
Mutual funds entry fees	315	244
Distribution		
Mutual funds	1,095	851
Banking and insurance products	920	705
	10,656	**9,496**
Fee and commission expense		
Banking services		
Payment services	3,536	2,903
Credit / Guarantee related fees	287	279
Securities	112	124
Other	335	251
Asset management services		
Custody fees	28	26
Distribution		
Banking and insurance products	593	576
	4,891	**4,159**
Net fee and commission income	**5,765**	**5,337**

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)	2021	2020
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,190**	**1,492**
Net interest income (Notes: 4, 5)	(813)	(144)
	377	**1,348**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	(1,390)	1,322
Foreign exchange	4,450	(3,809)
Equity contracts	1,132	(249)
Commodity contracts	1	20
	4,193	(2,716)
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	1,793
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	(521)	(298)
Foreign exchange differences	(4,705)	2,569
Financial instruments at fair value through profit or loss and foreign exchange	**377**	**1,348**

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)	2021	2020
ICT services	779	782
Net decrease / (increase) in provisions for legal issues and other losses	177	(32)
Services provided to Československá obchodná banka, a.s. (ČSOB SK) (excluding income from ICT services)	50	54
Net operating leasing and rental income	50	45
Net gain on disposal of liabilities at amortised cost	36	-
Net gain on disposal of associates, joint ventures and subsidiaries	26	-
Net (loss) / gain on disposal of investments measured at amortised cost	(271)	389
Other	751	453
	1,598	**1,691**

9. STAFF EXPENSES

(CZKm)	2021	2020
Wages and salaries	5,888	5,370
Salaries and other short-term benefits of top management	95	89
Social security charges	1,942	1,759
of which pension security charges (obligatory)	*1,197*	*1,081*
Pension (voluntary) and similar expenses	180	176
Net increase in provisions for Restructuring programme	53	79
Other	80	121
	8,238	**7,594**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 7,135 at 31 December 2021 (31 December 2020: 7,117).

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 the Group which captures both finance and risk aspects (50%) and to the share price of KBC Group (50%). 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 2021 (2020: CZK Nil).

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2021	2020
Information technologies	2,727	2,828
Contribution to the Single Resolution Mechanism	782	625
Retail service fees	547	537
Other building expenses	532	554
Professional fees	521	429
Marketing	377	426
Communication	331	313
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	280	249
Travel and transportation	136	143
Payment cards and electronic banking	129	124
Administration	106	111
Insurance	48	57
Training	37	31
Rental expenses on land and buildings – minimum lease payments	45	43
Car expenses	25	22
Other	21	135
	6,644	**6,627**

11. IMPAIRMENT LOSSES

(CZKm)	2021	2020
Impairment of financial assets at amortised cost - loans and advances (Notes: 31, 38.2)	2,290	(4,319)
Impairment on investments in subsidiaries, associates and joint ventures (Note: 18)	(419)	-
Impairment of financial assets at amortised cost - debt securities (Notes: 31, 38.2)	(4)	(9)
Provisions for loan commitments and guarantees (Notes: 27, 31)	78	(86)
Impairment of property and equipment (Notes: 20, 31)	(89)	(8)
Impairment of other financial assets (Notes: 31)	2	6
Impairment of other intangible assets (Notes: 31)	-	(163)
	1,858	**(4,579)**

12. INCOME TAX

The components of income tax expense for the years ended 31 December 2021 and 2020 are as follows:

(CZKm)	2021	2020
Current tax expense	1,626	1,820
Previous year over accrual of current tax	(19)	(26)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	340	(619)
	1,947	**1,175**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2021 and 2020 is as follows:

(CZKm)	2021	2020
Profit before taxation	16,029	12,675
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,045	2,408
Previous year over accrual of current tax	(19)	(26)
Tax effect of non-taxable income	(1,506)	(1,543)
Tax effect of non-deductible expenses	427	336
	1,947	**1,175**

The applicable tax rate for 2021 was 19% (2020: 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)	2021	2020
At 1 January	**632**	**118**
Statement of income	(340)	619
Financial assets FVOCI (Note: 29)		
Fair value remeasurement	163	(95)
Transfer to net profit or retained earnings	12	56
Cash-flow hedges (Note: 29)		
Fair value remeasurement	275	(123)
Transfer to net profit (Note: 19)	23	57
At 31 December	**765**	**632**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2021	2020
Deferred tax assets / (liability)		
Employee benefits	312	252
Cash-flow hedging derivatives	285	(14)
Impairment losses on loans and advances at amortised cost and provisions for credit risk	268	656
Temporary difference resulting from tax depreciation	266	263
Temporary difference resulting from tax depreciation related to acquisition of ICT function	107	113
Provisions for other risk and charges	48	78
Impairment losses on debt securities	17	13
Impairment losses on tangible and intangible assets	4	3
Debt securities at fair value through other comprehensive income	(46)	(220)
Amortisation of goodwill	(511)	(511)
Other temporary differences	15	(1)
	765	**632**

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

(CZKm)	2021	2020
Employee benefits	60	(41)
Temporary difference resulting from tax depreciation	4	42
Impairment losses on debt securities	3	2
Impairment losses on tangible and intangible assets	1	-
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(6)	(5)
Provisions for other risk and charges	(30)	6
Impairment losses on loans and advances at amortised cost and provisions for credit risk	(388)	627
Other temporary differences	16	(12)
	(340)	**619**

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 2021 has not been taken before the date of issue of the financial statements (Notes: 37, 39).

Based on a sole shareholder decision from 4 November 2021, and in accordance with the recommendation and approval of the national regulator, a dividend of CZK 14.01 per share was paid from retained earnings, representing a total dividend of CZK 4,100m.

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.

Dividends received

The following table shows a dividend received by the companies for 2021 and 2020:

(CZKm)	2021	2020
Hypoteční banka, a.s.	1,568	2,446
ČSOB Stavení spořitelna, a.s.	493	965
Patria Finance, a.s.	160	222
ČSOB Factoring, a.s.	62	123
Bankovní informační technologie, s. r. o.	41	154
ČSOB Leasing, a.s.	21	319
První certifikační autorita, a.s.	9	9
Visa Inc.	5	3
CBCB - Czech Banking Credit Bureau, a.s.	2	2
	2,361	**4,243**

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

(CZKm)	2021	2020
Cash (Note: 31)	8,309	8,664
Mandatory minimum reserves (Note: 31, 32, 38.2)	18,188	12,274
Other balances with central banks (Notes: 31, 32, 38.2)	8,850	2,580
Other demand deposits in credit institutions (Notes: 31, 32, 38.2)	1,943	2,264
	37,290	**25,782**

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 5,000 m at 31 December 2021 (31 December 2020: CZK Nil). 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)	2021	2020
Financial assets held for trading		
Loans and advances		
Other loans and advances	1	102
Derivative contracts (Note: 19)		
Trading derivatives	43,631	35,167
Derivatives used as economic hedges	12,625	4,778
	56,257	**40,047**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	1,410	1,792
	1,410	**1,792**
Financial assets at fair value through profit or loss	**57,667**	**41,839**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2021	2020
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	9,540	5,172
Credit institutions	23,846	25,654
Corporate	174	185
Equity securities		
Corporate	482	1,123
Gross carrying amount	34,042	32,134
Allowance for impairment losses	(6)	(6)
	34,036	**32,128**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	221	6,328
	221	**6,328**

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 Nil (2020: CZK 6,188 m) or securities lending in the amount of CZK 221 m (2020: CZK 140 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.

17. FINANCIAL ASSETS AT AMORTISED COST

	2021				
(CZKm)	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	184,570	-	-	-	184,570
Credit institutions	290,803	-	-	-	290,803
Other legal entities	23,129	139			23,268
Debt securities – gross carrying amount	498,502	139	-	-	498,641
Allowance for impairment losses	(68)	(69)	-	-	(137)
	498,434	**70**	**-**	**-**	**498,504**
Loans and advances					
Central banks	589,518	-	-	-	589,518
General government	8,850	124	-	-	8,974
Credit institutions	3,094	1	-	-	3,095
Other legal entities	206,297	27,303	7,863	321	241,784
Private individuals	47,898	3,130	1,734	31	52,793
Loans and advances – gross carrying amount	855,657	30,558	9,597	352	896,164
Allowance for impairment losses	(550)	(1,996)	(5,187)	(31)	(7,764)
	855,107	**28,562**	**4,410**	**321**	**888,400**
Total financial assets at amortised cost	**1,353,541**	**28,632**	**4,410**	**321**	**1,386,904**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	33,904	-	-	-	33,904
Debt securities – gross carrying amount	33,904	-	-	-	33,904
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**33,904**	**-**	**-**	**-**	**33,904**

(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**

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 2021 and 2020 than they were at the beginning of the financial year or their initial recognition:

	2021					
	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	102	42	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other legal entities	7,179	4,493	821	177	483	38
Private individuals	1,290	696	335	23	344	10
Total	**8,571**	**5,231**	**1,156**	**200**	**827**	**48**

(CZKm)	Transfers between stages 1 and 2 (2020)		Transfers between stages 2 and 3 (2020)		Transfers between stages 1 and 3 (2020)	
	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**	**-**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 589,518 m at 31 December 2021 (31 December 2020: CZK 619,723 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 Nil (2020: CZK 30,401 m) or securities lending in the amount of CZK 33,904 m (2020: CZK 10,529 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 10,870 m (2020: CZK 12,462 m) pledged as collateral of term deposits and financial guarantees.

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	2021 (%)	2021 Carrying amount	2020 (%)	2020 Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.00	260	100.00	215
ČSOB Stavební spořitelna, a.s.	ČSOBS	100.00	11,323	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	1,175
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	7,000	100.00	7,000
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.00	2,275	100.00	1,475
Hypoteční banka, a.s.	Hypoteční banka	100.00	52,178	100.00	45,678
K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság	K&H Payment Services	100.00	342	-	-
Patria Corporate Finance, a.s.	Patria CF	100.00	16	100.00	16
Patria Finance, a.s.	Patria Finance	100.00	389	100.00	389
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.00	2,766	100.00	2,036
Ušetřeno.cz, s.r.o.	Ušetřeno	100.00	180	100.00	455
Joint venture					
MallPay, s. r. o.	MallPay	50.00	93	50.00	155
Associate					
Bankovní identita, a. s.	Bankovní identita	-	-	33.33	21
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			79,464		**70,006**

All companies excluding K&H Payment Services are incorporated in the Czech Republic.

Decrease in share in Bankovní identita

ČSOB together with Komerční banka and Česká spořitelna established the company Bankovní identita, a.s. for cooperation in providing the banking identity services in 2020. The direct share of ČSOB in Bankovní identita at 31 Dec 2020 was 33.3%, having a carrying amount of CZK 21 m. In February 2021, an agreement was reached with other Czech banks on accession and cooperation within the company Bankovní identita. In April 2021, other 7 Czech banks became shareholders of the Bankovní identita. At 31 December 2021, ČSOB has a share on equity and voting rights of 17%, carrying amount of the investment amounts to CZK 36 m.

K&H Payment Services

In 2019, ČSOB established a 100% owned subsidiary K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság (K&H Payment Services) in Budapest to operate payment services for the Hungarian customers. The initial investment of the Bank into the share capital of K&H Payment Services amounted to CZK 3 m. The entity was included in significant participations in June 2021 after the increase of the investment up to CZK 342 m.

Other changes

In January 2021, the Bank increased its investment in Radlice Rozvojová by CZK 850 m through an additional charge apart from the registered capital of the company.

In March 2021, the Bank increased its investment in Ušetřeno by CZK 27 m through an additional charge apart from the registered capital of the company.

In April 2021, the Bank increased its investment in MallPay by CZK 25 m through an additional charge apart from the registered capital of the company.

In May 2021, 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 June 2021, the Bank increased its investment in ČSOBS by CZK 1,400 m through an additional charge apart from the registered capital of the company.

In September 2021, the Bank increased its investment in BANIT by CZK 45 m through an additional charge apart from the registered capital of the company.

In September 2021, the Bank increased its investment in Hypoteční banka by CZK 3,000 m through an additional charge apart from the registered capital of the company.

In October 2021, the Bank increased its investment in ČSOB PS by CZK 500 m through an additional charge apart from the registered capital of the company.

In October 2021, the Bank increased its investment in MallPay by CZK 10 m through an additional charge apart from the registered capital of the company.

In November 2021, the Bank increased its investment in ČSOB PS by CZK 300 m through an additional charge apart from the registered capital of the company.

In November 2021, the Bank increased its investment in Ušetřeno by CZK 20 m through an additional charge apart from the registered capital of the company.

In December 2021, the Bank decreased its investment in Radlice Rozvojová by CZK 120 m through the redemption of other capital funds of the company.

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.

At 31 December 2021, the Bank considered the value of interests in certain subsidiaries to be impaired.

In 2021, the value of interests in Ušetřeno was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 322 m, has been recognised.

In 2021, the value of interests in MallPay was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 97 m, has been recognised.

In 2021, the Bank performed an impairment test of subsidiary Hypoteční banka and no impairment was indicated by the test. The recoverable amount for the 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 of 5%; after that a terminal value is applied. Period of twenty years is used due to long term nature of the business of Hypoteční banka.

Cash flows in Hypoteční banka are based on the net profit generated by the Hypoteční banka above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 8.8% in 2021 and no long term growth rates were used in 2021.

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 implies no growth rate for Hypoteční banka has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Hypoteční banka an average risk discount rate of 9.5% has been applied. This reflects a risk-free rate 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 the value-in-use is higher than the carrying value of amount of investment.

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2021:

(CZKm)	+1%	-1%
Assets grow rate	485	(566)
Discount rate	(2,144)	2,840

SEPARATE FINANCIAL STATEMENTS

There is a negative sensitivity of the value-in-use of Hypoteční banka to the risk discount rate, as a key assumption. An increase of the discount rate by 1% would result to the impairment of the investment.

In 2021, the Bank performed an impairment test of subsidiary ČSOBS and no impairment was indicated by the test. The recoverable amount for the was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming ten years; after that a terminal value is applied.

Cash flows in ČSOBS are based on the net profit generated by the ČSOBS above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 8.8% in 2021 and long term growth rates of 2% were used in 2021.

The value in use is particularly sensitive to a number of key assumptions:

- The risk discount rate. For ČSOBS an average risk discount rate of 9.8% has been applied. This reflects a risk-free rate 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 the value-in-use is higher than the carrying value of amount of investment.

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2021:

(CZKm)	+1%	-1%
Discount rate	(1,773)	2,406

There is a negative sensitivity of the value-in-use of ČSOBS to the risk discount rate, as a key assumption. An increase of the discount rate by 1% would result to the impairment of the investment.

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

The following table shows a reconciliation of the impairment losses on investment in subsidiaries, associates and joint ventures for 2021:

(CZKm)	Ušetřeno	MallPay	Total
At 1 January 2021	**-**	**-**	**-**
Increase (Note: 11)	322	97	419
At 31 December 2021	**322**	**97**	**419**

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 2021 and 2020 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

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	1,225,838	35,333	35,942	1,495,942	27,721	28,315
Forwards	3,000	-	-	1,000	-	-
Options	16,075	220	187	17,197	45	106
	1,244,913	**35,553**	**36,129**	**1,514,139**	**27,766**	**28,421**
Foreign exchange contracts						
Swaps / Forwards	545,595	6,291	5,883	823,341	5,948	6,102
Cross currency interest rate swaps	64,608	1,338	1,327	82,685	910	895
Options	29,470	355	340	35,473	351	337
	639,673	**7,984**	**7,550**	**941,499**	**7,209**	**7,334**
Commodity contracts						
Swaps / Options	1,360	94	89	4,166	192	174
Total trading derivatives (Notes: 15, 24)	**1,885,946**	**43,631**	**43,768**	**2,459,804**	**35,167**	**35,929**

Positions of ALM – economic hedges

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	441,238	11,765	12,654	324,977	3,999	3,781
Forwards	-	-	-	-	-	-
	441,238	**11,765**	**12,654**	**324,977**	**3,999**	**3,781**
Foreign exchange contracts						
Cross currency interest rate swaps	2,157	96	-	2,247	82	-
Equity contracts						
Swaps	4,993	174	65	6,654	280	233
Options	7,760	590	-	9,045	417	10
	12,753	**764**	**65**	**15,699**	**697**	**243**
Total derivatives used as economic hedges (Notes: 15, 24)	**456,148**	**12,625**	**12,719**	**342,923**	**4,778**	**4,024**

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 2021 and 2020 are set out as follows:

	2021			2020		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	35,489	460	1,879	55,001	1,190	801
Cross currency interest rate swaps	996	-	17	5,230	7	353
Total hedging derivatives	**36,485**	**460**	**1,896**	**60,231**	**1,197**	**1,154**

In 2021, a loss of CZK 47 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2020: gain of CZK 29 m).

In 2021, 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 25 m from equity to the statement of income (2020: gains of CZK Nil). 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 2021 and 2020 covered by the Bank's hedging strategies:

	2021			2020		
	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	(1,530)	32	(1,616)	19	53	29

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2021	2020
Interest income (Note: 29)	142	273
Net (losses) / gains from financial instruments at fair value through profit or loss (Note: 29)	(22)	29
Taxation (Note: 12)	(23)	(57)
Net gains	**97**	**245**

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 2021 and 2020:

	2021		2020	
(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	300	-	3,239	-
More than 3 months but not more than 6 months	3,600	996	8,839	4,234
More than 6 months but not more than 1 year	4,290	-	7,193	-
More than 1 year but not more than 2 years	3,713	-	8,216	996
More than 2 years but not more than 5 years	8,824	-	9,606	-
More than 5 years	14,762	-	17,908	-
	35,489	**996**	**55,001**	**5,230**

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 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 2021 and 2020 are set out as follows:

	2021			2020		
	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	81,875	9,520	1,150	120,700	2,386	3,304
Fair value portfolio hedges	667,946	13,553	24,849	581,017	6,440	8,768
Cross currency interest rate swaps						
Fair value micro hedges	923	-	17	923	-	104
Total hedging derivatives	**750,744**	**23,073**	**26,016**	**702,640**	**8,826**	**12,176**

The following table contains details of the hedged items as at 31 December 2021 covered by the Bank's hedging strategies:

(CZKm)	2021			
	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
		Assets	Liabilities	
Fair value micro hedges				
Financial assets at amortised cost	63,181	(9,467)	-	(8,405)
Financial assets at fair value through other comprehensive income	9,549	(686)	-	(983)
Financial liabilities at amortised cost	-	-	-	481
Total	72,730	(10,153)	-	(8,907)
Fair value portfolio hedges				
Financial assets at amortised cost	279,153	(11,052)	-	(15,739)
Financial assets at fair value through other comprehensive income	7,808	(192)	-	(321)
Financial liabilities at amortised cost	347,011	-	(22,731)	25,821
Total	633,972	(11,244)	(22,731)	9,761
Total fair value hedged items	**706,702**	**(21,397)**	**(22,731)**	**854**

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		Change in fair value of hedged item for ineffectiveness assessment
		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	-	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**

In 2021, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised losses of CZK 2 m (2020: 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 2021, the net gains in the amount of CZK 854 m (2020: gains of CZK 140 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 673 m (2020: losses of CZK 168 m).

20. PROPERTY AND EQUIPMENT

(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)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2021	7,597	1,737	605	1,421	935	12,295
Depreciation and impairment at 1 January 2021	(3,959)	(1,228)	(434)	(1,127)	-	(6,748)
Net book value at 1 January 2021	**3,638**	**509**	**171**	**294**	**935**	**5,547**
Transfers	301	324	111	82	(818)	-
Additions	-	-	-	-	784	784
Disposals	(47)	(2)	(4)	(14)	-	(67)
Depreciation	(306)	(335)	(31)	(97)	-	(769)
Impairment	(13)	-	-	-	-	(13)
Net book value at 31 December 2021	**3,573**	**496**	**247**	**265**	**901**	**5,482**
of which						
Cost	7,705	1,884	689	1,378	901	12,557
Depreciation and impairment	(4,132)	(1,388)	(442)	(1,113)	-	(7,075)

RIGHT OF USE ASSETS

(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)

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2021	3,595	214	27	3,836
Depreciation and impairment at 1 January 2021	(867)	(48)	(13)	(928)
Net book value at 1 January 2021	**2,728**	**166**	**14**	**2,908**
Additions	977	7	14	998
Disposals	(3)	-	(1)	(4)
Depreciation	(452)	(48)	(9)	(509)
Impairment	(77)	-	-	(77)
Net book value at 31 December 2021	**3,173**	**125**	**18**	**3,316**
of which				
Cost	4,388	221	40	4,649
Depreciation and impairment	(1,215)	(96)	(22)	(1,333)

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 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)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2021	2,752	3,209	1,474	408	837	8,680
Amortisation and impairment at 1 January 2021	(63)	(2,901)	(624)	(397)	-	(3,985)
Net book value at 1 January 2021	**2,689**	**308**	**850**	**11**	**837**	**4,695**
Transfers	-	64	756	5	(825)	-
Additions	-	-	-	-	980	980
Disposals	-	-	-	-	-	-
Amortisation	-	(115)	(236)	(1)	-	(352)
Impairment (Note: 11)	-	-	-	-	-	-
Net book value at 31 December 2021	**2,689**	**257**	**1,370**	**15**	**992**	**5,323**
of which						
Cost	2,752	3,250	2,230	408	992	9,632
Amortisation and impairment	(63)	(2,993)	(860)	(393)	-	(4,309)

Internally developed software in the net amount of CZK 992 m as at 31 December 2021 (31 December 2020: CZK 837 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 9.7% in 2021 (2020: 10.3%) and no long term growth rates were used in 2021 and 2020.

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 9.9% has been applied (2020: 10.6%). This reflects a risk-free rate 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

There were no non-current assets held for sale in 2021 and 2020.

23. OTHER ASSETS

(CZKm)	2021	2020
Other financial assets		
Other debtors, net of provisions (Notes: 30, 32, 38.2)	584	710
Accrued income (Notes: 30, 32, 38.2)	217	134
	801	**844**
Other non-financial assets		
Prepaid charges	572	633
VAT and other tax receivables	1	1
	573	**634**
Total other assets	**1,374**	**1,478**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2021 and 2020:

	2021			2020		
(CZKm)	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Other financial assets						
Gross carrying amount	800	11	811	841	14	855
Allowance for impairment losses	(4)	(6)	(10)	(4)	(7)	(11)
	796	**5**	**801**	**837**	**7**	**844**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2021	2020
Financial liabilities held for trading		
Derivative contracts (Note: 19)		
Trading derivatives	43,768	35,929
Derivatives used as economic hedges	12,719	4,024
Term deposits	530	430
Repo transactions	153	579
Bonds and investment certificates issued	-	2,224
	57,170	**43,186**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	6,412	5,407
Investment certificates	18,132	20,168
	24,544	**25,575**
Financial liabilities at fair value through profit or loss	**81,714**	**68,761**

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 342 m lower than the carrying amount at 31 December 2021 (31 December 2020: lower by CZK 500 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)	2021	2020
Deposits received from credit institutions		
Current accounts and overnight deposits	15,558	11,033
Term deposits	9,015	12,468
Repo transactions	-	36,796
	24,573	**60,297**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	705,144	653,540
Term deposits	52,265	25,609
Savings deposits	229,345	246,438
Repo transactions	8,347	-
Other deposits	17,520	3,944
	1,012,621	**929,531**
Debt securities in issue		
Bonds and investment certificates issued	1	-
Promissory notes	394,918	409,377
	394,919	**409,377**
Subordinated debt	**19,439**	**-**
Lease liabilities	**3,378**	**2,932**
Financial liabilities at amortised cost	**1,454,930**	**1,402,137**

At 31 December 2021, the Bank accumulated cash deposits from retail investors in the amount of CZK 11,530 m used for the subscription of the Czech sovereign bonds. These financial liabilities have been recognized as Other deposits measured at amortised cost. The liabilities were settled on 3 January 2022.

From 1 January 2022, the Bank has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB and therefore ČSOB issued the subordinated debts described below (Notes: 35, 39).

In December 2021, the Bank issued subordinated debt in the nominal amounts of EUR 276 m (CZK 6,861 m) to KBC Bank NV. Subordinated debt is repayable after 5 years. Its coupon rate is EURIBOR 3M + 0.75% for the first four-year period (0.55% reflecting the initial credit spread and 0.20% reflecting the Issue Price above par) and EURIBOR 3M + 0.55% for last year before maturity date. The Bank may prepay the debt at any time following the first four-year period.

In December 2021, the Bank issued subordinated debt in the nominal amounts of EUR 500 m (CZK 12,430 m) to KBC Bank NV. Subordinated debt is repayable after 6 years. Its coupon rate is EURIBOR 3M + 0.75% for the first five-year period (0.60% reflecting the initial credit spread and 0.15% reflecting the Issue Price above par) and EURIBOR 3M + 0.60% for last year before maturity date. The Bank may prepay the debt at any time following the first five-year period.

The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

26. OTHER LIABILITIES

(CZKm)	2021	2020
Other financial liabilities		
Payables to employees including social security charges (Notes: 30, 32, 38.3)	2,267	1,910
Accrued charges (Notes: 30, 32,38.3)	1,061	1,167
Other creditors (Notes: 30, 32, 38.3)	121	113
	3,449	**3,190**
Other non-financial liabilities		
Income received in advance	65	67
VAT and other tax payables	88	102
	153	**169**
Total other liabilities	**3,602**	**3,359**

Other liabilities are assessed as current liabilities.

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2020	**181**	**121**	**-**	**302**
Additions	171	79	-	250
Amounts utilised	(139)	(92)	-	(231)
At 31 December 2020	**213**	**108**	**-**	**321**
At 1 January 2021	**213**	**108**	**-**	**321**
Additions	4	80	23	107
Amounts utilised	(174)	(81)	(2)	(257)
Unused amounts reversed	(7)	(27)	(10)	(44)
At 31 December 2021	**36**	**80**	**11**	**127**

Loan commitments and guarantees (Note: 33):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	**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**
Origination and acquisition	81	-	-	81
Change in credit risk not leading to stage transfers	(62)	(9)	(88)	(159)
Change in credit risk leading to stage transfer	(3)	4	-	1
Foreign currency translation	10	(12)	(9)	(11)
At 31 December 2021	**102**	**37**	**184**	**323**

Restructuring

During 2020 and 2021, the Bank started a new restructuring programme, resulting in the creation of a provision of CZK 79 m and CZK 80 m respectively. In the framework of this restructuring programme the total number of personnel will be reduced in the period of 2021 - 2022.

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 2021, the Bank had a provision for pending legal issues and other losses in the total amount of CZK 36 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 2021, the total authorised share capital was CZK 5,855 m (31 December 2020: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2020: 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 2021 and 2020.

On 31 December 2021, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2020: 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 2021 and 2020 are as follows:

(CZKm)	Revaluation reserve from financial assets at fair value through OCI	Cash flow hedge reserve	Total
At 1 January 2020	**742**	**(224)**	**518**
Other comprehensive income (Note: 29)	167	282	449
At 31 December 2020	**909**	**58**	**967**
Other comprehensive income (Note: 29)	(744)	(1,272)	(2,016)
At 31 December 2021	**165**	**(1,214)**	**(1,049)**

SEPARATE FINANCIAL STATEMENTS

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2021	2020
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised (losses) / gains on cash flow hedges	(1,450)	650
Net gains on cash flow hedges reclassified to the statement of income (Note: 19)	(120)	(302)
Tax effect relating to cash flow hedges (Note: 12)	298	(66)
	(1,272)	282
Financial debt instruments FVOCI		
Net unrealised (losses) / gains on financial debt instruments FVOCI	(996)	410
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on disposal	(1)	(11)
Tax effect relating to financial debt instruments FVOCI (Note: 12)	190	(76)
	(807)	323
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(2,079)**	**605**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	141	102
Net realised gains on financial equity instruments FVOCI reclassified to the retained earnings on disposal	(63)	(294)
Tax effect relating to financial equity instruments FVOCI	(15)	36
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**63**	**(156)**
Other comprehensive income for the year, net of tax	**(2,016)**	**449**

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 2021:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	1	-	1
Derivative contracts	-	55,391	865	56,256
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,410	-	1,410
Financial assets FVOCI				
Debt securities	8,922	-	24,632	33,554
Equity securities	-	-	482	482
Financial assets FVOCI pledged as collateral				
Debt securities	221	-	-	221
Fair value adjustments of the hedged items in portfolio hedge	-	(11,052)	-	(11,052)
Derivatives used for hedging	-	23,533	-	23,533
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	56,321	166	56,487
Term deposits	-	530	-	530
Repo transactions	-	153	-	153
Bonds and Investment certificates issued	-	-	-	-
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	-	24,544	24,544
Fair value adjustments of the hedged items in portfolio hedge	-	(22,731)	-	(22,731)
Derivatives used for hedging	-	27,912	-	27,912

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

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 (5) bps (1-year) to 47 bps (20-year) in 2021 and 0 bps (1-year) to 39 bps (20-year) in 2020.

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 are used for ČEB bonds. 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 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. In 2021, Visa A-class shares were sold out of the Bank. A gain realised on the sale amounted to CZK 51 m (net of tax) directly recognized in Retained earnings in equity.

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	Equity securities	
At 1 January 2020	**862**	**24,904**	**745**	**26,511**
Total gains / (losses) recorded in profit or loss	115	(205)	-	(90)
Total gains 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)
At 1 January 2021	**729**	**26,511**	**737**	**27,977**
Total gains / (losses) recorded in profit or loss	1,141	(375)	-	766
Total gains / (losses) recorded in other comprehensive income	-	(1,302)	25	(1,277)
Purchases	-	192	62	254
Settlement	(1,005)	(394)	-	(1,399)
KH Payment Services transferred from financial assets at FVOCI to the Investments in subsidiaries (Note: 18)	-	-	(342)	(342)
At 31 December 2021	**865**	**24,632**	**482**	**25,979**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	1,141	(375)	-	766

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 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
At 1 January 2021	**2,224**	**340**	**25,575**	**28,139**
Total (gains) / losses recorded in profit or loss	(186)	(39)	(158)	(383)
Issued	-	-	6,410	6,410
Settlement	(2,037)	(135)	(1,190)	(3,362)
Sales	(1)	-	(6,093)	(6,094)
At 31 December 2021	**-**	**166**	**24,544**	**24,710**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	-	(39)	(260)	(299)

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 2021, 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 155 m and CZK 6 m, respectively (2020: CZK 296 m and CZK 10 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 2020 and 2021, 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:

	2021		2020	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	37,290	37,290	25,782	25,782
Financial assets at amortised cost	1,386,904	1,348,506	1,349,312	1,347,766
Debt securities	*498,504*	*473,962*	*438,979*	*451,293*
Loans and advances	*888,400*	*874,544*	*910,333*	*896,473*
Financial assets at amortised cost pledged as collateral	33,904	33,452	40,930	40,436
Other assets (Note: 23)	801	801	844	844
Financial liabilities				
Financial liabilities at amortised cost	1,454,930	1,455,083	1,402,137	1,403,385
Deposits	*1,037,194*	*1,037,500*	*989,828*	*991,140*
Debt securities in issue	*394,919*	*394,766*	*409,377*	*409,313*
Lease liabilities	*3,378*	*3,378*	*2,932*	*2,932*
Subordinated debt	*19,439*	*19,439*	-	-
Other liabilities (Note: 26)	3,449	3,449	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 2021:

	2021			
(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	8,309	28,981	-	37,290
Financial assets at amortised cost	177,862	589,534	581,110	1,348,506
Debt securities	*177,862*	-	*296,100*	*473,962*
Loans and advances	-	*589,534*	*285,010*	*874,544*
Financial assets at amortised cost pledged as collateral	33,452	-	-	33,452
Other assets (Note: 23)	-	801	-	801
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,423,613	31,470	1,455,083
Deposits	-	*1,025,469*	*12,031*	*1,037,500*
Debt securities in issue	-	*394,766*	-	*394,766*
Lease liabilities	-	*3,378*	-	*3,378*
Subordinated debt	-	-	*19,439*	*19,439*
Other liabilities (Note: 26)	-	3,449	-	3,449

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:

	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	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 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)	2021	2020
Cash, balances with central banks and other demand deposits (Note: 14)	37,290	25,782
Loans and advances to credit institutions and central banks	591,307	626,323
Financial liabilities at amortised cost to credit institutions and central banks	(15,583)	(11,202)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(394,918)	(409,377)
Cash and cash equivalents	**218,096**	**231,526**

Change in operating assets

(CZKm)	2021	2020
Net change in financial assets held for trading (incl. assets pledged as collateral)	(16,209)	(9,114)
Net change in non-trading financial assets mandatorily at fair value through profit or loss	382	(845)
Net change in financial assets at FVOCI (including assets pledged as collateral)	2,657	(2,033)
Net change in financial assets at amortised cost	(64,838)	(90,826)
Net change in derivatives used for hedging	(15,080)	(1,357)
Net change in other assets	107	59
	(92,981)	**(104,116)**

Change in operating liabilities

(CZKm)	2021	2020
Net change in financial liabilities held for trading	13,984	(10,415)
Net change in financial liabilities designated at fair value through profit or loss	(1,031)	(16,656)
Net change in financial liabilities at amortised cost	42,968	124,427
Net change in derivatives used for hedging	14,582	2,158
Net change in other liabilities	258	(297)
	70,761	**99,217**

Non-cash items included in profit before tax

(CZKm)	2021	2020
Depreciation and amortisation	1,631	1,519
Impairment on investments in subsidiaries, associates and joint ventures (Note: 11)	419	-
Impairment on property and equipment (Note: 11)	89	8
Impairment on investment securities (Note: 11)	4	9
Impairment on goodwill and other intangible assets (Note: 11)	-	163
Impairment on other assets (Note: 11)	(2)	(6)
Provisions	(194)	19
Allowances and provisions for credit losses (Note: 11)	(2,368)	4,405
Net change in fair value adjustments of the hedged items in portfolio hedge	(10,076)	(1,516)
Other	(10)	-
	(10,507)	**4,601**

The table below sets out the movements of the debt instruments issued by the Bank and lease liabilities in 2021 and 2020. The debt items are those that are reported within net cash flows used in financing activities in the statement of cash flows:

	Financial liabilities at amortised cost (Note: 25)	
(CZKm)	Bonds issued	Lease liabilities
At 1 January 2020	**-**	**3,302**
Cash flows in respect of issuance, repayment and interest paid on bonds	-	-
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**
At 1 January 2021	**-**	**2,932**
Cash flows in respect of issuance, repayment and interest paid on bonds	19,439	-
Cash flows in respect of payments for the principal of lease liabilities	-	(590)
Cash flows in respect of payments for the interest of lease liabilities	-	(55)
Non-cash adjustments	-	1,091
At 31 December 2021	**19,439**	**3,378**

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 2021:

(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)	37,290	-	-	-	37,290
Financial assets held for trading					
Financial derivatives	17,348	29,597	9,311	-	56,256
Other than financial derivatives	1	-	-	-	1
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	-	-	-	1,410
Financial assets at fair value through other comprehensive income	3,675	14,057	15,822	482	34,036
Financial assets at fair value through other comprehensive income pledged as collateral	-	-	221	-	221
Financial assets at amortised cost	740,244	300,404	346,256	-	1,386,904
Financial assets at amortised cost pledged as collateral	11,581	7,120	15,203	-	33,904
Fair value adjustments of the hedged items in portfolio hedge	(3,841)	(6,619)	(592)	-	(11,052)
Derivatives used for hedging	6,032	12,994	4,507	-	23,533
Other assets (Note: 23)	801	-	-	-	801
Total carrying value	**814,541**	**357,553**	**390,728**	**482**	**1,563,304**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	17,294	29,873	9,319	-	56,486
Other than financial derivatives	684	-	-	-	684
Financial liabilities designated at fair value through profit or loss	9,626	10,381	4,537	-	24,544
Financial liabilities at amortised cost	618,189	392,824	443,917	-	1,454,930
of which lease liabilities	*514*	*1,774*	*1,090*	-	*3,378*
Fair value adjustments of the hedged items in portfolio hedge	(5,946)	(13,021)	(3,764)	-	(22,731)
Derivatives used for hedging	7,659	15,822	4,431	-	27,912
Other liabilities (Note: 26)	3,449	-	-	-	3,449
Total carrying value	**650,955**	**435,879**	**458,440**	**-**	**1,545,274**

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 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**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2021 and 2020 are as follows:

(CZKm)	2021	2020
Loan commitments - irrevocable (Note: 38.2)	131,704	121,201
Loan commitments - revocable	53,635	53,114
Financial guarantees (Note: 38.2)	50,777	43,466
Other commitments (Note: 38.2)	2,499	2,067
	238,615	**219,848**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	323	411

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)	2021	2020
Not later than 1 year	40	46
Later than 1 year and not later than 5 years	50	105
	90	**151**

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)	2021	2020
Financial assets		
Financial assets at amortised cost	589,562	619,743
	589,562	**619,743**

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 2021 was CZK 662,359 m, of which CZK 48,208 m has been either sold or repledged (31 December 2020: CZK 667,830 m and CZK 38,325 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)	2021	2020
Financial liabilities		
Financial liabilities held for trading	153	579
Financial liabilities at amortised cost	8,347	36,796
	8,500	**37,375**

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 2021 and 2020:

	2021		
(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	77,596	-	77,596
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,193	-	2,193
Total trading and hedging derivatives	**79,789**	**-**	**79,789**
Repurchase agreements set-off	27,092	27,092	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	589,563	-	589,563
Total repurchase agreements (Note: 34)	**616,655**	**27,092**	**589,563**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	74,936	-	74,936
Derivatives not set-off that are not subject to an enforceable master netting arrangement	9,462	-	9,462
Total trading and hedging derivatives	**84,398**	**-**	**84,398**
Repurchase agreements set-off	27,092	27,092	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	8,500	-	8,500
Total repurchase agreements (Note: 34)	**35,592**	**27,092**	**8,500**

	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**

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 2021:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set off: Financial instruments	Amounts not set off: Cash collateral	Amounts not set off: Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	77,596	66,506	10,509	-	581
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	-	-	-	-	-
Total carrying value	**77,596**	**66,506**	**10,509**	**-**	**581**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	74,936	66,506	1,444	-	6,986
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	-	-	-	-	-
Total carrying value	**74,936**	**66,506**	**1,444**	**-**	**6,986**

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	Amounts not set off: Cash collateral	Amounts not set off: 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 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.

Counterparties are on a daily basis exchanging their current exposure (MTM) of derivative position and then based upon agreed parameters in CSA (Credit Support Annex) are exchanging collateral (variation margin) to cover this exposure and its daily changes.

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 2021 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	1,056	36,643	1,410	-	204	20,702	-
Entities under common control							
ČSOB SK	14	1	-	-	-	-	-
Other	395	22	-	-	-	-	161
Subsidiaries							
BANIT	-	-	-	-	39	-	4
ČSOBS		2,925					
ČSOB Factoring	-	-	-	-	2,519	-	-
ČSOB Leasing	-	-	-	-	19,773	-	-
Hypoteční banka	112	574		22,208	287,302	1,636	
Patria Finance	-	-	-	-	1,107	-	-
Radlice Rozvojová	-	-	-	-	1,344	-	12
Joint ventures							
MallPay	-	-	-	-	43	-	-
Associates							
ČSOB Pojišťovna	-	15	-	-	-	-	6

The outstanding balances of liabilities from related party transactions as at 31 December 2021 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	36	-	69
KBC Bank NV	25,256	417,328	25,849	-
Entities under common control				
ČSOB AM	-	113	-	-
ČSOB SK	8	81	-	-
Other	-	173	-	31
Subsidiaries				
BANIT	-	2	-	27
ČSOBS	3,899	16	315	-
ČSOB Advisory	-	43	-	-
ČSOB Leasing	-	75	-	-
Hypoteční banka	7,407	6,625	87	-
Patria Corporate Finance	-	22	-	-
Patria Finance	-	83	-	-
Radlice Rozvojová	-	1,103	-	-
Ušetřeno	-	29	-	-
Joint ventures				
MallPay	-	-	-	-
Associates				
ČSOB Pojišťovna	518	463	-	-

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	-	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	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 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, subordinated debts (Notes: 25, 39) 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:

	2021		2020	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank NV	2,409	5,468	2,967	3,389
Entities under common control				
ČSOB AM	-	-	-	6
ČSOB SK	-	12	-	11
Other	4	3	2	2
Subsidiaries				
BANIT	2	-	3	-
ČSOBS	1	-	2	-
ČSOB Factoring	12	-	13	-
ČSOB Advisory	-	-	-	5
ČSOB Leasing	179	-	260	-
Hypoteční banka	5,162	325	4,792	342
Patria Finance	21	-	24	-
Radlice Rozvojová	42	15	43	13
Ušetřeno	-	-	-	-
Associates				
ČSOB Pojišťovna	-	53	-	44

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2021 Fee and commission income	2021 Fee and commission expense	2020 Fee and commission income	2020 Fee and commission expense
KBC Bank NV	86	26	54	4
Entities under common control				
ČSOB AM	559	-	369	-
ČSOB SK	20	-	16	-
KBC Asset Management	506	-	436	-
Other	18	2	14	1
Subsidiaries				
BANIT	1	294	1	286
ČSOBS	22	-	15	23
ČSOB Factoring	1	-	1	-
ČSOB Leasing	38	-	31	-
ČSOB Penzijní společnost	25	-	21	-
Hypoteční banka	338	151	212	190
Patria Finance	28	1	24	1
Associates				
ČSOB Pojišťovna	556	-	504	-

Dividend income received from subsidiaries, associates and joint ventures in 2021 amounted to CZK 2,345 m (2020: CZK 4,229 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2021 amounted to CZK 27 m (2020: CZK 22 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 2021, the Bank received income of CZK 179 m (2020: CZK 182 m) from the provision of administration services and paid expense of CZK 474 m (2020: CZK 454 m) for IT services, including rental expenses on information technologies.

In 2021, the Bank received income of CZK 632 m (2020: CZK 593 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 2021, the Bank continued with integration of Group and thus received income of CZK 450 m (2020: CZK 230 m) from Hypoteční banka and ČSOBS 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)	2021 Guarantees received	2021 Guarantees given	2020 Guarantees received	2020 Guarantees given
KBC Bank NV	2,173	146	2,345	113
Entities under common control				
ČSOB SK	1,695	12	1,979	12
K&H Bank Zrt	287	400	171	-
Subsidiaries				
ČSOB Leasing	-	7,962	-	4,119

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

37. EVENTS AFTER THE REPORTING PERIOD

At the time the annual financial statements being prepared, the invasion of Russia in Ukraine required additional attention at Group level. As this event happened on 24 February 2022, it is considered as non-adjusting subsequent event. ČSOB has a very limited direct exposure to Ukraine, Belarus and Russia, mainly stemming from trade financing. The Bank is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spil-lover effects to the Bank and its clients, both financially and operationally, with a high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

The war in Ukraine, continuously increasing inflation and sharp interest rates increase (ČNB 2W repo rate has increased from 3.75% at the year-end 2021 to 5.00% in April 2022) will have the impact on Bank's results in 2022 (but not have any impact on our financial position at year-end 2021). As this event happened in 2022, it is considered as non-adjusting subsequent event. It is impossible at this stage to make a reliable estimate of what the consequences will be for the economy and, more specifically, for the Bank. We are, of course, closely monitoring the situation. As always, the Bank is adopting a cautious and conservative approach, even though our strong capital and liquidity positions are such that we are able to withstand even highly adverse scenarios. In 1Q 2022, the Bank will create specific impairment to cover credit risk raising from this situation.

On 30 March 2022, ČSOB reached agreement to acquire remaining 50% share in MallPay from Titancoin International a.s. Until 31 March 2022, ČSOB was exercising its influence in MallPay jointly with Mall Group. Based on the transaction, ČSOB has assumed 100% ownership control of MallPay, as a consequence, MallPay lost its status of joint-venture and became a ČSOB's subsidiary since 1 April 2022.

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.

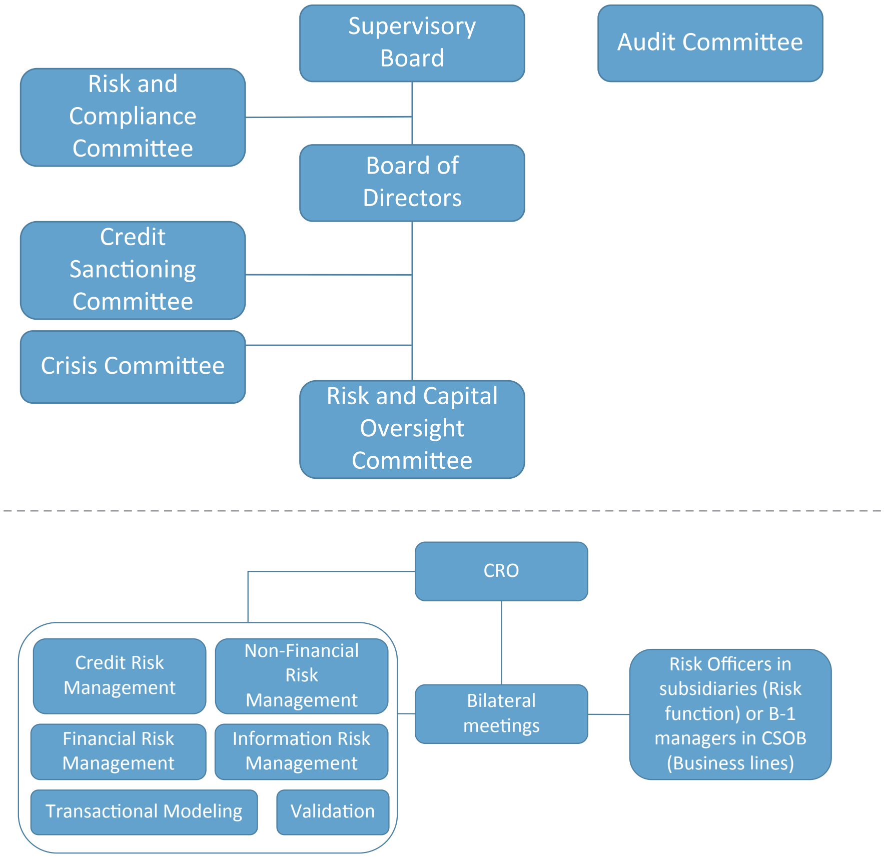
38. RISK MANAGEMENT

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. This section is focused on our risk governance model and the most material risks the Bank faces.

Risk and Capital Management Governance

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).

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.

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.

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.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors with risk and capital monitoring within ČSOB's.

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 all risk management functions / departments.

Risk Officer

Role of Risk officer is crucial for effective 2nd line in the entities of ČSOB Holding. The Risk officer thus acts as a CRO of the particular company based on a delegation from ČSOB CRO.

Risk Function

The risk function is organized in the following risk specific departments: Financial Risk Management, Non-financial Risk Management, Group Information Management, Transactional Modeling and Credit Risk Management which are complemented by one team responsible for Central Credit risk and loss Measurement Validation. 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. 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.

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.

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.

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 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.

Components of sound risk management

Risk management refers to the coordinated set of activities to proactively identify and manage the many risks that can affect the group in its ability to achieve its objectives and in order to support the realisation of the Group strategy.

The KBC Risk Management Framework (RMF) sets strict governance and clear rules and procedures on how risk management should be performed throughout the group. It also refers to a set of minimum standards and risk methods, processes and tools that all entities and risk-type specific RMF must adhere to for which Group Risk is primarily responsible.

In the risk management process, the process steps are not strictly sequential and interact with one another. The generic risk management process steps are dealt with in more detail under each risk type separately in the sections below.

Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the group's strategic objectives today and in the future.

One of the tools used for risk identification is the 'New and Active Products Process' (NAPP). This process is set up to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. The NAPP is a formalised process applicable throughout the group. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. All NAPP proposals are reviewed on a periodic basis, both by group and local risk in order to assess the impact of these proposals on the group's risk profile. A group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting phase, has been rolled out in all material entities of the group.

Risk measurement

Risk measurement aims to quantify the various risks that we are exposed to. Once risks have been identified, certain attributes can be assessed, such as impact, probability of occurrence, size of exposure, etc. with the help of risk measures. Each risk-type-specific framework provides an overview of the risk measures in use within the group (both regulatory and internally defined).

Setting and cascading risk appetite

How much risk we are prepared to assume and our tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in our overall (risk) management function, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – how much and what kind of risk we want to take. The ability to accept risk (risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders. A key component in defining risk appetite is therefore an understanding of the organisation's key stakeholders and their expectations.

Risk appetite within the group is set out in a 'risk appetite statement' (RAS), which is produced at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to corporate strategy and provides a qualitative description of KBC's playing field. These high-level risk appetite objectives are further specified in qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is specified as High, Medium or Low based on the metrics and thresholds stipulated in the 'risk appetite underpinning exercise' performed for the main risk types. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give management an increased level of transparency by ensuring a comprehensive, forward-looking and ex-post view of the changing risk profile and the context in which the group operates. In addition to internal reporting, external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, the output should be complete, well balanced, easy to understand and focused on key messages/proposed actions. It is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

Stress testing is a tool that supports the decision making process and encompasses various techniques used to assess the potential negative impact on KBC's (financial) condition, caused by specific events and/or movements in risk factors ranging from plausible to exceptional or even extreme.

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 are 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 2021 and 2020. The maximum exposure is shown as net carrying amount without taking account of any collateral and other credit enhancements.

	2021				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	1,943	27,038	-	-	28,981
Financial assets held for trading (Note: 15)	-	12,625	43,632	-	56,257
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,410	-	-	1,410
Financial assets FVOCI (Note: 16)	1,949	31,606	-	-	33,555
Financial assets FVOCI pledged as collateral	-	221	-	-	221
Financial assets at AC	294,268	1,090,715	-	1,921	1,386,904
Financial assets at AC pledged as collateral	-	33,904	-	-	33,904
Fair value adjustments of the hedged items in portfolio hedge	-	(11,052)	-	-	(11,052)
Derivatives used for hedging	-	23,533	-	-	23,533
Other assets (Note: 23)	-	-	-	801	801
Total	298,160	1,210,000	43,632	2,722	1,554,514
Contingent liabilities (Note: 33)	44,841	7,943	-	328	53,112
Commitments – irrevocable (Note: 33)	130,878	667	-	-	131,545
Total	175,719	8,610	-	328	184,657
Total credit risk exposure	**473,879**	**1,218,610**	**43,632**	**3,050**	**1,739,171**

	2020				
(CZKm)	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**

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:

	2021			2020		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 14)	28,981	-	28,981	17,118	-	17,118
Financial assets held for trading (incl. assets pledged as collateral)	56,257	10,414	45,843	40,047	1,350	38,697
Financial derivatives	56,256	10,414	45,842	39,945	1,350	38,595
Financial assets other than derivatives	1	-	1	102	-	102
Non-trading financial assets mandatorily at fair value through profit or loss	1,410	-	1,410	1,792	-	1,792
Financial assets FVOCI (incl. assets pledged as collateral)	33,776	-	33,776	37,333	-	37,333
Financial assets at amortised cost (incl. assets pledged as collateral)	1,420,808	727,652	693,156	1,390,242	749,808	640,434
of which non-performing assets	*4,673*	*3,402*	*1,271*	*5,205*	*3,287*	*1,918*
Fair value adjustments of the hedged items in portfolio hedge	(11,052)	-	(11,052)	4,686	-	4,686
Derivatives used for hedging	23,533	259	23,274	10,023	54	9,969
Other assets (Note: 23)	801	-	801	844	-	844
Total	1,554,514	738,325	816,189	1,502,085	751,212	750,873
Contingent liabilities and commitments – irrevocable (Note: 33)	184,657	48,037	136,620	166,323	45,904	120,419
of which non-performing exposures	*527*	*327*	*200*	*663*	*363*	*300*
Total credit risk exposure	**1,739,171**	**786,362**	**952,809**	**1,668,408**	**797,116**	**871,292**

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:

	2021			2020		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
Non-performing exposures total						
Corporate	*2,716*	*2,077*	*639*	*3,132*	*1,843*	*1,289*
SME	*1,959*	*1,648*	*311*	*2,294*	*1,802*	*492*
Retail	*514*	*4*	*510*	*396*	*1*	*395*
Other	*11*	*-*	*11*	*46*	*4*	*42*
Total non-performing exposures	***5,200***	***3,729***	***1,471***	***5,868***	***3,650***	***2,218***

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:

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	174,816	40,193	69,350	**284,359**	(3,119)	(210)	**281,030**
SME	93,494	4,800	49,184	**147,478**	(3,155)	(95)	**144,228**
Retail	35,159	-	12,391	**47,550**	(1,547)	(16)	**45,987**
Other	2,513	12	111	**2,636**	(1)	(1)	**2,634**
Total credits	**305,982**	**45,005**	**131,036**	**482,023**	**(7,822)**	**(322)**	**473,879**

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**

The following tables show a reconciliation of the allowances for impairment losses on credit portfolio for 2020 and 2021 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2020	**2,097**	**3,236**	**1,193**	**14**	**6,540**
Stage 1					
At 1 January 2020	**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**
Origination and acquisition	71	60	76	-	207
Change in credit risk not leading to stage transfers	(133)	(8)	(85)	(1)	(227)
Change in credit risk leading to stage transfer	2	(4)	(4)	-	(6)
Modification without derecognition	-	-	(3)	-	(3)
Derecognition	-	(21)	(32)	-	(53)
Foreign currency translation	(4)	-	54	-	50
At 31 December 2021	**200**	**194**	**156**	**-**	**550**
Stage 2					
At 1 January 2020	**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**
Origination and acquisition	-	-	-	-	-
Change in credit risk not leading to stage transfers	(533)	(1,313)	(124)	(2)	(1,972)
Change in credit risk leading to stage transfer	(13)	31	24	-	42
Modification without derecognition	-	(10)	2	-	(8)
Derecognition	-	(57)	(28)	-	(85)
Foreign currency translation	6	(2)	(151)	-	(147)
At 31 December 2021	**614**	**869**	**569**	**1**	**2,053**

Stage 3					
At 1 January 2020	**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**
Origination and acquisition	-	-	-	-	-
Change in credit risk not leading to stage transfers	(417)	(16)	43	27	(363)
Change in credit risk leading to stage transfer	292	140	273	41	746
Modification without derecognition	-	51	71	-	122
Derecognition	-	(201)	(46)	-	(247)
Write-offs	(12)	(362)	(272)	(82)	(728)
Foreign currency translation	(1)	(3)	-	-	(4)
At 31 December 2021	**2,305**	**2,066**	**818**	**0**	**5,189**
POCI					
At 1 January 2020	**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**
Change in credit risk not leading to stage transfers	(3)	3	2	-	2
Change in credit risk leading to stage transfer	-	(6)	-	-	(6)
Derecognition	-	(7)	-	-	(7)
(Write-offs) / recoveries	(4)	(10)	-	-	(14)
At 31 December 2021	**-**	**26**	**4**	**-**	**30**

In 2021 and 2020, 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)	2021	2020
Balance of allowances for credit losses at 1 January	10,523	6,540
Balance of allowances for credit losses at 31 December	7,822	10,523
Net increase of allowances for credit losses for the year	**(2,701)**	**3,983**
Adjusted for:		
Write-offs	720	650
Recoveries	(432)	(322)
Sales of loans	22	10
Foreign currency translation	101	(2)
Net impairment (gains) / losses as reported in the income statement	**(2,290)**	**4,319**

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	2021 Granted exposure (CZKm)	2021 Percentage of total exposure	2020 Granted exposure (CZKm)	2020 Percentage of total exposure
Distribution	79,363	16.4	64,097	14.1
Commercial Real Estate	58,185	12.1	58,609	12.9
Services	55,945	11.6	60,576	13.3
Building and Construction	47,003	9.8	38,154	8.4
Private persons	44,828	9.3	43,296	9.5
Automotive	32,501	6.7	32,650	7.2
Oil, Gas and other Fuels	20,617	4.3	22,130	4.9
Authorities	17,416	3.6	16,574	3.6
Machinery and Heavy Equipment	15,814	3.3	16,082	3.5
Metals	14,905	3.1	14,964	3.3
Finance and Insurance	11,852	2.5	11,206	2.6
Agriculture, farmers and fishing	11,349	2.4	9,839	2.2
Electrotechnics	8,239	1.7	7,905	1.7
Beverages	7,414	1.5	6,796	1.5
Media	6,928	1.4	6,258	1.4
Electricity	6,253	1.3	8,559	1.9
Other sectors	43,411	9.0	36,530	8.0
Total	**482,023**	**100.0**	**454,225**	**100.0**

The investment portfolio is structured according to the type of the instrument:

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	538,659	-	-	(69)	**538,590**
Loans and receivables within investment portfolio	608,218	7,943	667	(4)	**616,824**
Derivatives used for hedging	23,533	-	-	-	**23,533**
Derivatives held for trading	12,625	-	-	-	**12,625**
Cash, balances with central banks and other demand deposits	27,038	-	-	-	**27,038**
Total investment	**1,210,073**	**7,943**	**667**	**(73)**	**1,218,610**

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**

The following tables show a reconciliation of the allowances for impairment losses on investment portfolio for 2020 and 2021 by classes of financial instruments:

(CZKm)	Debt securities: Financial assets FVOCI	Debt securities: Financial assets at amortised cost	Total
Stage 1			
At 1 January 2020	**5**	**55**	**60**
Change in credit risk not leading to stage transfers	1	7	8
At 31 December 2020	**6**	**62**	**68**
Change in credit risk not leading to stage transfers	(1)	6	5
At 31 December 2021	**5**	**68**	**73**
Stage 2			
At 1 January 2020	**-**	**2**	**2**
Change in credit risk not leading to stage transfers	-	(2)	(2)
At 31 December 2020	**-**	**-**	**-**
Change in credit risk not leading to stage transfers	-	-	-
At 31 December 2021	**-**	**-**	**-**

The investment portfolio is monitored from a counterparty sector point of view:

Sector	2021 Granted exposure (CZKm)	2021 Percentage of total exposure	2020 Granted exposure (CZKm)	2020 Percentage of total exposure
Central banks	616,556	50.5	634,576	53.4
General government	227,442	18.7	204,865	17.3
Credit institutions	339,606	27.9	317,254	26.7
Corporate	35,006	2.9	30,402	2.6
Total investment	**1,218,610**	**100.0**	**1,187,097**	**100.0**

The trading portfolio is structured according to the type of the instrument:

2021 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	1	-	-	1
Derivatives held for trading	43,631	-	-	43,631
Total trading portfolio	**43,632**	**-**	**-**	**43,632**

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**

The trading portfolio is monitored from counterparty sector point of view:

Sector	2021 Granted exposure (CZKm)	2021 Percentage of total exposure	2020 Granted exposure (CZKm)	2020 Percentage of total exposure
Credit institutions	41,037	94.1	30,271	85.8
Corporate	2,595	5.9	4,998	14.2
Total trading portfolio	**43,632**	**100.0**	**35,269**	**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)	2021 Total risk	2021 of which General government	2020 Total risk	2020 of which General government
Czech Republic	1,617,716	224,252	1,564,231	199,565
Belgium	58,647	-	38,697	-
Slovak Republic	13,816	6,592	14,581	6,942
Hungary	1,609	-	480	-
Spain	1,442	-	1,098	-
Belarus	1,050	-	1,549	-
Russia	506	-	472	-
Ukraine	248	-	238	-
Italy	12	-	407	-
Greece	2	-	2	-
Other Europe	35,902	6,353	36,923	7,327
Other	8,221	-	9,730	-
Total	**1,739,171**	**237,197**	**1,668,408**	**213,834**

Credit risk exposures of the Bank towards the countries are reported before taking into account of collateral. Gross credit exposure to Belarus, Russia and Ukraine amounts to CZK 1,804 m at 31 December 2021 (31 December 2020: CZK 2,259 m). If collaterals, guarantees and other credit enhancements received by the Bank to limit the exposure are taken into account, then the net unsecured exposure to Belarus, Russia and Ukraine decreases to CZK 658 m at 31 December 2021 (31 December 2020: CZK 559 m).

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	2021 Granted exposure (CZK m)	2021 % of total credit portfolio	2020 Granted exposure (CZK m)	2020 % of total credit portfolio
1 largest client	9,605	2.0	9,636	2.1
10 largest clients	67,996	14.1	69,594	15.3
25 largest clients	112,587	23.4	110,482	24.3

The largest exposures to single clients in the investment portfolio as at 31 December 2021 and 31 December 2020 were:

Client	2021 Granted exposure (CZK m)	2021 % of total investment portfolio	2020 Granted exposure (CZK m)	2020 % of total investment portfolio
CNB	616,556	50.6	634,577	53.5
Hypoteční banka	311,258	25.5	288,257	24.3
Czech Ministry of Finance (S&P's rating AA)	214,498	17.6	190,599	16.1

The largest exposures to single clients in the trading portfolio as at 31 December 2021 and 31 December 2020 were:

Client	2021 Granted exposure (CZK m)	2021 % of total trading portfolio	2020 Granted exposure (CZK m)	2020 % of total trading portfolio
KBC Bank	25,256	57.9	24,173	68.5

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2021 and 31 December 2020 were:

Rating (S&P)	2021 Granted exposure (CZK m)	2021 % of total portfolio	2020 Granted exposure (CZK m)	2020 % of total portfolio
Investment portfolio				
AAA up to and including A-	879,465	72.2	861,693	72.6
BBB+ up to and including BB-	1,387	0.1	274	0.0
Unrated	337,758	27.7	325,130	27.4
Total	**1,218,610**	**100.0**	**1,187,097**	**100.0**
Trading portfolio				
AAA up to and including A-	35,575	81.5	25,849	73.3
BBB+ up to and including BB	6,149	14.1	333	0.9
Unrated	1,908	4.4	9,087	25.8
Total	**43,632**	**100.0**	**35,269**	**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 3,270 m at year-end 2021 and CZK 3,560 m in 2020), shows that the base scenario results in an ECL of CZK 4,604 m (CZK 7,147 in 2020), which is CZK 227 m lower than the "down"-scenario (CZK 93 m in 2020) and CZK 547 m higher than the "up"-scenario (CZK 206 m in 2020). The collectively calculated weighted ECL results (which was booked) amounts to CZK 4,636 m (CZK 7,094 m in 2020). Note that these amounts take into account the COVID-19 related management overlay (per scenario) (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 2021 and 2020:

Credit portfolio	2021					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	194,565	15,639	3,740	-	1,064	215,008
SME	78,722	15,517	2,353	207	1,496	98,295
Retail	31,415	2,410	406	148	781	35,160
Other	2,512	-	-	-	12	2,524
Total	**307,214**	**33,566**	**6,499**	**355**	**3,353**	**350,987**

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**

Loan portfolio breakdown by risk class (in gross amounts) based on internal rating scale:

	2021			2020		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-defaulted assets						
PD 1 (default probability 0:00% - 0.10%)	24,588	7	-	18,050	386	-
PD 2 (0.10% - 0.20%)	37,040	90	-	35,942	87	-
PD 3 (0.20% - 0.40%)	53,111	105	-	42,612	290	-
PD 4 (0.40% - 0.80%)	67,250	1,914	-	63,896	1,589	-
PD 5 (0.80% - 1.60%)	63,856	5,016	-	64,080	6,737	-
PD 6 (1.60% - 3.20%)	45,217	8,963	-	42,683	10,738	-
PD 7 (3.20% - 6.40%)	13,010	6,801	-	13,183	7,413	-
PD 8 (6.40% - 12.80%)	3,022	5,948	-	2,831	5,637	-
PD 9 (> 12.80%)	118	4,692	-	94	6,049	-
Unrated	2	30	-	55	8	-
Defaulted assets						
PD 10	-	-	6,499	-	-	7,289
PD 11	-	-	355	-	-	325
PD 12	-	-	3,353	-	-	3,780
Total	**307,214**	**33,566**	**10,207**	**283,426**	**38,934**	**11,394**

Investment portfolio	2021			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	538,520	70	-	538,590
Loans and receivables within investment portfolio	616,824	-	-	616,824
Derivatives used for hedging	23,533	-	-	23,533
Derivative contracts held for trading	12,625	-	-	12,625
Cash, balances with central banks and other demand deposits	27,038	-	-	27,038
Total	**1,218,540**	**70**	**-**	**1,218,610**

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**

Trading portfolio	2021		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Loans and advances	1	-	1
Derivative contracts held for trading	43,631	-	43,631
Total	**43,632**	**-**	**43,632**

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**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2021 Neither past due nor defaulted	2021 Past due (< 30 days) but not defaulted	2021 Past due (> 30 days) but not defaulted	2020 Neither past due nor defaulted	2020 Past due (< 30 days) but not defaulted	2020 Past due (> 30 days) but not defaulted
Corporate	170,271	-	-	159,722	50	-
SME	89,303	154	27	86,203	90	14
Retail	33,471	300	54	32,553	338	79
Other	2,513	-	-	2,392	-	-
Total	**295,558**	**454**	**81**	**280,870**	**478**	**93**

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)	2021 Gross amount	2021 Impairment	2020 Gross amount	2020 Impairment
Credit portfolio				
Corporate	4,804	2,447	5,375	(2,634)
SME	4,056	2,097	4,810	(2,516)
Retail	1,335	821	1,147	(751)
Other	12	1	62	(17)
Total	**10,207**	**5,366**	**11,394**	**(5,918)**

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.

COVID-19 related concessions provided under public and private moratoria schemes (e.g. imposed by Czech government in the form of the law) were 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 2021 and 2020 are as follows:

(CZKm)	2021 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	174,816	5,441	3.11	1,571	2,769
SME	93,494	5,193	5.55	1,080	3,262
Retail	35,159	1,064	3.03	252	4
Other	2,512	-	0.00	-	-
Total	**305,981**	**11,698**	**3.82**	**2,903**	**6,035**

(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**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2021 and 2020 are as follows:

(CZKm)	2021 Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	2,003	-	3,438	1,529	42
SME	3,136	14	2,057	978	102
Retail	659	31	405	199	53
Other	-	-	-	-	-
Total	**5,798**	**45**	**5,900**	**2,706**	**197**

(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**

The following table shows a reconciliation of Gross amounts of forborne exposure for 2021 and 2020 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2020	**1,307**	**1,004**	**84**	**2**	**2,397**
Loans 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**
Loan which have become forborne	890	471	449	-	1,810
Loans which are no longer considered to be forborne	(1,111)	(571)	(165)	-	(1,847)
Increase of exposure	447	51	2	-	500
Decrease of exposure	(717)	(617)	(95)	(29)	(1,458)
At 31 December 2021	**5,441**	**5,193**	**1,064**	**-**	**11,698**

The following table shows a reconciliation of Impairments of forborne exposures for 2021 and 2020 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2020	**326**	**582**	**37**	**-**	**945**
Loans 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**
Loan which have become forborne	284	115	105	-	504
Loans which are no longer considered to be forborne	(90)	(170)	(29)	-	(289)
Increase of exposure	124	186	43	-	353
Decrease of exposure	(237)	(327)	(46)	(4)	(614)
At 31 December 2021	**1,571**	**1,080**	**252**	**-**	**2,903**

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. Liquidity and funding are managed centrally in the Group. To align internal management approach with regulatory view, the Group established, following approval of ČNB, a liquidity subgroup as laid down by Capital Requirements Regulation (CRR). The liquidity subgroup comprised ČSOB and Hypoteční banka, with ČSOB Stavební spořitelna having joined as of June 2021. 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 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 ČNB 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 2021 and 2020 was as follows:

(%)	2021	2020
31 March	144.2	124.9
30 June	141.2	131.8
30 September	142.1	131.3
31 December	140.6	133.8

The LCR ratio is regularly monitored and reported to the regulator and 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.

Both E-NSFR and NSFR are monitored on a monthly basis and regularly reported to the top management of the Group. NSFR is also quarterly reported to the regulator. 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 2021:

(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	-	(701)	-	-	(701)
Financial liabilities designated at fair value through profit or loss	-	(9,875)	(11,637)	(5,638)	(27,150)
Financial liabilities at amortised cost	(942,631)	(491,975)	(16,053)	(24,084)	(1,474,743)
of which lease liabilities	-	*(500)*	*(1,682)*	*(1,209)*	*(3,391)*
Fair value adjustments of the hedged items in portfolio hedge	22,731	-	-	-	22,731
Other liabilities (Note: 26)	-	(3,538)	-	-	(3,538)
Contractual cash flows excluding derivatives	**(919,900)**	**(506,089)**	**(27,690)**	**(29,722)**	**(1,483,401)**
Net settled derivatives	**-**	**(24,342)**	**(49,841)**	**(8,043)**	**(82,226)**
Trading derivatives	-	(15,948)	(31,142)	(5,087)	(52,177)
Hedging derivatives	-	(8,394)	(18,699)	(2,956)	(30,049)
Gross settled derivatives	**-**	**(8,235)**	**(1,519)**	**(197)**	**(9,951)**
Trading derivatives	-	(8,261)	(1,578)	(197)	(10,036)
Inflows	-	*255,967*	*85,651*	*8,878*	*350,496*
Outflows	-	*(264,228)*	*(87,229)*	*(9,075)*	*(360,532)*
Hedging derivatives	-	25	59	-	84
Inflows	-	*2,878*	*1,097*	-	*3,975*
Outflows	-	*(2,853)*	*(1,038)*	-	*(3,891)*
Contractual cash flows from derivatives	**-**	**(32,577)**	**(51,360)**	**(8,240)**	**(92,177)**
Contractual cash flows from financial liabilities	**(919,900)**	**(538,666)**	**(79,050)**	**(37,962)**	**(1,575,578)**
Loan commitments – irrevocable (note 33)	(131,704)	-	-	-	(131,704)
Loan commitments – revocable (note 33)	(53,635)	-	-	-	(53,635)
Financial guarantees (note 33)	(50,777)	-	-	-	(50,777)
Other commitments (note 33)	(2,499)	-	-	-	(2,499)
Contractual cash flows from contingent liabilities	**(238,615)**	**-**	**-**	**-**	**(238,615)**

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 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 is managed and monitored using Basis Point Value (BPV) sensitivity. As from September 2019, only residual technical position remains in the Bank trading portfolio after the full implementation of the programme of trading portfolios centralization on the KBC Group level. 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. 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 Bank 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.

Only minimal BPV limits are applied for individual products and portfolios since January 2020 after transfer of trading positions to KBC Bank.

The capital requirements for interest rate and foreign exchange risks are calculated by application of standardized method since January 2020.

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 2021:

		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	3.8	10.3	21.2	4.3	39.5
EUR	+ 10	-	(0.1)	(1.8)	(4.1)	(5.9)
USD	+ 10	-	-	-	-	-
CZK	- 10	(3.8)	(10.3)	(21.2)	(4.3)	(39.5)
EUR	- 10	-	0.1	1.8	4.1	5.9
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	0.1	0.6	(13.0)	(75.7)	(88.1)
EUR	+ 10	(0.2)	0.2	(11.0)	(1.7)	(12.7)
USD	+ 10	-	-	-	-	-
CZK	- 10	(0.1)	(0.6)	13.0	75.7	88.1
EUR	- 10	0.2	(0.2)	11.0	1.7	12.7
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 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	-	-	-	-	-

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 2021 and 2020:

	2021			2020		
(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	15	1	(1)	42	2	(2)

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)		2021	2020
Visa Inc. quotation	- 10	(36)	(72)
	+ 10	36	72

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.

Operational Risk Management Framework

Operational Risk Management Framework consists of four key building blocks:

1. Risk identification
2. Risk measurement
3. Risk response
4. Reporting & follow-up

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, business and reputational impact. 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 (NFR)

The NFR is responsible for management and monitoring in the non-financial risk management area and business continuity and is responsible for the reporting in the area of non-financial risk. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Information Risk Management Department (IRM)

The IRM is responsible for management, monitoring and reporting in the information risk management area.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of non-financial risks Their role is to monitor, analyse and prevent operational risk events, informational risks and business continuity events. Beside frequent contacts, regular meetings of LORMs are organised by the NFR every quarter for training and exchange of information.

Key Elements of Risk Identification and of Operational Risk Management

Loss Data Collection Process

Loss Data Collection is a process of analysing and collection of realized or potential loss events resulting from an operational risk event. This method is a key element for estimation of future expected losses.

Operational loss data are used for reporting towards the regulator and management. They are also used as an important source of information for identification of gaps in the internal control environment.

The bank collects data about loss events with both direct and indirect impact, as well as events which could potentially impact the profit & loss but which do not lead to a financial impact – so called near misses. Losses and near misses are registered into a loss database GLORY.

Deep Dive

The *Deep Dive* aims to identify and quantify operational risks in products, activities, processes and systems. This method is usually selected when there has not been any previous risk assessment in a process or its part or there are other reasons for risk reassessment, e.g. unexpected increase of the operational loss events, breach of the risk appetite or repetitive breaches of the Key Risk Indicators.

NAPP and the Process of Change Management

New and Active Product Process (NAPP) ensures that all products and services offered to clients are analysed in order to identify and assess operational risks. NAPP applies to all the subjects in the ČSOB group in the financial sector or acting as an independent intermediary, and to all the products, services and processes with an impact on external clients.

Besides NAPP, a 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.

Outsourcing

A specific area of operational risk management are the risks related to outsourcing of activities, which is a subject to a specific regulation. Outsourcing is any agreement between ČSOB and a product provider (intra-group or external), based on which the service provider performs a process, service or activity, which would or could be otherwise performed by ČSOB itself.

Outsourcing contract is categorized as critical or non-critical, whereby the intention to outsource a critical activity needs to be report to the regulator beforehand. The final accountability for the risks related to the outsourced activity cannot be transferred to a third party.

Business Continuity Management

Business continuity is based on two main pillars:

- Proactive approach (prevention): setting up the strategy, tactical solutions and processes towards solving various non-standard situations. It is based on risk assessment of individual activities in the bank with the aim to identify vulnerabilities, assess their probabilities and impact. Based on this assessment, business continuity plans are defined in order to ensure business continuity in case of non-standard situations (4 main scenarios).
- Reactive approach (crisis management): deals with originated crisis situations. Based on the severity of potential impact of the non-standard situations, 3 levels of crisis management are defined for each type of crisis.

Global 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 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 (LRCA)

LRCA is a process used for identification and measurement of local Key Risks of individual processes and the related Key Controls which mitigate the potential inherent impact of the identified risks. On the group level, the Group Key Controls and Zero Tolerances (GKC/ZT) determine the basic control objectives to mitigate key & killer non-financial risks that are inherent to the processes of the business entities. Each GKC/ZT contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach aims to identify new local key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Operational Risk Measurement

The basic aim of the risk measurement is quantification of their impact. Risk impacts of identified risks are reflected in the overall risk exposure of ČSOB which is measured using defined risk indicators.

Uniform Risk Scale

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels (low-medium-high-critical risk) , where financial limits and also non-financial criteria are taken into account.

Key Risk Indicators (KRI)

KRIs inform on the state of the control environment in a given process. Indicators are linked to particular risks, i.e. they must include at the minimum their owner, limit for a breach, frequency and way of measurement and escalation process.

Measurement of risk exposure – GORA

The approach and indicators for measurement of risk exposure towards the risk appetite of the Bank, are defined on the Group level, using a group-wide GORA measurement tool. GORA includes a uniform set of quantitative and qualitative risk indicators for every sub-risk type.

Risk Assessment Approval and Risk Response

The final accountability for the operational risk management lies within the line management, which ensures adherence to the established working procedures and implementation of the operational risk management building blocks in their departments. Risks are approved by the respective managerial level based on the level of their risk impact.

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.

Action plans

The aim of the action plan is to close the identified control deficiencies and thus mitigate the risk exposure. The action plan must include description of the measures taken, their owners and deadlines. These measures should be measurable and reachable in the defined timeframe. For evidence and follow-up of the action plans a group-wide application BWise is used.

Reporting

The goal of operational risk reporting is to provide the management with the information about risk exposure in order to support their decision-making. NFR reports amongst others about breaches of the Zero Tolerances, highest operational risk events, breaches of the risk appetite, follow-up of the ICS strategies and others. In the yearly Internal Control Statement the internal control system of the Bank is evaluated for the individual GKC processes independently by the three lines of defence.

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 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 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 2021 and 2020 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 was expected that COVID-19 crisis would hit the banking sector materially. As a result, national regulator recommended not to pay any dividends from 2020 and 2019 profits to the shareholders. The Bank decided to fully follow this recommendation and strengthened its capital for expected portfolio worsening by retaining the full profits for years 2020 and 2019. During 2021, when the COVID-19 was remarkedly overcome, ČNB released its position regarding dividend payout and set up limits for the distribution of the previous year profits taking place by the year end 2021. Bank paid out CZK 4,100 m out of retained earnings to the sole shareholder in line with amended ČNB rules.

From 28 June 2021, the Bank has to meet the minimum leverage ratio at the level of 3%. The requirement has been met with a sufficient buffer.

From 1 January 2022, the Group has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB (Notes: 25, 35) . This requirement will increase to the ultimate level as of 1 January 2024. The Group manages MREL positions altogether with capital position and leverage ratio exposure.

The following table shows the capital, capital requirements and CAD ratio as of 31 December 2021 and 31 December 2020 for ČSOB:

(CZKm)	2021	2020
Tier 1 capital	95,891	100,571
Tier 2 capital	1,402	1,375
Total capital	**97,293**	**101,946**
Regulatory capital requirements	30,101	30,116
Risk weighted assets	**376,263**	**376,444**
Capital adequacy ratio	25.86%	27.08%
Eligible liabilities	19,439	-
Leverage ratio	5.34%	5.73%

REPORT ON RELATIONS

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, 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, ČSOB had relations mainly with the following related entities:

Trade name	Registered office	
Bankovní informační technologie, s.r.o.	Radlická 333/150, 150 00 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 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 00 Prague 5	Czech Republic
Eurincasso, s.r.o. v likvidaci (in liquidation)	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Hypoteční banka, a.s.	Radlická 333/150, 150 00 Prague 5	Czech Republic
KBC Asset Management NV	Havenlaan 2, 1080 Brussels	Kingdom of Belgium
KBC Bank NV	Havenlaan 2, 1080 Brussels	Kingdom of Belgium
KBC Group NV (legal entity)	Havenlaan 2, 1080 Brussels	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	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
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 more precisely KBC Bank NV as a direct controlling entity controls ČSOB through decision-making 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 on the basis of laws and regulations.

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, further information 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 services).

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 or in the Interest of the Controlling Entity or its Controlled Entities

Unless otherwise stated, no activities were carried out in the accounting period induced 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 aimed 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.

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 Report on Relation 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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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, transactions monitoring. The remuneration provided by the counterparties consisted of commissions and contractual fees. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Mortgage Bonds and Bonds

During the accounting period, ČSOB concluded or had concluded from the previous accounting periods 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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

In 2021, 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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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. 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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Agreements on Providing Services – other support services

During 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, credit risk assessment, 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. During the accounting period, ČSOB concluded 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, joint ownership agreements and agreements on development of a joint client database, 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. Licensing and software licence agreements. ČSOB entered into agreements on immovable property valuation. ČSOB entered into relationship management agreements. The consideration consisted of services and contractual rewards. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Agreements on the provision of voluntary monetary contributions

During 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 and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Such agreements have been executed by and between ČSOB and the following companies: Bankovní identita, a.s., Bankovní informační technologie, s.r.o., ČSOB Penzijní společnost, a.s., člen skupiny ČSOB, ČSOB Stavební spořitelna, a.s., Hypoteční banka a.s., Mallpay s.r.o., Radlice Rozvojová, a.s. and Ušetřeno.cz, s.r.o.

Agreement on the provision of contribution to insurance fees foregone

During the accounting period ČSOB entered into agreement on the provision of contribution to insurance fees foregone, the repayments of which were deferred under a statutory moratorium due to the coronavirus epidemic causing the COVID-19 disease. The consideration consisted of ensuring the continued operation of the insurance cover. The contract was concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

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.

Credit agreement for the purpose of meeting the minimum capital requirement and eligible liabilities

During the accounting period ČSOB entered with a controlling entity into agreement on a possible drawdown of credit for the purpose of meeting the minimum requirement for capital and eligible liabilities ("MREL") pursuant to Section 127 et seq. of Act No. 374/2015 Coll., on Recovery Procedures and Crisis Settlement in the Financial Market, as amended. The agreement was concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

MISCELLANEOUS

On 1 January 2021, the 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.

On 19 April 2021, ČSOB transferred 490 shares owned in the company Bankovní identita, a.s. As a result of this transaction the ČSOB shareholding decreased from the original 33.33 % to 17 %. For ČSOB there remains 510 shares from the total of 3,000.

As of 12 August 2021, ČSOB acquired 50 % shareholding in the company Igluu s.r.o.

During 2021, Hypoteční banka, a.s. was further integrated into ČSOB. The integration involved the following agendas: the HB Branch Network and Branch Management Department, the External Distribution Department, the Retention Department, Complaints Handling, and Property Valuation.

As of 1 January 2022, the company Eurincasso s.r.o. entered into liquidation.

SHARE IN PROFITS AND OTHER FACTS

KBC Bank NV as a sole shareholder acting in the capacity of the General Meeting decided on 19 May 2021 that the net profit equal to CZK 11.5 billion will be allocated as retained earnings from previous years. The volume of this activity was in the total 11% of the company's equity.

KBC Bank NV as a sole shareholder acting in the capacity of the General Meeting decided on 4 November 2021 on partial payment of dividend from the retained earnings account from previous years in the amount of CZK 4,1 billion to a sole shareholder. The volume of this activity was in the total 4% of the company's equity.

In the accounting period, ČSOB received revenues as profit share from the following companies: Hypoteční banka, a.s., ČSOB stavební spořitelna, a.s., ČSOB Factoring, a.s., ČSOB Leasing, a.s., Patria Finance, a.s. and Bankovní informační technologie, s.r.o.

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. 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.

8. Accounting period

This report describes the relations for the accounting period from 1 January 2021 to 31 December 2021.

9. 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 2022

on behalf of the Board of Directors of **Československá obchodní banka, a. s.**

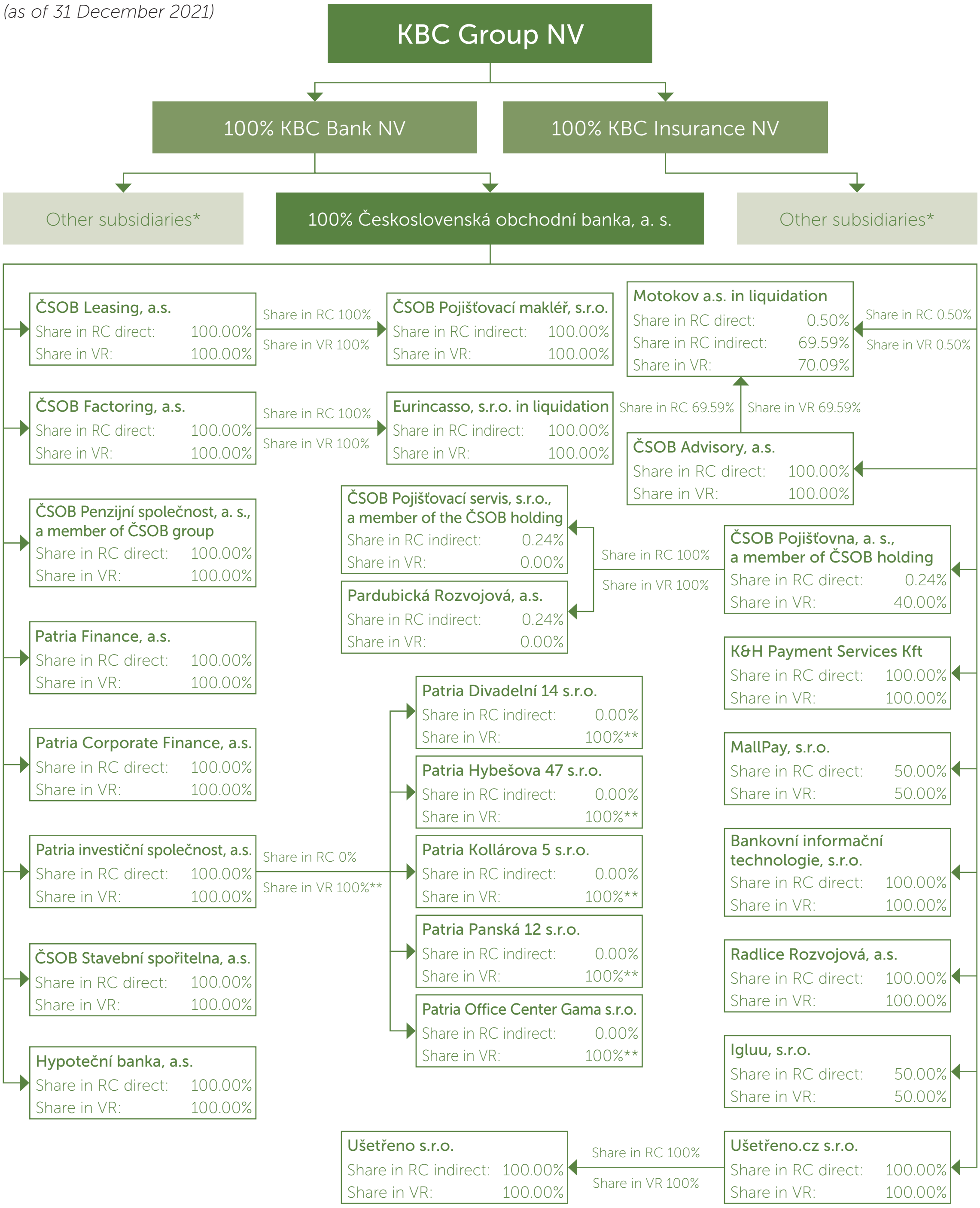
John Arthur Hollows
chairman of the Board of Directors

Jiří Vévoda
member of the Board of Directors

Appendix to the Report on Relations

List of entities controlling Československá obchodní banka, a.s. and entities controlled by the same controlling entity

(as of 31 December 2021)



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 2021
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, 1080 Brussels, 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 2021, 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.

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 and public bond issuance program with a maximum amount of CZK 300 bn of outstanding bonds.

By 31 December 2021, 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 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
Strukturovaný dluhopis ČSOB Nové trendy energie a lidé 2027	CZ0003706293	11.08.2021	CZKm	75.80
ČSOB LIKVIDNÍ DLUHOPIS 6M 102025	CZ0003706673	13.10.2021	CZKm	2 500.00
ČSOB LIKVIDNÍ DLUHOPIS 6M 112025	CZ0003706764	15.11.2021	CZKm	2 500.00
Strukturovaný dluhopis ČSOB Kybernetická bezpečnost 2027	CZ0003706681	29.12.2021	CZKm	137.00

None of ČSOB 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 2021, 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 Unit link XVII.	CZ0000301239	10. 3. 2017	CZKm	125.18
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
ČSOB Investiční certifikát Unit link XXIII.	CZ0000301429	14. 8. 2017	CZKm	86.57
Europe Dividend basket 7 2022	CZ0000301437	6. 9. 2017	CZKm	405.00
ČSOB Investiční certifikát Unit link XXIV.	CZ0000301445	14. 9. 2017	CZKm	193.20
ČSOB Investiční certifikát Unit link XXVI.	CZ0000301478	11. 10. 2017	CZKm	233.94
ČSOB Investiční certifikát Unit link XXV.	CZ0000301460	23. 10. 2017	CZKm	16.74
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

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Europe 5 2024	CZ0000301544	27. 12. 2017	CZKm	342.71
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
Global Multi Asset Strategy 2023	CZ0000301676	4. 5. 2018	CZKm	336.00
BNP Multi-Asset Diversified	CZ0000301759	1. 8. 2018	CZKm	200.00
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
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
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
Capped PRIBOR Floater 04/2023	CZ0000302245	3. 10. 2019	CZKm	172.00
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
Capped PRIBOR Floater 05/2023	CZ0000302328	13. 11. 2019	CZKm	96.00
ČSOB Investiční certifikát Unit link XLIII.	CZ0000302294	10. 12. 2019	CZKm	90.20
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
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
Farmacie Defenzivní 5 2027	CZ0000302567	17. 6. 2020	CZKm	325.00
Stay Online 5 2027	CZ0000302633	21. 8. 2020	CZKm	91.00
Lookback Racer Transatlantic 2026	CZ0000302724	21. 10. 2020	CZKm	297.00
Lookback Racer Transatlantic 2027	CZ0000302864	30. 12. 2020	CZKm	100.00
Piling Racer Severní Amerika a Evropa 2027	CZ0000302823	24. 2. 2021	CZKm	144.00

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Defensive New Pharma 5,5 2028	CZ0000302948	31. 3. 2021	CZKm	270.00
ČSOB Investiční certifikát Unit link XLVI.	CZ0000303003	28. 4. 2021	CZKm	368.30
Defensive Eurostoxx 4,3 05/2028	CZ0000303060	28. 4. 2021	CZKm	92.00
Cyber Security 6,5 2028	CZ0000303086	5. 5. 2021	CZKm	318.00
Cirkulární Ekonomika 5 2028	CZ0000303169	2. 6. 2021	CZKm	221.00
Lookback Global Diversified 2027	CZ0000303177	2. 6. 2021	CZKm	134.00
Cestovní ruch Defenzivní 6 2028	CZ0000303284	21. 7. 2021	CZKm	186.00
Zalesňovací investiční certifikát Pro udržitelnou budoucnost 2027	CZ0000303300	4. 8. 2021	CZKm	124.00
ČSOB Investiční certifikát Unit link XLVII. - Nové trendy – energie a lidé 2027	CZ0000303292	11. 8. 2021	CZKm	144.20
Zalesňovací investiční certifikát Inovativní technologie Participační Autocall 7 2028	CZ0000303466	6. 10. 2021	CZKm	300.00
Capped PRIBOR Floater 04/2025	CZ0000303490	20. 10. 2021	CZKm	239.00
Zalesňovací investiční certifikát Inovativní technologie Participační Autocall 7 2028 II	CZ0000303565	20. 10. 2021	CZKm	370.00
Robotika a automatizace Participační Autocall 8 2028	CZ0000303607	18. 11. 2021	CZKm	505.00
Defensive Eurostoxx 3. rok 5,4 12/2028	CZ0000303664	8. 12. 2021	CZKm	85.00
Capped PRIBOR Floater 06/2025	CZ0000303706	15. 12. 2021	CZKm	216.00
KYBERNETICKÁ BEZPEČNOST 2027	CZ0000303615	29. 12. 2021	CZKm	160.40
Trendy Budoucnosti Defenzivní 3. rok 6,3 2028	CZ0000303714	29. 12. 2021	CZKm	180.00

In the first three months 2022* ČSOB issued the following investment certificates issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Lookback Global Diversified Megatrends 2029	CZ0000303805	12. 1. 2022	CZKm	70.00
ČSOB Investiční certifikát Unit link XLIX.	CZ0000303847	9. 3. 2022	CZKm	98.50
Evropa 2050 Autocall Participační 2029	CZ0000303888	16. 3. 2022	CZKm	112.00
Capped PRIBOR Floater 09-2025	CZ0000303904	16. 3. 2022	CZKm	135.00

** Issued until 31. March 2022*

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,
- 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, and
- Identification services within the meaning of Sec 1/4 c) of the Act No. 21/1992 Coll., on Banks.

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 2021 (Notes 27 and 33) and to the Consolidated Financial Statements for the year 2021 (Notes 30 and 36).

The most significant ČSOB's court disputes as at 31 December 2021, 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	26,135

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 2021, ČSOB had outlays of CZK 1,646 m for research and development (2020: CZK 1,475 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, data integration, automation of processes and also on development of existing applications and systems.

Other information

Remuneration Charged by Auditors for 2021

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	16,824	2,939	35	19,798
Other consolidated companies	11,579	1,148	-	12,727
Total	**28,403**	**4,087**	**35**	**32,525**

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").

Services in addition to the Statutory Audit Provided by Statutory Auditor and its Affiliated Company during 2021

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	1,450
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Verification of the management and control system in the ALM area	966
PricewaterhouseCoopers Audit, s.r.o.	Hypoteční banka, a.s.	Verification of the management and control system in the ALM area	574
PricewaterhouseCoopers Audit, s.r.o.	ČSOB Stavební spořitelna, a.s.	Verification of the management and control system in the ALM area	574
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	ISAE3402 Type II report	477
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Auditor's confirmations for insolvency proceedings	46
PricewaterhouseCoopers Česká republika, s.r.o.	ČSOB, a.s.	Training and conferences	35
Total			**4,122**

** 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 Unit
Basis for calculation of the contribution	1,658,098	2,088,352
The contribution	**33,162**	**41,767**

Information Published within this Annual Report

Information	Reference [1]
Important Events and Significant Changes in 2021	Report of the Board of Directors
	Corporate Governance Policy
	Note 3 [2]
New Products and Services Introduced in 2021	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile
	Report of the Board of Directors
Profit Distribution	Note 15 [2]
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 2021	Companies of the ČSOB group
	Note 3 [2]
Expected Economic and Financial Situation of ČSOB in 2022	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 2021 (unless stated otherwise).*
2) *The content refers to a note in Notes to the Consolidated Financial Statements for the year 2021.*
3) *Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2021.*

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 2021	Events after the Reporting Period (Note 40)
Notes to the Separate Financial Statements for the year 2021	Events after the Reporting Period (Note 37)

Information on the Publication of the ČSOB Annual Report 2021

ČSOB will publish its Annual Report 2021 on its Internet website at www.csob.cz.

The **Czech National Bank** will add the ČSOB Annual Report 2021 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

Československá obchodní banka (ČSOB) is subject to the obligation to disclose non-financial information in accordance with Directive 2014/95 / EU of the European Parliament and of the Council amending Directive 2013/34 / EU, this EU Directive was implemented in Czech Act No. 563/1991 Sb., on accounting and further modified by Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation).

In accordance with this legislation, since 2018 ČSOB has published in its annual report the non-financial information in question, which captures the environmental, social and economic impacts of its activities.

However, in view of the group approach to this issue and the changes introduced by the Taxonomy Regulation, we have decided to take advantage of the legislative option and refer to the KBC Group's annual report at this link *https://www.kbc.com/content/dam/kbccom/doc/investor-relations/Results/jvs-2021/jvs-2021-grp-en.pdf* when publishing non-financial information.

In this report, you will find all the necessary information, including information on our portfolio of loans, insurance and climate-related investments as part of KBC's Sustainable Finance program that 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, 2021. This means it links to the time reported by the preceding Annual Report and ČSOB Group Social Responsibility Report 2020.

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 ČSOB 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 2021	Description	cross-reference
Organizational Profile		
102-1	Name of the organization	Annual Report 2021, p. 1.
102-2	Activities, brands, products, and services	Annual Report 2021, p. 9-13, 26, 42, 51-52.
102-3	Location of headquarters	Annual Report 2021, p. 1.
102-4	Location of operations	Annual Report 2021, p. 12, 26.
102-5	Ownership and legal form	Annual Report 2021, p. 26, 28-29, 42.
102-6	Markets served	Annual Report 2021, p. 26, 28.
102-7	Scale of the organization	Annual Report 2021, p. 12, 21, 27.
102-8	Information on employees and other workers	Annual Report 2021, p. 2, 13, 16, 27, 35, 38-41, 211, 219; ČSOB Group Report to Society 2021.
102-9	Supply chain	Suppliers Policy, ČSOB Group Report to Society 2021.
102-10	Significant changes to the organization and its supply chain	Annual Report 2021, p. 9, 54.
102-11	Precautionary Principle or approach	ČSOB Integrity Policy, Statut Compliance ČSOB, Code od Conduct, Code of Administration and Management, Annual Report 2021, p. 8, 12-13, 64, 69; ČSOB Group Report to Society 2021.
102-12	External initiatives	Annual Report 2021, p. 8, 10-11, 30-37, 315; ČSOB Group Report to Society 2021.
102-13	Members of associations	not stated
Strategy		
102-14	Statement from CEO	Annual Report 2021, p. 3-4.
Ethics and Integrity		
102-16	Values, principles, standards and norms of behavior	Code of Conduct, ČSOB Integrity Policy, ČSOB Compliance Statut, Annual Report 2021, p. 3-4, 8, 13, 29-30, 35-36, 38, 64; ČSOB Group Report to Society 2021.
Governance		
102-18	Governance structure	Annual Report 2021, p. 42, 70.
Stakeholder Engagement		
102-40	List of stakeholder groups	ČSOB Group Report to Society 2021.
102-42	Identifying and selecting stakeholders	ČSOB Group Report to Society 2021.
102-43	Approach to stakeholder engagement	ČSOB Group Report to Society 2021.
102-44	Key topics and concerns raised	ČSOB Group Report to Society 2021.

* *This sustainability Report has been prepared in accordance with the GRI Standards, "Core" option, non-financial data have not been externally audited.*

General disclosures 2021	Description	cross-reference
Report Profile		
102-45	Entities included in the consolidated financial statements	Annual Report 2021, p. 42, 77.
102-46	Defining report content and topic boundaries	Annual Report 2021, p. 5.
102-47	List of material topics	Annual Report 2021, p. 319; ČSOB Group Report to Society 2021.
102-49	Changes in reporting	Annual Report 2021, p. 318.
102-50	Reporting period	Annual Report 2021, p. 307, 318.
102-51	Date of most recent report	Annual Report 2021, p. 318.
102-52	Reporting cycle	Annual Report 2021, p. 318.
102-53	Contact point for questions regarding the report	Annual Report 2021, p. 337
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 2021.
103-2	The management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Code of Conduct, Annual Report 2021, p. 3-4, 8, 12-13, 30, 64; ČSOB Group Report to Society 2021.
103-3	Evaluation of the management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Code of Conduct; ČSOB Group Report to Society 2021.
Economic (GRI 200)		
201-1	Direct economic value generated and distributed	Annual Report 2021, p. 2, 8, 14-17, 19-21.
201-2	Financial implications and other risk and opportunities due to climate change	Annual Report 2021, p. 4, 8, 12, 19, 30-33.
203-1	Infrastructure investments and services supported	Annual Report 2021, p. 8-9, 22-24.
203-2	Significant indirect economic impacts	Annual Report 2021, p. 3-4, 6, 8.
205-1	Operations assessed for risks related to corruption	Annual Report 2021, p. 64, 69.
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 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.
302-4	Reduction of energy consumption	Annual Report 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.
305-1	Direct (Scope 1) GHG emissions	Annual Report 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.

General disclosures 2021	Description	cross-reference
305-2	Energy indirect (Scope 2) GHG emissions	Annual Report 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.
305-3	Other indirect (Scope 3) GHC emissions	Annual Report 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.
305-5	Reduction of GHG emissions	Annual Report 2021, p. 32-33; ČSOB Group Report to Society 2021; ČSOB Environmental Policy.
Social (400)		
401-1	New employee hires and employee turnover	Annual Report 2021, p. 16, 27, 38-41.
404-1	Average hours of training per year per employee	ČSOB Group Report to Society 2021.
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 2021, p. 9, 38-39, 53-62; ČSOB Group Report to Society 2021.
Own indicators		
	Initiatives to improve access to financial services for disadvantaged people	Annual Report 2021, p. 3, 8-11, 34-35; ČSOB Group Report to Society 2021.
	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 2021.
	Policies with specific environmental and social components applied to business lines.	ČSOB Environmental Policy, ČSOB Energetic Policy; ČSOB Group Report to Society 2021.
	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 2021.

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. 2021	Regulated Cons. Unit 31. 12. 2021
Údaje z rozvahy společnosti	**Total Shareholders' Equity**	**113,002,729**	**117,391,306**
	Share capital	5,855,000	5,855,000
	Share premium	20,092,666	20,928,552
	Accumulated Other comprehensive income	-1,048,315	-1,162,215
	Reserve funds	18,686,648	18,686,648
	Retained earnings for the previous periods	55,334,369	56,927,920
	Own shares	0	0
	Net profit for the period	14,082,361	16,155,400
	Non-controlling interest	0	0
Úpravy CET1 kapitálu	**Total Adjustments to CET1**	**-17,111,741**	**-24,806,605**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	1,213,299	1,140,500
	Additional value adjustment	-91,793	-87,967
	Goodwill	-2,178,017	-6,274,487
	Other intangible assets, net of tax	-1,963,376	-3,419,324
	Insufficient coverage of expected credit losses (lack of provisions)	-9,433	-9,432
	Unusable profit	-14,082,361	-16,155,400
	Non-controlling interest	0	0
	Insufficient coverage for non-performing exposures	-60	-494
	Deferred tax assets	0	0
	Other transitional adjustments to CET 1	0	0
Tier 2 kapitál	**Total Tier 2 Capital**	**1,402,394**	**969,777**
	IRB Excess of provisions over expected losses eligible	1,402,394	969,777
	Total Capital	**97,293,382**	**93,554,478**
	Tier 1 (T1) Capital	**95,890,988**	**92,584,701**
	Common Equity Tier 1 (CET1) Capital	**95,890,988**	**92,584,701**
	Tier 2 (T2) Capital	**1,402,394**	**969,777**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2021	Regulated Cons. Unit 31. 12. 2021
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	42,244
	Exposures to corporates		0	540,010
	Retail exposures		0	28,278
	Exposures secured by mortgages on immovable property		0	7,951
	Exposures in default		0	4,058
	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		6,419,821	67,697
	Other items		0	434,887
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	28,344	25,961
	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	8,230
	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		4,722,709	5,186,378
	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)	1,193,848	1,332,650
	Exposures to institutions		3,764,684	680,389
	Exposures to corporates		9,626,482	9,183,822
	Retail exposures		1,658,290	10,977,561
	Equity exposures		0	0
	Items representing securitisation positions		0	0
	Other assets not having the character of a credit liability		2,455,281	4,251,732
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**			*187,253*	*187,253*
*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	Regulated Cons. Unit
	31. 12. 2021	31. 12. 2021
Capital ratio for Equity capital Tier 1	25.49%	22.44%
Capital ratio for Tier 1 capital	25.49%	22.44%
Capital ratio for Total capital	25.86%	22.67%

Ratios Indicators

		the Bank
		31. 12. 2021
Return on average assets (ROAA)		0.76%
Return on average Tier 1 capital (ROAE)		14.14%
Assets per employee*	CZKths	225,913
Administrative costs per employee*	CZKths	2,025
Profit after tax per employee*	CZKths	1,918

** According to CNB's methodology (Registered number of employees).*

DOCUMENTS

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2021

hereby declare that, to their best knowledge, the ČSOB Annual Report 2021 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, 14 April 2022

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 2021, and of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2021 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 2021, and of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2021 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 2021;
- the consolidated statement of other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021; 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 2021;
- the separate statement of other comprehensive income for the year ended 31 December 2021;
- the separate statement of financial position as at 31 December 2021;
- the separate statement of changes in equity for the year ended 31 December 2021;
- the separate statement of cash flows for the year ended 31 December 2021; and
- the notes to the separate financial statements including significant accounting policies and other explanatory information.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, www.pwc.com/cz

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.

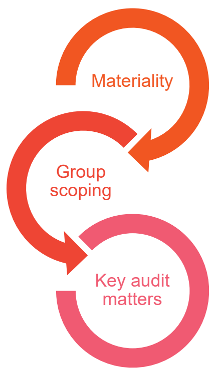
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, the Act on Auditors and the 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 826 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 873 million.

Our audit work addressed 98.2% of the Group's assets and 89.8% of the Group's profit before tax.

Risk of impairment of loans and advances, including the impact of the COVID-19 pandemic.

As part of designing our audit, we determined 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, if any, both individually and in aggregate, on each set of financial statements as a whole.

Overall Group materiality	CZK 826 million
Overall Bank materiality	CZK 873 million
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 2019 - 2021.
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.

pwc

Key audit matter	**How our audit addressed the key audit matter**
Risk of impairment of loans and advances, including the impact of the COVID-19 pandemic	
The Group recognized Financial assets at amortised cost of CZK 1,613,504 million in the Consolidated statement of financial position and within those assets Loans and advances of CZK 1,412,055 million as at 31 December 2021. The Bank recognized Financial assets at amortised cost of CZK 1,386,904 million in the Separate statement of financial position and within those assets Loans and advances of CZK 888,400 million as at 31 December 2021. The risk of non-payment of loans is an inherent part of banking activities. The allowance for expected credit losses represents the most significant estimate and a 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 allowance for expected credit losses 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 2021. It significantly impacted revenues and profitability of a number of affected industries and debtors, contributing to increased uncertainty. It is critical that significant increase in credit risk is timely identified given this specific situation. The identification of the credit-impaired status and the estimation of expected future cash flows requires complex accounting estimates. The Group and the Bank maintain an additional amount of allowance for expected credit losses ("management overlay"), which was added on top of the results of standard ECL models, as they cannot capture the specific risks brought	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 allowance for expected credit losses. 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 amounts recognized in the Group's and the Bank's financial statements. We primarily assessed the existing policies on the allowance for expected credit losses, 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 identification of significant increase in credit risk, taking into consideration regulatory recommendations. Due to the key role of the core banking systems and internal control systems in the identification of 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 defined by IFRS 9. We also checked the identification of 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.

4

by COVID-19. The overlay 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.	For a sample of loans, we tested the individual ECL calculation. We also reviewed adequacy of disclosures required by the respective IFRS 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 2021 year-end audit of the consolidated financial statements of the Group is 98.2% of total consolidated assets (after eliminations), which is covered by full scope audit procedures, and additional 1.1% covered by specified procedures on the company ČSOB Leasing, a.s. At the same time, this also represents 89.8% of the consolidated profit before tax covered by full scope audit procedures and 7.7% 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 their 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 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 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 disclosures, 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.

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

Information required by the EU Regulation

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 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 6 years.

Provided non-audit services

We declare that the PwC Network has not provided non-audit services to the Bank and its subsidiaries 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 that we have provided to the Bank and its subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in Section "Additional information" of the annual report.

The engagement partner on the audit resulting in this independent auditor's report is Marek Richter.

14 April 2022

PricewaterhouseCoopers Audit, s.r.o.
represented by Partner

Marek Richter
Statutory Auditor, Licence No. 1800

7

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.
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.cz	Ušetřeno.cz, s.r.o.
Ušetřeno finanční služby	Ušetřeno.cz finanční služby, a.s.
Ušetřeno	Ušetřeno s.r.o.
Igluu	Igluu s.r.o.

FINANCIAL CALENDAR

Financial Calendar for 2022

ČSOB Group Unaudited Financial Results Releases
(according to EU IFRS)

Financial Results		Date of Release
as at 31 December 2021	4Q / FY 2021	10 February 2022
as at 31 March 2022	1Q 2022	12 May 2022
as at 30 June 2022	2Q / 1H 2022	11 August 2022
as at 30 September 2022	3Q / 9M 2022	9 November 2022
as at 31 December 2022	4Q / FY 2022	9 February 2023

Note:
This schedule is indicative only; terms might be subject to change during the year.

CONTACT DETAILS

Investor Relations

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

Tel.: +420 224 114 106
E-mail: investor.relations@csob.cz

The 2021 ČSOB Annual Report was released in electronic version at www.csob.cz on 27 April 2022.