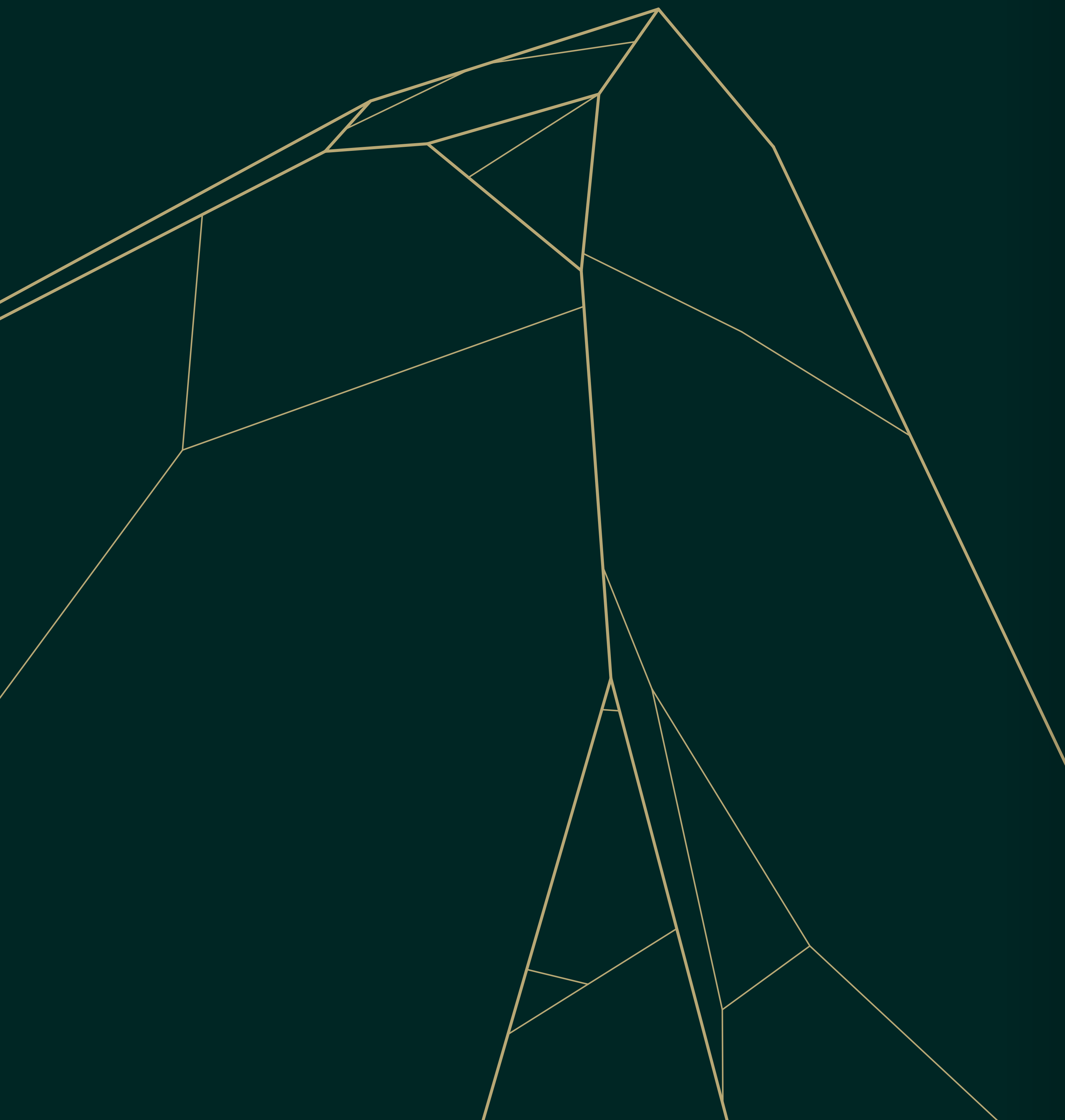
J&T BANKA

Consolidated annual report

2020



Consolidated annual report 2020

175,04

billion CZK

Balance sheet
total grew
15,4 % y-o-y

This version of the Annual Report is a translation from the original which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of the Annual Report takes precedence over this translation. This version of the Annual financial report is non-ESEF compliant and constitutes non-official version of the official Annual Report published in accordance with ESEF regulation in XHTML. All possible care has been taken to ensure that this version is an accurate representation of the original, except for the machine-readable XBRL tags that are embedded only in the official XHTML version. However, in all matters of interpretation of information, views or opinions, the official version of the Annual fi nancial report takes precedence over this version. Statutory Annual Report in line with ESEF regulation can be accessed at: https://www.jtbank.cz/informacni-povinnost/#vyrocni_zpravy

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Selected financial indicators

Selected financial indicators – consolidated

in millions of CZK	2020	2019	2018	2017	2016	2015
Annual figures						
Profit before tax	2,002	3,978	2,538	2,617	1,360	2,186
Tax	(336)	(822)	(462)	(421)	(407)	(310)
Share of profit of equity-accounted investees	169	(1)	—	(17)	(50)	167
Profit from continuing operations	1,666	3,156	2,076	2,196	953	1,876
Profit from discontinued operations	—	—	—	—	—	—
Profit for the year	1,666	3,156	2,076	2,196	953	1,876
Balance at year-end (in millions of CZK)						
Equity	22,537	21,514	19,230	19,476	19,128	16,945
Deposits and loans from banks	2,437	4,838	2,250	21,923	3,174	4,259
Deposits from customers	138,620	114,551	118,999	91,704	103,053	121,812
Due from financial institutions	2,351	1,455	54,115	47,757	23,423	34,379
Loans and advances to customers	98,795	68,320	71,528	69,109	76,139	74,668
Total assets	175,037	151,722	150,104	142,996	133,114	154,851
Financial ratios						
Return on Equity	7,56%	15,49%	10,73%	11,38%	5,28%	11,62%
Return on Assets	1,02%	2,09%	1,42%	1,59%	0,66%	1,30%
Capital adequacy	14,96%	16,48%	15,31%	15,98%	15,88%	13,91%
Operating expenses/operating income	49,58%	47,29%	45,16%	40,84%	47,83%	44,65%
Average number of employees	816	813	719	728	717	689
Assets per employee	215	187	209	196	186	225
Administrative expenses per employee	(3)	(3)	(4)	(3)	(3)	(3)
Profit after tax per employee	2	4	3	3	1	3

Selected financial indicators – individual

in millions of CZK	2020	2019	2018	2017	2016	2015
Annual results						
Profit before tax	1,349	3,619	1,919	1,855	1,854	1,963
Tax	(292)	(740)	(385)	(359)	(302)	(230)
Profit for the year	1,057	2,879	1,534	1,496	1,552	1,733
Balance at year-end (in millions of CZK)						
Equity	20,888	19,991	18,606	18,998	18,943	16,799
Deposits and loans from banks	1,405	4,492	3,048	22,009	3,338	4,343
Deposits from customers	132,428	107,549	112,936	84,484	93,833	117,058
Due from financial institutions	2,287	1,442	53,734	46,670	21,105	33,661
Loans and advances to customers	93,381	62,959	66,966	63,785	69,714	70,042
Total assets	166,236	141,889	143,766	134,940	123,554	146,990
Financial ratios						
Return on Equity	5,17%	14,92%	8,16%	7,89%	8,68%	11,12%
Return on Assets	0,69%	2,02%	1,10%	1,16%	1,15%	1,27%
Capital adequacy	16,73%	18,28%	17,26%	18,45%	17,75%	15,83%
Operating expenses/operating income	47,14%	42,90%	42,21%	43,26%	39,75%	39,08%
Average number of employees	553	529	485	468	454	443
Assets per employee	301	268	296	288	272	332
Administrative expenses per employee	(4)	(4)	(4)	(4)	(4)	(4)
Profit after tax per employee	2	5	3	3	3	4

Foreword

Štěpán Ašer, MBA
Board Member
and Chief Executive Officer
J&T BANKA, a.s.

Dear clients, business partners, friends,

2020 was an exceptionally challenging year, both economically and personally. We all are social beings, and the inevitable restrictions on social contacts did not make the past year any easier to bear. I am therefore happy to report that despite this challenging period, our Bank managed to create profit exceeding CZK one billion, successfully launched a bond issue of over CZK 13 billion in volume, and provided funding for several project across the economy. We are pleased that the bond issues offered to investors in previous years have been duly repaid, and that the majority of funds in which our clients invested reported appreciation in the past year.

Last year, we also managed to move the Bank's headquarters to new premises. The Javor building had served us well for 18 years, through a period of dynamic growth during which the Bank grew not only through its balances, but also in the number of employees, clients and business partners. However, we outgrew these premises. Our new offices at Rustonka will provide a better base for our clients, business partners and employees, offering modern offices and more meeting rooms, as well as large number of vaults, including a special vault for works of art. Due to the restrictions stemming from the measures adopted in relation to the COVID-19 outbreak, life in the new premises is still rather humble, but we are already looking forward to meeting you in the new J&T Café or in the Magnus Art Gallery which is part of the premises.

The year ahead will be more difficult than the previous ones in many aspects. We are facing a period of heightened insecurity; a period which will see changes in many paradigms. At a macro level, the big question is what the effects of the monetary expansion and the state of public finances will be. For many years, we have been talking about the threat of rising inflation, and we are already noticing some signals in the guise of growth in the prices of stock and real estate. In the real economy, we will also face many insecurities and see many changes. Changes in consumer behaviour will permanently change trade and services. The restrictions during the outbreak have changed the mode of work and many changes will remain and impact the office space market as well as housing requirements. The COVID-19 outbreak has shown us the fragility of suppliers' relations, and producers will have to think about the means of improving their stability. This may mean relocations or increased stocking up. In our markets, the European Green Deal will play a significant role in the years to come.

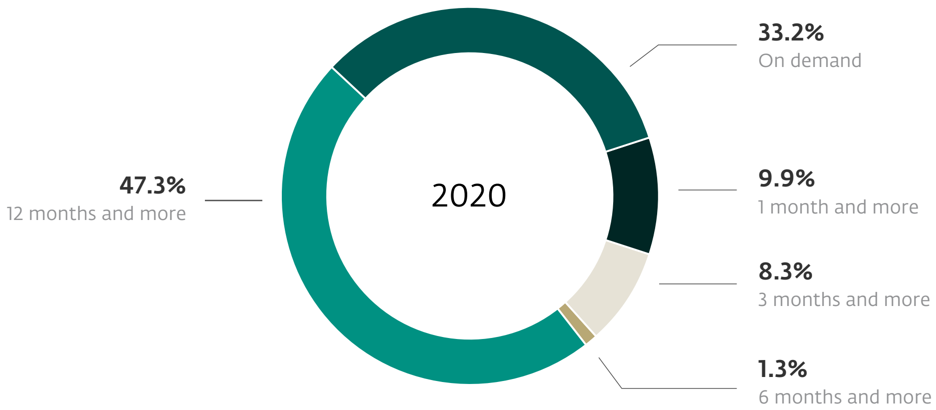
How can we protect our assets in an increasingly insecure environment? Invest or go down. This is the long and short of our experts' recommendation on the protection of one's savings and property. The loss of purchasing power in relation to consumer prices as well as the price of investment assets will present a significant threat in the coming years. In our opinion, the solution is to reduce the volume of interest-earning assets in the family portfolio, and to invest more into assets connected to the real economy. With this advice in mind, we founded the J&T INVESTMENTS SICAV, a.s. Fund last year, as we believe our clients look for more investment opportunities outside the bond market to protect their assets. The fund is built on long-term partnerships with major companies and entrepreneurs, and invests in real assets in real estate, industry and service segments. The fund should also become a major building block of our clients' long-term portfolios.

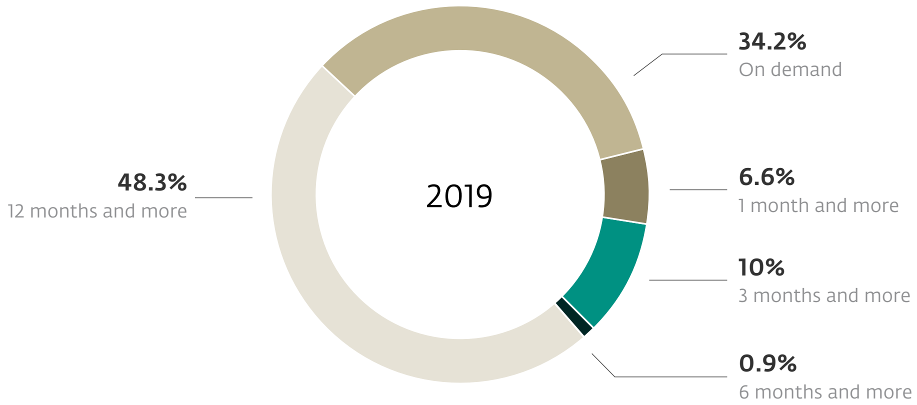
I would like to thank you for your trust and cooperation in the past year. Long-term partnerships are one of the main prerequisites of our success. I believe that together, we will be successful in 2021, whether you are looking for investment opportunities to protect your family assets, or whether you need funds for your business development.

Prague, 28 April 2021

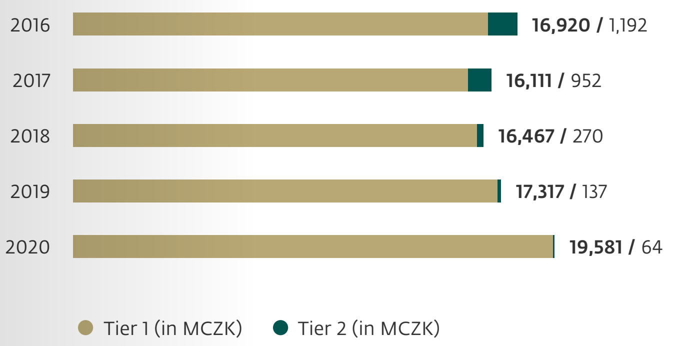
Štěpán Ašer, MBA
Board Member and Chief Executive Officer J&T BANKA, a.s.

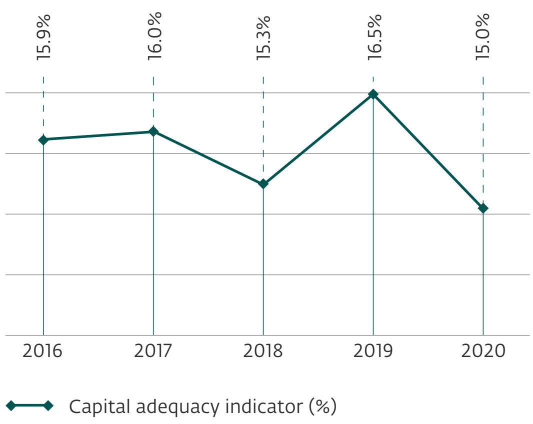
Structure of deposits



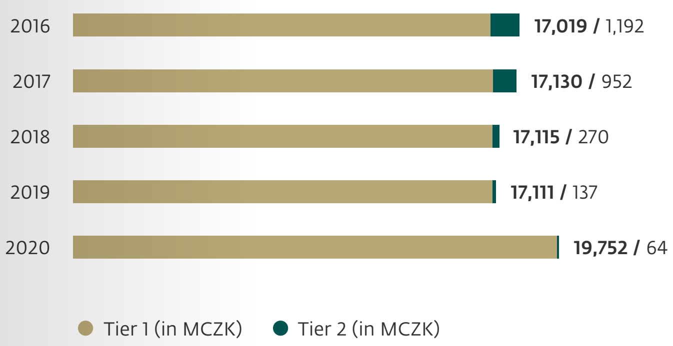


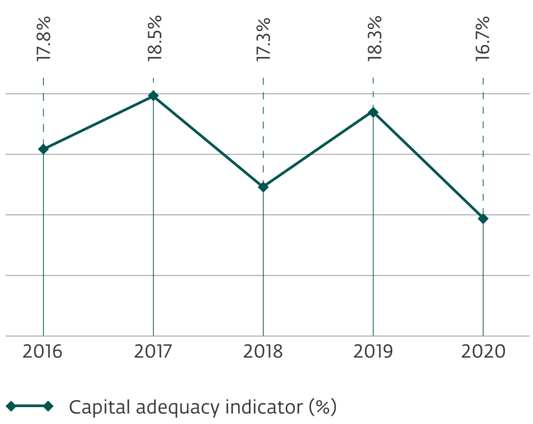
Regulatory capital and capital adequacy / Consolidated data



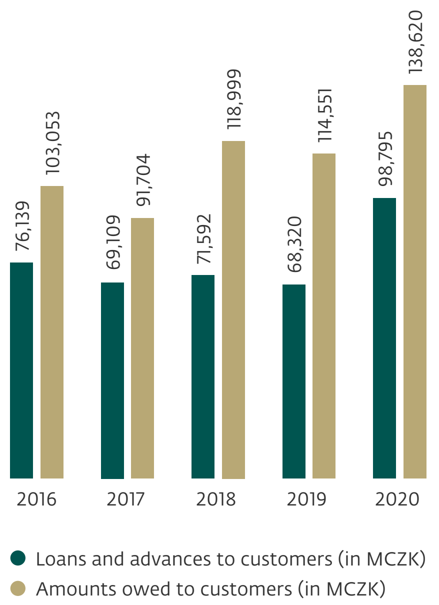


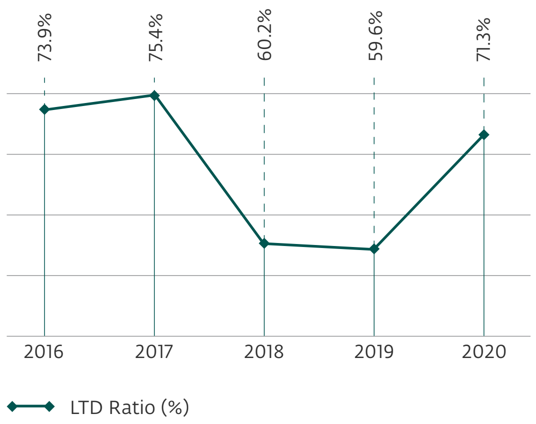
Regulatory capital and capital adequacy / Individual data



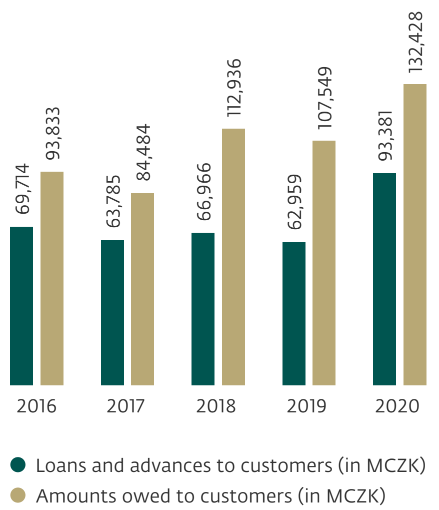


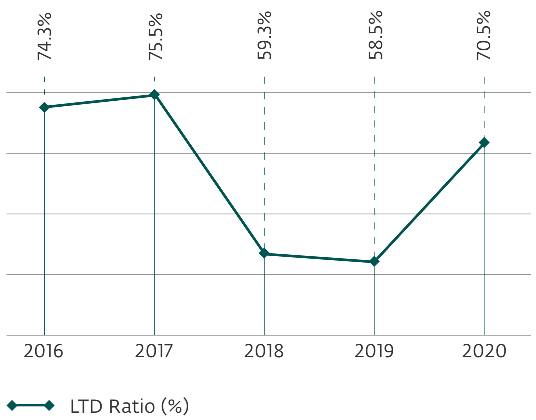
Client deposits and loans / Consolidated data



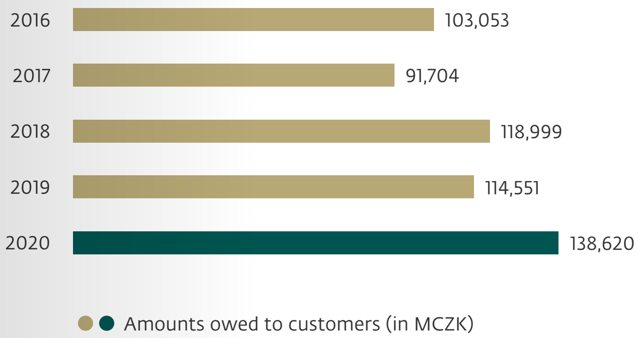


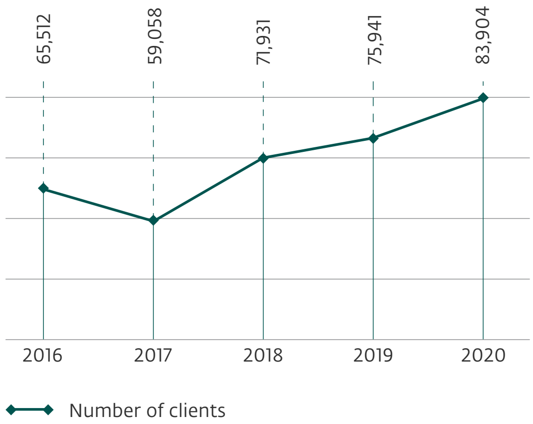
Client deposits and loans / Individual data



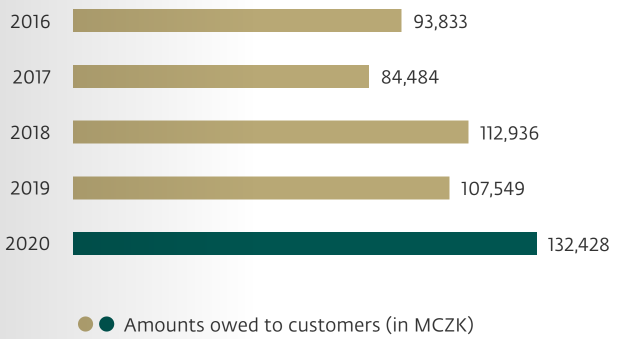


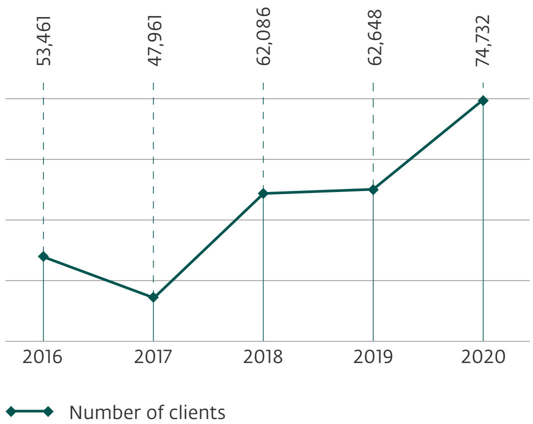
Client deposits and number of clients / Consolidated data





Client deposits and number of clients / Individual data





Financial results – the Group

The Group closed the year 2020 with a balance sum of CZK 175.04 billion (2019: CZK 151.72 billion), which represents an increase by 15.4%. The Group's results were affected during the year by the complicated macroeconomic situation connected with the COVID-19 pandemic, and also by the growing concerns of our clients and business partners regarding the future economic development. The net annual profit reached CZK 1.67 billion, representing a year-by-year decrease of CZK 1.49 billion. J&T Banka, operating on the Czech and Slovak markets, contributes almost 95% to the total volume of the Group's assets and more than 86% to the operating profit before the creation of allowances for impairment and provisions – the Group's results are thus highly dependent on the results achieved by the Bank.

The increase in the Group's balance sum on the liabilities' side was influenced by the volume of client deposits, which grew by 21.0% to the total of CZK 138.62 billion in 2020 (in 2019: CZK 114.55 billion). Of the total volume of payables to clients, more than 75% were deposits in fixed-term and escrow accounts; at the end of the previous year, this ratio equalled 70%. The total number of the Group's deposit clients reached 83,904 at the end of 2020 – a year-by-year increase by 7,963.

Additional resources received from clients made it possible to finance a number of projects using various loan products. This resulted in a growing volume of the portfolio of receivables from clients, which increased by 44.6% to CZK 98.79 billion on a year-by-year basis (in 2019: CZK 68.32 billion). This represents an increase by CZK 30.47 billion in absolute terms.

Given the faster growth of loans as compared to the deposit base, the Loan-to-Deposit indicator reached 71% as of 31 December 2020 (less than 60% at the end of 2019).

Financial assets held for trading increased by CZK 5.3 billion to the total of CZK 8.35 billion. At the end of the year, the volume of financial assets at fair value revaluated to other comprehensive income reached CZK 8.94 billion.

The Group's equity capital recorded a slight year-by-year growth by CZK 0.75 billion and reached CZK 21.45 billion at the end of 2020. The principal reason was that dividends were not paid out from 2019 profits to the parent company, J&T FINANCE GROUP SE. The sufficient capital amount will thus enable the Group to grow and develop also in the coming years. The capital adequacy on a consolidated basis equalled 15.0% at the end of the year.

The net interest revenues of the Group dropped by 7.2% to the total of CZK 3.67 billion as compared to the previous year, where interest revenues decreased by 5.5% and interest costs increased by 2.4%. The result achieved by the Group was driven especially by a decrease in the interest rate for reverse repo operations with the CNB; this is how the Group realises the largest part of the Bank's liquidity excesses in the Group. The general decrease in the rates on financial markets where the Group is active resulted, in turn, in a decrease in the interest rates for loans and was subsequently also reflected in the year-by-year decrease in interest revenues. The year-by-year growth in the absolute volume of liabilities towards clients, which form a decisive part of the Group's interest-bearing liabilities, stands behind the increase in interest costs.

The Group recorded a slight decrease in the net profit from fees and commissions – the profit reached CZK 1.20 billion in 2020, as compared to CZK 1.40 billion in the previous year.

The decline in demand for new corporate bond issues was directly linked with the macroeconomic conditions resulting from measures to contain the COVID-19 pandemic and manifested itself in the reduced amount of fees from securities issues. On the other hand, the clients took advantage of the greater fluctuation in rates to achieve high returns using riskier investment instruments. The growing interest in trading on capital markets and the related increase in the revenues from fees charged for the acquisition of financial instruments thus partly compensated for the loss of fees from securities issues.

In spite of the difficult situation in the field of collective investment, characterised by the clients' greater concerns regarding the future trends in the profitability of funds, especially during the first half of 2020, it can be stated that the Group was successful in this area. All the funds managed by J&T INVESTMENT COMPANY had a good year, and the management, administration, safekeeping and deposition fees grew constantly on a year-by-year basis.

The net profit from trading reached CZK 0.99 billion in 2020. Its development at the Group's consolidated level in the individual years reflects the trends in exchange rates of the Czech crown against the rouble, dollar and euro.

In 2020, the operating costs dropped by 2.1% to CZK 2.93 billion, especially as a result of a decrease in personnel costs, which were reduced by 12.3% to CZK 1.37 billion as compared to 2019 (in 2019: CZK 1.56 billion). Although other operating costs increased by 11.8%, the stable year-by-year trend in the total volume of operating costs enabled the Group to partially compensate for the lower revenues from financial activities as compared to the previous period, and thus maintain the Cost / Income ratio below 50%. The growth of operating costs includes the costs of buying protective equipment exceeding CZK 100 million – this equipment was donated to the Czech Government in March 2020 as assistance in addressing the lack of medical supplies to combat the coronavirus pandemic.

The net creation of allowances for impairment of loans in the Group followed primarily the development of risks associated with the Bank's loan portfolio and also fundamentally influenced the Group's net profit. In 2020, the Group created further allowances for impairment on the expense side, in the total net amount of CZK 1.05 billion.

Financial results – the Bank

The Bank's results in 2020 were significantly affected by the COVID-19 pandemic and its economic impacts on the financial and banking sectors, and also on the macroeconomic environment in which the Bank operates.

The Bank responded to the decrease in market interest rates primarily by boosting its cushion of liquid assets, especially by offering attractive deposit interest rates. It successfully addressed the target group of clients, which was reflected in the year-by-year increase in the total volume of their deposits by 23.1% to CZK 132.43 billion at the end of 2020. Deposits in fixed-term accounts grew by almost one third during the year. This was subsequently reflected in the growing balance sum, which increased by 17.2% year-by-year and reached CZK 166.24 billion at the end of the year (in 2019: CZK 141.89 billion).

In view of their volume and optimum time structure, deposits in fixed-term accounts remain the main source of financing for the Bank. Almost one half of them (47.8%) are deposits with a period of maturity of 1 year or more. The total number of active deposit clients of the Bank increased to 74,732 (2019: 62,648), where natural persons continue to be the key segment, with a share of over 68% in the total number of clients.

During 2020, the development of the Bank's performance was influenced by a drop in demand for issues of investment instruments, caused by the uncertainty prevailing on financial markets. This, in turn, negatively affected the amount of fees collected for the issue of such instruments. On the other hand, the situation on capital markets triggered an increased interest of the Bank's clients in stock market investments, resulting in an increase in trading fees and also the volume of margin trades.

Three basic factors again contributed to the growing trajectory of the Bank's loan portfolio in 2020: the sufficient volume of financial resources, the Bank's capital, and the ability to seek investment opportunities complying with the Bank's strict internal criteria for the quality of loans, even in the obscure economic environment. Compared to the previous period, the volume of loans provided increased by more than 48%, reaching in total CZK 93.38 billion at the end of the year. The growth occurred primarily in the area of margin trades. The Loan-to-Deposit ratio varied around 70%.

In connection with the increased total balance sum, the volume of funds allocated to financial assets in the category of realisable and valuated at fair value can be considered stable in a year-by-year comparison. The volume of financial assets intended for trading increased year-by-year by CZK 6 billion to CZK 8.33 billion (in 2019: CZK 2.32 billion), corresponding to the Bank's increased activity in the area of trading on capital markets.

Maintaining a sufficiently large free liquidity cushion is one of the Bank's priorities. In an environment characterised by decreasing reference rates of the Czech National Bank ("CNB"), the Bank puts emphasis on optimising the quantity of funds deposited with the central bank. The volume of free liquidity allocated to reverse repo operations with the central bank decreased in 2020 year-by-year from CZK 56.23 billion to CZK 38.06 billion. The total volume of the balance-sheet item "Cash and Cash equivalents" dropped by 30.6%, corresponding to a decrease by CZK 17.76 billion in absolute terms.

The Bank's equity capital at the end of 2020 equalled CZK 20.89 billion (in 2019: CZK 19.99 billion). In 2020, the Bank did not pay out dividend to its parent company, J&T FINANCE GROUP SE, thus complying with the regulator's decision. The Bank is sufficiently equipped with capital in the long term, meets all the limits set by the Czech National Bank and has an adequate capital reserve for the planned development also for the following years. The capital adequacy ratio reached 16.74% (in 2019: 18.28%).

Despite a less favourable outlook connected with economic aftershock of the pandemic, the Bank managed to achieve profit after tax in an amount exceeding CZK 1 billion. Compared to the previous year, when the Bank reported net profit of CZK 2.88 billion, this represents a decrease by 63%. The largest part of the year-by-year decrease in profit was caused by the net creation of allowances for impairment of the loan portfolio. While in 2019, the increase in profits was driven by successful resolution and repayment of a part of the portfolio of non-performing loans, for which the Bank had created allowances for impairment in the previous years (reflected in their release into the Bank's result in the amount of CZK 0.76 billion), in the following year, the Bank created new allowances for impairment of loans in an amount of CZK 0.96 billion.

The net interest revenues decreased by 10.5% to CZK 3.23 billion (in 2019: CZK 3.61 billion). The reason for the drop in interest revenues can be seen in the constantly decreasing market interest rates; this manifested itself most clearly in two areas: in the decreased volume of interest received from reverse repo operations with the CNB, to which the Bank allocates a substantial part of its free liquidity, and in a slighter increase in the interest accrued on receivables from clients, as compared to the dynamic increase in the balance volume of the loan portfolio. Interest revenues thus dropped by 6.5% as compared to the previous year. Interest costs increased by 6.9% on a year-by-year basis, especially due to the higher average volume of fixed-term deposits. The Bank's long-term goal is to provide its clients with attractive interest on deposit products.

The net profit from fees decreased year-by-year by 15.3% to CZK 0.96 billion (in 2019: CZK 1.13 billion). This decrease was caused by a decline in the demand for the preparation and placement of corporate bonds in connection with the development of the economic environment. However, even despite the unfavourable market conditions, the Bank participated in 10 new bond issues and itself placed bonds worth a total of CZK 13 billion on the market during 2020. The drop in fees from securities issues was partially compensated by growing fees for the acquisition of securities. Indeed, it turned out that during turbulent times on capital markets, clients show more interest in active trading in investment instruments.

The operating revenues were positively affected by dividends received from the Bank's subsidiaries. In 2020, the dividends received from equity interests reached CZK 0.25 billion (2019: CZK 0.23 billion).

The net profit from trading attained CZK 0.49 billion (2019: profit of CZK 0.55 billion). This result was substantially affected by the revenues from trading in securities, mainly from revaluation of participation certificates and revenues from the sale of securities. At the same time, the Bank managed to capitalise, through derivative transactions, on the opportunities ensuing from the development of interest rates on the markets where it operates.

The complex economic environment and the related decrease in revenues led the Bank to apply a set of cost-saving measures, which was reflected in a year-by-year reduction in operating costs. In 2020, the operating costs reached CZK 2.29 billion, representing a year-by-year decrease by 4.06% (in 2019: CZK 2.39 billion). The indicator of operating expenses per employee thus slightly decreased to CZK 4.1 million in 2020 (in 2019: CZK 4.2 million). The greater drop in revenues from banking activities as compared to the savings achieved in operating activities affected the ratio of operating costs to operating revenues, which reached 47.1% (the ratio was 42.2% in 2019).

Financial markets

In terms of financial markets, 2020 was a year of major twists, high fluctuations in the rates and thus also high risks, but also a year of great opportunities for new interesting investments. In this complicated environment, the Bank continued to offer new products and opportunities within a broad range of its investment goals.

All the funds managed by J&T INVESTIČNÍ SPOLEČNOST, a.s. succeeded in the sector of collective investment. This was especially true of the tried-and-tested funds focusing on investments in bonds, J&T BOND CZK, with a revenue of 4.68 % in 2020 (average revenue of 4.68% p.a. since its inception in 2011) and J&T MONEY CZK, with a revenue of 3.28% in 2020 (average revenue of 3.98% p.a. since its inception in 2012). However, the fund that managed to capitalise most on the opportunities, especially on the stock markets, was J&T Opportunity CZK with a revenue of 12.35% in 2020 (average revenue of 5.92% p.a. since its inception in 2000).

From mid-year, the Bank offered its clients a unique opportunity to invest in its new fund J&T INVESTMENTS SICAV, a.s. This qualified investor fund targets especially the energy sector, real estate, media, tourism and new economy, and its investment policy follows the previous very successful activities and experience of the J&T Group in the aforementioned areas. In the first half year of its activities alone, the fund managed to collect more than CZK 3.3 billion, which enabled it to start investing the pooled resources effectively in prospective projects.

The Bank further expands its investment options focusing on innovative technology startups through the J&T Ventures II fund, as a follow-up on more than six years of successful operations of J&T VENTURES I.

J&T Thein is a new fund that is ready to participate in ICT and cyber-security projects and companies. As in 2020, the Bank plans to continue offering funds in the new economy and beyond in 2021.

In co-operation with other banks (Česká spořitelna, a.s., Komerční banka, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s.), our Bank was involved in a record-breaking issue of bonds by Energetický a průmyslový holding ("EPH"), acting as the coordinator and co-manager of the issue. The volume of the bond issue undertaken by this leading Central European energy group reached in aggregate CZK 7.5 billion; it was a great honour for us to offer the opportunity to invest in this issue to our other clients. The bonds were arranged by J&T Bank's subsidiary, IB Capital Markets.

During the year, the Bank then participated in the placement of 10 bond issues; along with aforementioned EPH, the issuers included Heureka (e-commerce), Rohlik (online sales of food), Energo Pro (energy), Eurovea (real estate), Nupeh (real estate), Auctor (pharmaceuticals and tourism), J&T Securities (finance), etc. From the total volume of approx. CZK 20 billion, J&T BANKA, a.s. itself placed approximately CZK 13 billion.

Information technologies

In 2020, the Bank's activities in the area of information systems and technologies were aimed at improving the quality and extending the services offered to clients, ensuring availability and security of the information technologies, and compliance with legislative and regulatory requirements.

The development and operation of information systems in the Bank is ensured by internal departments and in co-operation with selected external suppliers. Overall, certain activities were launched during 2020 with the aim to modernise the IT architecture with a preference for microservice architecture and to implement a number of projects and measures responding to the changing business and regulatory requirements.

IT infrastructure and operation
The ICT infrastructure is located in the Czech Republic in the Bank's own two geographically separated data centres (hereinafter also the "DC"). These are constructed using redundant components in the power supply, cooling systems and the ICT components themselves.

In 2020, the whole Bank successfully moved to new headquarters in the Rustonka complex, which entailed intensive construction of a DC at the Bank's new seat and also an extension of the second DC. Once the two DCs are completed, they will have two separate data lines, fully redundant power supply and cooling in the 1+1 regime, as well as new comprehensive monitoring. This will increase the availability and security of the Bank's processes and the data being processed.

The number of incidents recorded in 2020 was stable, including only minor operating outages, which were quickly eliminated and had no serious impact on the Bank's operation. The ICT infrastructure and information systems are administered by the Bank's employees.

IT development
During 2020, the Bank completed another phase of the ERP project in the sector of financial accounting. A new integration platform for the provision of internal and external APIs was also implemented in 2020, ensuring access to services and data for our business partners.

A system for processing loan applications and records of loans (Loan Origination System) is currently being implemented, with a workflow meeting all the regulatory requirements. The system increases the effectiveness of the approval process by using a mobile application.

The Bank has implemented online digital Client Onboarding, where it is now possible to establish the basic contractual framework and verify clients online without having to visit a branch. The Bank thus also reacted to the situation surrounding the COVID-19 pandemic.

In its response, the Bank used the company's collaboration platforms, improved the internet bottlenecks and monitored from time to time the loads in all the devices supporting the Bank's operation, thus preventing any interruption of operating and development activities.

Furthermore, the Bank continued its preparatory work for implementing new online banking and an investment portal meeting the requirements of the Bank's departments and their clients.

At the same time, the Bank started a project of implementing the Identity Management platform, aimed to increase the security of access to the Bank's key information systems.

In late 2020, the Bank launched a number of changes leading to a fundamental improvement and increase in the effectiveness of the Bank's IT Division. A tool was being selected for managing ICT processes and projects, including a new concept of Project Management, and IT supplies, testing and operation management. A new platform will be implemented in 2021 in the ICT Process and Project Management project, aimed at setting up new processes of functioning of IT and project teams, and increasing the efficiency of the system of project management and changes.

The Bank started setting up architectonic standards for the Enterprise Model; the implementation and training parts will follow in 2021. This activity will substantially improve the management of new functionalities and optimise the existing solutions. The main benefit of the Enterprise Model lies in active management of the whole IT architecture to ensure IS security and cost-effectiveness. Furthermore, preparations started for the implementation of the MS O365 collaboration platform, which will increase the efficiency of communication and collaboration across the entire Bank.

IT Security
The Security Department is responsible for the creation and development of an efficient and effective system of the Bank's security management, including the system of business continuity management.

The Department integrates three areas within the scope of its competence: Cyber Security, Physical Security and Personal Security, for the Bank and its clients. It maintains and updates the regulatory base describing the Bank's security management system in accordance with the requirements of the national laws of the Czech Republic and Slovakia, regulators and other authorities.

A number of procedural, personnel and IT activities aimed at improving cybersecurity were launched, also in view of the Bank's inclusion among the operators of the State's basic infrastructure (autumn of 2020).

The Bank successfully completed the activities of setting up the BCM process. Furthermore, necessary activities were identified in the area of methodical instructions and user awareness in response to the new trends and regulatory requirements/recommendations in the area of security.

Human resources

Every one of the Bank's employees is a key corporate value for pursuing the company's strategy and maintaining a high standard of client care. Therefore, the Bank pays great attention to the professional and personal development and career growth of its staff; we strive to ensure a positive and friendly atmosphere and maintain the employees' motivation.

The present management, including human resources management, focuses not only on work performance but also on an appropriate work-life balance. The Bank invests in the development of an internal learning system focused in particular on financial thinking and soft skills. For internal learning, the Bank uses the expertise of its internal staff to the maximum extent possible and focuses on a mutual exchange of experience and knowledge across the Bank's departments. The Bank also focuses on the health of its employees and constantly extends the benefit system to cover healthcare services, and not only because of the COVID-19 pandemic.

The Bank is also open to young talents. It co-operates with universities and its experts take part in university lectures. It continuously supports the Trainee programme for students and graduates of higher-education institutions focusing on the financial sector, and in the past year, it also extended the options available in the area of IT/IS. This programme has received a great interest and the Bank is able to recruit new staff through this channel.

When electing members of the Supervisory Board and the Board of Directors and when filling management positions and positions in the committees of the Bank, the Bank does not apply a diversity policy in terms of age, gender or education. The aspects that are taken into account for all positions are, in particular, professional experience and qualification of the prospective members and employees. The Bank does not have any diversity policy set forth by an internal standard, it does not have any policy objectives or prescribed quotas in place. However, it ensures equal treatment and equal opportunities for all its employees. The Bank had a total of 570 employees (working at its Prague headquarters and in the Slovak branch) at the end of the year.

Partner for the fine arts, music and sports

Partner for the fine arts, music and sports also in difficult times
2020 was not a good year for the areas traditionally supported by the Bank. The pandemic caused galleries to close and concerts to take shelter online. If sports matches were not outright cancelled, they mostly had to be held behind closed doors. But the Bank honoured its commitments and stood by its partners even in the times of restrictions and government measures. It even launched its own projects and offered its clients and the public brand new and unique opportunities to enjoy art and sports even during the pandemic.

Rudolfinum Gallery
In the field of fine arts, the Bank honoured its partnership with the Rudolfinum Gallery, one of the foremost galleries in the Czech Republic, which organised two exhibitions in 2020. In January, it presented the works of Michaël Borremans. Characteristic for the unsettlingly strong psychological aspects and motives often hinting at latent violence, the Belgian painter's works nonetheless excel in the extraordinary beauty of their execution. Only a few days later, the gallery introduced another Belgian artist, David Claerbout, who examines the flow of time using videos and digital photography. His 2016 video projection called Olympia and presented at Rudolfinum last year is an excellent example of his work.

Jindřich Chalupecký Award
Last year, the Bank again sponsored the Jindřich Chalupecký Award, the most prestigious prize given to contemporary young Czech artists. The rules substantially changed for its 31st edition. Refusing to compete against one another, the participating artists decided that there would be no winner this year. The finalists hope that they will all thus receive the same space and attention, and the audience will be able to focus fully on their new works, without having to compare them.

J&T Banka Art Index
We continued our co-operation with the ART+ project aimed at observing the developments in the Czech art market, and published a new J&T Banka Art Index, a ranking of the top one hundred Czech artists born after 1950. Potential collectors and investors consid-

ering an acquisition of contemporary works were thus guided through the contemporary art scene and got to know artists who had made it to the top one hundred. Eva Koťátková again ranked first in the J&T Banka Art Index of contemporary artists in 2020. For the second year running, she bested her mentor, Jiří Kovanda, who had led the ranking from its inception. Jan Kaláb made the biggest jump in the ranking and became a symbol of the clear trend of street art's increasing popularity as a professional form.

Magnus Art Gallery
In the autumn of 2020, the J&T Group moved its headquarters into a brand new building in Prague's district of Karlín. Designed by architect Vít Máslo, the building also includes the Magnus Art Gallery, which entered the market with the aim to present interesting private collections based on Czech and global art. The gallery, which is open to the public free of charge, set out to become a place of inspiration, intriguing discussions and meetings.

The Bank was the first to present its collections in the new gallery – the opening exhibition was thus formed by a part of the eponymous Magnus Art collection. This Bank's private collection illustrates the development of contemporary Czech art from the 1990s to the present day. The first ever Karlín exhibition showed those works from the collection that originate from the last decade of the 20th century – times of extraordinary changes, not only in the art scene.

Co-operation with universities
The Bank's successful co-operation with the Academy of Arts, Architecture and Design (UMPRUM) continued in 2020, including the announcement of a student competition for the design of golf trophies, won for the second time already by Eliška Monsportová, a talented designer from the Academy's glass art studio.

The Bank expanded its partnership with art colleges after moving to the new headquarters, where it presented works by students of Czech art schools in a series of short-term exhibitions opened in the autumn by an exhibition of Jiří Černický's students from the Prague Academy of Arts, Architecture and Design (UMPRUM).

Artists for artists
The Bank is a long-term patron and benefactor of contemporary art. It therefore quickly responded at the end of last year to a call from the Luc Art Fund, which pointed out how difficult the pandemic times were for artists. They lost not only the opportunity to exhibit and, in particular, sell their works, but also their income from secondary employment. Their needs were somewhat overshadowed by the seemingly successful auction season as support from extraordinary programmes established by the ministries was often out of their reach.

Therefore, the Bank co-organised and provided support for the Fund's auction that helped not only the authors decided to sell their works, but also their colleagues, as the selling price was always divided in the ratio of 80% for the artist and 20% for a shared fund. Luc Art Fund will use these resources to support other artists via social scholarships.

This charitable auction, which eventually comprised almost fifty works, raised CZK 215 thousand for these scholarships and the Bank decided to double this amount with the funds obtained for artists in need ultimately reaching CZK 430,000. The Bank also paid for the auction and provided its premises for the pre-auction exhibition and auction itself.

Art Servis
The Bank transformed its long-time expertise in art into a new service called Art Servis, which it launched in the autumn of 2020. This service helps clients who need advice on art investments, administration of collections, and further requirements on art operations. The service is provided by two art historians – inhouse specialists in art.

Czech Philharmonic Orchestra
Despite the limited operation of music institutions, the Bank supported the violin virtuoso Josef Špaček and remained a partner of the Czech Philharmonic Orchestra. The co-operation gives members of the Philharmonic Orchestra not only the possibility to play the top-level violoncello purchased by the Bank and immediately lent to the Czech Philharmonic Orchestra, but also the opportunity to strive to become one of the top ten orchestras in the world.

In 2020, the Czech Philharmonic Orchestra fought against the pandemic by playing music. Right after the outbreak of the first wave, it organised several charity concerts to support healthcare professionals and nursing homes. It broadcast the concerts online making this touching cultural experience available to millions of spectators throughout the country.

New Opera Days Ostrava

Along with classical music, the Bank has also for years supported jazz, opera and other music genres. Thanks to its support, music enthusiasts were able to meet at New Opera Days Ostrava (NODO) in August. Traditionally hosting Czech and worldwide premieres of operas, the event uses both traditional theatres and industrial premises to present scenic works as well as concerts by top foreign and other artists.

J&T Banka Prague Open

Sports were perhaps even more affected by the pandemic than culture. The traditionally star-studded J&T Banka Prague Open tennis tournament planned for April was eventually cancelled, just like a number of other WTA Tour events.

When the measures were somewhat relaxed, the tournament was held without spectators in October, as J&T Banka Ostrava Open 2020. The tournament belongs to the Premier category, which made it the most significant women's tennis tournament held in the Czech Republic. In order to at least partially make up for the closed stands, the Bank partnered with the Sport daily to provide exclusive content on the iSport Premium portal, presenting interviews with the players, tennis personages and other bonus articles on the tournament.

J&T Banka CSIC3*W Olomouc

Great uncertainty surrounded up until the very last moment the international show jumping competition traditionally held in Olomouc. The original June date was cancelled and a new date was long unknown. This is why the Bank agreed with the organisers that its partnership would be moved to 2021, when the top contestants and horses will be able to present their mastery in front of full stands. The World Cup eventually took place in Olomouc in August, but this time without the Bank as a partner.

Czech Rugby Union

Integrity, Passion, Solidarity, Discipline and Respect – values honoured by rugby players around the world. Even though rugby is a tough sport, it is fair and we like that. Just like the Czech Rugby Union, we, as their general partner, are proud to say that we share those values. This sport was also strongly affected by the COVID-19 pandemic. The qualification rounds for men's European Championships were cancelled and moved to 2021.

J&T Banka Ostrava Beach Open

The Bank's involvement in beach volleyball as its general partner is recent news. Volleyball has almost a hundred-year tradition in the Czech Republic. We belong to the countries with the highest number of beach volleyball courts in Europe, and the popularity of this sport has been growing constantly. The main impulse for our partnership with J&T Banka Ostrava Beach Open was that we could witness the beginning of an international tradition and provide the fans with another great sporting event similar to those that have been held primarily in the countries of Western Europe, the USA or Australia so far. This prestigious tournament also had to be moved from March to September in 2020, only to be later cancelled by FIVB without replacement.

Nations Cup

When the traditional Nations Cup was held in Prague's Velká Chuchle in August as part of the international CSIO races, the Bank was there to offer support. As many of the events planned in the horse racing calendar had to be cancelled, the races in Velká Chuchle attracted a great interest of foreign and Czech riders. A racing fixture like this had not been held in the Czech Republic since 2008. The Bank was thus proud to be a partner of such an important event.

Outlook for 2021

The year 2021 will undoubtedly be marked by fixing the impacts of the pandemic. Nonetheless, everyone feels that it will be completely different than 2020. If the effects on the economy could only be estimated in 2020, it is now already clear which sectors will be the winners and which, even if somewhat unfairly, the losers. The pandemic was merely a catalyst for some changes, while the cards were dealt anew in some other areas.

The cornerstones on which the Bank's business is built, i.e. partnership based on an individual approach, personal knowledge of the client and their needs, and of course, trust in the product we sell to our clients, will not change. But the notion of "sustainability" is becoming increasingly frequent in its considerations. While it was already among the Bank's priorities in the past, sustainability will have a prominent position of sorts from now on.

Sustainability in various forms

Perhaps because the winners and losers are already known to some degree, more investment appetite can be expected in 2021 than in the previous year. From the viewpoint of a private investment client, sustainability means not only the right sector, but more than ever also the right product that can protect the client's investment in the long term not only from the pandemic, but also from inflation. Therefore, the Bank puts its trust in real assets in the long term; these assets will thus be the primary focus of its future investments.

While mutual trust between the banker and a client, based on personal contact and knowledge, plays the essential role in investment decisions, the Bank also invests and will invest considerable money in improving its ability to serve the clients remotely, while respecting different client needs in the Czech Republic and Slovakia.

Very low rates for Czech crowns lead the Bank to debate its the long-term strategy of financing, which is so difficult at times of low rates. Long-term sustainability, stability and – as a matter of course – effectiveness are imperative for the Bank. The Bank will thus decide in 2021 whether the time has already come for it to open a branch abroad, intended primarily as a source of deposits.

Opportunities hidden to others

An individual approach and tailor-made products prove to be advantageous in bad times. The Bank is thus not only able to quickly respond to individual client needs and stay in regular contact with its clients, but this primarily helps it find a relatively high number of lending opportunities. For this reason, too, the Bank believes that despite a more prudent approach to risk, it will be able to find opportunities invisible to major banks.

Faith in fintech

Fintech will become the driving force of increasing the efficiency of banking services, partly by snatching some of them for itself. This is why the Bank will continue to focus on investing in this area in 2021. Fintech may also prove to be an inspiration for the core banking services, such as lending, investments, consultancy, development of investment products and process automation.

Declaration

To the best of our knowledge, this Consolidated Annual Report presents a true and fair view of business activities, financial position and the economic results of the Bank and the Group in 2020 and of the outlook of the future development of their financial position, business activities and economic results..

Prague, 28 April 2021

Patrik Tkáč
Chairman of the Board J&T BANKA, a.s.

Štěpán Ašer, MBA
Board Member and Chief Executive Officer J&T BANKA, a.s.

Non-financial information

In accordance with Section 32g (1) of Act No. 563/1991 Coll., on accounting, the Bank as a large accounting entity and a public interest entity provides, within this Consolidated Annual Report, non-financial information and information concerning diversity, supplementing financial and non-financial information set out in other chapters of this Consolidated Annual Report.

The Bank considers the sharing of non-financial information to be a significant step towards creating a sustainable global economy that will combine long-term profitability with social justice and protection of the environment.

The Bank is aware of the importance of protecting the environment and pays close attention to the related matters. It therefore takes a number of steps that have an impact on the environment, or the areas of health and safety, such as improved utilisation of water sources and waste separation. It monitors new technologies and procedures, and evaluates the potential for implementation and benefits for society as a whole as well as individuals (whether clients or employees).

Attention is also paid to social and employee matters. Trends are monitored in this area and, if considered meaningful, they are subsequently implemented in the Bank's environment. Remedial measures are taken if any shortcomings are found in gender equality, working conditions, respect for the employees' right to information, consultations, occupational safety and health protection. Similarly, the Bank's non-financial focus also includes respect for human rights and anti-corruption and anti-bribery measures.

Along with its economic interests, the Bank thus also defines its long-term goals and strategies with regard to sustainable development. With a view to attaining them, the Bank takes into account not only its statutory duties in the defined areas, but also the values that are important for the shareholders and that the Bank strives to achieve and develop through its approach to business.

Profile of the company and its market position

The Bank is a popular private and investment bank focused on taking care of its clients' property and capitalising jointly on opportunities. Its traditional clientele includes primarily successful and demanding customers who require a high standard of services and an individualised approach that fits their lifestyles and needs. This is also reflected in the portfolio of products and services offered and the Bank's overall mission to interconnect the clients' capital with opportunities on the market, while striving to act as the clients' partner and adviser, or as a broker of unique experiences, with the aim to help its clients not only to protect and appreciate their assets, but also to enjoy them.

A wealthy society is crucial for a long-term existence and successful growth of the private banking sector. In view of the fundamental importance of elites for future development and their positive effect on each individual, the Bank seeks projects, potential for geographic and business growth, and personages who can improve the future of society.

The scope of the Bank's operations in the field of banking, and private banking in particular, which focuses closely on a small, but wealthy segment of potential clients, predetermines the Bank's influence on the financial and capital markets in the individual countries where it operates. In view of its market share and the non-retail focus of its investment and banking services and instruments, the Bank's presence is not that significant in the individual countries and its potential struggle would mean no great shock for these markets.

The Bank, however, has been gradually extending the offer of its services and products towards non-private clients. Such clients can also be provided with further products in the Bank's portfolio, along with the Bank's special and educated client care, but their provision or arrangement is conditional, just like for private clients, on compliance with a great many regulatory requirements. The Bank not only meets these requirements and constantly monitors them in view of its internal processes, but it may actually even adopt a stricter approach than required if it believes that this can ensure better protection for its clients.

Indeed, the Bank strives not only to increase the assets of the Group stakeholders and its customers, but also to create added value which makes the Bank a cherished partner in the eyes of its customers, employees and owners, a partner who is socially responsible and capable not only of generating profits, but doing so while maintaining and protecting important values in the corporate culture and towards third parties.

The Bank has already made a number relevant changes in terms of improving its non-financial values in the past and this is thus not merely a matter of the past year. The Bank has decided to take the path of supporting local culture and sports, and has been taking small, but not insignificant, steps to ensure sustainability of the environment and the protection of its employees' health and safety. This long-term support is an important feature that affects everyday decision-making in connection with the Bank's direction and growth.

Despite the established processes, the Bank will not let up in its efforts to set up new procedures and put them into practice efficiently and with standards ensuring that the results are visible and effective. In 2020, the Bank did not carry out any research and development activities.

Stakeholders
The Bank is aware of its position and influence over other entities and has therefore tried to identify the group of entities that are affected by the Bank or affect the Bank or the environment in which it operates.

The Bank's clients, employees, shareholders and the regulatory authority, i.e. the Czech National Bank, are deemed to be the most important stakeholders of the Bank from this point of view. External suppliers of all additional services and products, media and local communities are the Bank's further counterparties. The Bank strives to engage all these stakeholders in a dialogue and maintain appropriate relations with them while taking into account the interests of these groups in decision-making.

Employees can regularly participate in satisfaction surveys and thus express their needs. The information obtained within the surveys is used by the Bank in decision-making on changes in working conditions, remuneration and other motivational tools.

Environmental protection and prevention of pollution
The core of the Bank's business model lies in services provided by the Bank's staff to its clients. If such a service concerns a certain product, this product can in no way harm the environment (as would be true, e.g., of plastic packaging).

The provision of banking and investment services is therefore a business generating very little waste. Nonetheless, the Bank still considers it important to minimise the negative impact of its activities on the environment (consumption of water, electricity and paper; waste generation; direct and indirect CO2 emissions) and strives to support as much as possible those projects which could lead to improvement of the environment.

None of the banking activities can have a direct negative impact on the environment, but the Bank is aware of its position as an important consumer of energy and goods that might end up as waste. As a result, its activity may have environmental impacts, which the Bank is able to minimise through its own programmes and strategies.

Similarly, the Bank strives to motivate its employees to also take measures to protect the environment in their working and private lives. The Bank's staff members are not only encouraged to adopt a pro-active approach, but they even often request or actively propose possible improvements to certain shortcomings. They are urged to present their proposals to their supervisor or anyone from the HR department. This most frequently occurs in the area of recycling waste, used paper and paper boxes, and as well as with regard to drinking water, with a view to minimising plastic pollution. The employees themselves have also proposed to improve the lighting of their offices and potentially replace ceiling lights with table lamps, and also to minimise the use of air conditioning while simultaneously increasing the efficiency of ventilation. Employees can also present further ideas within their team using a special innovation platform.

On top of complying with the Czech legislative requirements, including those ensuing from the EU and other regulations regarding environmental protection requirements in terms of the company's activities, the Bank is also aware that its everyday work may have a direct or indirect negative impact on the environment and aggravate the global issues in this area, and therefore strives to find a way towards sustainability and conscious economic growth and development.

Wherever possible and provided that an individual supply serves its purpose, the Bank tries to always find a local or regional supplier of goods and services in order to support these suppliers and also to avoid unnecessary emissions, e.g. from the transport of goods.

Below, we present several specific activities pursued by the Bank in the area of environmental protection:

Relocation of the Bank into a new building
In the second half of 2020, the Bank relocated its operations to new premises. The Bank was involved in the design and all the individual steps in the construction of the building. One of the crucial preconditions formulated in the project design was the greatest possible environmental sustainability of the building and the construction process.

The result of these efforts to ensure sustainability of the construction process were requirements for a reduction of the negative impacts of the construction on its surroundings, especially preventing wind and water erosion from the construction site (e.g. the requirement to prevent washing soil away from the construction site to the construction pit and its surroundings; to prevent the run-off of deposits from the construction site into the sewerage system; to recycle construction waste; to utilise a certain percentage of recycled construction material in the construction; to ensure that at least 30% of the material used has been extracted, processed and manufactured in the region of the construction site, etc.). Furthermore, this included, e.g., the requirement that the discharged water not cause erosion or any other problems. All rainwater is now captured at the given place and seeps directly in the green areas; from paved areas, water is drained into a retention basin with a volume of 180 m3, to be reused for watering vegetation and flushing toilets; unused rainwater then seeps in a seepage facility. Taps with certain flow rates are used; grey water is used for flushing toilets.

The new building is equipped with a system of controlled ventilation outside working hours.

The building's roof is accessible to all employees and is planted with vegetation, thus improving the overall climate of the area. Plants are also grown in all offices and maintained by an external contractor (in an environmentally sound manner).

A bicycle room is available to all employees and clients for the storage of their bicycles used for transportation to the building (bicycle stands are located in the guarded part of the building; showers and changing rooms are also available there). The building is located next to metro and tram stations, which ensures easy access for pedestrians; this should contribute to greater utilisation of these types of transport and thus reduce the environmental footprint by minimising the number of trips made by private and company cars. Further, a certain number of parking spaces in the underground parking garage are reserved for low-emission vehicles (best spots close to the building entrance, next to the parking spaces reserved for people with disabilities and other groups prioritised by the law).

The building has predominantly large French windows spanning over the whole height of the floor, which allows for the longest possible utilisation of natural outside light, as well as external heating of the offices during sunny weather. All the windows are equipped with external blinds, which are controlled based on several factors. These also include weather conditions in the context of the construction design of the building. The blinds can be operated manually; they are also automatically shut if sunlight in a specific window exceeds the set value, in order to prevent heating the inside air above the standard temperature and thus the use of air conditioning by employees.

Pleasant ambient conditions in the offices are maintained automatically using the IRC (Individual Room Controller) regulator, which automatically maintains the set parameters of the environment (temperature and ventilation) in view of the presence of persons and energy efficient operation.

As a matter of course, the building also meets all the parameters that were already introduced in the former premises based on environmental accountability and the principles of sustainable development (waste recycling, drinking water supplies, etc.).

The main risk lay in negative impacts of the building's construction, especially generation of waste. However, in line with the above, construction waste was recycled and partially further used. All the work was performed with a view to minimising wind and water erosion from the construction site, etc.

The building eventually obtained the GOLD certification within the LEED Building Design and Construction scheme. In the process of LEED certification, the relevant documents are already provided during registration of the construction project; credits are then granted during the construction process if certain parameters are met.

Reduction of the volume of waste and its appropriate recycling
Long-term reduction of the quantity of waste generated belongs among important indicators for the Bank's everyday operation, as well as in establishing the long-term strategy and the individual steps aimed to achieve the strategy's objectives. New measures are being constantly introduced and existing measures assessed so as to gradually reduce energy intensity and environmental burdens directly connected with the Group's activities (zero waste policy).

The most important results include the following: Containers intended for waste separation (plastics, paper, paper documents to be shredded and other materials, where appropriate) are located at all strategic places (e.g. kitchenettes, catering rooms, at reception desks and close to printers and copiers).

Kitchenettes are equipped with dishwashers that reduce the volume of water needed for washing dishes used by employees and clients. Every kitchenette is also equipped with linen dish towels which are laundered by an external company and reused (one-off paper towels are used only for catering and wiping dirt).

The Bank considers the use of water dispensers available to the employees a great environmental benefit. These dispensers are connected to the water mains and thus minimise plastic waste that would otherwise be generated if bottled water or water barrels were used. Drinking unpackaged water significantly reduces the risk of consumption of microplastics and the dispensers also provide hot water, thus avoiding the need for heating water in electric kettles and the associated use of electricity.

Obsolete IT and office technology is handed over to an external company specialising in its disposal. The staff are encouraged to bring discarded devices to the Bank's IT department so as to prevent their disposal as municipal waste.

The use of batteries is also being gradually eliminated (e.g. gradual replacement of wireless mice and keyboards).

Neither the Bank nor its services are an important generator of waste. The main risks in this regard include an increased quantity of waste produced by the Bank's staff in its everyday operation. This risk is taken into account in adopting the relevant decisions (purchase of dishwashers, water dispensers, number of waste recycling bins, etc.) so as to prevent any increase in the volume of waste. In contrast, efforts are made to reduce waste wherever possible provided that this does not impede the Bank's operation.

Given the Bank's relocation to another building during the year, the Bank is unable to document the above by specific numbers.

Green investments
In view of its business model consisting in the provision of financial services, the Bank is aware of its important role especially in financing projects and investments related to renewable energy sources. In this regard, the Bank has been preparing for mediating sustainable investments for its clients in the future, in accordance with the directly applicable regulation of the European Union. The aim is, in particular, to develop responsible investments through transparent information available to customers, which should ultimately contribute to the customers' ability to take this factor into account in their investment decision-making process.

The expected result is a preference for green investments, i.e. investments focusing on companies or projects that take into consideration the direct and indirect environmental impacts and support the purchase of environmentally friendly and technologically advanced environmental products and services, commit to reduce the use of environmentally unsound energy sources (use of fossil fuels), prefer the production and consumption of alternative energy sources, and implement projects focusing on clean air.

The risk involved in this respect is the augmentation of investments in companies or projects that are at variance with the green policy, whether in their objects or in the production and operation, especially at the expense of support for investments in companies and funds in energy-saving projects and investments. Given the active search for green investments, not only to promote the diversity of the banking portfolio, but especially to satisfy the clients' constantly increasing preference for such investments, the Bank considers this risk minimal and well-managed.

An illustrative example is an investment made by the J&T VENTURES I fund in the start-up "720 Degrees", which introduces tools for optimising the management of buildings and air quality in buildings with regard to health, productivity and satisfaction of employees.

This is an increasingly important investment and development area of "healthy buildings". The Bank has been incorporating investment products created by other entities (especially unit trusts) focusing on sustainable development or investments in environmentally-friendly projects in its offer in the long term.

Social and employee affairs

Our staff

A satisfied and motivated employee who perceives the importance of his/her role and is simultaneously aware that the mutual relationship with his/her employer is based on trust, communication and mutual respect is one of the greatest assets any company can have. The Bank is well aware of this fact and is constantly trying to offer its employees the possibility to expand their knowledge and experience, education opportunities and a number of special benefits.

All senior employees, regular employees and members of the governing body are bound by the Bank's internal regulations defining the prohibition of discrimination and the obligation of equal treatment.

The Bank operates in countries where a prohibition of child labour and forced labour might be expected in view of the European standards in the area of labour and social conditions. The risk that the mentioned problems could also be encountered at external suppliers of goods or services is considered minimal. In any case, should the Bank be advised of any information or justified suspicion that any business partner violates these standards, the business co-operation will be immediately terminated. No violation of labour-law regulations by business partners or the Bank was noted in 2020. The Bank has not recorded any violation of occupational safety rules by the Bank itself and no penalty or sanction has been imposed on the Bank in this respect.

The Bank employs a total of 49% women (also 49% in 2019) and 51% men (i.e. the same as in 2019). No changes occurred in the Bank's management compared to 2019: the Bank employs 29% women and 71% men.

Remuneration policy

The Bank creates above-standard social and economic conditions for its employees in the long term. With a view to motivating its staff and strengthening their bonds with the Bank and the Group, the Bank has put in place certain internal procedures for setting fair remuneration for the work performed.

The result is a remuneration policy which combines a fixed and a variable component ensuring employees' economic stability but, at the same time, encouraging employees to continue their personal development and self-improvement and contribute to the performance of the whole Group, while reflecting not only short-term business goals but also the strategy of sustainable development and growth.

Furthermore, on top of their salary, employees regularly receive a contribution towards relaxation, sports or a health programme, including a cancer-prevention programme.

Special benefits

In relation to the coronavirus pandemic, the Bank supported telecommuting by its employees. It therefore reinforced its IT systems, including the protection of applications enabling or simplifying work from home (e.g. reinforcement of VPNs and support for software teleconference applications). The Bank has provided its staff with the necessary equipment, including related technical support in installation or in case of any problems with the use of teleconference and videoconference calls. It also adapted the meeting rooms in the Bank for tele- and videoconferences.

Further, employees are allowed to take one extra week of annual leave beyond the mandatory scope, and also take three sick days per calendar year to cover short unfitness to work.

Flexible working time, where employees are only required to be present on the Bank's premises at certain times, is a highly valued benefit. Beyond the scope of this time, employees may choose themselves the time when they will work.

Employees are also encouraged to work during maternity and parental leave. This allows them to increase their income at a time when they care for the family and also maintain their level of professional knowledge during parental leave, which facilitates their return to work.

The Bank also supports parents in returning to their positions in the form of part-time jobs; the number of these jobs is constantly growing.

In 2019, the Bank employed 51 part-time employees in the Czech Republic and Slovakia; in 2020, this number dropped to 47 part-time employees. In 2019, 71% of employees returned from maternity and parental leave to employment in the Czech Republic and 27% in Slovakia. In 2020, the return rates were 56% in the Czech Republic and 50% in Slovakia.

Employees' salaries are set based on an analysis of working opportunities, drawn up by the HR Department. The analysis follows from externally available data, work experience and expertise of each employee, while strictly respecting the prohibition of any discrimination on the basis of sex, sexual orientation, race or ethnic origin, nationality, citizenship, social origin, birth, language, medical condition, age, religion or faith, property, marital and family status and relationship or obligations towards the family, political or other opinions, membership and activities in political parties or political movements.

The Bank enables its employees to increase their professional qualifications and develop their personal or managerial skills in the long term. The Bank's values are pursued primarily by individuals' own initiative; in spite of that, the Bank has a group of cross-sectional competences which are taken into account while setting individuals' development plans, i.e. as a part of the individual KPI of each employee. Improving knowledge and skills on the basis of competences results in an effective implementation of the goals of individuals and, subsequently, of the Bank and the Group as a whole.

The Bank provides its employees with support in improving of their qualifications, also through the possibility to complete their studies related to the type of the work performed, such as CFA, ACCA, etc. This offer includes both financial support where the Bank is prepared to pay the costs of the employee's studies as well as the temporal support where the employees are provided with the required time. The Bank promotes knowledge of foreign languages and provides the employees with the opportunity to participate in various language courses and also promotes their participation in expert conferences and seminars.

The Bank supports education of its employees – it is a long-term partner of the Investor Club that co-operates with the University of Economics, the University of Finance and Administration, the CFA and newly also the Czech Technical University, by co-organising educational activities and workshops for students.

The Bank's headquarters newly include a number of relaxation zones that can be used by employees for resting and dealing with personal affairs. Along with new multifunctional coffee machines in each kitchenette on every floor of the Bank's building, employees will also be allowed to use the fitness zone with a number of fitness machines, treadmills, workout benches with weights and kettlebells for individual training during or after the working time (the fitness zone should be opened in 2021 depending on the development of the situation related to COVID-19).

The Bank also provides an internal communication network application for employees' socialisation. This is a means of communication aimed to connect everyone in the company through shared posts, statuses and photographs, organisation of events (e.g. a running team and a group of employees engaging in cycling activities).

Common events also include annual volleyball tournaments for teams composed of the Bank's employees and a family day – a day full of social and entertainment events, where staff members are joined by their families. However, social activities were limited last year due to the COVID-19 pandemic and the related strict health-protection measures.

Employee satisfaction and ideas

The Bank's long-term goal is to create a healthy and motivating environment for its employees, supporting their personal and career growth. All our HR processes are transparent; our employees are treated decently and fairly. The Bank supports their creativity and ideas that can influence the individual processes in the Bank as well as specific products.

When new employees join the Bank, they meet with senior employees of the HR department and representatives of the Bank's management; these meetings are then repeated every several months. The aim is to discuss the employees' personal motivation and expectations regarding their work in the Bank and how the employees' expectations are being fulfilled, what they dislike and what they would like to improve, etc. All opinions are heard and discussed, and many of them are presented to the competent persons for further implementation or discussion.

As one of the Bank's principal values is partnership, each employee is considered to be a partner of the Bank and, in case of a personal predicament, the Bank strives to help such an employee as much as possible. This help is always individual in view of the current life situation. It may include, for example, financial support, maintaining the job position, shorter working time in necessary cases, etc.

Protection of employees' safety and health

Employees are regularly trained in the area of occupational safety and health protection, fire protection and provision of work aids and office equipment in the highest quality in an attempt to minimise or eliminate the risk of an occupational disease. The person responsible for this area further informs the employees and management of all new material information, or provides updates on issues which are already being addressed.

The Bank has paid systematic attention to the care for its employees' health for several years now; three times a year, it organises an event called Health Days. During this time, employees can undergo individual physiotherapy, massages or professional consultations, especially in relation to the negative consequences of the sedentary job (e.g. measuring body fat percentage and its ideal values in relation to sex, weight and height). Unfortunately, Health Days could not be organised at the Bank in 2020 because of the public health measures.

Given the unusual situation in the past year, the Bank's HR department and heads of individual teams provided regular information on all the adopted measures, prohibitions and recommendations, together with updates whenever an important change was made. Similarly, measures were introduced within the Bank, where face masks and respirators were distributed to employees and clients (most of the masks were made voluntarily by the employees); it was mandatory to wear face masks inside the buildings and offices (even at times when this duty was not imposed by a Government regulation). Employees were advised of their duty to inform their supervisors whenever they arrived from a country with a risk of contagion or of any positive test or suspected infection, and were encouraged to work from home even if they had cold or symptoms of some other disease. If an employee got infected, all other employees who had been in close contact with the sick employee (sharing office or premises, joint meetings) were immediately traced, advised and ordered to telecommute and undergo the relevant test.

As a matter of course, facts concerning a specific person were disclosed by the Bank only to the extent required for health protection and so as not to affect the dignity and integrity of the person, all that in view of personal data protection and in conformity with the opinion of the Office for Personal Data Protection.

In 2020, employees were informed a total of 30 times about important changes, beyond the scope of their working duties, by e-mails sent by the senior staff of the HR department. Dozens of face masks and respirators were also handed out. The Bank regularly measured the employees' and clients' temperature when they entered the building, with a view to preventing the spreading of infection. The whole building including office spaces was disinfected regularly during the year. Disinfection is available to all employees on each floor, at each reception desk and in every kitchenette.

The employees used the option of telecommuting, or were divided into teams A and B and alternated at the office. At the end of 2020, the company introduced voluntary antigen testing once every two weeks.

The Bank also helps others

The Bank, its shareholders and employees have long been supporting the J&T Foundation, which has helped specific people and non-profit organisations since 2004. The foundation shares the vision that everyone should get the chance to be born, live and die in a family, and thus its main mission is to help endangered children and families.

A change in the focus towards prevention and care for endangered families is very important for the J&T Foundation. This led to the creation of the "8 000 Reasons" initiative, responding to the high number of children placed in institutional facilities in the Czech Republic. Institutional care has a negative impact on the development of children, especially the smallest ones. Almost 8,000 children are still in institutional care, which means 8,000 reasons for changing the system. The objective of the initiative is to support improvement of the system of care for endangered children.

Financial and non-financial resources in the total amount of CZK 40 million were provided in 2020 (in 2019: CZK 33 million).
The Bank enables students in selected fields to gain experience in banking through trainee programmes; in Slovakia, the Bank also supports national competitions for talented young people "Študentská osobnosť roka" (Student of the Year) and "Mladý inovatívny podnikateľ" (Young Innovative Entrepreneur); In 2020, we prepared a trainee programme for 6 persons.

From the very beginning of the pandemic, the Bank and the EPH group decided to quickly offer assistance to the Czech and Slovak governments, which were both struggling with a lack of medical supplies to combat the coronavirus. Both companies used their contacts abroad to order especially surgical face masks, N95 and FFP3 respirators, protective gloves, suits, goggles and also testing sets. This – mainly protective – equipment was already purchased and quickly transported to both countries in the second half of March, and distributed to the individual regions in co-operation with the Ministries of the Interior of the Czech and Slovak Republics. The necessary equipment was supplied in several batches; altogether, this accounted for more than 2 million face masks, 60 thousand protective suits, 60 thousand protective goggles, 50 thousand tests and over 2 million N95 and KN95 respirators.

The choice of specific aids or assistance in a different form was determined especially based on the requirements of the individual governments or in co-operation with experts and the specific recipients so as to ensure that the help reached specific entities and addressed their specific needs.

The total volume of the aid provided exceeded CZK 215 million, where the Bank contributed approximately one half of that. The Bank is aware that the economic impacts of the pandemic will be long and significant for both the Czech Republic and Slovakia, and by its efforts to quickly obtain protective equipment, it tried to reduce the effects of the pandemic and thus protect the health and lives of people involved in combating the infection as well as common citizens, especially those belonging to one of the high-risk groups.

Respect for human rights
The Bank and the whole Group consider human rights to be one of the most important values. It holds in all areas of the Bank's activities that human rights mut always be respected and all the legal obligations imposed on the Bank's activities need to be complied with; moreover, the Bank also respects, throughout the Group, the restrictions following from the measures imposed by the United Nations, the EU or the U.S.A. on persons violating human rights.

One of the imperatives followed by the Bank is that neither the Bank nor any companies in its Group will enter into a transaction with a person against whom international sanctions have been imposed, and to this end, the Bank defines Group rules and controls compliance therewith.

It is also a rule that the Bank always proceeds in a non-discriminatory manner vis-à-vis all customers, workers as well as other persons regardless of their sex, sexual orientation, religion, political opinion, citizenship, nationality or education.

The Bank promotes an open doors policy in this regard as each employee is encouraged to inform his/her superior or anyone from the management of any potential concerns, findings or proposals for improvement (even anonymously, via the "whistleblowing line").

The result of compliance with the established rules is a constant unconditional imperative of not entering into contractual relationships with anyone subject to international sanctions, the Bank's non-discriminatory approach towards customers, employees and other persons, as well as the Bank's open attitude towards dissenting opinions of the staff and third parties, e.g. expressed through the anonymous whistleblowing platform.

The risk in this regard may lie in an error or mistake made by an employee (a human error) who might make a decision inconsistent with this policy, at variance with the adopted measures. The Bank has a control system in place which sufficiently safeguards that any such errors will be detected in due time. This includes, e.g., the four-eye principle (two employees are involved in the same act), managerial checks of the performance of activities falling within the responsibilities of the head of the relevant department, compliance control as a control function with the option/duty to perform inspections defined by internal regulations and a plan of inspections based on own risk assessment, and control activities within the internal audit department.

The Bank has introduced sufficiently robust procedures with a view to preventing any transactions that could violate international sanctions, at the level of JTFG as a whole. At the same time, no suspicion of violation of human rights by the Bank or its employees has been identified.

Anti-corruption and anti-bribery

Within its activities, the Bank is not engaged in any corrupt or other unethical practices when promoting its interests, it always strives to comply with all its statutory duties to the maximum extent and respects the third-party interests.

In its internal regulations, the Bank defines strict rules for ethical behaviour of its employees; it motivates them to comply with the rules and adequately monitors this compliance. These rules define, in particular, the prohibition of corrupt practices, soliciting, accepting or providing bribes, as well as the rules for managing potential conflicts of interests.

All employees are regularly trained in this area and the Bank defines preventive and subsequent control mechanisms with a view to detecting such conduct, where any such case is considered a serious breach of working duties in accordance with the internal regulations. Any conduct that has the potential to correspond to the elements of a criminal offence, shall be notified by the Bank to the competent prosecuting bodies.

The option to anonymously report any unfair conduct by employees and third parties, i.e. whistleblowing, constitutes the Bank's basic tool for detecting any unethical conduct or conduct at variance with internal regulations or laws. The tool is administered by the Compliance & AML Department, which is obliged to investigate each reported case and submit the results of the investigation to the Bank's Board of Directors with a view to adopting subsequent measures. The Bank's internal regulations guarantee protection of the whistle-blower against any negative consequences of reporting unfair conduct, even if the unfair conduct is not confirmed.

In relation to corruption committed by third parties, the Bank defines, in particular, measures aimed at preventing the legalisation of the proceeds of crime and financing terrorism, including, but not limited to, procedures of client identification and control in conformity with Act No. 253/2008 Coll., on certain measures against legalising the proceeds of crime and financing terrorism, including the implementing regulations and directly effective legislative acts issued by the EU. In particular, the Bank pays increased attention to cash transactions, as they may be a potential instrument of corrupt practices, and transactions of politically exposed persons.

The result of these measures is consistent compliance with strict rules of ethical conduct on the part of the Bank and its employees. The Bank has not encountered any cases that could be evaluated as unethical conduct by its employees in relation to the prohibition of corrupt practices or that would be at variance with legal or internal regulations. Any report made via the whistleblowing line is properly investigated. The Bank notifies all non-standard transactions to the competent authorities, especially to the Financial Analytical Department.

Some of the Bank's employees may be exposed to the risk of corrupt practices in view of their work or may be financially or otherwise incentivised by customers or third parties to carry out a transaction in accordance with the instructions of these persons. For this reason, the Bank has a strong interest in limiting the risk of such conduct that could have a significant impact on the reputation of the Group and its business interests. For this reason, the Bank does not tolerate any form of corruption or bribery and manages and mitigates the risks of a conflict of interests that harm the interests of the Bank and the Group, its clients or third parties. The Bank approves and subsequently records transactions made by persons involving a potential risk factor. Conflicts of interests are evaluated and recorded on an ad hoc basis.

The Bank received no reports of unfair conduct by a Bank's employee or any other person related to the JTFG in 2020.

Patrik Tkáč

Štěpán Ašer, MBA

Igor Kováč

Anna Macaláková

Tomáš Klimíček

Bank's management

Board of Directors

Patrik Tkáč
Board Chairman

Štěpán Ašer, MBA
Board Member

Igor Kováč
Board Member

Tomáš Klimíček
Board Member

Anna Macaláková
Board Member

Procuration

Alena Tkáčová

Mária Kešnerová

Milan Sležka
(termination of procuration on 10 December 2020)

Miloslav Mastný
(appointed on 10 December 2020)

Supervisory Board

Jozef Tkáč
Supervisory Board Chairman

Ivan Jakabovič
Supervisory Board Vice-Chairman

Dušan Palcr
Supervisory Board Member

Jozef Šepetka
Supervisory Board Member

Jitka Šustová
Supervisory Board Member

Tomáš Janík
Supervisory Board Member

Board of directors

The Board of Directors is the Bank's statutory body which manages the Bank's business activities and acts in its name in a manner laid down in the Articles of Association and the Commercial Register. The Board of Directors decides all matters of the Bank unless they fall within the powers of the general meeting or the Supervisory Board under the law or the Articles of Association or resolutions of the general meeting.

The Board of Directors is elected by the Supervisory Board. The Czech National Bank reviews professional skills, credibility and experience of all members of the Board. The members of the Board elect its chairman. The general meeting decides on the remuneration of the members of the Bank's Board of Directors. Individual members of the Board are elected for five years (their re-election is possible).

The Board of Directors is responsible for the establishment of a comprehensive and appropriate management and control system and for keeping the system functional and effective. It is responsible for ensuring the setting of the Bank's overall strategy, the rules which clearly define ethical and professional principles and expected models of behaviour of employees and for the determination of human resources management standards. The Board of Directors is also responsible for ensuring the determination, observance and application of requirements for credibility, knowledge and experience of persons through which it ensures the performance of its activities and for the consistent application of proper management, administrative, accounting and other procedures by the Bank. The Bank's Board of Directors approves and regularly assesses primarily the Bank's overall strategy, organizational structure, the risk management strategy including risks arising from the macroeconomic environment in which the Bank operates even depending on the economic cycle including principles of assuming, identifying, measuring, monitoring, reporting and limiting the occurrence or impacts of risks to which the Bank can be exposed. It approves the strategy related to capital, strategy of the information and communication system development, principles of the internal control system, including principles preventing any occurrence of a possible conflict of interests. It also approves compliance and internal audit, security principles including security principles for information and communication systems, a set of limits including the total acceptable risk rate and potential internally determined capital, liquidity and other prudential provisions or premiums which the Bank uses to mitigate risks within the risk rate acceptable for it.

The Bank's Board of Directors also approved new products, activities, systems and other matters being of significant importance for the Bank or having other potential substantial impact on it (the Board of Directors can delegate this power to a specialized committee determined by it). It approves the strategic (four-year) and periodical (annual) internal audit plan.

At 31 December 2020, the Bank's Board of Directors had 5 members:

Patrik Tkáč
Chairman of the Board

Appointed to the Board of Directors on: 3 June 1998
Term of office to: 22 July 2023

He graduated from the Faculty of National Economy of the University of Economics in Bratislava. In 1994, he obtained a broker's licence from the Slovak Ministry of Finance and in the same year he co-founded J & T Securities, s.r.o., an investment firm. He is a leading representative of the J&T Group and chairman of the Board of Directors of the J&T BANK. Patrik Tkáč is responsible for the Financial Markets Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No. 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Vice-Chairman, status: actual

ATLANTIK finanční trhy, a.s.
Id. No. 26218062, Praha 8, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Chairman, status: actual

Nadace J&T
Id. No.: 27162524, Malostranské nábřeží 563/3, Malá Strana, 118 00 Prague 1; Managing Board – Member, status: actual

J&T IB and Capital Markets, a.s.
Id. No.: 24766259, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

CZECH NEWS CENTER a.s.
Id. No.: 2346826, Prague 7, Komunardů 1584/42, Postal Code 170 00; Supervisory Board – Chairman, status: actual

J&T Family Office, a.s.
Id. No.: 3667529, Prague 1 Malá Strana, Malostranské nábřeží 563/3, Postal Code 118 00; Supervisory Board – Member, status: actual

Nadace Sirius
Id. No.: 28418808, Prague 1, Všehrdova 560/2, Malá Strana, Postal Code 118 00; Founder, status: actual

CZECH MEDIA INVEST, a.s.
Id. No.: 24817236, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Member, status: actual

J&T Wine Holding SE
Id. No.: 06377149, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Board of Directors – Member, status: actual

J&T ENERGY FINANCING CZK I, a.s.
Id. No.: 06433855, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING CZK II, a.s.
Id. No.: 06433901, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING CZK III, a.s.
Id. No.: 07084030, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING CZK IV, a.s.
Id. No.: 07381158, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Supervisory Board – Member, status: actual

Bermon94, a.s.
Id. No.: 07234660, Prague 8, Sokolovská 700/113a, Postal Code 186 00, PSČ 186 00; Supervisory Board – Member, status: actual

EP Global Commerce, a.s.
Id. No.: 05006350, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Chairman, status: actual

J&T INVESTMENTS SICAV, a.s.
Id. No.: 08800693, Praha 8, Sokolovská 700/113a, PSČ 186 00; Managing Board – Member, status: actual

J&T ENERGY FINANCING EUR I, a. s.
Id. No.: 51142074, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR II, a. s.
Id. No.: 51143062, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR III, a. s.
Id. No.: 51579642, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR IV, a. s.
Id. No.: 51479982, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR V, a. s.
Id. No.: 51888777, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR VI, a. s.
Id. No.: 52312305, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR VII, a. s.
Id. No.: 52396274, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR VIII, a. s.
Id. No.: 52491218, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR IX, a. s.
Id. No.: 52491196, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR; Supervisory Board – Member, status: actual

J&T ENERGY FINANCING EUR X, a. s.
Id. No.: 52661261, Dúbravská cesta 14, Bratislava - Karlova Ves 841 04, SR;Supervisory Board – Member, status: actual

J&T banka d.d.,
Id. No.: 675539, Međimurska ulica 28, 42000 Varaždin, Croatia; Supervisory Board – Member, status: out of date

PBI, a.s.
Id. No.: 03633527, Sokolovská 394/17, Karlín, 186 00 Prague 8; Board of Directors – Member: out of date

Stamina Private Equity Investments a.s., v likvidaci
Id. No.: 03841669, Prague 8, Pobřežní 297/14, Postal Code 186 00; Supervisory Board – Member, status: out of date

Štěpán Ašer, MBA
Board Member and Chief Executive Officer

Appointed to the Board of Directors on: 30 May 2006
Term of office to: 2 June 2021

He graduated from the School of Business and Public Management at George Washington University in Washington, in finance and financial markets. He holds an MBA at the Rochester Institute of Technology. He has been working in finances in the Czech Republic since 1997, first as an analyst, a portfolio manager in Credit Suisse Asset management. In 1999 – 2002, he was a member of the Board of Directors of Commerz Asset Management responsible for the portfolio management and sales. In Česká spořitelna he focussed on institutional clients in the asset management. Since 2003, he has been working in J&T BANKA, a.s. He is responsible for the Trade Unit, Operations Unit and Administration Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No.: 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Member: actual

J&T INVESTIČNÍ SPOLEČNOST, a.s.
Id. No.: 47672684, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

ATLANTIK finanční trhy, a.s.
Id. No.: 26218062, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Chairman, status: actual

J&T IB and Capital Markets, a.s.
Id. No.: 24766259, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Chairman, status: actual

J&T Bank, a.o.
Id. No.: 1027739121651, 115035 Moskva, Kadaševskaya naberežnaja, 26, Ruská federace; Board of Directors – Member, status: actual

J&T Leasingová společnost, a.s.
Id. No.: 28427980, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Chairman, status: actual

J&T Mezzanine, a.s.
Id. No.: 06605991, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

J&T SERVICES ČR, a.s.
Id. No.: 28168305, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

J&T banka d.d.
Id. No.: 675539, Međimurska ulica 28, 42000 Varaždin, Chorvatsko; Supervisory Board – Member, status: out of date

PBI, a.s.
Id. No.: 03633527, Sokolovská 394/17, Karlín, 186 00 Praha 8; Supervisory Board – Member, status: out of date

Ing. Igor Kováč
Board Member

Appointed to the Board of Directors on: 16 February 2011
Term of office to: 16 February 2021

In 1998, he graduated from the Faculty of National Economy of the University of Economics in Bratislava. He has spent his entire professional career in finance. Since 2000, he has been working in the banking industry. He joined Hypovereinsbank Slovakia where he worked as a Senior Controller. In 2002 – 2008, he worked in Volksbank Slovakia as the manager of the Economic Department. Since 2008, he has been working in J&T BANKA, a.s. In the Bank he is responsible for the Finance Unit and Project Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No.: 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Member, status: actual

J&T IB and Capital Markets, a.s.
Id. No.: 24766259, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

J&T INVESTIČNÍ SPOLEČNOST, a.s.
Id. No.: 47672684, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

J&T SERVICES ČR, a.s.
Id. No.: 28168305, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Member, status: actual

J&T banka d.d.
Id. No.: 675539, Međimurska ulica 28, 42000 Varaždin, Chorvatsko; Supervisory Board – Member, status: actual

J&T Bank, a.o.
Id. No.: 1027739121651, 115035 Moskva, Kadaševskaya naberežnaja, 26, Ruská federace; Board of Directors – Member, status: actual

J&T Leasingová společnost, a.s.
Id. No.: 28427980, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

J&T Mezzanine, a.s.
Id. No.: 06605991, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

Ing. Tomáš Klimíček
Board Member

Appointed to the Board of Directors on: 1 December 2016
Term of office to: 1 December 2021

In 2010, he graduated from the Faculty of Finance and Accounting of the University of Economics. In 2008-2011, he worked in PricewaterhouseCoopers Audit, s.r.o. He joined J&T BANKA, a.s. in 2011, and became the Head of the Credit Risk Management department in 2012. In the Bank he is responsible for the Risk Management Department, Administration Unit and Information systems Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T Bank, a.o.
Id. No.: 1027739121651, 115035 Moskva, Kadaševskaya naberežnaja, 26, Russian Federation; Board of Directors – Member, status: actual

J&T Leasingová společnost, a.s.
Id. No.: 28427980, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member: actual

Ing. Anna Macaláková
Board Member

Appointed to the Board of Directors on: 11 June 2018
Term of office to: 11 June 2023

She graduated from the Faculty of National Economy of the University of Economics in Bratislava. Since the end of her studies in 2006, she has worked in the Bratislava Branch at various positions. At the present time, she works in the Bank and occupies the position of head of J&T BANKA, a.s., the foreign bank's branch in Bratislava. Within the Bank, she is responsible for the Bratislava Branch.

In the past five years she has not been involved in any other companies.

Supervisory Board

The Supervisory Board is the Bank's control body. Its activity is regulated by legal regulations and the Bank's Articles of Association. The Supervisory Board supervises the activities of the Board of Directors and the business activities of the Bank. The members of the Supervisory Board are elected and removed by the general meeting (resp. the sole shareholder). According to the Articles of Association the Supervisory Board has 6 members. At 31 December 2020, it had six members. The members of the Supervisory Board are elected for a five-year term.

Ing. Jozef Tkáč
Chairman of the Supervisory Board (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2023

After he graduated from the University of Economics, he joined the Main Institute of the State Bank of Czechoslovakia ("SBCS") in Bratislava. In 1989, the Slovak Government and the SBCS authorized him to prepare activities of an investment bank in Slovakia. In 1990, he became the leading director of the Main Institute for the Slovak Republic in Investiční banka, s.p.ú., Praha and after Investiční banka Praha was privatized and divided, he became president of Investičná a rozvojová banka, a.s. in Bratislava. After a change in the bank's owners and the end of the privatization of Investičná a rozvojová banka, a.s. he became president of the J&T Group and chairman of the Board of Directors of J&T FINANCE GROUP SE.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No.: 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Chairman, status: actual

Geodezie Brno, a.s. v likvidaci
Id. No.: 46345906, Brno, Dornych 47, Postal Code 602 00; Supervisory Board – Chairman, status: actual

ATLANTIK finanční trhy, a.s.
Id. No.: 26218062, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member: actual

Poštová banka, a.s.
Id. No.: 31340890, Bratislava, Dvořákovo nábrežie 4, Postal Code 811 02; Supervisory Board – Member, status: actual

J&T SERVICES ČR, a.s.
Id. No.: 28168305, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Chairman, status: actual

Equity Holding, a.s.
Id. No.: 10005005, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Chairman, status: actual

Nadace J&T
Id. No.: 27162524, Praha 1, Malostranské nábřeží 563/3, PSČ 118 00; Managing Board – Member, status: actual

J&T Investment Pool - I - SKK, a.s.
Id. No.: 35888016, Bratislava, Dvořákovo nábrežie 4, Postal Code 811 02; Board of Directors – Vice-Chairman, status: out of date

Ing. Ivan Jakabovič
Deputy chairman of the Supervisory Board (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2023

He graduated from the Faculty of Economic Informatics of the University of Economics in Bratislava. He obtained a broker's licence from the Slovak Ministry of Finance. In 1994, he co-founded J&T Securities, s.r.o., an investment firm. He is a Vice-Chairman of the Board of Directors of J&T FINANCE GROUP SE.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No.: 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Vice-Chairman, status: actual

KOLIBA REAL a.s.
Id. No.: 35725745, Bratislava, Dvořákovo nábrežie 8, Postal Code 811 02; Board of Directors – Member (Chairman from 6.2.2021), status: actual

EP Power Europe, a.s.,
Id. No.: 27858685, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Member, status: actual

J & T Securities, s.r.o.
Id. No.: 31366431, Bratislava, Dvořákovo nábrežie 8, Postal Code 811 02; Statutory Representative, status: actual

Nadace J&T
Id. No.: 27162524, Malostranské nábřeží 563/3, Malá Strana, 118 00 Prague 1; Managing Board – Member, status: out of date

Energetický a průmyslový holding, a.s.
Id. No.: 28356250, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Chairman, status: out of date

EP Energy, a.s.
Id. No.: 29259428, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Chairman, status: out of date

EP Industries, a.s.
Id. No.: 29294746, Pařížská 130/26, Josefov, 110 00 Prague 1; Supervisory Board – Member: status: out of date

Ing. Dušan Palcr
Supervisory Board Member (not an employee of the Bank)

Appointed to the Supervisory Board on: 15 June 2004
Term of office to: 15 October 2023

He graduated from the Faculty of Business and Economics of Mendel University in Brno. From 1995 to 1998, he worked in banking supervision in the Czech National Bank. He joined the J&T Group in 1998. He was a member of the Board of Directors of J&T BANKA, a.s. in charge of the Finance and the Banking Operations Department. Since 2003, he has been a member of the Board of Directors of J&T FINANCE GROUP SE.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE
Id. No.: 27592502, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Board of Directors – Vice-Chairman, status: actual

J&T Sport Team ČR
Id. No.: 24215163, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Statutory Representative, status: actual

AC Sparta Praha fotbal, a.s.
Id. No.: 46356801, Prague 7, tř. Milady Horákové 1066/98, 170 00; Supervisory Board – Chairman, status: actual

I. Český Lawn - Tennis Klub Praha
Id. No.: 45243077, Prague 7 Holešovice, ostrov Štvanice č. ev. 38, Postal Code 170 00; Managing Board – Member, status: actual

Nadace J&T
Id. No.: 27162524, Malostranské nábřeží 563/3, Malá Strana, 118 00 Prague 1; Managing Board – Member, status: actual

Karlín development II. s.r.o.,
Id. No.: 28161980, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

Karlín development III. s.r.o
Id. No.: 05783216, Praha 8, Pobřežní 620/3, PSČ 186 00; Supervisory Board – Member, status: actual

J & T REAL ESTATE CZ, a.s.
Id. No.: 28255534, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: actual

Skytoll CZ s.r.o. v likvidaci
Id. No.: 03344584, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Statutory Representative, status: actual

GLOBDATA a.s.
Id. No.: 05642361, Na Příkopě 393/11, Staré Město, 110 00 Prague 1; Supervisory Board – Member, status: actual

Doblecon a.s.
Id. No.: 07015381, Prague 8, Sokolovská 700/113a, Postal Code 186 00;Supervisory Board – Member, status: actual

Česká rugbyová unie, z.s.
Id. No.: 00540706, U Vojtěšky č.ev. 11, Břevnov, 162 00 Prague 6; Executive Board –president, status: actual

Invictus development s.r.o.
Id. No.: 07295049, Stýblova 2352/30a, Chodov, 149 00 Prague 4; Supervisory Board – Chairman, status: actual

RAILSCANNER, s.r.o.
Id. No.: 07842511, Světova 523/1, Libeň, 180 00 Prague 8; Supervisory Board – Chairman, status: actual

JTZE a.s.
Id. No.: 08839662, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Chairman, status: actual

PBI, a.s
Id. No.: 3633527, Prague 8, Sokolovská 700/113a, Postal Code 186 00; Supervisory Board – Member, status: out of date

Mgr. Jozef Šepetka
Supervisory Board Member

Appointed to the Supervisory Board on: 9 September 2008
Term of office to: 15 October 2023

He graduated from Faculty of Law of Charles University in Prague. From 1990 he worked in state administration – e.g. from 1992 he worked at the Ministry of Foreign Affairs of the Czech Republic. In 1998 he joined J & T BANKA, a.s. as adviser.

In the past five years he has not been involved in any other companies.

Jitka Šustová
Supervisory Board - Member (elected by employees)

Appointed to the Supervisory Board on: 10 December 2018
Term of office to: 10 December 2023

She has worked in the Bank since 1998. Since then, she has occupied many positions within the Economic Unit and currently she is the head of the Economic Department. In December 2018, the Bank's employees elected her as the member of the Supervisory Board. In the past five years she has not been involved in any other companies.

Ing. Tomáš Janík
Supervisory Board Member (elected by employees)

Appointed to the Supervisory Board on: 10 December 2018
Term of office to: 10 December 2023

He graduated from the Faculty of National Economy of the University of Economics in Bratislava. He has worked in the Bank since 2016. In December 2018, the Bank's employees elected him as the member of the Supervisory Board.

In addition, in the past five years he is or was involved in the following company:

STAVKONZULT s.r.o.
Id. No. 03938921, Praha 1, Revoluční 1403/28, Nové Město, 110 00 Prague 1; Statutory Representative, status: out of date

Declaration

The members of the board of directors and supervisory board have neither been convicted of a fraudulent offence nor dis-qualified by a court from acting as members of the administrative, management or supervisory bodies of another issuer or from acting in the management or conduct of the affairs of another issuer. The Bank's management members are not and have not been the subject of any official public incrimination or sanction by statutory or regulatory authorities. In the past five years, the Bank's management members have not been involved in any bankruptcy of another company.

Committees of the Bank

Executive board – The Board was dissolved by a decision of the Bank's Board of Directors as of 1 July 2020.

Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has been established by the Bank's Board of Directors. ALCO's main objective and purpose is to facilitate the Bank's asset and liability management process in terms of liquidity, interest rates, the Bank's profitability and capital adequacy. ALCO especially monitors liquidity, the Bank's interest and FX risks, observance of internal and external limits in those areas, analyses possible scenarios of the future development, monitors the observance of internal and regulatory capital adequacy limits at an individual and consolidated level, resp. prudential consolidation, evaluates an impact of legislative changes on the Bank's assets and liabilities, responds to the situation in financial markets, analyses prices and products offered by competitive banks and their influence on the Bank's trades and prices, monitors maturity of significant asset and liability transactions, evaluates an impact of expected new trades on the risk, limits and profitability, decides on interest rates of deposit products, measures taken in the market risk management, prudential business activities and in trades. ALCO also has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, ALCO had the following members:
- Kováč Igor, Chairman of ALCO, Board Member
- Tkáč Patrik, Member of ALCO, Chairman of the Board of Directors
- Ašer Štěpán, Member of ALCO, Board Member
- Klimíček Tomáš, Member of ALCO, Board Member
- Macaláková Anna, Member of ALCO, Board Member
- Jakabovič Ivan, Member of ALCO, Board Vice-Chairman of J&T FINANCE GROUP SE

Investment Committee

The Investment Committee (the "IC") has been established by the Bank's Board of Directors. The IC's main objective and purpose is to support investments assigned in the business portfolio, the Bank's currency and commodity positions. Another IC´s objective is coordination and monitoring in the area of investments included in the trading portfolio, currency and commodity positions of individual members of the consolidated group and at the consolidated level.

The IC especially discusses and approves limits or other parameters for the business portfolio trades, the Bank's currency and commodity positions to an extent specified by the Bank's internal rules governing limits for making the Bank's transactions; the IC prescribes a set of liquidity risk figures and approves the Bank's emergency liquidity plan and approves the enlistment of a security for trading as a part of the client portfolio management; it regularly evaluates the observance of set limits. The IC always has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the IC had following members:
- Míšek Radoslav, Chairman of the IC, Manager of the Risk Management Department
- Vodička Petr, Member of the IC, Manager of the Financial Markets Department
- Kováč Igor, Member of the IC, Board Member
- Klimíček Tomáš, Member of IC, Board Member
- Pavlík Jan, Member of the IC, Manager of the Financial Markets Department – foreign account
- Kešnerová Mária, Member of the IC, Manager of Economic Department

Project Committee

The Project Committee (the "PC") has been established by the Board of Directors of the Bank. The PC´s main objective and purpose is the management of internal projects with a bank-wide impact (on the Czech Republic and Slovakia). PC discusses new projects with a bank-wide impact in the context of the Bank's strategic development, regulatory requirements and business plans, the status of individual projects, project changes with an impact on project content, project schedule or project budget. PC has at least 3 members, who are appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the composition of the PC was as follows:

- Kešnerová Mária, Ing., Chairman of the PC, Director of the Financial Department
- Klimíček Tomáš, Ing., Member of PC, member of the Board of Directors
- Macaláková Anna, Ing., Member of PC, member of the Board of Directors
- Tkáčová Alena, Ing., Member of PC, Director of the Trade CR Division
- Vodička Petr, Ing., Member of PC, Director of the Financial Markets department
- Kotek Jan, Ing., Member of PC, Director of the Credit Transactions Department
- Dvořák Michal, member of PC, Director of the Information Systems Department

Security Committee

The Security Committee (the "SC") has been established by the Bank's Board of Directors. The SC's main objective and purpose is to manage security risks. The SC is responsible for working out and submitting proposals for the risk mitigation to an acceptable level, for the check and evaluation of the Bank's security risks and supervision over the implementation of approved proposals for the elimination of security risks by the Bank's Board of Directors. The SC has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the SC had the following members:

- Broschinski Petr, Chairman of the SC , IT Security Specialist
- Slobodník Michal, Member of the SC, Security Specialist
- Dvořák Michal, Member of the SC , Director of IT Department
- Sležka Milan, Member of the SC, Director of Operations division in CR
- Šimek Jaromír, Member of the SC, Director of Compliance and AML division

Operational Risk and Damage Committee

The Operational Risk and Damage Committee ("ORDC") has been established by the Bank's Board of Directors. The ORDC's main objective and purpose is to discuss damage and the Bank's operational risk. Another objective of the ORDC is the coordination and monitoring of the operational risk of individual members of the RCG at the consolidated level.The ORDC is responsible for working out and submitting proposals for the risk and damage mitigation to an acceptable level, for the check and evaluation of Bank's operational risk and supervision over the implementation of approved proposals for the elimination of operational risk and damage by the Bank's Board of Directors. The ORDC has at least 6 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the ORDC had the following members:

- Mastný Miloslav, Chairman of the ORDC, Director of the Administration Unit
- Sležka Milan, Member of the ORDC, Director of the Operation CR Division
- Míšek Radoslav, Member of the ORDC, Manager of the Risk Management Department
- Šustová Jitka, Member of the ORDC, Manager of the Economic Department
- Tomeš Libor, Member of the ORDC, Manager of the Process and Project Management Department
- Šimek Jaromír, Member of the ORDC, Director of Compliance and AML division
- Maxim Ján, Member of the ORDC , Compliance officer SR (J & T BANKA, a.s., foreign bank branch)

Valuation Committee

The Valuation Committee (the "VC") has been established by the Bank's Board of Directors. The VC's main objective and purpose is regular assessment of the suitability of the applied valuation methodology for investment instruments, or its revision in relation to the development of legislation. Another objective of the VC is the coordination and monitoring of applied valuation methodologies of individual members of the RCG even at the consolidated level.The VC mainly evaluates the up-to-date status of the valuation methodology, procedures and other facts that may influence the valuation, assesses the current classification of investment instruments. The VC assesses current valuation models and valuation sources and assesses whether there has been any significant change in the criteria used for the determination of fair values. The VC approves recalibration of the model pro valuation of financial instruments within Level 3. The VC has at least 6 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the VC had the following members:
- Míšek Radoslav, Chairman of the VC, Manager of the Risk Management Department
- Vodička Petr, Member of the VC, Manager of the Financial Markets Department
- Drahotský Daniel, Member of the VC, Chairman of the Board of Directors of J&T INVESTIČNÍ SPOLEČNOST, a.s.
- Kešnerová Mária, Member of the VC, Director of the Economic Department
- Kubeš Michal, Member of the VC, Adviser to the Bank's Board of Directors
- Zábojník Miloslav, Member of the VC, portfolio manager of Fund administration Department of J&T INVESTIČNÍ SPOLEČNOST, a.s.
- Bušek Lubomír, Member of the VC, External Cooperating Person, Member of the Board of Directors of PRVNÍ KLUBOVÁ pojišťovna, a.s.

Investment Instruments Committee

The Investment Instruments Committee (the "IIC") has been established by the Bank's Board of Directors. The IIC's main objective and purpose is supervision of the development system of products – investment instruments, their placing on the market and their administration so as to ensure, in particular, that the interests, goals and characteristics of the clients are taken into account and to prevent potential damage to the clients and minimise conflicts of interests. The IIC evaluates the relevance and applicability of the design, development and administration methodology in relation to the new products and their changes, discusses proposals for change of methodology, discusses the designs of new products and their changes, monitors and evaluates the products offered, evaluates the co-operation with the distributors of the products, revises professional knowledge of persons responsible for creating own products, defines individual target client markets and their parameters reflecting knowledge, experience, financial goals, needs, ability to face loss and individual risk tolerance, regularly reviews individual target markets and their parameters, sets a positive and a negative market with respect to each individual investment product, regularly reviews placing the products offered in the target markets, defines and evaluates the manner of offering and distributing of the products and their compliance with the defined target markets, specifies the standard target markets for the products actively offered by the Bank, evaluates structure of the fees related to individual products and verifies if the costs and fees for the products are compatible with the needs, goals and characteristics of the respective target market; it further specifies the definitions of the client investment strategies linked to the defined investment strategies, analyses the risks of impacts of negative product development on the clients as well as the Bank's resources especially from the viewpoint of changes in the market, evaluates potential conflicts of interests in offering and distributing of the products. The IIC is concerned with the investment instruments owned as well as distributed. The IIC always has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2020, the IIC had the following members:
- Vodička Petr, Chairman of the IIC, Director of the Financial Markets Unit
- Macaláková Anna, Member of the IIC, Board Member
- Tkáčová Alena, Ing., Member of the IIC, Director of the CR Division
- Šimek Jaromír, Member of the IIC, Director of the Compliance and AML Department
- Kotek Jan, Member of the IIC, Manager of the Loan trade Department

Remuneration Committee

The Remuneration Committee (the "RC") has been established by the Bank's Supervisory Board. The RC's main objective and purpose is to support the Supervisory Board in defining and assessing the system and guidelines for the remuneration of Bank's employees. The RC drafts system amendments and remuneration policy for the Bank's supervisory board, regularly assesses the adherence to the remuneration policy and submits the assessment summary to the Bank's supervisory board, reviews the compliance of the remuneration policy with the Bank's current business model and with the Bank's business cycle; the RC submits the output of the assessment to the Bank's supervisory board, suggests classifying particular job positions as positions with an impact on Bank's risk profile to the Bank's supervisory board, and supports the Supervisory board in assessing the efficiency and functionality of the remuneration policy. The RC has at least 3 members appointed and removed by the Bank's Supervisory Board.

As at 31 December 2020, the RC had the following members:
- Jakabovič Ivan, Chairman of the RC, Partner of J&T Finance Group SE
- Závitkovský Pavel, Member of the RC, External Cooperating Person, Member of the Supervisory Board of Nadace Charty 77, Vice-Chairman of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.
- Vinšová Eva, Member of the RC, HR Director

Audit Committee

The Audit Committee ("AC") has been established by the Bank's Supervisory Board. The AC's main objective and purpose as an advisory body of the Bank's Supervisory Board consists in supervision over the process of compilation of financial statements and the system of effectiveness of internal control and internal audit, including the risk management process. The AC monitors the effectiveness of internal control and management system, monitors the effectiveness of internal audit and its functional independence, discusses appointing and recalling of the head of Internal Audit Department, monitors the process of compiling financial statements and consolidated financial statements as well as the statutory audit process regarding the financial statements and consolidated financial statements, evaluates the independence of the statutory auditor and audit firm, and especially provides the audited person with additional services; it further selects and recommends to the Bank's Supervisory Board the statutory auditor, it informs the Bank's Supervisory Board of the statutory auditor's results and findings obtained during the statutory audit process monitoring. The AC has at least 3 members appointed and removed by the Bank's Supervisory Board.

As at 31 December 2020, the AC had the following members:
- Závitkovský Pavel, Chairman of the AC, External Cooperating Person, Member of the Supervisory Board of Nadace Charty 77, Vice-Chairman of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.
- Kovář Jakub, Member of the AC, External Cooperating Person, Vice-Chairman of Board of Directors of NEXIA AP, a.s.
- Palcr Dušan, Member of the AC, Member of the Supervisory Board and Vice-Chairman of the Board of Directors of J&T FINANCE GROUP SE

Organisational chart

BOARD

	UNIT CZECH REPUBLIC (CR)			UNITE SLOVAK REPUBLIC (SR)			
Office of the Chairmanof the Board of Directors	Unit CR Support Department	DIVISION SALES CR	DIVISION OPERATION CR	Unit SR Management Department	DIVISION SALES SR	DIVISION OPERATION SR	DIVISION IT SR
Top Management		Bankers - senior Section	Banking Operations Department CR	Magnus Department	Division Sales SR Business Support Section	The High Tatras Exposition	Customs Systems Department SR
Bank Management Department		Business Development Section	Front office Section	Digital Experience Department SR	Private Banking Department SR	The Košice Exposition	Digital Channels Section
Safety Department		Private Banking Department CR	Payment System Section		Comfort Department SR	Division Operations SR Business Support Departments	Supporting Applications Section
Cyber Security Section		Private Banking Section 1	Banking Operations Back Office Department CR		Business Call Centrum Section	Banking Operation Department SR	Banking Systems Department SR
Personal Security Section		Private Banking Section 2	Financial Markets Back Office Department CR		Comfort Line Section	Front Office Section SR	Bank and Information System Section
Physical Safety and Health and Safety Section		Private Banking Section 3	New Issues Department		Marketing and Communication Department SR	Payment Cards and Internet Banking Section	Financial and Securities Systems Section
Digital Experience Department CR		Private Banking Section 4				Back Office Department SR	
Internal Audit and Inspection Department		Private Banking Section 5				Back Office Comfort Section	
Advisors Department		CIS Desk Section				Back Office PB Section	
Advisors Section 1.		Tied Agents Section				Financial Markets Back Office Department SR	
Advisors Section 2.		Back Office Section					
Advisors Section 3.		Branch Brno					
Advisors Section 4.		Branch Ostrava					
		Client Center Department CR					
		External Sale Department CR					
		External Sale Front Office Section					
		External Sale Support Section					
		Marketing Department CR					

D OF DIRECTORS OF J&T BANK

UNIT LENDING BUSINESS		UNIT FINANCIAL MARKETS	UNIT FINANCE	UNIT ADMINISTRATION	UNIT PROJECT	UNIT INFORMATION SYSTEMS	UNIT RISK MANAGEMENT
Large Corporates Department	DIVISION LENDING BUSINESS	DIVISION FINANCIAL MARKETS	DIVISION FINANCE	DIVISION ADMINISTRATION	Process and Project Management Department	DIVISION INFORMATION SYSTEMS	DIVISION RISK MANAG. EMENT AND CREDIT AND LOANS ADMINIS-TRATION
	Lending Business Department CR	Division Operation CR Business Support Section	Division Finance Business Support Section	Legal Department CR		IT Governance Section	Section Division Risk Management and Credit and Loan Administration Business Support
	Lending Business Department SR	Financial Makets Department CR - Other Person's Account	Treasury Department	Legal Department SR		IT Delivery Department	Risk Management Department
		Financial Makets Department CR - Own Account	Liquidity Management Section	Compliance and AML Department		IT Operations Department	Credit Risk Management Department
		Financial Makets Department SR	Financial Analysis Department	Compliance and AML Section SR		Database Section	Credit and Loans Administration Department CR
		Client Portfolio Management Department	Economy Department CR			Customs Systems Department	Credit and Loans Administration Department SR
		Financial Maket Services Department	Accounting Section			Digital Channels Section	
		Research Section	Reporting Section			Supporting Applications Section	
		Investment Center Section	Economy Department SR			Testing Section	
		Middle Office Department	Accounting Section			Business Intelligence Department	
			Reporting Section			BI DWH Section	
						BI Reporting Section	
						BI Architecture and Governance Section	
						Banking Systems Department	
						Bank and Information System Section	
						Financial and Securities Systems Section	

Report of the Supervisory Board

In 2020, the Supervisory Board of J & T BANKA, a.s. had six members. In accordance with the company's valid Articles of Association, four (4) members are elected by the company's shareholders and two (2) members are elected by the company's employees. The Supervisory Board performed its activity in compliance with applicable law, in particular the Business Corporations Act, the Act on Banks and the Bank's Articles of Association. In 2020, the Supervisory Board held a total of four ordinary sessions. At the ordinary sessions, the Board discussed especially regular reports on the Bank's activity and its financial situation submitted by the Bank's Board of Directors and all other matters arising from respective legal regulations.

The Supervisory Board has reviewed financial statements as of 31 December 2020 audited by the Bank's external auditor, KPMG Česká republika Audit, s.r.o. According to the auditor's report issued 28 April 2021, the financial statements present, in all material respects, a true and fair view of the assets and liabilities of J & T BANKA, a.s. as of 31 December 2020 and expenses, income and the results of its operations and cash flows for the year 2020 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Supervisory Board states that the Bank's business activities were performed in compliance with applicable law and the Bank's Articles of Association. The Supervisory Board has reviewed the audited report on relations between related parties in 2020 prepared by the Board of Directors. The Supervisory Board confirms that it has no objections to the report. The Supervisory Board agrees with the results of the annual financial statements for 2020 and with the settlement of the profit/loss, i.e. the distribution of profit of J&T BANKA, a.s. for 2020 as proposed by the Bank's Board of Directors and has recommended that the sole shareholder exercising the powers of the general meeting approves the financial statements.

Correspondent banks

Československá obchodní banka, a.s
Prague, Czech Republic
SWIFT: CEKO CZ PP
Currency: CZK

KBC Bank NV
Brussels, Belgium
SWIFT: KRED BE BB
Currency: AUD, EUR, GBP, HKD, HUF, CHF, JPY, NOK, PLN, SEK, RUB

Raiffeisen Bank International AG
Vienna, Austria
SWIFT: RZBA AT WW
Currency: CAD, EUR, RON, TRY, USD

UniCredit Bank Czech Republic and Slovakia, a.s.
Prague, Czech Republic
SWIFT: BACX CZ PP
Currency: CZK, EUR, HRK

Poštová banka, a.s.
Bratislava, Slovak Republic
SWIFT: POBN SK BA
Currency: EUR

Citibank Europe Plc, org.složka
Prague, Czech Republic
SWIFT: CITI CZ PX
Currency: CZK, EUR, HKD

J&T Bank, a.o.
Moscow, Russian Federation
SWIFT: TRRY RU MM
Currency: RUB

J&T Banka, d.d.
Varazdin, Croatia
SWIFT: VBVZ HR 22
Currency: HRK

Ping An Bank Co., Ltd.
Shenzen, China
SWIFT: SZDB CN BS
Currency: CNY

1,67

billion CZK

Net earnings despite a year with a high human and economic toll

Corporate governance and data on the issuer

Information about securities, rights and obligations

Information on securities
In 2015 Česká národní banka approved and J & T BANKA, a.s., Id. No.: 47115378, Legal Entity Identifier: 31570010000000043842, registered office Prague 8, Pobřežní 297/14, postcode 186 00, maintained by the Metropolitan Court in Prague, Part B, entry 1731 (the "Bank" or the "Issuer") issued subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of CZK 100,000, ISIN CZ0003704413 and subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of EUR 5,000, ISIN CZ0003704421 (the "Certificates").

In 2014, the Bank issued Certificates with a yield of 10% p.a. in the nominal value of CZK 100,000, ISIN CZ0003704249.

Certificates are unnamed securities issued in the Czech Republic in accordance with Czech legal regulations. Certificates are hybrid financial instruments combining characteristics of equity and debt securities and are issued as book-entry registered shares.

Provided that conditions are met under Article 52 (1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, Certificates can be included to Additional Tier 1 instruments of the Bank.

Certificates are traded at the Prague Stock Exchange, a.s. A volume of issued Certificates as at 31 December 2020 amounted to CZK 2,597 million (2019 – CZK 2,597 million).

As at 31 December 2020, neither the Certificates nor the Bank had a valid rating.

Data on the number of shares, their nominal value and the Issuer's shareholder structure are given in the financial statements. The Issuer's persons with managing powers do not own any shares, options or comparable investment instruments whose value relates to shares or similar securities representing an ownership interest in the Issuer.

Rights and obligations of shareholders and certificate holders
The Certificates are not bonds as defined by Act No. 190/2004 Coll., the Bonds Act as amended. Holders of the Certificates are not the Bank's shareholders and are not entitled to dividend payments.

Holders of the Certificates have no ownership interest in the Bank's equity and their Certificates do not entitle them to exercise any direct or indirect voting rights. As approved by the Czech National Bank, the Bank is not subject to obligations stipulated in Section 118 (5) (a) through (l) of Act No. 256/2004 Coll., the Act on Business Activities on the Capital Market as amended.

Other rights and obligations are defined in issuing terms and conditions.

Rights and obligations of shareholders are governed by provisions of Act No. 90/2012 Coll., the Business Corporations Act. As the Bank has the sole shareholder, the general meeting is not held and its powers are exercised by the sole shareholder. Rights and obligations of the sole shareholders are identical to the powers of the general meeting, the position of which is defined in the Bank's Articles of Association. Other information on the performance of the sole shareholder, resp. the powers of the general meeting, is given in the chapter Corporate Governance and Data on the Issuer.

Definition of Alternative Performance Measures applied
In accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA/2015/1415) and in order to maintain transparency, the Bank has applied the following performance measures in the Annual Report:

Loan to Deposit ratio (LTD ratio): 'Loans and other receivables from clients at the end of the period' divided by 'Client deposits as at the end of the period'.

Return on Equity: 'Profit for the accounting period' divided by average 'Equity' for the current period determined as arithmetic average of 'Equity' as at the end of the current and prior period.

Return on Assets: 'Profit for the accounting period' divided by average 'Assets' for the current period determined as arithmetic average of 'Assets' as at the end of the current and prior period.

Operating expense ratio: 'Operating expense' divided by 'Operating income'.

Operating expense to Assets ratio: 'Operating expense' divided by 'Assets'.

Company Management

Corporate governance

Within its governance, the Bank complies with all the relevant legal obligations following from Czech and EU regulations; at the same time, the Bank has adopted and complies with the main governance standards as defined by the 2018 Code of Corporate Governance of the Czech Republic (the "Code"; drawn up by the Czech Institute of Directors and Deloitte in co-operation with corporate governance specialists).

In particular, the Bank has adopted the basic principles of the Code, such as emphasis on transparency, accountability and long-term view, which are important prerequisites for proper corporate governance. The Bank considers these values imperative not only within its corporate governance, but also – and especially – in its approach to customers and business partners. The Bank provides shareholders and investors from time to time with information on business and financial results or other important facts. It also complies with all the obligations to publish the relevant information and to keep the information transparent.

The Bank performs the corporate governance in accordance with the principles stipulated herein; in order to achieve them, it defines the rules of the corporate governance especially in its internal regulations and articles of association which reflect all the statutory duties affecting the corporate governance of a company that is simultaneously a bank and a securities trader. No fundamental changes occurred during 2020 that would have an adverse effect on the company's standards and management.

In accordance with the articles of association, the corporate bodies are the Board of Directors and the Supervisory Board. The Bank has also established an audit committee and a remuneration committee, which help to improve the effectiveness of the Supervisory Board's supervisory activities. Persons who are members of the corporate bodies meet the requirements related to professional qualification, credibility and experience. In selecting the members of its bodies, the Bank applies the diversity principle, having regard to qualification and experience, which is supervised by the appointment committee, which performs its activities at the level of the parent company. When assessing suitability of the members of the management body and employees in key positions, the Bank follows the "General guidelines on the assessment of the suitability of members of the management body and key function holders" of the European Banking Authority.

The simple shareholding structure enables the owners to manage the company effectively while exercising sufficient control rules to protect the interests of the company, its investors and creditors in conformity with the rules governing business operations of banks and investment firms.

As a securities trader, the company is obliged to pay an annual contribution to the Guarantee Fund in the amount of 2% of the volume of income from fees and commissions for provided investment services under the Capital Market Undertakings Act. In 2020, the contribution amounted to CZK 20 million.

In 2020 the Bank had not acquired its own shares.

Information about internal control principles and procedures relating to the financial reporting process

The Issuer, to ensure that the accounts give a true and fair view of the state of affairs and financial statements are prepared in a due manner, uses various tools to appropriately recognize individual transactions and to subsequently present them in the financial statements of the Issuer and its Group. Key tools include in particular maximum automation of recurring transactions, procedures and processes within appropriate systems and applications, regular monitoring and testing of these systems and setting of access rights to individual systems and applications. In addition to periodical reviews of the general ledger, the Issuer also applies a system of allocating responsibility and reconciliation of accounts in terms of individual analytical account balances. Each general ledger account has its administrator who has to provide regularly, or on demand, information on the particular analytical account (balance, reconciliation to primary data, breakdown to individual amounts, etc.).

The compliance of applied accounting policies with, in particular, International Financial Reporting Standards and the setting of accounting controls fall within the responsibility of the Issuer's Economic Department that also lays down rules and methodology for the compilation of consolidated financial statements and examines the correctness of background materials used for the compilation of consolidated financial statements.

Information about applied accounting policies, valuation techniques and rules for establishing adjustments is disclosed in the Notes to the financial statements of this annual report.

The accuracy of information presented in the Issuer's financial statements is confirmed by the auditor's opinion. The annual report includes audited financial results of the Issuer and its Group.

In 2020, the Issuer and the Group spent financial means for audit and other services in a volume as follows:

In thousands of CZK	Charged to the Issuer 2020	Charged to the Issuer 2019	Charged to other companies in the Group 2020	Charged to other companies in the Group 2019
Statutory audit	8,071	7,723	5,507	6,093
Other assurance services	2,478	1,971	5,653	4,845
Tax advisory	—	—	—	—
Other non-audit services	126	508	—	—
Total	**10,675**	**10,202**	**11,160**	**10,938**

Competence of the General Meeting

The Bank has only a sole shareholder, the general meeting shall not be held and the shareholder shall act in the capacity of the general meeting. Decisions taken by the shareholder acting in the capacity of the general meeting must be made in writing and must be delivered to the company. The shareholder's decisions must be in the form of a notarial deed on legal actions in cases when a notarial deed is made on the decisions of the general meeting. Delivery to the Bank is made in writing for the attention of any member of the Board of Directors or to the address of the Bank's registered office recorded in the Commercial Register.

The powers of the general meeting also include decisions on a change in the Articles of Association, an amount of registered capital and the authorization of the Board of Directors to increase registered capital, election and removal of members of the Supervisory Board, the approval of regular, extraordinary or consolidated financial statements and, in cases when their preparation is stipulated by another legal regulation, of interim financial statements. The general meeting also decides on the distribution of profit and other own resources or the settlement of a loss, it gives instructions to the Board of Directors and approves principles of the Board of Directors' activity unless they are contrary to legal regulations. The general meeting can particularly prohibit certain legal actions to any Board member if it is in the interest of the Bank. The powers of the general meeting (resp. the sole shareholder) are regulated in the Bank's valid Articles of Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

Remuneration policy

Bank applies the remuneration principles in compliance with Decree No. 163/2014 Coll., on activities of banks, savings and credit co-operatives and investment firms (hereinafter the "Decree") and Directive 2013/36/EU (hereinafter the "Directive" or "CRD IV"). The key concepts of the remuneration policy, regulated in the Employee Remuneration Rules, include, in particular, transparency and predictability, compliance with regulatory requirements and fairness. Special remuneration principles and procedures are applied proportionately to the degree of influence of the individual selected persons on the Bank's overall risk profile and on selected employees in control functions.

The Bank's internal audit shall regularly, once a year, evaluate the remuneration principles and submit the results of evaluation to the Remuneration Committee.

The assessment period is a calendar year and the frequency of assessment of the individual employees are minimally 2 times per year, in November and April.

Board of Directors and Supervisory Board

The remuneration of the members of the Board of Directors consists of a fixed and a variable component, with the fixed component being paid on a monthly basis and the variable component being paid in the form of annual bonuses. The fixed component is determined on the basis of professional experience, expertise, etc. and the responsibilities of the individual members, while reflecting the market situation in terms of the level of remuneration for the position. The variable component is the non-claim part, which is paid on the basis of the evaluation set by the KPIs.

The remuneration principles applicable to the members of the Board of Directors are approved by the Supervisory Board and the shareholders at the General Meeting based on a proposal of the Remuneration Committee, while complying with the condition that the variable component of remuneration of the members of the Board of Directors may not exceed 100% of the fixed remuneration component. The amount of the variable remuneration component is always proposed by the Remuneration Committee for the relevant calendar year; the Remuneration Committee subsequently evaluates the achievement of set targets and proposes the amount of the variable remuneration component to be awarded for the relevant period.

Members of the Supervisory Board only receive fixed remuneration based on the agreement on the discharge of office of a member of the Supervisory Board.

Based on an analysis performed, members of the Board of Directors and the Supervisory Board have been included among employees with a significant influence on the Bank's overall risk profile. At the same time, they are the persons holding executive powers of the issuer.

Fixed component of Bank employees' remuneration

The amount of the employees' fixed remuneration component is determined on the basis of their key abilities, professional experience and working tasks and based on a market comparison with the salaries of other entities of the financial and banking market in the Czech Republic..

Variable component of Bank employees' remuneration

Employees are not contractually entitled to receive this remuneration component. The variable component of remuneration depends on the fulfilment of the company-wide goals (corporate bonus), on the fulfilment of the individual goals (personal bonus), and, to the limited extent, also on the participation in the fulfilment of the objectives of the department in which the respective employee works (department bonus).

For the individual positions, the portions of the overall budget for this type of remuneration intended for the corporate, department and personal bonuses are set. The total budget for this type of remuneration is determined as a multiple of the monthly salary for the individual positions. The multiple of the salary for the individual positions is always determined for the respective calendar year by the statutory body and represents 15–100% of the fixed remuneration component.

The criteria under assessment include, in particular, a qualitative and quantitative performance assessment, fulfilment of the Bank's strategy in the area of performance, risk management and work development indicators. If the set targets (including the targets related to the degree of the risks to which the Bank is exposed) are not fulfilled, the combination of various levels of the criteria results

in the decision not to award the variable remuneration component in part or in full. The Bank does not use the clawback option, i.e. the option to demand the return of remuneration, unless permitted by Czech labour-law legislation in the particular case.
If, for extraordinary reasons, the variable remuneration component of any employee exceeds 100% of the paid fixed remuneration for the assessment period, this amount of remuneration will be subject to approval by the General Meeting and notified in advance to the Czech National Bank in accordance with the requirements of the Decree. The variable remuneration component will not exceed 200% of the fixed remuneration paid for the assessment period and will be paid afterwards.

The Bank does not apply payment of the variable remuneration component in the form of capital or similar instruments, since its position on the market is not significant and it does not have suitable capital instruments that would enable a suitable manner of postponing a part of the variable remuneration component.

The amount and manner of payment of the variable remuneration component are determined in compliance with the following rules:

1. „Bonus pool" The calculation of the amount of the Bonus Pool is based on the sum of the target variable components of individual employees, taking into account the ability of the Bank as a whole to strengthen its capital, and it is adjusted based on the regularly estimated degree of target performance on the level of the Bank and its individual divisions and departments.
2. „Corporate targets" Performance targets are set every year and are closely tied to the Bank's strategic plan. The Remuneration Committee annually approves their fulfilment on the basis of audited data and proposes the amount of remuneration for the assessment period. The corporate targets consist of the planned ROE values (35% weight), the volume of client's investments and deposits (15% weight), timely and quality reporting (15 % weight) and risk factors (25% weight). For individual employees, the corporate targets have a weight for the determination of the total variable remuneration component between 25% and 70% depending on their functional and organisational position in the Bank.
3. „Departmental and personal targets" The targets are set based on a proposal from direct superiors for each calendar year. The targets can have the nature of individual tasks, projects, activities or any other targets or behaviour. These targets are both quantitative and qualitative and are set on the basis of the priorities of the division for which the relevant manager is responsible. The departmental and personal targets also include the obligation to comply with the rules of prudent risk management within the degree of risk acceptable by the Bank and act in compliance with the Bank's strategy, targets, values and long-term interests.
4. „K.O. criteria" The Bank sets the conditions for granting the bonus and paying the variable deferred part of the remuneration. If one or more of the following criteria are not met, the company part of the bonus will not be awarded and the payment of the variable deferred part of the reward will be deferred:
   - The volume of net assets (without the effect of the increase in own funds by the shareholders, without the effect of the payment of dividends and extraordinary items) may not decrease year to year.
   - Operating profit after taking into account extraordinary items, may not fall by more than 15% compared to the plan.
   - Individual JTB ROE must be at least 200 bps above the annual reference rate valid at the beginning of the accounting period (12M PRIBOR).
   - JTB did not initiate a recovery plan

The variable remuneration component awarded in previous years will not be paid should its payment result in a limitation of the Bank's ability to strengthen capital.

Rules for setting the variable remuneration component for selected groups of employees

1. Employees with a significant influence on the Bank's overall risk profile (from the viewpoint of qualitative and quantitative criteria)
The payment of the variable remuneration component to these employees is postponed in that 40% of the remuneration is paid in money immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 60% is postponed and will be paid during the next three years in the ratios of 20% - 20% - 20%; however, the Bank has the right not to pay this portion for objective reasons.

2. Employees in sales positions
Employees in sales positions who are not classified as employees with a significant influence on the Bank's overall risk profile and who receive remuneration exceeding 4 salaries are paid the variable component later, i.e. 40% of remuneration is payable in money

immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 60% is postponed and will be paid during the next three years in the ratios of 20% - 20% - 20%; however, the Bank has the right not to pay this portion for objective reasons.

3. Employees in internal control functions
Employees in internal control functions are not assessed based on the performance results of the units they control but only based on the targets set for the relevant control function. The rules for remuneration of the heads of the risk management, internal audit and compliance functions are directly supervised by the Remuneration Committee and the Supervisory Board.

Remuneration of persons holding executive powers
The remuneration of persons holding executive powers for 2020 amounted to CZK 117.8 million in total and was distributed among 13 recipients, members of the Board of Directors and other persons holding executive powers and 6 members of the Supervisory Board. For 2020, members of the Board of Directors received remuneration in the amount of CZK 66.7 million in the form of salaries and CZK 2.4 million for the discharge of their office from the parent company.
Members of the Supervisory Board received remuneration in the form of salaries amounting to CZK 7.1 million. Other persons holding executive powers received remuneration in money in the form of salaries amounting to CZK 41 million. Furthermore, members of the Supervisory Board received remuneration for the discharge of their office in the amount of CZK 0.16 million. In 2020, the Bank did not pay any remuneration for the discharge of office to any other persons holding executive powers. (All the remunerations include contributions to health and social insurance).

Members of the Board of Directors, Supervisory Board and persons holding executive powers did not receive any income in money or in kind from the subsidiaries in 2020. No severance pay was paid or awarded and no remuneration exceeding EUR 1 million was paid in 2020. Neither the Bank nor its subsidiaries contribute to supplementary pension insurance schemes or any other similar schemes. The Bank declares that members of its administrative, management and supervisory bodies of the Bank and its subsidiaries do not enjoy any special advantages connected with the termination of activity.

Competence of the General Meeting
The Bank has only a sole shareholder, the general meeting shall not be held and the shareholder shall act in the capacity of the general meeting. Decisions taken by the shareholder acting in the capacity of the general meeting must be made in writing and must be delivered to the company. The shareholder's decisions must be in the form of a notarial deed on legal actions in cases when a notarial deed is made on the decisions of the general meeting. Delivery to the Bank is made in writing for the attention of any member of the Board of Directors or to the address of the Bank's registered office recorded in the Commercial Register. The powers of the general meeting also include decisions on a change in the Articles of Association, an amount of registered capital and the authorization of the Board of Directors to increase registered capital, election and removal of members of the Supervisory Board, the approval of regular, extraordinary or consolidated financial statements and, in cases when their preparation is stipulated by another legal regulation, of interim financial statements. The general meeting also decides on the distribution of profit and other own resources or the settlement of a loss, it gives instructions to the Board of Directors and approves principles of the Board of Directors' activity unless they are contrary to legal regulations. The general meeting can particularly prohibit certain legal actions to any Board member if it is in the interest of the Bank. The powers of the general meeting (resp. the sole shareholder) are regulated in the Bank's valid Articles of Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

Issuer's dividend policy and significant litigations
The Issuer has not approved any specific dividend policy. The distribution of dividends, if any, is subject, for each accounting period, to assessment in terms of the possibilities and needs of the Issuer, as well as in terms of the Issuer's long-term business objectives. When assessing the payment of dividends, the goals to ensure a sufficient level of capital adequacy and further regulatory requirements, as well as the interests of the owners of certificates, are all taken into account.

Any payment of dividends shall be approved by the Issuer's sole shareholder or the general meeting if the Issuer has more shareholders and based on the proposal of the Issuer's Board of Directors. The management of the Issuer assumes that the relevant part of profits of 2020 will be transferred to a special-purpose fund intended for payment of revenues from the subordinated revenue certificates, and the remaining part will be used for payment of dividends from the profits of 2020.

As at 31 December 2020, the Issuer is not a party to any ongoing or pending legal or arbitration proceedings.

Significant contracts

The Issuer's significant transactions made after 31 December 2020 are disclosed in the Notes to the financial statements. Contracts entered into between the Group members are given in a separate part of the annual report, the Report on relations between related parties.

In the period preceding the release of the annual report, neither the Issuer nor any other member of the Issuer's group entered into contracts beyond the ordinary course of business which might be considered material. No member of the Group entered into a contract containing any provisions under which any member of the Group has any obligation or claim significant for the Group.

The Issuer confirms that it is not aware of any conflict of interest between obligations of the members of the Board of Directors or the Supervisory Board towards the Issuer and between their private interests and other obligations. The Issuer also confirms that it is not aware of any agreements with the major shareholders, clients, suppliers or other entities under which a member of the Board of Directors or Supervisory Board is appointed as a member of administrative, management and supervisory bodies or a top management member.

The Issuer further confirms that it is not aware of any restrictions agreed with any member of the Board of Directors or Supervisory Board on the treatment of their interests in the Issuer's securities for a certain period of time.


J&T

20

years

J&T is moving
its headquaters
after 20 years

Consolidated statement of financial position as at 31 December 2020

in millions of CZK	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	5	41,519	59,834
Due from banks and other financial institutions	6	2,351	1,455
Positive fair value of derivatives	7	1,063	978
Loans and advances to customers at amortised cost	10	98,795	68,320
Financial assets for trading	8a	8,353	3,055
Financial assets mandatorily at fair value through profit or loss	8b	8,941	7,736
Financial assets at fair value through other comprehensive income	8c	7,079	7,091
Financial assets at amortised cost	8d	228	287
Disposal groups held for sale	18	520	133
Investment in associates and joint ventures	50	701	536
Current tax asset	26	143	27
Deferred tax asset	27	382	267
Investment property	13	793	429
Property, plant and equipment	14	2,493	498
Intangible assets	15	135	123
Goodwill	15	33	33
Prepayments, accrued income and other assets	17	1,508	920
Total assets		**175,037**	**151,722**
Liabilities			
Deposits and loans from banks	19	2,437	4,838
Deposits from customers	20	138,620	114,551
Negative fair value of derivatives	7	764	582
Subordinated debt	21	224	809
Disposal groups held for sale		1	–
Current tax liability	26	7	218
Deferred tax liability	27	99	108
Provisions	23	1,561	1,379
Other liabilities	22	8,787	7,723
Total liabilities		**152,500**	**130,208**
Share capital	24	10,638	10,638
Retained earnings and other reserves	24	8,222	7,473
Other equity instruments	24	2,597	2,597
Equity		**21,457**	**20,708**
Non-controlling interest	25	1,080	806
Total equity		**22,537**	**21,514**
Total equity and liabilities		**175,037**	**151,722**

The accompanying notes, set out on pages 76 to 177, are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2020

in millions of CZK	Note	2020	2019
Interest income calculated using effective interest rate method	28	5,109	5,406
Other interest income	28	206	156
Interest expense	29	(1,641)	(1,602)
Net interest income		**3,674**	**3,960**
Fee and commission income	30	1,532	1,644
Fee and commission expense	31	(329)	(247)
Net fee and commission income		**1,203**	**1,397**
Net change in allowances for impairment of financial assets at fair value through other comprehensive income	11c	(95)	(29)
Net trading income	32	985	657
Gain from bargain purchase	49	—	136
Other operating income	33	139	198
Operating income		**5,906**	**6,319**
Personnel expenses	34	(1,366)	(1,558)
Other operating expenses	35	(1,401)	(1,253)
Depreciation and amortisation	14,15	(161)	(177)
Operating expenses		**(2,928)**	**(2,988)**
Profit before allowances, provisions and income tax		**2,978**	**3,331**
Net change in provisions for off-balance sheet items and other financial activities	11	(89)	81
Net change in allowances for impairment of financial assets at amortised cost	11	(1,056)	567
Profit before tax, excluding profit from equity accounted investees		**1,833**	**3,979**
Profit/Loss from equity accounted investees, net of tax	50	169	(1)
Profit before tax		**2,002**	**3,978**
Income tax	26	(336)	(822)
Profit for the period		**1,666**	**3,156**
Attributable to:			
Shareholders of the parent company		1,538	3,173
Non-controlling interest		128	(17)
Profit for the period		**1,666**	**3,156**

in millions of CZK	Note	2020	2019
Other comprehensive income – items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments			
Remeasurement to fair value		14	55
Expected credit losses		94	25
Related tax		(3)	(8)
Revaluation differences		(651)	325
Other comprehensive income – items that will not be reclassified to profit or loss in subsequent periods:			
Revaluation reserve – financial assets at fair value through other comprehensive income – equity instruments			
Remeasurement to fair value		–	5
Related tax		–	(1)
Other comprehensive income for the period, net of tax		**(546)**	**401**
Total comprehensive income for the period		**1 120**	**3 557**
Attributable to:			
Shareholders of the parent company		992	3 574
Non-controlling interest		128	(17)
Total comprehensive income for the period		**1 120**	**3 557**

The accompanying notes set out on pages 76 to 177 are an integral part of these consolidated financial statements. The Board of Directors approved these financial statements on 28 April 2021.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Ing. Igor Kováč
Member of the Board of Directors

Consolidated statement of changes in equity for the year ended 31 December 2020

in millions of CZK	Share capital	Capital funds
Balance as at 1 January 2020	**10,638**	**53**
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income – items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	–	–
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	–	–
Expected credit losses	–	–
Related tax	–	–
Total comprehensive income for the period	**–**	**–**
Transactions recognised directly in equity		
Payment of earnings from issued investment certificates	–	–
Establishment of special-purpose fund for payment of revenue from ind. certificates	–	–
Transfer of statutory reserve fund	–	3
Effect of changes in ownership interests and new companies within the Group	–	–
Balance as at 31 December 2020	**10,638**	**56**

Further information about equity instruments is disclosed in note 24.

	Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other equity instruments	Total	Noncontrolling interest	Total equity
	(1,270)	**8,526**	**164**	**2,597**	**20,708**	**806**	**21,514**
	—	1,538	—	—	1,538	128	1,666
	(651)	—	—	—	(651)	—	(651)
	14	—	—	—	14	—	14
	94	—	—	—	94	—	94
	(3)	—	—	—	(3)	—	(3)
	(546)	**1,538**	**—**	**—**	**992**	**128**	**1,120**
	—	—	(244)	—	(244)	—	(244)
	—	(242)	242	—	—	—	—
	—	(3)	—	—	—	—	—
	—	1	—	—	1	146	147
	(1,816)	**9,820**	**162**	**2,597**	**21,457**	**1,080**	**22,537**

Consolidated statement of changes in equity for the year ended 31 December 2019

in millions of CZK	Share capital	Capital funds
Balance as at 1 January 2019	**10,638**	**46**
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income – items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	–	–
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	–	–
Expected credit losses	–	–
Related tax	–	–
Other comprehensive income – items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation reserve – financial assets at fair value through other comprehensive income – equity instruments		
Remeasurement to fair value	–	–
Related tax	–	–
Total comprehensive income for the period	**–**	**–**
Transactions recognised directly in equity		
Dividends	–	–
Issue of investment certificates and payment of earnings	–	–
Establishment of special-purpose fund for payment of revenue from ind. certificates	–	–
Transfer of statutory reserve fund	–	7
Effect of changes in ownership interests and new companies within the Group	–	–
Balance as at 31 December 2019	**10,638**	**53**

The accompanying notes, set out on pages 76 to 177, are an integral part of these consolidated financial statements.

	Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other equity instruments	Total	Noncontrolling interest	Total equity
	(1,671)	**6,887**	**161**	**2,597**	**18,658**	**572**	**19,230**
	—	3,173	—	—	3,173	(17)	3,156
	325	—	—	—	325	—	325
	55	—	—	—	55	—	55
	25	—	—	—	25	—	25
	(8)	—	—	—	(8)	—	(8)
	5	—	—	—	5	—	5
	(1)	—	—	—	(1)	—	(1)
	401	**3,173**	**—**	**—**	**3,574**	**(17)**	**3,557**
	—	(1,292)	—	—	(1,292)	—	(1,292)
	—	—	(239)	—	(239)	—	(239)
	—	(242)	242	—	—	—	—
	—	(7)	—	—	—	—	—
	—	7	—	—	7	251	258
	(1,270)	**8,526**	**164**	**2,597**	**20,708**	**806**	**21,514**

Consolidated statement of cash flows for the year ended 31 December 2020

in millions of CZK	Note	2020	2019
Cash flows from operating activities			
Profit before tax from continuing operations		2,002	3,978
Adjustments for:			
Depreciation and amortisation	14, 15	161	177
Gain on a bargain purchase	49	—	(136)
Allowances for financial assets at amortised cost	11	1,056	(567)
Foreign exchange differences from losses resulting from impairment of loans	11	(29)	1
Provision for financial assets		89	(81)
Profit / (loss) from sold intangible assets and property, plant and equipment		37	(2)
Change in other provisions		182	251
Profit/(loss) from equity accounted investees		(169)	(1)
Unrealised foreign exchange gains/ (losses), net		(339)	(79)
Impairment of financial assets measured at FVOCI		95	29
Change in revaluation of financial assets at fair value through profit or loss		(138)	(593)
(Increase) / decrease in operating assets:			
Due from banks and other financial institutions		(885)	1,230
Loans and other advances to customers		(31,528)	4,322
Financial assets at amortised cost and FVTPL		(6,139)	1,669
Prepayments, accrued income and other assets		(558)	219
Disposal groups held for sale		(386)	121
Increase / (decrease) in operating liabilities:			
Deposits and loans from banks		(3,413)	2,556
Deposits from customers		24,069	(6,848)
Other liabilities		356	775
Financial liabilities at fair value through profit or loss		—	(54)
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		97	(262)
Tax effect			
Income tax expenses paid		(767)	(757)
Net cash flows from operating activities		**(16,207)**	**5,948**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(87)	(85)
Proceeds from sale of property, plant and equipment and intangible assets		37	—
Acquisition of subsidiaries (excl. cash acquired)	49	(834)	1,482
Acquisition of investments in joint ventures		—	(410)
Financial assets measured at FVOCI		180	(1,227)
Net cash flows used in investing activities		**(704)**	**(240)**

in millions of CZK	Note	2020	2019
Cash flows from financing activities			
Distribution of income from equity instruments		(244)	(239)
Dividends paid		–	(1,292)
Repayment of subordinated debt		(598)	(266)
Lease liabilities paid		(96)	(86)
Net cash flows from financing activities		**(938)**	**(1,883)**
Increase in cash and cash equivalents		**(17,849)**	**3,825**
Cash and cash equivalents at beginning of period	5	59,834	56,104
Effects of exchange rate fluctuations on cash held		(466)	(95)
Cash and cash equivalents at end of period	5	41,519	59,834
Cash flows from operating activities include:			
Interest received		4,604	5,262
Interest paid		1,116	1,036
Interest paid / lease liabilities		4	3

The Group does not hold any cash and cash equivalent that are not available for use by the Group. For the cash flows from operating, investing and financing activities related to discontinued operation for the year ended 31 December, refer to Note 18.

The accompanying notes set out on pages 76 to 177 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2020

1. General information

J&T BANKA, a.s. ("the Bank") is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank's licence was extended to include that activity.

The Bank's activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of the Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure, liquidity and the Bank's foreign currency position etc.

In 2020, the Bank changed its registered office address to Sokolovská 700/113a, 186 00 Prague 8. Moreover, the manner in which Bank's name is recorded in the Commercial Register changed from J & T BANKA, a.s. to J&T BANKA, a.s. This was done to make it compliant with J&T BANKA, a.s., Praha's effective Corporate Identity manual, which does not permit splitting "&" by space.

The Bank, its subsidiaries, mentioned in the table below ("the Group") had on average 816 employees in 2020 (2019: 813). The Group operates in the Czech Republic, Slovakia, Croatia and Russia.

A Slovak branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit "J&T BANKA, a.s., pobočka zahraniční banky", Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35 964 693.

The Bank's ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), and Rainbow Wisdom Investments Limited (9.90%).

Ownership interests

In connection with the shareholder's intention to centralise financial services under J&T BANKA, a.s., the following companies have become subsidiaries, associates or joint ventures

The companies included in the consolidated group as at 31 December 2020 (in millions of CZK):

Company	Country of incorporation	Share capital	Shareholding	Consolidation method	Principal activities
J&T BANKA, a.s.	CR	10,638		Parent company	Banking activities
ALTERNATIVE UPRAVLJANJE d.o.o.	Croatia	0.07	100%	Full	Investment act.
J&T banka d.d.	Croatia	1,068	11.86%	Full	Banking activities
ATLANTIK finanční trhy, a.s.	CR	81	100%	Full	Investment act.
J&T Bank, a.o.	Russia	1,835	99.95%	Full	Banking activities
Interznanie OAO	Russia	57	50%	Full	Investment property
J&T banka d.d.	Croatia	1,068	84.17%	Full	Banking activities
J&T IB and Capital Markets, a.s.	CR	2	100%	Full	Advisory activities
XT-card a.s.	CR	10	32%	Equity	IT/Programming activities
Colorizo Investment, a.s.	CR	3,8	52,63%	Full	Investment property
OSTRAVA AIRPORT MULTIMODAL PARK s.r.o.	CR	–	50%	Equity	Real estate development
CI Joint Venture s.r.o.	CR	–	50%	Equity	Real estate development
Logistics Park Nošovice a.s.	CR	107	100%	Equity	Real estate development
J&T INVESTIČNÍ SPOLEČNOST, a.s.	CR	20	100%	Full	Investment act.
J&T Leasingová společnost, a.s.	CR	32	100%	Full	Financing activities
J&T REALITY o.p.f.	CR	–	53.08%	Full	Investment act.
J&T ADVANCED SOLUTION SICAV	Malta	–	99.97%	Full	Investment act.
J&T VENTURES I u.p.f.	CR	–	94.14%	Full	Investment act.
Rustonka Development II s.r.o.	CR	0.10	100%	Full	Investment property
TERCES MANAGEMENT LIMITED	Cyprus	0.06	99.00%	Full	Investment act.
Interznanie OAO	Russia	57	50%	Full	Investment property

The Group provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. The Group's operating segments are described in note 38.

On 24 January 2020, the Group acquired a 50% share in CI Joint Venture s.r.o., which purchased a 100% share in Park Nošovice a.s. on the same date.

On 27 March 2020, a 100% share in Moskovskij Neftechnimiceskij Bank merged with J&T Bank, a.o.

On 15 June 2020, the Group increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 110 million in excess of contributions made by the shareholders in the registered capital.

On 18 December 2020, the Group purchased a 100% share in Rustonka Development II s.r.o. This company is the owner of the Rustonka building, in which the Group has had its registered office since 14 September 2020.

In 2020, the Group transferred its share in J&T VENTURES I u.p.f. from its portfolio of financial assets mandatorily at fair value through profit or loss to the portfolio of ownership interests as a result of the reassessment of control over the fund.

During 2020, no restrictions applied to the ownership rights held over subsidiaries, associates or joint ventures.

The companies included in the consolidated group as at 31 December 2019 (in millions of CZK):

Company	Country of incorporation	Share capital	Shareholding	Consolidation method	Principal activities
J & T BANKA, a.s.	CR	10,638		Parent company	Banking activities
ALTERNATIVE UPRAVLJANJE d.o.o.	Croatia	0,07	100%	Full	Investment act.
J&T banka d.d.	Croatia	1,048	11.86%	Full	Banking activities
ATLANTIK finanční trhy, a.s.	CR	81	100%	Full	Investment act.
J&T Bank, a.o.	Russia	2,323	99.95%	Full	Banking activities
Interznanie OAO	Russia	73	50%	Full	Investment property
Moskovskij Neftechnimiceskij Bank	Russia	76	100%	Full	Banking activities
J&T banka d.d.	Croatia	1,048	84.17%	Full	Banking activities
J&T IB and Capital Markets, a.s.	CR	2	100%	Full	Advisory activities
XT-card a.s.	CR	10	32%	Equity	IT/Programming activities
Colorizo Investment, a.s.	CR	3.8	52,63%	Full	Investment property
OSTRAVA AIRPORT MULTIMODAL PARK s.r.o.	CR	—	50%	Equity	Real estate development
J&T INVESTIČNÍ SPOLEČNOST, a.s.	CR	20	100%	Full	Investment act.
J&T Leasingová společnost, a.s.	CR	32	100%	Full	Financing activities
J&T REALITY o.p.f.	CR	—	53.08%	Full	Investment act.
J&T ADVANCED SOLUTION SICAV	Malta	—	99.97%	Full	Investment act.
TERCES MANAGEMENT LIMITED	Cyprus	0.06	99.00%	Full	Investment act.
Interznanie OAO	Russia	73	50%	Full	Investment property

On 18 April 2019, the Group acquired a 100% share in Colorizo Investment, a.s., which purchased a 50% share in OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. on 23 April 2019. The payment of part of the acquisition cost is conditional on the fulfilment of pre-determined conditions.

On 26 September 2019, the Group increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 40 million in excess of contributions made by the shareholders in the registered capital.

On 2 October 2019, the Group acquired a 100% share in Moskovskij Neftechnimiceskij Bank.

On 14 October 2019, the Group purchased a 100% share in ALTERNATIVE UPRAVLJANJE d.o.o. This subsidiary holds only a minority share in J&T banka d.d. This resulted in an increase in the ownership interest in J&T banka d.d. to 96.03%.

During 2019, no restrictions applied to the ownership rights held over subsidiaries, associates or joint ventures.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements comprise the accounts of the members of the Group and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 01 January 2020 to 31 December 2020 ("reporting period").

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for investment property, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives, which are measured at fair value.

The members of the Group maintain their accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards
A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2020, and have not been applied in preparing these financial statements:

Amendments to IFRS 16 Leases- COVID-19-Related Rent Concessions
Effective for annual periods beginning on or after 01 January 2020.

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:
- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

This practical expedient is not available for lessors.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Standards and interpretations issued but not yet endorsed by the EU

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The European Commission decided to defer the endorsement indefinitely.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current
Effective for annual periods beginning on or after 01 January 2023.

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Amendments to IAS 16 Property, Plant and Equipment — Proceeds before Intended Use
Effective for annual periods beginning on or after 01 January 2022.

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts — Cost of Fulfilling a Contract
Effective for annual periods beginning on or after 01 January 2022.

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Annual Improvements to IFRS Standards 2018-2020
Effective for annual periods beginning on or after 01 January 2022.

Amendment to IFRS 9 Financial Instruments
The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf..

Amendment to Illustrative Examples accompanying IFRS 16 Leases
The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

The Group expects that the Standard will not have a significant effect on the financial statements of the Group.

Other new International Financial Reporting Standards and Interpretations not yet effective

The Group has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Group elects to apply the standards prospectively from the date of transition. The management of the Group does not expect that further new standards will have any significant impact on the financial statements of the Group.

(c) Functional and presentation currency
The accompanying consolidated financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million.

Functional currency is the currency of the primary economic environment in which the entity operates. Individual companies forming the Group determined their functional currencies in accordance with IAS 21.

In determining functional currency, each individual company forming the Group considered mainly factors such as the currency:
– in which sales prices for its services are denominated and settled; and
– of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

3. Accounting policies

The particular accounting policies adopted in preparation of the accompanying consolidated financial statements are described below.

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, 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 reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Associates
Associates are enterprises in which the Group has significant influence but not control over financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses and other comprehensive income of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of or has made payments on behalf of the associate.

(iii) Joint ventures
Joint-ventures are enterprises in which the Group has a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains (losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(v) Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Unification of accounting policies
The accounting policies and procedures applied by the consolidated companies in their financial statements were unified in the consolidation, and comply with the accounting policies applied by the Parent Company.

(b) Financial assets and liabilities

Classification and measurement of financial assets and liabilities

Financial assets under IFRS 9

The Group assesses the classification and measurement of a financial asset based on:
- the Group 's business model for managing the asset such as:
  - the stated policies and objectives for the portfolio and the operation of those policies in practise;
  - how the performance of the portfolio is evaluated and reported to the Group's management;
  - the risks that affect the performance of the business model;
  - the frequency, volume and timing of sales in prior periods, including the reasons for such sales and expectations about future sales activity;
  - the contractual cash flow characteristics of the asset ("SPPI - solely payments of principal and interest on the principal outstanding").

The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group defines business models and its classification as follows:
- "Hold and collect" – financial assets at amortised costs (AC);
- "Hold, collect and sell" – financial assets at fair value through other comprehensive income (FVOCI);
- "Trading" – financial assets at fair value through profit and loss (FVTPL);
- "Fair value option" – financial assets at fair value through profit and loss;
- "Mandatorily at fair value" – financial assets at fair value through profit and loss.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI). For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group takes into consideration the following criteria when performing an SPPI test:
- non-standard currency characteristics;
- non-standard interest rate;
- financial leverage;
- early repayment options;
- longer repayment options;
- non-recourse arrangement;
- contract-linked instruments;
- hybrid instruments;
- instruments purchased with a significant discount/premium.

Financial assets at amortised cost

The "Hold and collect" strategy is aimed at holding financial assets in order to collect contractual cash flows of both principal and interest payments. Examples of such financial assets are loans, securities held to maturity, and trade receivables. Breach of the "Hold and collect" model does not occur even if there is a significant increase in counterparty credit risk during the course of the holding of the financial asset and the Group decided to proceed with the sale of that asset.

Financial assets in the model "Hold and collect" are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments plus or minus the cumulative amortised cost using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance – expected credit loss. Expected credit loss is recognised in profit or loss together with foreign currency differences and interest income using the effective interest rate.

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" is aimed at both collecting contractual cash flows from the principal and interest and selling financial assets; the model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment for equity instruments and for debt instruments.

Debt instruments that meet the criteria of SPPI test in the business model 'hold, collect and sell' are measured at fair value through other comprehensive income. When the financial asset is derecognized, gain or loss from remeasurement is reclassified to profit or loss. Expected credit losses are recognized in profit or loss together with foreign exchange differences arising from the amortised cost. Interest income is calculated using the effective interest rate and is presented in Net interest income.
If impairment of a debt instrument is identified, accumulated gains or losses recorded in prior periods in other comprehensive income are reclassified to profit and loss as at the reporting date.

Equity instruments that are held within the strategy "Hold", collect and sell" and not held for trading are measured as financial assets at FVOCI including FX differences from remeasurement. When this financial asset is derecognized, gain or loss from remeasurement is not recognized in profit or loss. Where dividends do not decrease the investment value, they are recognized in profit or loss. These assets are not subject to ECL calculation.

Financial assets at fair value through profit or loss

Strategy "Trading" is aimed at actively trading with financial asset. Typical assets in this category are trading derivatives and trading financial assets. Changes in fair values of these assets including FX differences are recognised in profit or loss. These assets are not subject to ECL calculation.

Strategy "Fair value option" is used for assets that are at initial recognition irrevocably designated as measured at FVTPL in order to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains and losses using different bases. Debt instruments are measured at fair value through profit or loss even if they meet the amortised cost or FVOCI criteria.

Strategy "Mandatorily at FV" is used for financial assets that are held for the purpose of holding and collecting, or holding and collecting and selling, but which have not passed through the SPPI test and cannot be measured at AC or FVOCI.

Reclassification

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Initial recognition

On initial recognition at the date of transaction, the Group recognizes financial assets and financial liabilities at fair value adjusted for transaction costs directly attributable to the acquisition/issue or disposal of a financial asset/liability. Trade receivables without a significant financial component are recognized at the transaction price. Transaction costs related to the acquisition of financial assets measured at fair value through profit or loss are directly charged to the statement of comprehensive income.

Financial assets at FVTPL are recognized on the date the Group commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

Financial assets classified at FVOCI are recognized on the date it commits to purchase the assets.

From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Financial assets at amortised costs are accounted for at transaction date.

Measurement
Subsequent to initial recognition, all assets designated at FVTPL and all at FVOCI are measured at fair value according to Note 4 (Determining fair values). Any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial assets is based on their quoted market price at the reporting date, without any deduction for transaction costs. If a quoted market price is not available, the fair value of the asset is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement
Gains and losses arising from changes in the fair value of financial assets at FVTPL are recognised in profit or loss while gains and losses arising from changes in the fair value of FVOCI assets are recognized directly in equity as differences arising from revaluation of assets and liabilities.

When a debt asset measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity instrument designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to equity.

Interest on debt instruments measured at FVOCI is recorded in the statement of comprehensive income.

Derecognition
A financial asset is derecognised when the Group's contractual rights to cash flows from financial assets expire or the Group transfers the rights to receive contractual cash flows within a transaction during which in principle all rights and rewards arising from the ownership of financial assets are transferred or during which the Group does not transfer or maintain in principle all risks and rewards arising from the ownership of the financial assets nor does it maintain control over the financial assets. Upon derecognition, the difference between the asset's carrying amount, and the sum of the consideration received and any cumulative gain or loss previously recorded in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when the related obligation specified in the contract has been discharged, cancelled, or expired.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised on the date the Group commits to sell the assets.

Financial assets held to maturity and provided loans and receivables are derecognised on the date the Group sold them.

Financial liabilities under IFRS 9

Financial liabilities are classified and measured at amortized cost with the exception of:

- financial liabilities held for trading including derivatives – these are measured at FVTPL;
- financial liabilities that use the option to be measured at FVTPL - FV Option;
- financial liabilities arising from the transfer of financial assets that do not qualify for derecognition – short sales measured at FVT-PL;
- contingent liabilities (if IFRS 9 recognition criteria are met) – measured at FVTPL;
- hybrid financial liabilities when the fair value measurement results in:
  - the elimination or significant limitation of the mismatch between the financial liability that would normally be measured at amortized cost and the related derivative measured at fair value;
  - the measurement of a hybrid contract as a whole, even if it contains an embedded derivative that would otherwise have to be separated.

The change in the fair value of financial liabilities associated with the change in credit risk is presented in other comprehensive income. The other part of the change in FV is presented in profit or loss. It is therefore a distinction between credit risk and asset-specific performance risk - the risk that an individual asset or group of assets will not be performing or whose performance will be weak. An example can be a commitment to investors whose performance is determined by performance specific assets (e. g. investment certificates). Determining own credit risk is the responsibility of the local Credit risk department.

In provisions within liabilities, the Group also reports ECL for off-balance sheet items in form of granted commitments and guarantees.

Impairment

The Group applies the IFRS 9 model of expected credit losses (ECL), which means that a loss event will no longer need to occur before an impairment allowance is recognised. The impairment model in IFRS 9 shall apply to financial assets measured at amortised cost, debt instruments measured at FVOCI, and loan commitments and financial guarantees measured at amortised cost.

For the purposes of ECL model calculation, the portfolio of financial assets is split into segments. Financial assets within each segment are included in three stages (Stage 1,2,3) or in the group of financial assets that are impaired at the date of the initial recognition - Purchased or originated credit-impaired assets ("POCI"). At the date of the initial recognition, the financial asset is included in Stage 1 or classified as POCI and recorded in Stage 3. Subsequent reclassification to other stages is carried out depending on the rate of increase in credit risk (Stage 2), i.e. the impairment of a particular asset from the moment of initial recognition (Stage 3).

Stage 1

- initial recognition of a financial asset - the creation of a credit loss for 12-months ECL;
- 12-month ECLs - all discounted cash flows that are not expected to be received until maturity of the financial asset that result from possible default events within the 12 months after the reporting date;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 2

- if the credit risk increases significantly from the initial recognition of the financial asset, the financial asset is reclassified to Stage 2;
- lifetime ECLs are used to calculate impairment;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 3

- the credit quality of the financial asset has significantly deteriorated and resulted in a credit loss or impairment of the asset;
- lifetime ECLs are used to calculate impairment;
- interest income should be calculated from net amortised costs, i.e. from the gross carrying amounts ("GCA") decreased by ECLs
- lifetime ECLs that result from all possible default events over the expected life of a financial instrument, i.e. all discounted cash flows that are not expected to be received until maturity of the financial asset as a result of a default;

Financial assets with low credit risk

The credit risk of a financial instrument is considered to be low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations. However, collateral does not influence whether a financial instrument has a low credit risk.

Expected credit losses over the remaining life of a financial instrument are not recorded solely due to the fact that it was considered to be a low-risk financial instrument in the previous financial year but due to this assessment at the end of reporting period. In this case, the Group determines whether there has been a significant increase in credit risk.

However, financial assets are not deemed financial assets with low credit risk where collateral influences whether a financial instrument has a low credit risk. In addition, financial assets are not deemed financial assets with low credit risk solely due to the fact that they have a lower risk of default than other financial assets.

At the end of the reporting period the Group assesses individual items with low credit risk classified in Stage 1, i.e. evaluating whether they meet this classification.

Purchased or originated credit-impaired financial assets (POCI)

In addition to purchased defaulted loans, POCI may arise as a result of the restructuring of borrowers in financial difficulties that lead to significant changes in terms of the loan and result to derecognition. Apart from recognition of losses arising from significant asset modification, no losses are initially recorded, without distinguishing between 12-month and lifetime ECLs. Initial ECL over the lifetime shall be taken into account in the EIR which takes into account credit risk of counterparty that is subsequently used to record interest revenue. Subsequent changes in the ECL are recorded against the impairment loss/gain and loss allowance. These assets are categorized separately (in nature they are similar to Stage 3) and remain so for the entire period of the holding.

Significant increase in credit risk

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial asset as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Group adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Group will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

The Group may assume that the credit risk associated with the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial asset since its initial recognition, the Group uses reasonable and supportable information that is relevant and available without undue cost or effort.

Quantitative factors to be considered in assessment:

- the receivable or its significant portion is overdue for more than 30 days;
- credit risk deterioration will be considered on the basis of a change in rating since initial recognition. The current rating is compared with the rating assigned at the time of initial recognition;
- the Group uses internal rating system with 12 rating grades and the transition matrix which defines movements (rating deterioration) considered as significant, the 13th grade is referred as default: The Group uses the transition matrix which defines movements (rating deterioration) considered as significant:
  - ratings 1-3 falling under investment grade are considered to be low credit risk, migrations within these ratings are not considered to be SICRs;
  - for other grades, the PD formula is used, after which the exposure will be assigned to Stage 2;
  - in line with the regulatory recommendation, the Group uses a maximum of three times the PD increase for Stage 2 transition

to ensure that the PD threshold for Stage 2 is not greater than three times the rating PD's average PD for any rating class a specific exposure can happen, but only if the corresponding PD is lower than its PD of the highest rating when it is created;
  - at the same time, the value of the thresholds increases with higher ratings, so that for high ratings with a high PD mean less than a threefold increase in PD, all significant changes in PD are captured.

Quantitative factors to be considered in assessment:
- the nature of the project has changed with a negative impact on the debtor's ability to generate cash flow;
- the debtor does not meet non-financial contractual obligations for more than 6 months etc.

For other products such as debits and repurchase agreements (reverse repurchase agreements with clients), the Group does not determine ratings, scoring, and PD, and consequently may not compare their development for SICRs purposes over the time as in the case of other credit receivables. In such cases, credit risk deterioration is assessed based on other credit quality factors of an entity from which the Group reports receivables, e.g. specific phases occurring during the debt collection process, exceeding the period for the reporting of receivables from the entity, etc.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events defined as the "default of the borrower" that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

To determine whether a financial asset is in default, the Group assesses the common signs of default that are listed below:
- the situation when the Group filed a petition for declaring the bankruptcy of the debtor,
- the situation when the debtor has applied for bankruptcy announcement,
- the situation when the bankruptcy was announced,
- the debtor has entered or intends to enter into liquidation,
- the court has ruled that the debtor (legal person) was not founded (does not exist) or the debtor (natural person) has died,
- the final judgement of the court or administrative authority was ordered to enforce the decision by selling the debtor's assets or executing the debtor's assets;
- the situation when the debtor's liability to the Group (or its significant portion) is overdue for more than 90 days,
- the situation when the receivable in the category of default must be restructured;
  - delay in expected funding from another financial institution for more than 12 months;
  - the situation when payments in the aggregate amount of at least 50% (in the sense of monitoring the repayment from the point of granting the loan) have been reduced, etc.

Financial assets where the debtor's default is proved are classified in Stage 3 or designated as POCI, if the relevant conditions have been met as at the date of the financial asset's initial recognition.

If an impairment of a debt asset measured at FVOCI is identified, the accumulated gains or losses recorded earlier in other comprehensive income are reclassified and recorded in profit or loss in the given period.

In case of an impairment of an equity instrument at FVOCI as a result of a decrease in the registered capital, the resulting gain is recognised in equity.

Determination of expected credit losses (ECL)

The term ECL refers to the multiplication of probability of default (PD), expected loss given default (LGD) and exposure at default (EAD).

Determination of loss given default (LGD)

LGD, which is necessary for the calculation of ECL, is an estimate of the loss arising when default occurs at a given time (expressed as percentage). It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including cash flow from the realization of any collateral. For calculation of LGD the Group uses discounting of expected future cash flows.

LGD is determined individually in the form of a scenario analysis. For other exposures the LGD is set by portfolio with respect to the available data and knowledge. For exposures above a given threshold LGD is calculated on an individual basis. For exposures below a given threshold, LGDs can be calculated on a portfolio basis unless the Group entity has already individualised LGD calculation, e.g. for credit analysis or credit rating purposes.

Individual LGD is determined as weighted average of relevant cash flows according to the scenario analysis. The Group commonly uses scenarios such as: breach of covenants resulting in full repayment request, significant decrease in financial performance (i.e. significantly below the thresholds for immediately full repayment of the contract), realization of collateral or severe drop in performance parameters. In determining the LGD value, the entity takes into account collateral of the receivable, when the entity has legal right that in the event of default of the borrower, the collateral can be realized within reasonable time. For collateralized receivables, the calculation of the present value of the expected future cash flows also takes into account expenses associated with the realization of collateral.

For the purposes of LGD calculation, the Group takes into account only collateral up to the amount that is not used as security for other assets or assets of third parties if they are entitled to satisfaction before the Group (i.e. value of such collateral is reduced by the amount owed to more senior debtors). Furthermore, collateral is used only up to the carrying amount of the collateralized assets recognized in the balance sheet.

For homogeneous segments below the materiality threshold, such as credit cards, overdrafts and loans, or in case of lack of data, LGDs may be determined from historical observations, from parameters set in the regulatory framework or from the average of historical LGDs published by a local national bank (e. g. Czech National Bank) in the Financial Stability Report. Nonetheless, regular calibration of these parameters is performed at least once a year on the basis of current data.

Determination of probability of default (PD)

Probability of default is assigned as follows:

- if the exposure is included in Stage 1, maximum one-year PD is determined;
- if the exposure is included in Stage 2, the corresponding life-time PD is assigned to the exposure;
- if the exposure is included in Stage 3, PD is 100%.

The calculation of PD applied by the Group is divided into two steps:

- calculation of one-year PDs as the average of PDs for the previous years;
- calculation of multi-annual (cumulative) PDs.

Probability of default (PD) over a selected number of years is calculated using a credit migration matrix, in particular the Markov Matrix, a square transition matrix multiplied according to the selected number of years. The outcome is multi-annual (depending on the selected horizon) probability of default (PD) of a given rating.

An external rating is assigned to every internal rating stage, so the corresponding external PD falls within the PD interval for the appropriate internal rating stage (on condition that such external PD exists). If external PD does not exist, the rating as close to the centre of the internal rating interval as possible is used. Probability of default (PD) during the cycle is subsequently adjusted according to macroeconomic developments to reflect the appropriate phases of the economic cycle.

Local Risk management departments are responsible for calculating and updating the relevant PDs. The entities in the Group primarily determine scoring for non-derivative financial assets with fixed or determinable payments that are not quoted on active market. Furthermore, the entities determine scoring for its commitments provided, financial guarantees and undrawn limits. Scoring cards are used to assign the internal PDs to the relevant exposures.

Scoring models also use external data ("benchmark" models). These were mainly used for portfolios where the variables used are the same or very similar for a large number of banks in the market (e.g. operational financing or personal loans).

Determination of Exposure at default (EAD

Determination of Exposure at default (EAD) EAD refers to the level of exposure at default of the client which is then multiplied by PD and LGD in order to calculate the expected credit loss (ECL). Thus, EAD is a discounted estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.

For off-balance sheet exposures, the EAD represents the approved undrawn commitment adjusted by the conversion factor. Not enough data is usually available to compile a statistical model for determining CCF for credit products, so the CCF may be determined on the basis of the historical experience or regulatory parameters.

Forward looking indicators

The expected loss model also considers information about future events. This information includes outlooks for industries in which individual counterparties operate, analysis from economic experts, financial analysts reports, data from government institutions, think tanks and other, including also consideration of internal and external sources of information relating to the current and the future state of the general economic issues. The Group assigns counterparties relevant internal assessment of credit risk depending on their creditworthiness.

ECL presentation in the statement of financial position

- for financial assets measured at amortised cost as a deduction from the GCA of the assets;
- for loan commitments and financial guarantee contracts generally as a provision;
- for debt instruments measured at fair value through OCI, expected credit losses are not deducted from the carrying amount of a financial asset, as the carrying amount is already measured at fair value. However, an allowance is recorded as a decrease in revaluation reserve in OCI.

Modification of financial assets

If there is a change in the cash flows of a financial asset due to a change in the contractual terms between the Group and the counterparty (modification not only due to financial difficulties) while the change in the terms of the contract is classified as significant, the financial asset is derecognised and a new financial asset is recognised at fair value, including transaction costs. The present value of cash flows is discounted using a new effective interest rate, which is also used for a calculation of interest revenues.

If the change in the terms of the contract is not classified as significant (i.e. the difference between the net present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows is close to 10%) and the financial asset was not derecognized, the Group recalculates the present value of the modified cash flows from the financial asset, and the difference between the gross carrying amount before the change in the terms and conditions (not considering existing impairment) is recorded as the effect of the modification of assets to the profit or loss. The present value of the modified cash flows is discounted using the original EIR that is also used for the calculation of interest income. Costs and fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

Write-off

The gross carrying amount of a financial asset should be reduced directly when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. This involves situations in which the Group determines that the debtor does not have necessary assets or resources of income to repay the debt. The assessment is performed on an item-by-item basis. In the case of write-off, the Group directly decreases the gross carrying amount of a financial asset. Write-offs do not affect profit or loss, as the written-off amounts are included in loss allowances. A write-off constitutes a derecognition event. However, derecognised financial assets may still be recovered by the Group in accordance with its debt recovery policies.

Treasury bills
Treasury bills, comprising bills issued by Czech government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives
Derivatives including currency forwards, cross currency swaps, interest rate swaps and options are initially recognised in the statement of financial position at fair value. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognised as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when these do not involve financial instruments under IFRS 9, their risks and characteristics are not closely related to those of the host contract, financial instruments enjoy the same conditions as embedded derivatives and would meet the definition of financial derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in Net trading income.

Hedge accounting – Fair Value Hedge
The Group decided to continue the original recognition under IAS 39 as part of its choice to apply IFRS 9 when recognising hedging derivatives. Hedging derivatives are derivatives that serve the Group to hedge the currency risk and meet all conditions of the classification of hedging derivatives under International Accounting Standards.

At the inception of a hedging transaction, the relationship between the hedging instrument and the hedged item is documented. Hedge effectiveness is tested during the inception and duration of the hedging relationship by mutually offsetting changes in fair value or cash flows of the hedging instrument and the hedged item with the result in the range from 80 to 125%.

Changes in the fair value of derivatives for fair value hedges are recognised in the income statement together with changes in the fair value of hedged assets and liabilities, to which a hedging risk can be assigned. Hedge accounting is discontinued when the hedging relationship is terminated by the Group, the hedging instrument expires, is sold, terminated, or the respective contract is exercised, or the hedging relationship ceases to meet the criteria of hedge accounting.

The positive fair value of hedging derivatives is recognised as Positive fair value of derivatives within assets in the statement of financial position. The negative fair value of hedging derivatives is recognised as Negative fair value of derivatives within liabilities and equity in the statement of financial position. A change in the fair value of hedging derivatives and of the hedged item is recognised as Net trading income from trading in the statement of comprehensive income.

(c) Sale and repurchase agreements
Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded in the statement of financial position and the consideration paid is recorded as a loan granted. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repurchase and reverse repurchase transactions are recognised on a settlement date basis.

(d) Intangible assets

Goodwill and intangible assets acquired in a business combination
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill on acquisition of subsidiaries is included under intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying amount of investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recorded at cost less impairment. Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation and impairment.

Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Depreciation is carried out on a straight-line basis over the estimated useful economic lives of assets, ranging from 2 to 21 years.

Software	
Operating applications	3-9 years
Application for management of clients' portfolios	2-10 years
Application for management of banking products	18 - 21 years
Other intangible assets	2-9 years

(e) Property, plant and equipment

Intangible assets are stated at historical cost less depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset.

Buildings	30-50 years
Office equipment, safe deposit boxes	3-10 years
Fixtures and fittings	3-5 years
Right of use	according to the duration of a lease contract

Land is not depreciated.

Assets under construction are not depreciated.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(f) Leases

Group as the lessor

Lease contracts through which the Group transfers all of the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. Finance lease receivables are reported as loans and other receivables from clients at amortised cost and are stated at the present value of minimum lease payments and unhedged residual value. Lease payments are discounted using the interest rate implicit in the lease. Financial revenues reflect a constant periodical rate of return of the Group's net investment in finance leases.

Profit/loss from the sale of assets that are owned by the Group but were previously finance lease assets are recognised in their net amount in Other operating income or expense.

Lease payments classified as operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Group as the lessee

The Group applies IFRS 16 to all leases. At the commencement date of a contract, the Group assesses whether the contract has the character of a lease or contains a lease. A contract has the character of a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether the contract contains a lease for each potential individual lease component. The broader economics of the contract are taken into account in respect of short-term leases.

If a contract contains a lease, the Group as the lessee recognises the right-of-use asset and the lease liability as at the start of the contract. The classification of the right-of-use into tangible/intangible assets class is based on the leased asset, i.e. on the underlying asset. The Group accounts for lease contracts where the leased assets are buildings (office premises, branches) and cars.

The Group uses the exception for lease classification under IFRS 16 for:

- short-term leases
  - leases with a lease term of 12 months or less as at the commencement date of the lease
  - leases concluded for an indefinite lease term with a notice period of less than 12 months
- leases whose underlying asset has a low value
  - underlying low-value assets can include for instance tablets and personal computers, small items of office furniture and phones ((EUR 5 000/CZK 130 000).

The Group as the lessee recognises lease payments relating to lease contracts in the recognition exemption regime as expenses over the term of the lease.

As at the commencement date, the Group shall measure the right-of-use asset at acquisition cost.

Acquisition cost of a right-of-use asset includes the amount of lease liability initial recognition, all lease payments made at or before the commencement date net of all lease incentives received, all initial direct costs incurred by the Group, an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Group shall measure the right-of-use asset using the model of measuring at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

As at the commencement date, the Group shall measure the lease liability as the present value of lease payments that have not been paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate, if not.

On initial recognition, the Group subsequently measures the lease liability by recognising interest on the lease liability, decreasing the carrying amount of the liability to reflect lease payments, remeasuring the carrying amount to reflect any lease revaluation or modifications.

After commencement date, the Group as the lessee recognises in profit or loss interest on a lease liability and a variable lease payment not included in the measurement of a lease liability.

The Group shall reassess whether the contract has the character of a lease or contains a lease only if the terms and conditions of the contract are changed.

While right-of-use assets are presented under Property, plant and equipment in the statement of financial position, lease liabilities are presented under Other liabilities and provisions. The Group recognises interest expense on a lease liability separately from the right-of-use asset depreciation in the income statement and in the statement of other comprehensive income. Lease liability interest expense represents a component of finance expense.

(g) Investment property

Investment property is represented by assets that are held to generate rental income or to realise a long-term increase in value, and are not used in production or for administrative purposes or sold as part of the ordinary business activities of the Group.

Investment property is measured at fair value, as determined by an independent certified appraiser or by management. Fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or if not available, by applying generally applicable valuation methodologies, such as expert opinions and yield methods. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

(h) Foreign currency translation

Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(i) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses). For purchased or originated credit-impaired financial assets (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income from trading financial assets, lease receivables, bonds at FVTPL is recognised as interest income.

Penalty interest is recorded as off balance sheet items and recognised as interest income at the moment the payment from the debtor is received.

Negative income from financial assets is recognized as interest expense, positive income from financial liability as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fee and commission is accounted for pursuant to IFRS 15, applying the basic principle according to which revenue is recognised in a manner to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To apply the basic principle of recognising revenue under IFRS 15, the Group applies the following five-step model:

1. identification of a contract
2. identification of contractual obligations

3. determination of the transaction price
4. allocation of the transaction price to each performance obligation
5. recognition of revenue when a performance obligation is satisfied.

Fees and commissions are recognized based on the nature of the fee and the type of service provided as follows:
- fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
- fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
- fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

The Group accounts for fees and commissions based on their nature as follows:
- fees and commissions are accounted for in accordance with the accruals principle and are released into profit or loss on a straight-line basis;
- fees and commissions are recognised once the transaction takes place;

(j) Income tax
Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(k) Social security and pension schemes
Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Group has no further pension or post retirement commitments.

(l) Cash and cash equivalents
Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks (excluding statutory minimum provisions) and other banks and short-term highly liquid assets with original maturities of three months or less. .

(m) Provisions
A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Offsetting of financial assets and liabilities
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(o) Segment reporting
IFRS 8 requires that operating segments are identified based on internal reporting about the business units of the Group which are regularly reviewed by the Board of Directors and allow proper allocation of resources and evaluation of the performance. This segment analysis is basis for review and strategic and operational decision making of the management.

At the Group level, the management monitors the consolidated group through individual group companies; therefore, segments are established based on the business activity of the individual companies. The Group's management is provided with the information allowing the evaluation of the performance of individual segments.

The Group's reportable segments according to IFRS 8 are as follows:
- banking;
  - categorisation by country;
- asset management;
- real estate;
- other.

Accounting policies applied to operating segments comply with those described in note 3. For operating segment analysis, all assets and liabilities are allocated to the individual reportable segments. A segment's profit represents profit before tax generated by the relevant segment.

(p) Business combinations and purchase price allocations
The acquiree's identifiable assets, liabilities and contingent liabilities are recognised and measured at their fair values at the acquisition date. For financial statement reporting purposes, allocation of the total purchase price among the net assets acquired is performed with the support of professional advisors. The valuation analysis is based on historical and prospective information available as of the date of the business combination. Any prospective information that may impact the fair value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail in the future. The results of the valuation analysis are also used to determine the amortisation and depreciation periods for the values allocated to specific intangible and tangible fixed assets.

(q) Disposal groups held for sale
Disposal groups classified as held for sale are are measured at the lower of their cost of acquisition and fair value less costs to sell. Disposal groups are classified as held for sale if their carrying amounts are primarily recovered through a sale transaction rather than through continuing use. This condition is regarded as met only if the sale is highly probable and the disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:
- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

In the consolidated statement of comprehensive income for the reporting period, and for the comparable period of the previous reporting period, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(r) Dividends
Dividend expense is recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income depends on the classification of financial assets and measurement of ownership interests, i.e.:
- for equity instruments which are held for trading, dividend income is presented in Net trading income in profit or loss;
- for equity instruments designated at FVOCI, dividend income is presented in net trading income except for those resulting from a decrease in share capital of the invested entity, which is recorded in other comprehensive income.

(s) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

(t) Other equity instruments

Other equity instruments are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter "Certificates"). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of equity and debt securities.

The Group classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:
- the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
- if the Certificates are or may be settled in the entity's own equity instruments, the Certificates are non-derivative instruments, which include no contractual obligation for the issuer to deliver a variable number of its own equity instruments.

The Group may redeem the Certificates with approval of the Czech National Bank. Holders of Certificates have no right to ask for redemption, except in the event of the Group's liquidation.

The Group commits to paying interest income generated from Certificates to the holders, but may also decide not to pay the interests accrued by the Certificates without compensating this in future periods. The Group will pay interest if there are funds available and approved to be used by the General Meeting of the Group. When there are not sufficient funds available, the payment is reduced proportionately. Payment of earnings can be drawn from:
- the Group's net profit;
- retained earnings;
- other equity components that the Group is authorised to distribute to its shareholders.

As the Group has no obligation to deliver cash to the holders of Certificates or to settle the contractual obligation by providing other financial assets, (i.e. Certificate holders do not have right to redemption of the principal amount or the interest income and as the Certificates have no maturity date), they are included in additional Tier 1 capital (AT1). This inclusion is subject to approval by the Czech National Bank.

4. Critical accounting estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Expected credit losses

Expected credit losses are determined for those assets classified at amortised cost, debt instruments at fair value through other comprehensive income, guarantees and commitments. Basis used for its calculation and principles considered are described in accounting policy 3(b).

Calculation of expected credit losses and identified future liabilities considers uncertainties about the results of related risks and requires significant Group's management assessments when estimating the amount of loss, including future economic conditions and credit behaviour.

Amounts reported as provisions for off-balance sheet items are based on management's judgement and represent the best estimate of expenditures required to settle the liability with uncertain timing or the uncertain amount of the obligation.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(b). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Group determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:

- Level 1 - entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Group has access at value date;
- Level 2 - inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  - quoted prices of similar assets or liabilities in active markets,
  - quoted prices of identical assets on markets that are not active,
  - input quantities other than quoted prices that are observable,
  - market-supported inputs;
- Level 3 - inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:

a) the items traded on the market are homogeneous;
b) it is possible to find willing buyers and sellers at any time and
c) prices are publicly available.

If there is no active market for the financial asset, the fair value is estimated using valuation techniques. When using valuation techniques, management uses estimates and assumptions based on available information about the estimates and assumptions that market participants would use to determine the price of the financial instrument.

In the vast majority of cases, the fair value of Level 3 investments, debt instruments, provided loans, was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specifics of the industries and countries in which the investments operate. The key assumptions used in the valuations were the expected cash flows and discount rates. Further information about the Level 3 financial instruments is disclosed in note 8.

Valuation of investment property
Investment property is carried at fair value and classified as Level 3 according to the fair value hierarchy.

Fair values of investment property are determined either by independent registered appraisers or by management, in both cases based on discounted cash flow ("DCF") models with inputs coming from rental income projections or based on combination of DCF model and independent registered appraiser´s real estate valuation. These projections are critically assessed by management before inclusion in the models. The discount rates were based on the specificities of the countries in which the investment property is located.

Valuations reflect, where appropriate, the type of tenants in occupation or responsible for meeting lease commitments, or likely to be in occupation after letting vacant property, the general market's perception of tenants' creditworthiness and the remaining economic life of the properties.

Further information about investment property is disclosed in note 13.

Goodwill and impairment testing
The Group conducts impairment testing of goodwill arisen in a business combination during the current period and impairment testing of goodwill already recognised in prior years annually (see also note 49 Acquisitions and disposals of subsidiaries, associates and joint ventures and note 15 Intangible assets).

The Group also conducts impairment testing of other intangible assets with indefinite useful lives, and of cash generating units (CGUs) where a trigger for impairment testing is identified. As at the acquisition date goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows or on the basis of fair value less costs to sell.

Fair value measurements for impairment testing purposes were categorized as a Level 3 measurement based on the inputs used in the valuation technique. In the majority of cases the Group estimated the recoverable amounts of goodwill and the cash generating units based on value in use. Value in use was derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

a) ATLANTIK finanční trhy a.s.
In 2015, goodwill allocated to the ATLANTIK finanční trhy, a.s. as cash generating unit was written off in full based on the results of the performed impairment testing.

b) J&T INVESTIČNÍ SPOLEČNOST, a.s.
The recoverable amount of the cash-generating unit J&T Investiční společnost, a.s. was calculated based on discounted cash flows. The key assumption was a forecast profit after tax over a specific five-year forecast period. The average growth rate used for this period was 3.24% (2019: 6.18%). Expected cash flows were discounted using a weighted average cost of capital 9.89% (2019: 10.6%). There was no impairment loss identified as a result of this impairment test in 2020 and 2019.

Assessment of control over investment funds
The Group uses its judgement when deciding whether it exercises control over an investment fund. When assessing the duty to consolidate funds, the Group evaluates the following control criteria:
- power;
- exposure to variable returns;
- ability to affect the returns through power.

An investor controls a unit only when all the above control criteria are met. The Group may also acquire control over funds through investment in subsidiaries that manage, administer or invest in funds.

The duty to consolidate funds arises when:
- control over fund arises - assessed based on the criteria of control, of which the above principal/agent analysis is part of:
  - principal = consolidate;
  - agent = do not consolidate.

Based on the analysis' results, the Group includes the following funds into its consolidated group as at 31 December 2020::
- J&T REALITY o.p.f. – the fund consolidated based on the ownership interest and control over the fund via subsidiary J&T INVESTIČNÍ SPOLEČNOST, a.s.
- J&T VENTURES I u.p.f. - the fund consolidated based on the ownership interest and control over the fund via subsidiary J&T INVESTIČNÍ SPOLEČNOST, a.s.
- J&T DIVIDEND Fund - the fund consolidated based on the ownership interest and control over the fund via subsidiary J&T INVESTIČNÍ SPOLEČNOST, a.s.

The Group includes the following fund into its consolidated group as at 31 December 2019:
- J&T REALITY o.p.f. – the fund consolidated based on the ownership interest and control over the fund via subsidiary J&T INVESTIČNÍ SPOLEČNOST, a.s.

4.1. COVID-19 pandemic

The COVID-19 pandemic and the related restrictive measures adopted to prevent the spread of the infection, negatively affected the economic environment and caused heavy disruptions and volatility on the financial markets. The pandemic's repercussions include a decrease in the gross national product, a reduction of employment and deterioration of debtor payment morale, all this leading to an increase in expected credit losses. According to the most current estimates made by the Czech National Bank, in 2020 the gross national product decreased by 5.6% in the Czech Republic, 5.2% in Slovakia and 3.1% in Russia. According to Eurostat, the Eurozone economy fell even more significantly, by 6.6%. Growth of unemployment was slowed down by significant fiscal and monetary incentives. The unemployment rate as at 31 December 2020 was at 3% and 8.1% in the Czech Republic and the Eurozone, respectively, compared with 2% and 7.5% at the end of 2019.

In the early days of the pandemic, the resulting panic led to two-digit declines across all sectors on the financial markets. An increase in the preference for safe assets also led to the volatility of the Czech crown, which for the first time after the end of the CNB's interventions exceeded the rate of CZK 27 per euro.

During the course of 2020, the Group monitored the pandemic's development, paid attention to measures adopted by government bodies and heeded the opinions of healthcare specialists. As a response, the Group adopted measures to protect the health of its employees while maintaining the Group's operations, which included:
- Employees whose work was not necessarily tied to a workplace in the Group's premises were ordered to work from home. The Group provided these employees with the necessary equipment to perform their work.
- Employees whose nature of work did not allow work from home were allowed to work in the Group's premises under very strict safety conditions. Some departments and divisions divided their employees into shifts that regularly rotated at the workplace. Some employees were transferred to a backup workplace.
- Employees working at the Group's premises were provided with protective tools. The Group's premises were regularly disinfected.
- Voluntary COVID-19 testing was performed at the Group's premises.

The Group did not report any limitations in the availability of services or products, mainly due to enhanced support for digital and telecommunication channels allowing contact with its clients.

Effect on the Group's liquidity

From March until the end of 2020, the volume of client deposits continued to grow (CZK 25.5 billion), mainly due to the Group not significantly decreasing interest rates on client accounts and due to a generally-observable increase in the savings of households within the entire banking sector as a result of the restricted consumption during the pandemic. Funds from clients were appropriately allocated by the Group to highly liquid assets whose volume was continuously high, considering the liquidity risk scenario. For assets, the postponement of repayments totalling CZK 1.1 billion due to the moratorium did not have a significant negative effect on liquidity, as this was sufficiently compensated by a significant increase in funds received from client deposits and, simultaneously, material default events relating to loans did not take place. The Group's strategic goal is to continue to maintain the stability of liquidity indicators and fulfil regulatory and internal requirements for a sufficient liquidity buffer in the long-term.

Effect on market risk

The volatility on the financial markets had an impact on the Group's exposure to market risk. The increased volatility of market quantities led to an increase in market risk. To cover this risk, the Group had to allocate a higher volume of internal capital and adjust internal limits (limits for individual currencies, securities, etc.). This was also taken into account in the Group's internal stress scenarios.

Effect on credit risk

The COVID-19 pandemic and governmental emergency measures significantly affected the loan portfolios of banks. The Group's response to the situation developed over time; first, the Group in principle completely suspended the provision of new loans, later on, however, the situation slowly returned back to normal. However, in certain sectors, the Group began applying stricter assessment criteria (e.g. a more detailed analysis of variable and fixed costs or the quality of working capital, stress scenarios focusing on the length and severity of anti-COVID 19 measures, etc.).

After the World Health Organisation declared the coronavirus outbreak the pandemic on 11 March 2020, the Group analysed in detail its portfolio of significant loans, especially relating to sectors affected by the pandemic, and collected information about individual clients to make first estimates of the pandemic's impact on the Group's portfolio. Clients that were most affected regularly provided the Group with up-to-date and detailed information on their situation and future prospects. As a result, during the year the Group regularly adjusted the classification of clients and updated the effects of the pandemic on the Group's portfolio. Clients made use of the situation on capital markets and showed increased interest in investment in stock markets, which resulted in an increase in the volume of margin lending transactions.

Changes to credit risk management processes

No significant changes were made to the management of credit risk. During the year, the Group intensified the monitoring of clients most affected by the COVID-19 pandemic.

Changes in PD, LGD, FLI, SICR

In 2020, the Group performed standard updates relating to LGD, FLI and SICR. This mainly involved the inclusion of the most up-to-date data in models. More significant changes were made to the FLI model (see below).

FLI model

Considering the nature of the Group's portfolio of loans and bonds, the Group uses publicly available data from Moody's to determine the probability of default (PD). TTC (through the cycle) and PIT (point in time) matrices derived from long-term series of defaults of companies in the US market are statistically adjusted and made real by the Group using an FLI (forward looking information) indicator, the z-component, which helps transfer the effect of macroeconomic variables of individual states to the appropriate PIT matrices. Macroeconomic variables in question were, inter alia, the real gross national product, the unemployment rate, inflation, state indebtedness, etc. After taking into account several macroeconomic scenarios, the relationship between the z-component and GNP developments was found the most suitable and adequate to predict PD for a given country to which the Group is exposed to in terms of credit risk.

Group's response to COVID-19 through an adjustment of the FLI model

Since the model for determining the z-component has not been calibrated for the extreme falls of GNP that are predicted by the relevant institutions for 2020 and 2021 (as such falls have never occurred in the past), the z-components generated by the model (based on extremely negative decreases of GNP) were tested at a 5% level of significance whether they meet the conditions of normality, symmetry or whether they produce fat tails. The Shapiro-Wilk normality test was made, as this type of test is recommended for a low number of observations. The test results show that the z-components do not correspond to the normal distribution and symmetricity and generate very fat tails. The Group's management took into account these characteristics and determined a z-component threshold meeting the initial assumption of normality requirement. The Group thus transforms the z-component to meet the normal distribution requirement. Without the transformation, the model would generate erroneous (biased) values.

Significant changes in assumptions/FLI model

The capped z-component for 2020 is -3.7 (retrospectively calculated value corresponding to a decrease in the CR's GNP of approx. -6.3%; for information on other states, please see the table below); the z-component for 2021 based on the model is without limitations. The situation in 2020 was affected by the COVID-19 pandemic and the support provided by individual state governments to their economy. These artificial types of aid will postpone the events of default of companies by a number of months (depending on the period a particular subsidy or relief can be utilised). When determining PD, the Group took into account the effect of such delays using a scale to reflect the effects of macroeconomic environment not only in a given year but also in the following year. The Group weighs the PIT matrix as follows: 75% PIT matrix 2020 + 25% PIT matrix 2021.

z-component		ČR	SR	CRO	AU	Other	GB	PL	UA
selected scenario for macro predictions		CNB – longer pandemic scenario	National Bank	IMF	IMF	OECD	National Bank	OECD	IMF
z-component before capping	prediction 2020	-5.5	-5.61	-4.92	-4.15	-4.47	-7.56	-5.22	-4.26
	GNP 2020	-10.1	-10.3	-9	-7	-8	-14	-10	-7.7
z-component used for the calculation of ECL at 31/12/2020	prediction 2020	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
	GNP 2020	-6.3	-6.2	-6.4	-6	-6.4	-5.9	-6.8	-6.6
	prediction 2021	-0.97	1.47	-0.01	0.09	-0.86	4.08	-1.34	-0.44
	GNP 2021	3.2	8.4	4.9	4.5	2.8	15	2.4	3.6

State guarantees

Clients may also find help in governmental credit programmes. However, only a minimum number of clients used this opportunity. The total amount of aid received was insignificant.

Description of moratoria

In connection with the pandemic and its implications, the Group's clients applied for the postponement of instalments totalling CZK 1.1 billion, the significant part of which (approx. 2/3 of them) were postponements within the statutory moratorium. The overall exposure of these clients represents approx. CZK 11.5 billion. Apart from requests for the postponement of instalments, clients also asked for the waiver of certain credit terms and conditions, especially financial covenants monitoring their current performance or indebtedness. Most affected by the COVID-19 pandemic are clients from the following sectors: automotive, real estate (in particular shopping centres), travel and tourism and related services.

The postponement of instalments and other types of relief provided had an impact on the classification of clients, where some clients were transferred to Stages 2 or 3.

Based on information available at the date of these financial statements, the Group's management is not aware of any facts that would cast doubt on the Group's ability to continue as a going concern, based on which these financial statements have been prepared.

Despite the adverse effects of the pandemic on the Group and its clients, the Group continues to hold sufficient capital. Capital adequacy as at 31 December 2020 was 14.96% (2019: 16.48%). For more information in this respect, please see Note 47 to the financial statements. The Group complies with all limits set by the Czech National Bank as well as internal limits and has an adequate and sufficient capital buffer. The Group also prudentially monitors and evaluates the risks to which it is exposed and analyses stress scenarios.

The Company's management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur. However, the Group's management cannot exclude that the restrictive measures will be prolonged or further restricted or that the negative effect of such measures will affect the economic environment in which the Group operates or that all this will have an adverse effect on the Group, its financial performance and operating results, both in the medium and long-term.

5. Cash and cash equivalents

in millions of CZK	31.12.2020	31.12.2019
Cash in hand	328	320
Current accounts with central banks	2,147	904
Term deposits in central banks up to 3 months	—	880
Loans to central banks – reverse repurchase agreements	38,051	56,232
Current accounts with banks	880	1,427
Term deposits in banks up to 3 months	72	77
Loans to banks – reverse repurchase agreements	40	—
Other cash and cash equivalents	3	—
Expected credit losses (note 11)	(2)	(6)
Total	**41,519**	**59,834**

6. Due from banks and other financial institutions

in millions of CZK	31.12.2020	31.12.2019
Compulsory minimum reserves in central banks	1,905	1,166
Term restricted deposits and loans over 3 months	28	52
Subordinated loans to banks	210	204
Other receivables due from banks	212	35
Expected credit losses (note 11)	(4)	(2)
Total	**2,351**	**1,455**

The parent company's obligatory minimum reserves bear interest and are stated as 2% of primary deposits with maturity of less than two years.

The obligatory minimum reserves of J&T Bank, a.o. are determined as 4.75% of non-residential corporate deposits denominated in RUB, 8% of non-residential corporate deposits in foreign currency, 4.75% of deposits of individuals -residents denominated in RUB, 8% of deposits of individuals - residents in foreign currency, 4.75% of other liabilities in RUB, and 8% of other liabilities in foreign currency reduced by the average balances of deposits and accrued interest multiplied by a coefficient of 0.8.

The obligatory minimum reserves of J&T banka d.d. are determined as 9% of the average daily balances of deposits and loans, issued debt securities, subordinated instruments and financial liabilities, excepting balances with selected banks (12% until 27 March 2020).

The obligatory minimum reserves of the Central Bank of the Russian Federation and the Central Bank of Croatia do not bear interest.

The Group has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central banks, short term deposits in financial institutions and highly liquid corporate and government bonds. The Group decides on placements based on the credibility of the counterparty and the offered conditions.

There were no overdue receivables from banks as at 31 December 2020 and 31 December 2019.

The contractual weighted average interest rate on deposits and loans with other banks and other financial institutions was 2.81% (2019: 2.02%).

7. Derivatives

(a) Derivatives held for trading:

in millions of CZK	31.12.2020 Notional amount buy	31.12.2020 Notional amount sell	31.12.2020 Positive fair value	31.12.2020 Negative fair value
Currency derivatives	118,870	(118,161)	914	(709)
Cross currency derivatives	10,190	(10,190)	96	(54)
Equity derivatives	998	(962)	35	–
Other derivatives	515	(515)	2	(1)
Total	**130,573**	**(129,828)**	**1,047**	**(764)**

in millions of CZK	31.12.2019 Notional amount buy	31.12.2019 Notional amount sell	31.12.2019 Positive fair value	31.12.2019 Negative fair value
Currency derivatives	82,411	(81,992)	839	(525)
Cross currency derivatives	8,696	(8,696)	103	(51)
Equity derivatives	834	(816)	18	–
Other derivatives	399	(399)	5	(6)
Total	**92,340**	**(91,903)**	**965**	**(582)**

All derivatives held for trading are classified as Level 2 according to the fair value hierarchy.

Currency contracts, generally forward currency contracts, are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent an economic hedge, they are presented as held for trading purposes.

The foreign currency structure of these transactions was as follows:

in %	CZK	EUR	GBP	USD	Other
Long position					
31 December 2020	59%	32%	3%	4%	2%
31 December 2019	53%	39%	4%	3%	1%

The foreign currency structure of the second leg of these transactions was as follows:

in %	CZK	EUR	GBP	USD	Other
Short position					
31 December 2020	36%	38%	14%	10%	2%
31 December 2019	41%	45%	5%	5%	4%

(b) Hedging derivatives:

in millions of CZK	31.12.2020 Notional amount Long position	31.12.2020 Notional amount Short position	31.12.2020 Fair value Positive	31.12.2020 Fair value Negative
Currency swaps – hedging for equity instruments at FVOCI			**16**	**–**
Payable between 3 months and 1 year	570	(551)		
Total	**570**	**(551)**	**16**	**–**

To hedge equity instruments at FVOCI, a CZK/EUR derivative (buy/sell) was used.

in millions of CZK	31.12.2019 Notional amount Long position	31.12.2019 Notional amount Short position	31.12.2019 Fair value Positive	31.12.2019 Fair value Negative
Currency swaps – hedging for equity instruments at FVOCI			**13**	**–**
Payable from 1 to 5 years	570	(534)		
Total	**570**	**(534)**	**13**	**–**

To hedge equity instruments at FVOCI, a CZK/EUR derivative (buy/sell) was used.

All derivatives held for risk management are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

The carrying amount of hedged equity instruments at fair value through other comprehensive income as at 31 December 2020 was CZK 165 million (2019: CZK 164 million).

The objective of this hedge is to cover the foreign currency exposure to changes in the fair value of foreign currency financial assets at FVOCI. The Group uses currency contracts to achieve hedge effectiveness. The set hedges are in all cases effective.

8. Securities

(a) Financial assets for trading

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– domestic	279	275
– foreign	66	39
Bonds		
– domestic	6,969	1,080
– foreign	750	1,656
Allotment certificates		
– domestic	285	1
– foreign	4	4
Total	**8,353**	**3,055**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– listed	345	314
– not listed	–	–
Bonds		
– listed	7,719	2,736
Allotment certificates		
– not listed	289	5
Total	**8,353**	**3,055**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– financial institutions	96	71
– corporate	249	243
Bonds		
– government	6,640	612
– financial institutions	396	538
– corporate	683	1,586
Allotment certificates		
– financial institutions	289	5
Total	**8,353**	**3,055**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– Level 1	267	285
– Level 2	74	26
– Level 3	4	3
Bonds		
– Level 1	6,433	1,092
– Level 2	855	1,586
– Level 3	431	58
Allotment certificates		
– Level 2	289	5
Total	**8,353**	**3,055**

As at 31 December 2020, foreign bonds included mainly non-government bonds of CZK 604 million (2019: CZK 1 504 million) issued by companies from the following states and in the following amounts: Slovakia of CZK 388 million (2019: CZK 771 million), Luxembourg of CZK 68 million (2019: CZK 80 million), the Netherlands of CZK 58 million (2019: CZK 68 million), Malta of CZK 54 million (2019: CZK 52 million) and Cyprus of CZK 30 million (2019: CZK 4 million).

Foreign government bonds of CZK 146 million (2019: CZK 152 million) represent Polish government bonds of CZK 65 million (2019: CZK 65 million), Romanian bonds of CZK 60 million (2019: CZK 58 million) and Turkish bonds of CZK 21 million (2019: CZK 29 million).

(b) Financial assets mandatorily at fair value through profit or loss

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– domestic	36	–
– foreign	49	–
Bonds		
– foreign	204	–
Allotment certificates		
– domestic	3,136	2,528
– foreign	5,516	5,208
Total	**8,941**	**7,736**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– listed	49	–
– not listed	36	–
Bonds		
– listed	204	–
Allotment certificates		
– not listed	8 652	7 736
Total	**8 941**	**7 736**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– financial institutions	49	–
– corporate	36	–
Bonds		
– corporate	204	–
Allotment certificates		–
– financial institutions	8,522	7,736
– corporate	130	–
Total	**8,941**	**7,736**

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– Level 1	49	–
– Level 3	36	–
Bonds		
– Level 1	204	–
Allotment certificates		
– Level 1	109	–
– Level 2	6,154	5,404
– Level 3	2,389	2,332
Total	**8,941**	**7,736**

Foreign allotment certificates primarily included Maltese certificates of CZK 5 017 million (2019: CZK 5 004 million), Croatian certificates of CZK 109 million (2019: CZK 119 million) and Slovakian certificates of CZK 329 million (2019: CZK 52 million).

(c) Financial assets at fair value through other comprehensive income

in millions of CZK	31.12.2020 Fair value	31.12.2019 Fair value
Shares		
– domestic	186	167
– foreign	325	325
Bonds		
– domestic	407	450
– foreign	6,161	6,149
Total	**7,079**	**7,091**

in millions of CZK	31.12.2020 Reálná hodnota	31.12.2019 Reálná hodnota
Shares		
– listed	366	364
– not listed	145	128
Bonds		
– listed	5,703	6,270
– not listed	865	329
Total	**7,079**	**7,091**

in millions of CZK	31.12.2020 Reálná hodnota	31.12.2019 Reálná hodnota
Shares		
– financial institutions	128	127
– corporate	383	365
Bonds		
– government	1,781	1,672
– financial institutions	895	1,520
– corporate	3,892	3,407
Total	**7,079**	**7,091**

in millions of CZK	31.12.2020 Reálná hodnota	31.12.2019 Reálná hodnota
Shares		
– Level 1	170	199
– Level 2	324	291
– Level 3	17	2
Bonds		
– Level 1	4,043	3,815
– Level 2	201	760
– Level 3	2,324	2,024
Total	7,079	7,091

Foreign shares in the portfolio as at 31 December 2020 included mainly the shares of Slovak companies of CZK 165 million (2019: CZK 166 million), Russian companies of CZK 129 million (2019: CZK 126 million) and Swiss companies of CZK 31 million (2019: CZK 32 million).

Foreign bonds in the portfolio as at 31 December 2020 mainly included the bonds of Slovak companies of CZK 3 403 million (2019: CZK 2 429 million), Russian companies of CZK 1 935 million (2019: CZK 2 660 million), Croatian companies of CZK 742 million (2019: CZK 711 million), Belgian companies of CZK 72 million (2019: CZK 68 million) and Kazakhstan companies of CZK 9 million (2019: CZK 23 million).

In 2020 and 2019, no shares from this portfolio of financial assets of the Group were sold. The shares of the following companies in the following segments accounted for a significant share in the Group's total shares at fair value through OCI:

in millions of CZK	2020 Fair value	2020 Dividends received	2019 Fair value	2019 Dividends received
Energy and processing industry	201	(10)	200	(9)
Travel and tourism	165	–	164	–
Financial services	143	–	126	–
Other	2	–	2	–
Total	**511**	**(10)**	**492**	**(9)**

The Group classifies bonds measured at FVOCI into internal rating groups, taking into account a number of factors. The following table summarises these bonds by degrees.

in millions of CZK	Very low risk	Low risk	Medium risk	Total
Risk category				
Stage 1	3,375	–	1,734	5,109
Stage 2	–	–	1,459	1,459
Total as at 31.12.2020	**3,375**	**–**	**3,193**	**6,568**
Stage 1	4,096	449	195	4,740
Stage 2	164	–	1,695	1,859
Total as at 31.12.2019	**4,260**	**449**	**1,890**	**6,599**

More detailed information on bonds as at 31 December 2020 and their classification, expected credit losses and gross carrying amounts are disclosed in note 11 and 12.

(d) Financial assets at amortised cost

in millions of CZK	Gross carrying amount	ECL Stage 1	ECLS Stage 2	ECL Stage 3	POCI	Net carrying amount
Bonds						
– foreign/listed/government	174	–	–	–	–	174
Promissory notes						
– foreign/listed/corporate	57	(3)	–	–	–	54
Total as at 31.12.2020	**231**	**(3)**	**–**	**–**	**–**	**228**
Bonds						
– foreign/listed/financial institutions	292	–	(5)	–	–	287
Total as at 31.12.2019	**292**	**–**	**(5)**	**–**	**–**	**287**

Foreign bonds include Russian bonds of CZK 174 million (2019: CZK 215 million). All bonds in this category carry a very low risk level.

(e) Financial assets valued at Level 3

The Group regularly monitors the classification of securities into the fair value hierarchy. The Group always assesses the individual ISIN codes of securities according to the frequency and volume of trades. Thus, a situation may arise that securities of one issuer may be classified under Level 1, whereas securities of another issuer may be classified under Level 2 or 3, based on the criteria shown in an internal decision-making tree.

The following table shows a reconciliation of the opening and closing balances for Level 3 financial assets that are recorded at fair value:

in millions of CZK	01.01. 2020	Revaluation to OCI	Revaluation to profit or loss	Transfer from/to Level 2	Additions	Disposals	FX movement	Interest income	31.12. 2020
Financial assets for trading									
shares	3	—	1	—	—	—	—	—	4
bonds	58	—	(15)	285	275	(178)	—	6	431
Financial instruments mandatorily at fair value through profit or loss									
shares	—	—	—	—	36	—	—	—	36
allotment certificates	2,332	—	58	(178)	130	—	47	—	2,389
Financial assets at fair value through other comprehensive income									
shares	2	5	—	—	10	—	—	—	17
bonds	2,024	11	—	512	—	(297)	75	(1)	2,324
Total	**4,419**	**16**	**44**	**619**	**451**	**(475)**	**122**	**5**	**5,201**

in millions of CZK	01.01. 2019	Revaluation to OCI	Revaluation to profit or loss	Transfer from Level 2	Additions	Disposals	FX movement	Interest income	31.12. 2019
Financial assets for trading									
shares	3	—	—	—	—	—	—	—	3
bonds	40	—	—	12	6	—	—	—	58
Financial instruments mandatorily at fair value through profit or loss									
allotment certificates	2,075	—	19	—	128	—	110	—	2,332
Financial assets at fair value through other comprehensive income									
shares	4	—	—	—	1	(3)	—	—	2
bonds	2,328	1	—	—	—	(264)	(41)	—	2,024
Total	**4,450**	**1**	**19**	**12**	**135**	**(267)**	**69**	**—**	**4,419**

The following table sets out information about significant unobservable inputs used as at 31 December 2020 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	FV as at 31.12.2020	Range of estimates	FV sensitivity to unobservable inputs
bonds	discounted cash-flows	Credit Spread		0.5%-5%	A significant increase may result in lower FV
		Risk-free rate	2,755	-1%-1.5%	
shares	discounted cash-flows	Discount rates		7.3%-10%	A significant increase may result in lower FV
		EBITDA growth coefficient	57	2%-3.5%	A significant increase may result in a higher FV
allotment certificates	net asset value	expected cash-flows from fund	2,389	Investment value	A significant increase may result in a higher FV

If fair values were by 10% higher or lower than the Group management's estimates, the determined carrying amount of financial assets at Level 3 would be by CZK 520 million higher or lower than the carrying amount recognised as at 31 December 2020 (2019: CZK 442 million).

The following table sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	FV as at 31.12.2019	Range of estimates	FV sensitivity to unobservable inputs
bonds	discounted cash-flows	Credit Spread		0,.5%-4%	A significant increase may result in lower FV
		Risk-free rate	2,082	-0.5%-2.5%	
shares	discounted cash-flows	Discount rates		7.7%-14.6%	A significant increase may result in lower FV
		EBITDA growth coefficient	5	2%	A significant increase may result in a higher FV
allotment certificates	net asset value	expected cash-flows from fund	2,332	Investment value	A significant increase may result in a higher FV

The effect of the remeasurement of fair values of the Level 3 financial assets as a result of an increase or decrease of some of the inputs used on the calculation of fair values is shown below:

in millions of CZK	Effect on profit or loss Increase	Effect on profit or loss Decrease	Effect on other comprehensive income Increase	Effect on other comprehensive income Decrease
Bonds 2020				
change in risk-free rates by 1%	(18)	19	(109)	116
change in credit markups by 1%	(18)	19	(128)	138
Shares 2020				
change in discount rates by 1%	(1)	2	–	–
change in EBITDA by 5%	–	–	–	–
Bonds 2019				
change in risk-free rates by 1%	(2)	2	–	–
change in credit markups by 1%	(4)	4	–	–
Shares 2019				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–

9. Repurchase and resale agreements

(a) Resale agreements (reverse repurchase agreements)

The Group purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Ownership title to the securities is transferred to the Group, or the entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As at 31 December 2020 and 31 December 2019, assets purchased pursuant to the agreements to resell them were as follows:

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to banks (note 5)	37,433	38,091	up to 1 month	38,094
Loans and other advances to customers (note 10)	890	545	up to 1 month	547
Loans and other advances to customers (note 10)	2,240	1,376	up to 3 months	1,385
Total as at 31 December 2020	**40,563**	**40,012**		**40,026**

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchae price
Loans to banks (note 5)	55,533	56,232	up to 1 month	56,252
Loans and other advances to customers (note 10)	1,473	832	up to 1 month	834
Loans and other advances to customers (note 10)	2,031	1,185	up to 3 months	1,191
Total as at 31 December 2019	**59,037**	**58,249**		**58,277**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repurchase transaction) at a predetermined price are accounted for as loans collateralised by the securities. Ownership title to securities is transferred to the Group, or the entity which is a loan provider. Securities transferred under repurchase agreements are reported within the respective items of securities in the Group's statement of financial position. The amount received from the transfer of securities under repurchase agreements is presented under "Deposits and loans from banks" or "Deposits from customers".

in millions of CZK	Fair value of assets provided as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Loans from banks (note 19)	126	119	up to 1 month	119
Total as at 31 December 2020	**126**	**119**		**119**
Loans from banks (note 19)	4,660	4,429	up to 1 month	4,030
Loans from customers (note 20)	3	2	up to 1 month	3
Loans from customers (note 20)	11	10	up to 3 months	9
Total as at 31 December 2019	**4,674**	**4,441**		**4,042**

10. Loans and other advances to customers at amortised cost

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage3 - POCI	Net carrying amount
Loans and advances to customers and overdraft	70,994	(870)	(308)	(2,586)	(103)	67,127
Loans and advances to customers – reverse repurchase agreements	1,921	–	–	–	–	1,921
Margin lending (debits)	29,224	–	–	–	–	29,224
Receivables from provided finance leases	361	(1)	–	(35)	–	325
Other receivables	206	(4)	–	(2)	(2)	198
Total as at 31 December 2020	**102,706**	**(875)**	**(308)**	**(2,623)**	**(105)**	**98,795**

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 - POCI	Net carrying amount
Loans and advances to customers and overdraft	58,809	(227)	(116)	(2 369)	(100)	55,997
Loans and advances to customers – reverse repurchase agreements	2,017	–	–	–	–	2,017
Margin lending (debits)	9,966	–	–	–	–	9,966
Receivables from provided finance leases	335	(1)	(1)	(1)	–	332
Other receivables	13	(1)	–	(2)	(2)	8
Total as at 31 December 2019	**71,140**	**(229)**	**(117)**	**(2 372)**	**(102)**	**68,320**

The amount of non-interest bearing loans as at 31 December 2020 totalled CZK 385 million (2019: CZK 199 million). Thereof, loans acquired from former Podnikatelská banka of CZK 37 million remain subject to bankruptcy proceedings (2019: CZK 37 million) or loans that are overdue, do not bear interest and are subject to recovery. 100% allowances are established for these receivables.

The contractual weighted average interest rate on loans to customers was 4.79% (2019: 5.60%).

For further information about loans and advances to customers refer to note 11.

11. Expected credit losses

a) Cash, cash equivalents and due from banks and other financial institutions

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**8**	**–**	**–**	**–**	**8**
Net change in credit risk	4	–	–	–	4
New financial assets originated or purchased	1	–	–	–	1
Financial assets derecognised during the period	(7)	–	–	–	(7)
Total as at 31 December 2020	**6**	**–**	**–**	**–**	**6**

n millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**9**	**—**	**—**	**—**	**9**
New financial assets originated or purchased	2	—	—	—	2
Financial assets derecognised during the period	(3)	—	—	—	(3)
Total as at 31 December 2019	**8**	**—**	**—**	**—**	**8**

b) Loans and advances to customers at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**229**	**117**	**2,372**	**102**	**2,820**
Transfers:					
– transfers to Stage 2	(90)	94	(4)	—	—
– transfers to Stage 3	(6)	(68)	73	1	—
Net change in credit risk	550	196	644	15	1,405
Changes due to modification without derecognition	71	6	229	(1)	305
New financial assets originated or purchased	241	—	—	1	242
Unwind of discount	—	—	(62)	4	(58)
Financial assets derecognised during the period	(103)	(31)	(631)	(1)	(766)
Write-offs / Use of loss allowances	—	—	—	(8)	(8)
Foreign exchange rate movements	(17)	(6)	2	(8)	(29)
Total as at 31 December 2020	**875**	**308**	**2,623**	**105**	**3,911**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**208**	**51**	**3,579**	**31**	**3,869**
Transfers:					
– transfers to Stage 2	(14)	14	—	—	—
– transfers to Stage 3	—	(5)	5	—	—
Net change in credit risk	12	80	299	49	440
Changes due to modification without derecognition	(6)	(9)	63	—	48
New financial assets originated or purchased	57	—	—	20	77
Unwind of discount	—	—	28	3	31
Financial assets derecognised during the period	(36)	(11)	(1,053)	(1)	(1,101)
Write-offs / Use of loss allowances	(11)	(3)	(543)	(3)	(560)
Acquisitions through business combinations	16	—	—	—	16
Foreign exchange rate movements	3	—	(6)	3	—
Total as at 31 December 2019	**229**	**117**	**2,372**	**102**	**2,820**

Write-offs and the use of allowances for the year ended 31 December 2020 amounted to CZK 8 million (2019: CZK 560 million), mainly comprising the use of an allowance for loans of CZK 16 million (2019: CZK 554 million), to which allowances of CZK 7 million (2019: CZK 1 119 million) were established at the time of sale.

The remaining part of the decrease in allowances accounts for the release of an allowance reported in “Financial assets derecognised during the period”.

c) Financial assets at fair value through other comprehensive income

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	10	40	–	–	50
Net change in credit risk	39	28	–	–	67
New financial assets originated or purchased	31	–	–	–	31
Financial assets derecognised during the period	(3)	–	–	–	(3)
Foreign exchange rate movements	(1)	(1)	–	–	(2)
Total as at 31 December 2020	**76**	**67**	**–**	**–**	**143**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**24**	**–**	**–**	**–**	**24**
Transfers:					
– transfers to Stage 2	(3)	3	–	–	–
Net change in credit risk	(8)	38	4	–	34
New financial assets originated or purchased	8	–	–	–	8
Financial assets derecognised during the period	(11)	–	(2)	–	(13)
Write-offs / Use of loss allowances	(1)	–	(2)	–	(3)
Foreign exchange rate movements	1	(1)	–	–	–
Total as at 31 December 2019	**10**	**40**	**–**	**–**	**50**

d) Financial assets at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**–**	**5**	**–**	**–**	**5**
Transfers:					
– transfers to Stage 1	3	(3)	–	–	–
Net change in credit risk	–	(1)	–	–	(1)
Foreign exchange rate movements	–	(1)	–	–	(1)
Total as at 31 December 2020	**3**	**–**	**–**	**–**	**3**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**1**	**–**	**–**	**–**	**1**
Financial assets derecognised during the period	(1)	–	–	–	(1)
Acquisitions through business combinations	–	4	–	–	4
Foreign exchange rate movements	–	1	–	–	1
Total as at 31 December 2019	**–**	**5**	**–**	**–**	**5**

e) Financial commitments and guarantees

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**19**	**6**	**6**	**–**	**31**
Net change in credit risk	31	(1)	42	–	72
New financial assets originated or purchased	35	–	3	–	38
Financial assets derecognised during the period	(32)	–	–	–	(32)
Foreign exchange rate movements	(2)	–	–	–	(2)
Total as at 31 December 2020	**51**	**5**	**51**	**–**	**107**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**23**	**2**	**96**	**–**	**121**
Transfers:					
– transfers to Stage 2	(1)	1	–	–	–
Net change in credit risk	(16)	1	(4)	–	(19)
New financial assets originated or purchased	19	2	–	–	21
Financial assets derecognised during the period	(9)	–	(85)	–	(94)
Write-offs / Use of loss allowances	3	–	–		3
Foreign exchange rate movements	–	–	(1)	–	(1)
Total as at 31 December 2019	**19**	**6**	**6**	**–**	**31**

f) Other assets

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**–**	**23**	**1**	**–**	**24**
New financial assets originated or purchased	–	1	–	–	1
Financial assets derecognised during the period	–	(4)	(1)	–	(5)
Foreign exchange rate movements	–	(4)	–	–	(4)
Total as at 31 December 2020	**–**	**16**	**–**	**–**	**16**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**–**	**13**	**6**	**–**	**19**
Transfers:					
– transfers to Stage 2	–	1	(1)	–	–
New financial assets originated or purchased	–	8	–	–	8
Unwind of discount	–	–	(3)	–	(3)
Financial assets derecognised during the period	–	–	(2)	–	(2)
Acquisitions through business combinations	–	–	1	–	1
Foreign exchange rate movements	–	1	–	–	1
Total as at 31 December 2019	**–**	**23**	**1**	**–**	**24**

12. Gross carrying amount of financial assets

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**61,187**	**4,276**	**5,173**	**504**	**71,140**
Transfers:					
– transfers to Stage 1	21	(1)	(20)	–	–
– transfers to Stage 2	(5,486)	5,880	(394)	–	–
– transfers to Stage 3	(1,578)	(409)	1,960	27	–
Partial repayment of the principal / drawing of loan during the reporting period (/+)	922	(83)	441	(15)	1,265
Movement in interest – accrued less paid (except for full repayment)	224	(5)	(64)	20	175
Increase due to origination and acquisition – gross	56,006	–	–	31	56,037
Financial assets derecognised during the period	(21,961)	(3,130)	(833)	(13)	(25,937)
Depreciation	–	–	(2)	(16)	(18)
Changes due to modification without derecognition (net)	–	12	36	–	48
Acquisitions through business combinations	5	3	–	–	8
Foreign exchange rate movements	(15)	(8)	10	1	(12)
Total as at 31 December 2020	**89,325**	**6,535**	**6,307**	**539**	**102,706**

"Increase due to origination and acquisition – gross" for Stage 3 – POCI amounting to CZK 31 million represents loans with significant modifications, measured at fair value. The original impact of modification of CZK 1 million was recognised in profit or loss.

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**4,904**	**1,695**	**–**	**–**	**6,599**
Fair value adjustment to OCI – relevant only for FA at FVOCI	25	3	–	–	28
Partial repayment of the principal / drawing of loan during the reporting period (/+)	(45)	–	–	–	(45)
Movement in interest – accrued less paid (except for full repayment)	6	(1)	–	–	5
Increase due to origination and acquisition – gross	2,404	–	–	–	2,404
Financial assets derecognised during the period	(1,785)	(297)	–	–	(2,082)
Foreign exchange rate movements	(400)	59	–	–	(341)
Total as at 31 December 2020	**5,109**	**1,459**	**–**	**–**	**6,568**

Gross carrying amount of securities at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**215**	**77**	**–**	**–**	**292**
Transfers:					
– transfers to Stage 1	64	(64)	–	–	–
Movement in interest – accrued less paid (except for full repayment)	4	6	–	–	10
Increase due to origination and acquisition – gross	19	–	–	–	19
Financial assets derecognised during the period	(17)	(10)	–	–	(27)
Foreign exchange rate movements	(54)	(9)	–	–	(63)
Total as at 31 December 2020	**231**	**–**	**–**	**–**	**231**

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**63,879**	**2,987**	**8,471**	**63**	**75,400**
Transfers:					
– transfers to Stage 1	54	(54)	–	–	–
– transfers to Stage 2	(3,228)	3,228	–	–	–
– transfers to Stage 3	(586)	(458)	1,044	–	–
Partial repayment of the principal / drawing of loan during the reporting period (/+)	(1,737)	564	23	(29)	(1,180)
Movement in interest – accrued less paid (except for full repayment)	(121)	(47)	71	21	(76)
Increase due to origination and acquisition – gross	26,417	–	–	716	27,133
Financial assets derecognised during the period	(23,919)	(1,912)	(3,929)	(292)	(30,052)
Depreciation	(11)	(3)	(548)	(3)	(565)
Changes due to modification without derecognition (net)	(1)	(25)	4	–	(22)
Acquisitions through business combinations	501	–	36	27	564
Foreign exchange rate movements	(61)	(3)	1	1	(62)
Total as at 31 December 2019	**61,187**	**4,276**	**5,173**	**504**	**71,140**

“Increase due to origination and acquisition – gross“ for Stage 3 – POCI amounting to CZK 716 million represents loans with significant modifications, measured at fair value. The impact of modification originally amounted to CZK 150 million and was recognised in profit or loss; subsequently, CZK 103 million was released as a result of the derecognition of part of modified assets.

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	age3	Stage 3 - POCI	Total
Total as at 1 January 2019	**5,436**	**–**	**–**	**–**	**5,436**
Transfers:					
– transfers to Stage 2	(1,735)	1,735	–	–	–
Fair value adjustment to OCI – relevant only for FA at FVOCI	79	1	–	–	80
Partial repayment of the principal / drawing of loan during the reporting period (/+)	–	(19)	–	–	(19)
Movement in interest – accrued less paid (except for full repayment)	(36)	–	–	–	(36)
Increase due to origination and acquisition – gross	4,245	–	–	–	4,245
Financial assets derecognised during the period	(3,198)	–	–	–	(3,198)
Foreign exchange rate movements	113	(22)	–	–	91
Total as at 31 December 2019	**4,904**	**1,695**	**–**	**–**	**6,599**

Gross carrying amount of securities at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	StagePOCI	Total
Total as at 1 January 2019	**31**	**–**	**–**	**–**	**31**
Transfers:					
Movement in interest – accrued less paid (except for full repayment)	2	1	–	–	3
Increase due to origination and acquisition – gross	209	–	–	–	209
Financial assets derecognised during the period	(270)	(3)	–	–	(273)
Acquisitions through business combinations	214	70	–	–	284
Foreign exchange rate movements	29	9	–	–	38
Total as at 31 December 2019	**215**	**77**	**–**	**–**	**292**

13. Investment property

Investment property as at 31 December 2020 primarily include a building of Interznanie OAO totalling CZK 291 million (2019: CZK 369 million) and a building of Rustonka Development II s.r.o. totalling CZK 500 million (2019: CZK 0 million).

Investment property is classified as Level 3 according to fair value hierarchy. Investment fair value is determined based on the independent expert opinion, assuming expected income and valuation of similar properties that have been analysed using the relevant market parameters available at valuation date (see section 3 (g) – Investment property).

The following overview shows information about significant unobservable inputs used to measure assets classified at Stage 3 as at 31 December 2020:

Type of asset	Valuation technique	Significant unobservable input	FV as at 31/12/2020	Range of estimates	FV sensitivity to unobservable inputs
Investment property	income (DCF) comparison approach	Price per sq. m	793	76,920 – 128,537 CZK/m^2	A significant movement may increase/decrease the FV

As at 31 December 2019:

Type of asset	Valuation technique	Significant unobservable input	FV as at 31/12/2020	Range of estimates	FV sensitivity to unobservable inputs
Investment property	income (DCF) comparison approach	Price per sq. m	429	75,035 – 95,643 CZK/m²	A significant movement may increase/decrease the FV

in millions of CZK	2020	2019
1 January	**429**	**356**
Changes as a result of acquisitions	500	51
Transfer to assets	(1)	(27)
Disposals	(51)	–
Effects of movements in foreign exchange	(84)	49
Total as at 31 December	**793**	**429**

Investment property was fully insured as at 31 December 2020 and as at 31 December 2019.

Rental income from investment property of CZK 13 million (2019: CZK 19million) was reported in Other operating income. Operating expenses directly attributable to investment property of CZK 6 million (2019: CZK 8 million) were reported in Other operating expenses.

14. Property, plant and equipment

Right-of-use assets

in millions of CZK	Land and buildings	Fixtures, fittings and equipment	Land and buildings	Equipment - cars	Total
Acquisition cost					
1 January 2019 (+ Application of IFRS 16)	178	112	287	20	597
Additions	3	10	5	2	20
Additions from acquisitions	83	–	–	–	83
Disposals	–	(8)	(21)	–	(29)
Transfer from investment property	27	–	–	–	27
Effects of movements in foreign exchange	22	4	(1)	–	25
31 December 2019	**313**	**118**	**270**	**22**	**723**
Accumulated depreciation					
1 January 2019 (+ Application of IFRS 16)	47	69	–	–	116
Depreciation	13	7	85	8	113
Disposals	–	(7)	–	–	(7)
Effects of movements in foreign exchange	2	1	–	–	3
31 December 2019	**62**	**70**	**85**	**8**	**225**
Acquisition cost					
1 January 2020	313	118	270	22	723
Additions	4	11	10	3	28
Additions from acquisitions	2,000	174	–	–	2,174
Disposals	(19)	(22)	(5)	(4)	(50)
Transfer from investment property	1	–	–	–	1
Effects of movements in foreign exchange	(45)	(7)	3	–	(49)
Effect of changes in reassessment or modification of lease liabilities (+/-)	–	–	32	3	35
Transfer to disposal groups held for sale	(73)	–	–	–	(73)
31 December 2020	**2,181**	**274**	**310**	**24**	**2,789**
Accumulated depreciation					
1 January 2020	62	70	85	8	225
Additions	20	6	90	9	125
Disposals	(17)	(20)	(4)	(3)	(44)
Effects of movements in foreign exchange	(5)	(4)	–	–	(9)
Utilisation	–	–	(1)	–	(1)
31 December 2020	**60**	**52**	**170**	**14**	**296**
Net book value					
31 December 2019	**251**	**48**	**185**	**14**	**498**
31 December 2020	**2,121**	**222**	**140**	**10**	**2,493**

Additions from acquisitions represents the purchase of subsidiary Rustonka Development II (note 1). Property is insured against theft and natural disaster.

15. Intangible assets and goodwill

in millions of CZK	Software	Other intangible assets	Goodwill	Total
Acquisition cost				
01 January 2019	597	143	401	1,141
Additions	57	8	–	65
Disposals	(4)	(2)	–	(6)
Effects of movements in foreign exchange	(1)	–	26	25
31 December 2019	**649**	**149**	**427**	**1,225**
Amortisation and impairment losses				
01 January 2019	494	132	368	994
Amortisation for the year	63	–	–	63
Disposals	–	(2)	–	(2)
Effects of movements in foreign exchange	(12)	–	26	14
31 December 2019	**545**	**130**	**394**	**1,069**
Acquisition cost				
01 January 2020	649	149	427	1,225
Additions	69	3	–	72
Additions from acquisitions	–	3	–	3
Disposals	(32)	(17)	–	(49)
Effects of movements in foreign exchange	(2)	–	(48)	(50)
31 December 2020	**684**	**138**	**379**	**1,201**
Amortisation and impairment losses				
01 January 2020	545	130	394	1,069
Additions	43	2	–	45
Disposals	(32)	–	–	(32)
Effects of movements in foreign exchange	(1)	–	(48)	(49)
31 December 2020	**555**	**132**	**346**	**1,033**
Carrying amount				
31 December 2019	**104**	**19**	**33**	**156**
31 December 2020	**129**	**6**	**33**	**168**

There was no increase in goodwill in 2020 and 2019 (note 49).

Based on impairment testing, no impairment losses on goodwill were accounted for in 2020 and 2019 (note 4).

16. Leases

(a) Leases entered into as lessee

The Group accounts for leases pursuant to IFRS 16.

(b) Leases entered into as lessor

Operating lease The Group mainly reports liabilities from lease agreement related to the Rustonka building, which belongs to Rustonka Development II s.r.o., member of the Group since December 2020. Rustonka Development II s.r.o. has a lease agreement with its sister company outside the Group that also enters into a sublease agreement with similar parameters with other companies in the Group. The Group's management believes it is legally permissible for companies included in the consolidation group to offset lease-related receivables and payables as well as related lease income and expenses even though the leases are conducted through a sister company outside the Group. Therefore, at the end of 2020, the Group performs an offset within prepaid expenses and deferred revenues in the balance sheet, where companies at the individual level report costs / revenues incurred for specific building modifications in accordance with the requirements of the Group's parent company, which were paid at the beginning of the tenancy relationship.

Expected receivables from operating lease payments (excluding from the above-mentioned reasons the rent in the Rustonka building) are shown in the following table.

in millions of CZK	31.12.2020	31.12.2019
Up to one year	46	1
1 year to 2 years	–	1
Total	**46**	**2**

The Group provides to its clients finance leases for various assets (e.g. cars, machinery, equipment, etc.). The expected lease payments are shown in the following table.

in millions of CZK	31.12.2020
Gross amount of a finance lease receivable	
Up to one year	125
1 year to 2 years	102
2 years to 3 years	68
3 years to 4 years	29
4 years to 5 years	18
Over 5 years	16
	358
Expected future lease payments	(33)
Present value of future lease payments	**326**
Expected credit losses	(36)

in millions of CZK	31.12.2019
Gross amount of a finance lease receivable	
Up to one year	109
1 year to 2 years	101
2 years to 3 years	81
3 years to 4 years	41
4 years to 5 years	17
Over 5 years	19
	368
Expected future lease payments	(36)
Present value of future lease payments	**332**
Expected credit losses	(3)

17. Prepayments, accrued income and other assets

in millions of CZK	31.12.2020	31.12.2019
Other trade receivables	254	361
Receivables from customers from securities trading	669	281
Other receivables	95	121
Prepayments and accrued income	296	82
Receivables from fees for portfolio management	68	58
Advance payments – other	141	31
Other tax receivables	1	10
Allowances for impairment of other assets	(16)	(24)
Total	**1,508**	**920**

As at 31 December 2020, other trade receivables include fees for the issue of bonds and promissory notes of CZK 17 million (2019: CZK 67 million) and a large number of low-value items that are separately immaterial.

Receivables from customers from securities trading increased at the end of 2020 as a result of a higher volume of trading during the end of the year compared to the end of the year 2019.

All other assets are measured at amortised cost, the gross carrying amount of CZK 1 524 million is included in Stage 2, excepting CZK 13 million (2019: CZK 12 million) assigned to Stage 1 and CZK 1 million (2019: CZK 1 million) assigned to Stage 3. Changes in allowances for other assets are disclosed in note 11.

18. Disposal groups held for sale

in millions of CZK	31.12.2020	31.12.2019
J&T Ostravice Active Life UPF	64	64
J&T DIVIDEND Fund	310	–
Property, plant and equipment	146	69
Total	**520**	**133**

In autumn 2020, J&T Ostravice Active Life UPF began offer plots of land within the second phase of building planned for the location. The networking of other parts of land is still in progress, as it is the key condition for the sale of land in the following years. The occupancy permit procedure is planned to be completed by the end of 2021. After further sale of land, there will be more redemptions, and the Group's shareholding will decrease.

J&T Dividend Fund was reclassified from financial assets mandatorily at fair value through profit or loss to assets held for sale owing to the Group's intention to actively sell the respective assets to clients on the market during the course of 2021.

Property, plant and equipment represent collateralised assets provided to secure credit receivables. It is expected that these assets will be sold within one year to satisfy receivables from unpaid loans.

19. Deposits and loans from banks

in millions of CZK	31.12.2020	31.12.2019
Deposits from central banks	498	–
Deposits from banks	1,820	409
Loans from banks – repurchase agreements (note 9)	119	4,429
Total	**2,437**	**4,838**

Deposits from banks include current deposits, term deposits and other financial liabilities. The contractual weighted average interest rate on liabilities to banks was 2.29% as at 31 December 2020 (2019: 0.42%).

20. Deposits from customers

in millions of CZK	31.12.2020	31.12.2019
Current accounts	33,933	33,200
Term deposits and escrow accounts	104,577	81,214
Loans from customers – repurchase agreements (note 9)	–	12
Other liabilities	110	125
Total	**138,620**	**114,551**

The contractual weighted average interest rate on liabilities to customers was 1.15% (2019: 0.88%).

21. Subordinated debt

in millions of CZK	31.12.2020	31.12.2019
Subordinated debt – term deposits	224	809
Total	**224**	**809**

in millions of CZK	2020	2019
Interest expense for subordinated debt:	31	43
– of which interest paid	21	5

The subordinated debt – term deposits from customers with a maturity up to 2025 bear an interest rate between 5.00% and 6.50% p.a.

The subordinated debt was approved by the national regulator as a part of the capital for regulatory purposes.

22. Other liabilities

in millions of CZK	31.12.2020	31.12.2019
Payables to clients from securities trading	7,454	6,545
Estimated payables, accruals and deferred income	331	211
Trade payables	238	140
Payables to employees	43	38
Social security liabilities	20	18
Lease liabilities	150	195
– Up to 1 year	37	78
– Over 1 year	113	117
Other tax liabilities	65	46
Deferred part of the purchase price from the acquisition of the joint venture	—	120
Liability from the acquisition of subsidiaries	—	159
Other liabilities	486	251
Total	**8,787**	**7,723**

Liabilities to customers from securities trading increased at the end of 2020 as a result of a higher volume of trading during the end of the year compared to the end of the year 2019.

Other liabilities primarily include payables from clearing of CZK 81 million (2019: CZK 21 million) and incoming and outgoing payments from nostro accounts of CZK 4 million (2019: CZK 1 million) and other minor items.

23. Provisions

in millions of CZK	31.12.2020	31.12.2019
Provision for employee bonuses	1,391	1,289
Other provisions	33	29
Provision for loyalty programmes – customers	28	28
Provision for off-balance sheet items (loan commitments and guarantees)	107	31
Stage 1	51	19
Stage 2	5	6
Stage 3	51	6
Provision for loyalty programmes – employees	2	2
Total	**1,561**	**1,379**

A provision for employee bonuses is established in relation to the approval of Group employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the company may grant and pay to an employee in proportion to his/her job performance in the evaluated period, most commonly a year. It also comprises bonuses with deferred due payment.

Other provisions are short-term and expected to be utilised within 12 months after the reporting date.

in millions of CZK	Balance as at 01/01/2020	Additions/ Creations	Use/ Release	Foreign exchange differences	Balance as at 31/12/2020
Employee bonuses	1,289	504	(410)	8	1,391
Other provisions	29	28	(24)	–	33
Loyalty programmes – customers	28	–	–	–	28
Off-balance sheet items	31	110	(32)	(2)	107
Loyalty programmes – employees	2	4	(4)	–	2
Total	**1,379**	**646**	**(470)**	**6**	**1,561**

24. Equity

in millions of CZK	31.12.2020
Share capital is fully paid and consists of:	
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The Group does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

The allocation of the profit will be approved at the general meeting. The Group's management assumes that a relevant part of profit will be transferred to the special-purpose capital fund for the distribution of revenue from certificates that are part of the Group's equity and the remaining part will be used based on a decision and approval by a general meeting.

Retained earnings
Retained earnings are distributable to the Group's shareholders and are subject to the approval of the shareholders' general meeting. As at 31 December 2020, retained earnings amounted to CZK 9 820 million (2019: CZK 8 526 million). For details related to retained earnings, refer to the Statement of changes in equity.

Capital funds
Capital funds consist of a reserve fund, non-distributable fund, statutory fund and other capital funds.

As at 31 December 2020, provisions amounted to CZK 56 million (2019: CZK 53 million).

Translation and revaluation reserve

Translation and revaluation reserve comprises items arisen from the following:
- changes in the fair value of financial assets available for sale;
- all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group.

The sum of translation and revaluation reserve was negative as at 31 December 2020 amounting to CZK 1 816 million (2019: CZK 1 270 million).

Other equity instruments and Perpetuity fund
On 19 June 2014, the Czech National Bank approved the issue prospectus for revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus for the second issue of revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus for the third issue of revenue certificates with an expected total nominal amount of EUR 50 million and interest revenue of 9% p.a.

As at 31 December 2020, the volume of issued certificates was CZK 2 597 million (2019: CZK 2 597 million).

On 30 June 2014, the Group's Board of Directors also approved the establishment of a special-purpose capital fund for the payment of revenue from certificates of CZK 100 million (Perpetuity fund). This fund was created from retained earnings. In 2020, the Group transferred another CZK 242 million (2019: CZK 242 million) within the distribution of profit for 2019. The payment of revenue from certificates depends on a decision of the Group as the issuer and is governed by the conditions defined in the prospectus. In 2020, revenue of CZK 244 million (2019: CZK 239 million) was distributed from this fund. As at 31 December 2020, the special-purpose capital fund for the payment of revenue from certificates amounted to CZK 162 million (2019: CZK 164 million).

25. Non-controlling interest

in millions of CZK	2020	2019
J&T Bank, a.o.	1	2
Interznanie, OAO	(3)	(3)
TERCES MANAGEMENT LIMITED	5	6
J&T REALITY, o.p.f.	518	514
J&T banka d.d.	(10)	(8)
Colorizo Investment, a.s.	422	295
J&T VENTURES I o.p.f.	14	–
J&T DIVIDEND Fund	133	–
Total	**1,080**	**806**

In September 2019, Colorizo Investment, a.s. issued a new class of preference shares (Class B) amounting to CZK 300 million. These shares are associated with special rights (the right to distribution exceeding CZK 300 million (reduced by the part attributable to shareholder A) is divided in proportion 20% for shareholder A and 80% for shareholder B) and are classified as non-controlling interests.

The following table provides information on companies from the consolidation Group that have a significant non-controlling interest.

31.12.2020

in millions of CZK	J&T REALITY, o.p.f.	J&T banka d.d.	Colorizo Investment, a.s.	J&T DIVIDEND Fund
Non-controlling interest	46.92%	3.97%	47.40%	43.23%
Assets	1,135	3,639	973	310
Liabilities	31	3,242	516	1
Net assets	**1,104**	**397**	**457**	**309**
Carrying amount of non-controlling interest	518	(10)	422	133
Income	77	106	189	–
Profit for the period	7	(58)	160	–
Total profit/loss for the period	**7**	**(58)**	**160**	**–**
Profit/loss for the period attributable to non-controlling interest	3	(2)	127	–
Cash flows from operating activities	(13)	(5)	(5)	–
Cash flows from financing activities	–	10	3	–
Increase in cash and cash equivalents	(13)	5	(1)	–

31.12.2019

in millions of CZK	J&T REALITY, o.p.f.	J&T banka d.d.	Colorizo Investment, a.s.
Non-controlling interest	46.92%	3.97%	47.40%
Assets	1,112	3,604	721
Liabilities	15	3,158	424
Net assets	**1,097**	**446**	**297**
Carrying amount of non-controlling interest	514	(8)	295
Income	76	169	2
Profit for the period	(29)	7	(5)
Total profit/loss for the period	**(29)**	**7**	**(5)**
Profit/loss for the period attributable to non-controlling interest	(14)	1	(5)
Cash flows from operating activities	(25)	22	532
Cash flows from financing activities	–	3	–
Cash flows from investing activities	–	–	(530)
Increase in cash and cash equivalents	(25)	25	2

26. Income tax

Income tax for 2020 was calculated in accordance with Czech tax regulations at the rate of 19% (2019: 19%). The corporate income tax rate for 2021 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax regulations. The tax paid by the branch in Slovakia is offset against the income tax for the Group as a whole paid in the Czech Republic. The income tax rate in Slovakia is 21% (2019: 21%). In 2021 the income tax rate in Slovakia will be 21%.

Effects of different tax rates applicable to the individual subsidiaries are taken into account when calculating the total income tax and are presented in line "Effect of tax rates in foreign jurisdictions". The corporate income tax rate in Russia for 2020 is 20% (2019: 20%). The corporate income tax rate in Croatia for 2020 is 18% (2019: 18%).

The management believes that it has adequately provided for the tax liabilities in the accompanying consolidated financial statements.

Reconciliation of the expected income tax expense is as follows:

in millions of CZK	2020	2019
Profit before tax	**2,002**	**3,978**
Income tax using income tax rate (19%)	380	756
Reconciliation:		
Effect of tax rates in foreign jurisdictions	–	8
Non-taxable income	(180)	(143)
Non-deductible expenses	128	194
Other	8	6
Total income tax	**336**	**822**
Effective tax rate	16.8%	20.7%
of which:		
Income tax – deferred	104	(46)
Income tax – current	(440)	(776)

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income to be deducted from, and tax non-deductible expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible allowances for receivables, provisions, gifts and entertainment expenses.

27. Deferred tax assets

The following deferred tax assets and liabilities have been recognised:

Deferred tax asset

in millions of CZK	31.12.2020	31.12.2019
Difference between the carrying and tax value of property, plant and equipment and intangible assets	2	(1)
Financial assets at fair value through other comprehensive income	(1)	–
Financial assets at FVTPL	(6)	(9)
Investment property	(52)	(60)
Allowances for loan receivables	26	(58)
Tax losses	27	30
Provision for bonuses and untaken holidays	247	230
Other temporary differences	40	27
Net deferred tax asset	**283**	**159**

Total amount of deferred tax of CZK 283 million (2019: CZK 159 million) consists of net deferred liabilities of CZK 99 million (2019: CZK 108 million) and of net deferred receivables of CZK 382 million (2019: CZK 267 million) recognized by the Bank or other companies in Group.

The deferred tax asset or liability is calculated using the 2020 corporate income tax rate, i.e. 19%, for J&T Bank, a.o. 20% for J&T banka d.d. 18% and 21% for the Bank's Slovak branch (2019: 19%, 20%, 18% and 21%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax assets in 2020.

in millions of CZK	31.12.2020	31.12.2019
Deferred tax liability, net as at 31 December	159	223
Deferred tax expense in the period (note 26)	104	(46)
Deferred tax recognised in equity	(3)	(9)
Foreign exchange differences	23	(9)
Deferred tax asset	**283**	**159**

Deferred tax assets were not recognised for:

in millions of CZK	2020	2019
Tax losses carried forward	184	123

Expiration of unrecognised tax losses is as follows:

in millions of CZK	2022	After 2022
Tax loss for 2019	99	24
Tax loss for 2020	7	178

Deferred tax asset for tax losses carried forward is only recognised to the extent that it is probable that taxable profit will be available in the future.

28. Interest income

in millions of CZK	2020	2019
Interest income from:		
Due from financial institutions	63	68
Loans and advances to customers	4,234	3,651
Reverse repurchase agreements	570	1,398
Bonds and other fixed income securities	448	445
Total	**5,315**	**5,562**

Interest income from “Loans and advances to customers” includes fees associated with the provision of loans of CZK 135 million (2019: CZK 118 million) that are part of effective interest rate.

Interest income by asset classes:

in millions of CZK	2020	2019
Interest income from:		
Financial assets at fair value through profit or loss:		
– financial assets held for trading	159	126
– financial assets mandatorily at fair value	–	3
– those designated at initial recognition	–	1
Finance lease receivables	47	26
Other interest income	**206**	**156**
Financial assets at FVOCI	280	309
Financial assets held to maturity	9	6
Loans and other advances at amortised cost	4,820	5,091
– of which:		
unpaid interest on impaired loans	256	265
forbearance	21	–
Interest income calculated using effective interest rate	**5,109**	**5,406**
Total	**5,315**	**5,562**

29. Interest expense

in millions of CZK	2020	2019
Interest expense on:		
Deposits and loans from banks	(14)	(32)
Deposits from customers	(1,597)	(1,524)
Lease liabilities	(4)	(5)
Repurchase transactions	(26)	(39)
Total	**(1,641)**	**(1,602)**

Interest expense by liability classes:

in millions of CZK	2020	2019
Interest expense on:		
Financial liabilities at amortised cost	(1,641)	(1,601)
Financial liabilities at fair value through profit or loss	–	(1)
Total	**(1,641)**	**(1,602)**

30. Fee and commission income

in millions of CZK	2020	2019
Fee and commission income from:		
issue of securities	351	624
obtaining financial instruments	422	318
administration, management, custody and safekeeping of valuables	465	433
administrative services for collective investment	123	103
loan activities	65	60
mediation of payment transactions	83	77
other	23	29
Total	**1,532**	**1,644**

All fee and commission income is recognised in compliance with IFRS 15 Revenue from Contracts with Customers.

31. Fee and commission expense

in millions of CZK	2020	2019
Fee and commission expense on:		
transactions in financial instruments	(227)	(156)
administration, custody and safekeeping of valuables	(45)	(47)
mediation of payment transactions	(32)	(30)
other	(25)	(14)
Total	**(329)**	**(247)**

32. Net trading income

in millions of CZK	2020	2019
Realised/unrealised gains on securities	264	708
Net gains / (losses) on derivative operations	1,080	17
Net profit / (loss) from foreign currency translation	(403)	(126)
Dividend income	44	58
Total	**985**	**657**

in millions of CZK	2020	2019
Financial assets and liabilities at fair value through profit or loss:		
– held for trading	1,149	237
– FV option	1	–
– financial assets mandatorily at fair value	212	481
Financial assets at fair value through other comprehensive income	26	65
Foreign exchange differences	(403)	(126)
Total	**985**	**657**

33. Other operating income

in millions of CZK	2020	2019
Revenues from services and consulting	74	119
Rental income from investment property	13	19
Income from rendered operating leases	4	16
Rental income	8	8
Other income	40	40
Total	**139**	**198**

Other income of CZK 40 million as at 31 December 2020 (2019: CZK 40 million) comprises a high number of low-value items that are separately immaterial.

34. Personnel expenses

in millions of CZK	2020	2019
Wages and salaries	(916)	(1,127)
Remuneration of key management personnel	(118)	(107)
Compulsory social security contributions	(248)	(240)
Other social expenses	(84)	(84)
Total	**(1,366)**	**(1,558)**
Average number of employees during the reporting period	**816**	**813**

As at 31 December 2020, the board of directors of the Group's parent company had 5 members (2019: 5).

35. Other operating expenses

in millions of CZK	2020	2019
Rental expense	(143)	(72)
of which recognition exemption applied under IFRS 16		
– lease of low-value assets	(36)	(22)
– short-term leases	(53)	(13)
– variable lease payments	(41)	(20)
Loss on asset disposal	-	(8)
Contributions to Deposit Insurance Fund	(54)	(66)
Contributions to Crisis Resolution Fund	(81)	(85)
Taxes and charges	(84)	(83)
Operating costs:		
Outsourcing	(319)	(285)
Advertising expenses and promotion	(165)	(211)
Repairs and maintenance – IS, IT	(43)	(42)
Audit, legal and tax consulting	(59)	(56)
– statutory audit of the annual financial statements	(17)	(17)
– other assurance services	(8)	(7)
– tax advisory	(2)	(3)
– other services	(33)	(29)
Rental expense	(22)	(27)
Consulting expenses	(46)	(43)
Sponsorship and gifts	(126)	(25)
Communication expenses	(22)	(20)
Materials	(17)	(16)
Transport and accommodation, travel expenses	(10)	(14)
Expenses related to investment property	(5)	(5)
Other operating expenses	(207)	(195)
Total	**(1,401)**	**(1,253)**

Other operating expenses of CZK 207 million as at 31 December 2020 (2019: CZK 195 million) include many sundry items that are not significant on an individual basis.

While monetary payments of the principal of a lease liability amounted to CZK 96 million (2019: CZK 88 million), monetary payments of the interest part of the lease liability amounted to CZK 5 million (2019: CZK 5 million).

The Crisis Resolution Fund is a source for the use of crisis resolution tools at an institution, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and charges include a special bank levy to the Slovak Tax Authority for the Slovak branch of the Bank. This levy does not fall within the scope of IAS 12 Income Taxes and, consequently, the Group considers the levy to be operational in nature. On 9 July 2020, the National Council of the Slovak Republic approved an Act amending certain laws mostly in connection with the improvement of the business environment that was affected by measures put in place to prevent the spread of dangerous human disease COVID-19. As result the abolition of the obligation to pay bank instalments for Q3 and Q4 2020 was approved.

36. Analysis of changes in liabilities from financial cash flows

in millions of CZK	Subordinated debt	Lease liabilities
Balance as at 1 January 2020	**809**	**195**
Changes from financial cash flows		
Repayment of subordinated debt	(598)	–
Lease liabilities paid	–	(96)
Total changes from financial cash flows	**(598)**	**(96)**
Foreign exchange differences	**22**	**6**
Other changes	**–**	**45**
Related changes	**–**	**–**
Interest expense	22	4
Interest paid	(31)	(4)
Total related changes in liabilities	**(9)**	**–**
Balance as at 31 December 2020	**224**	**150**

37. Financial commitments and contingencies

Financial commitments and contingencies comprise:

in millions of CZK	Stage 1	Stage 2	Stage 3	Total 2020
Unused credit lines	5,716	268	382	6,366
Granted guarantees	1,533	78	118	1,729

in millions of CZK	Stage 1	Stage 2	Stage 3	Total 2019
Unused credit lines	7,829	210	330	8,369
Granted guarantees	1,906	21	79	2,006

Clients' assets taken into custody and administration as at 31 December 2020 amounted to CZK 101 651 million (2019: CZK 91 133 million).

38. Segment information

(a) Business segments

Information on business segments is disclosed in note 3(o).

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in millions of CZK	Banking ČR	Banking SR	Banking RU	Banking HR	Asset manage-ment	Real estate	Other	Total
Net interest income	3,301	(111)	256	68	94	12	54	3,674
Inter-segment	(531)	580	(8)	(10)	(6)	(7)	(19)	(1)
Net fee and commission income	755	105	17	7	319	—	—	1,203
Inter-segment	97	—	—	9	(97)	—	—	9
Net trading income	401	6	465	11	—	(10)	17	890
Inter-segment	378	(2)	(402)	—	—	—	(4)	(30)
Other operating income	8	2	19	9	—	19	82	139
Inter-segment	(12)	24	(31)	—	(11)	31	(1)	—
Operating income	**4,465**	**2**	**757**	**95**	**413**	**21**	**153**	**5,906**
Other significant non-cash items								
Net change in off-balance sheet items and other financial assets	(86)	(4)	1	—	—	—	—	(89)
Net change in allowances for impairment of financial assets at amortised cost	(770)	(183)	(38)	(10)	(53)	(3)	1	(1,056)
Profit before tax	**1,680**	**(557)**	**497**	**(52)**	**281**	**148**	**5**	**2,002**
Asset segment	**156,271**	**2,080**	**5,551**	**3,522**	**2,232**	**4,092**	**1,289**	**175,037**
Liability segment	**119,142**	**24,655**	**3,469**	**3,088**	**575**	**1,502**	**69**	**152,500**

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in millions of CZK	Banking ČR	Banking SR	Banking RU	Banking HR	Asset manage-ment	Real estate	Other	Total
Net interest income	3,662	(90)	196	72	89	(1)	32	3,960
Inter-segment	(555)	594	(11)	(6)	(7)	(1)	(13)	1
Net fee and commission income	920	114	25	13	313	—	12	1,397
Inter-segment	97	—	—	17	(97)	(2)	—	15
Net trading income	759	(22)	(171)	26	1	2	33	628
Inter-segment	(410)	21	389	—	—	—	2	2
Gain on a bargain purchase	—	—	136	—	—	—	—	136
Other operating income	29	1	7	6	—	37	118	198
Inter-segment	(149)	162	(34)	—	(11)	34	(1)	1
Operating income	**5,370**	**3**	**193**	**117**	**403**	**38**	**195**	**6,319**
Other significant non-cash items								
Net change in off-balance sheet items and other financial assets	70	4	3	4	—	—	—	81
Net change in allowances for impairment of financial assets at amortised cost	808	(98)	(1)	4	(82)	—	(64)	567
Profit before tax	**4,430**	**(663)**	**(118)**	**(2)**	**261**	**(5)**	**75**	**3,978**
Asset segment	**133,674**	**2,556**	**7,965**	**3,554**	**1,659**	**1,231**	**1,083**	**151,722**
Liability segment	**99,374**	**21,615**	**5,219**	**3,008**	**571**	**387**	**34**	**130,208**

Basic ratios of entities within the Group are as follows:

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in millions of CZK	Average no. of employees	Total assets	Gains	Profit / loss before tax	Tax
J&T BANKA, a.s. (branch)	133	25,346	902	64	(47)
J&T INVESTIČNÍ SPOLEČNOST, a.s.	25	318	331	151	(29)
ATLANTIK finanční trhy, a.s.	2	850	385	10	(3)
J&T IB and Capital Markets, a.s.	9	336	52	30	3
J&T Bank, a.o.	124	5,980	490	72	(13)
Interznanie, OAO	19	414	52	7	(2)
J&T banka d.d.	67	3,639	124	(57)	(1)
J&T Leasingová společnost, a.s.	17	1,082	82	(45)	–
J&T REALITY o.p.f.	–	1,135	77	7	–
TERCES MANAGEMENT LIMITED	–	513	3	3	–
Colorizo Investment, a.s.	–	804	20	(9)	–
Rustonka Development II s.r.o.	–	2,716	–	–	–
J&T VENTURES I u.p.f.	–	262	–	–	–
ALTERNATIVE UPRAVLJANJE d.o.o.	–	31	–	–	–

*Figures for OSTRAVA AIRPORT MULTIMODAL PARK s.r.o., CI Joint Venture s.r.o. and Logistics Park Nošovice a.s., which are also part of the Group, are included in the figure for companies exercising direct control.

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in millions of CZK	Average no. of employees	Total assets	Gains	Profit / loss before tax	Tax
J&T BANKA, a.s. (branch)	131	22,394	1,176	114	(44)
J&T INVESTIČNÍ SPOLEČNOST, a.s.	18	320	6,210	169	(32)
ATLANTIK finanční trhy, a.s.	2	929	150	5	(1)
J&T IB and Capital Markets, a.s.	9	283	138	81	(20)
J&T Bank, a.o.	157	8,571	817	251	(22)
Interznanie, OAO	20	527	75	24	(6)
J&T banka d.d.	67	3,604	154	7	1
J&T Leasingová společnost, a.s.	11	892	29	(23)	–
J&T REALITY o.p.f.	–	1,112	76	(29)	–
TERCES MANAGEMENT LIMITED	–	541	7	7	–
Colorizo Investment, a.s.	–	721	3	(4)	(1)
ALTERNATIVE UPRAVLJANJE d.o.o.	–	31	–	–	–

*Figures for OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. and Moskovskij Neftechnimiceskij Bank, which are also part of the Group, are included in the figure for companies exercising direct control.

None of the entities within the Group was granted any public aid.

Stated accounting balances are before consolidation adjustments.

(b) Geographical segments

In presenting information on the basis of geographical areas, revenue/expense is based on the customer/counterparty's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 41d.

Statement of financial position as at 31 December 2020:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	39,947	2,143	1,230	550	43,870
Securities and positive fair value of derivatives	11,591	4,330	7,001	2,742	25,664
Investment in associates and joint ventures	701	–	–	–	701
Loans and other advances to customers	25,034	7,736	56,882	9,143	98,795
Current tax asset	79	43	–	21	143
Deferred tax asset	300	82	–	–	382
Investment property	500	–	2	291	793
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	3,516	146	276	231	4,169
Disposal groups held for sale	64	–	394	62	520
Total assets	**81,732**	**14,480**	**65,785**	**13,040**	**175,037**
Deposits and loans from banks	145	1,513	626	153	2,437
Deposits from customers	85,116	23,861	24,914	4,729	138,620
Negative fair value of derivatives	310	1	221	232	764
Subordinated debt	153	1	70	–	224
Current tax liability	7	–	–	–	7
Deferred tax liability	3	–	–	96	99
Disposal groups held for sale	–	–	1	–	1
Other liabilities and equity	30,798	902	2,703	(1,518)	32,885
Total equity and liabilities	**116,532**	**26,278**	**28,535**	**3,692**	**175,037**

Great Britain, which withdrew from the EU as at 31 January 2020, was reported under "Other countries" in 2020, total assets of CZK 1 740 million (2019: CZK 827 million); total equity and liabilities of CZK 439 million (2019: CZK 4 618 million).

Negative value in Other liabilities and equity is caused mainly by change in foreign exchange translation differences.

Statement of financial position as at 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	57,912	1,030	1,493	854	61,289
Securities and positive fair value of derivatives	4,861	3,458	7,036	3,792	19,147
Investment in associates and joint ventures	536	—	—	—	536
Loans and other advances to customers	23,087	6,985	30,803	7,445	68,320
Current tax asset	3	—	—	24	27
Deferred tax asset	170	95	2	—	267
Investment property	—	—	2	427	429
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	687	212	285	390	1,574
Disposal groups held for sale	64	—	63	6	133
Total assets	**87,320**	**11,780**	**39,684**	**12,938**	**151,722**
Deposits and loans from banks	50	5	4,350	433	4,838
Deposits from customers	67,655	21,170	19,953	5,773	114,551
Negative fair value of derivatives	177	2	389	14	582
Subordinated debt	740	1	68	—	809
Current tax liability	208	10	—	—	218
Other liabilities and equity	25,369	879	3,968	508	30,724
Total equity and liabilities	**94,199**	**22,067**	**28,728**	**6,728**	**151,722**

Statement of comprehensive income for the year ended 31 December 2020:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,022	256	1,785	611	3,674
Net fee and commission income	662	172	333	36	1,203
Net additions to loss allowances for financial assets at fair value through other comprehensive income	(15)	(82)	1	1	(95)
Net trading income	428	530	202	(175)	985
Other operating income	60	13	28	38	139
Operating income	**2,157**	**889**	**2,349**	**511**	**5,906**
Personnel expenses	(1,048)	(120)	(57)	(141)	(1,366)
Other operating expenses	(889)	(320)	(63)	(129)	(1,401)
Depreciation and amortisation	(101)	(27)	(23)	(10)	(161)
Profit before allowances, provisions and income tax	**119**	**(422)**	**2,206**	**231**	**2,978**
Net change in off-balance sheet items and other financial assets	(78)	(8)	(3)	–	(89)
Net change in allowances for impairment of financial assets at amortised cost	(119)	(437)	(401)	(99)	(1,056)
Profit before tax, excluding profit from equity accounted investees	**(78)**	**(23)**	**1,802**	**132**	**1,833**
Profit from equity accounted investees, net of tax	169	–	–	–	169
Profit before tax	**91**	**(23)**	**1,802**	**132**	**2,002**
Income tax	(273)	(47)	(2)	(14)	(336)
Profit from continuing operations	**(182)**	**(70)**	**1,800**	**118**	**1,666**
Profit for the period	**(182)**	**(70)**	**1,800**	**118**	**1,666**

Statement of comprehensive income for the year ended 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,710	369	1,376	505	3,960
Net fee and commission income	713	341	302	41	1,397
Net additions to loss allowances for financial assets at fair value through other comprehensive income	4	(35)	(3)	5	(29)
Net trading income	(49)	5	727	(26)	657
Gain on a bargain purchase	—	—	—	136	136
Other operating income	39	59	56	44	198
Operating income	**2,417**	**739**	**2,458**	**705**	**6,319**
Personnel expenses	(1,004)	(328)	(62)	(164)	(1,558)
Other operating expenses	(804)	(223)	(60)	(166)	(1,253)
Depreciation and amortisation	(117)	(26)	(23)	(11)	(177)
Profit before allowances, provisions and income tax	**492**	**162**	**2,313**	**364**	**3,331**
Net change in off-balance sheet items and other financial assets	(28)	99	6	4	81
Net change in allowances for impairment of financial assets at amortised cost	(193)	688	82	(10)	567
Profit before tax, excluding profit from equity accounted investees	**271**	**949**	**2,401**	**358**	**3,979**
Loss from equity accounted investees, net of tax	—	—	(1)	—	(1)
Profit before tax	**271**	**949**	**2,400**	**358**	**3,978**
Income tax	(749)	(44)	(1)	(28)	(822)
Profit from continuing operations	**(478)**	**905**	**2,399**	**330**	**3,156**
Profit for the period	**(478)**	**905**	**2,399**	**330**	**3,156**

39. Related parties: General

The outstanding balances and transactions with related parties of the Group are with presented in the following tables. All material transactions with related parties were carried out based on the arm's length principle.

The transactions with the related parties are divided into the following categories:

I. Parent company J&T FINANCE GROUP SE.

II. Majority owners of J&T FINANCE GROUP SE Jozef Tkáč and Ivan Jakabovič and companies they own. These companies do not prepare consolidated financial statements that would include the Group, with the exception of J&T FINANCE GROUP SE.

III. Subsidiaries This category includes the subsidiaries of J&T FINANCE GROUP SE outside the Group that are included in the consolidated financial statements

IV. Associates and joint-ventures. This category includes associates and joint ventures of the Group and J&T FINANCE GROUP SE.

V. Key management personnel of the Group or its parent and companies controlled or jointly controlled by this key management personnel. This category includes related parties which are connected to the Group through key management personnel of the Group or its parent.

On-balance and off-balance sheet items as at 31/12/2020

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	219	117	2,156	793	1,197	4,483
Liabilities	765	116	1,367	80	987	3,315
Granted guarantees	–	–	–	–	6	6
Received guarantees	–	–	42	–	–	42
Provided loan commitments	116	1	88	–	33	238
Provided collateral	–	–	18	–	–	18
Received collateral	–	48	330	793	550	1,720
Profit / loss items for period ended 31/12/2020						
Expenses	(1,078)	–	(1,726)	–	(144)	(2,948)
Income	1,162	4	1,370	72	133	2,741

On-balance and off-balance sheet items as at 31/12/2019

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	1	–	1,985	906	740	3,632
Liabilities	2,226	349	792	61	905	4,333
Granted guarantees	–	–	9	–	5	14
Received guarantees	–	–	28	–	–	28
Provided loan commitments	508	–	216	–	36	760
Received collateral	–	–	318	906	461	1,685
Profit / loss items for period ended 31/12/2019						
Expenses	(398)	–	(1,342)	–	(25)	(1,765)
Income	372	–	1,337	164	219	2,092

Receivables from related parties consist primarily of loans and overdrafts.

Payables to related parties especially include term deposits, deposits payable on demand, savings and tied deposits.

Revenues and expenses consist mainly of gains / losses on currency derivatives, interest income, income from fees and commission and brokering fees.

Receivables/payables from/to key management personnel

in millions of CZK	2020	2019
Provided loans	12	6
Received deposits	44	162

The members of the Board of Directors, Supervisory Board, Executive Board for Czech Republic, Executive Board for Slovakia and Investment Instrument Committee represent the Group's key executives.

The Group's key management received no other remuneration in the form of short-term benefits, post-employment benefits, other long-term employee benefits, early termination benefits, or share-based payments.

Loans to the Group's employees as at 31 December 2020 amounted to CZK 84 million (2019: CZK 89 million). The loans provided to key management personnel were provided on the arm's length basis.

40. Risk management policies and disclosures

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the risk taken, while considering the Group's risk appetite.

In doing so, it must be ensured that the outcome of Group activities is predictable and in compliance with both business goals and risk appetite of the Group.

In order to meet this goal, the risks faced by the Group are managed in a quality and prudential manner within the framework of the Group:
- In terms of the above, risks are monitored, assessed and eventually limited, at least as strictly as required by the Czech National Bank. The internal limits are regularly reviewed (especially in the case of significant changes of market conditions) to ensure their compliance with both the Group's overall strategy and market and credit conditions. The adherence to the limits is monitored and reported daily (on an individual basis). In case of their potential breach, the Group immediately adopts appropriate remedial measures.
- The Group establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
- The Group establishes targets for selected indicators of liquidity that it wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
- The Group establishes goals for other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, operational risk etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Group. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of the Group's Risk Appetite Statement.

41. Credit risk

The Group's primary exposure to credit risk arises through its loans and advances and financial assets. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance sheet credit risk through commitments and guarantees to extend credit.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Forbearance
The Group monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. The Group treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards.

Forbearance is an exposure where the Group decides, due to debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Performing exposures comprise primarily exposures classified in Stage 1 and 2. Non-performing exposures comprise receivables with debtor's failure classified in Stage 3. Under special conditions defined by EBA, exposures in Stage 2 might also be categorised as non-performing exposures. If more than 20 % of total debtor's exposure is overdue more than 30 days, the Group shall include all of the debtor's balance sheet and off-balance sheet exposures as non-performing. The Group also evaluates the classification of debtors from the same group of related parties to verify the condition for being classified as non-performing exposure.

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in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	95,860	(1,183)	94,677
– of which performing exposures forborne	6,145	(273)	5,872
Non-performing exposures	6,846	(2,728)	4,118
– of which non-performing exposures forborne	5,850	(2,288)	3,562
Total	**102,706**	**(3,911)**	**98,795**

k 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	65,463	(346)	65,117
– of which performing exposures forborne	465	(4)	461
Non-performing exposures	5,677	(2,474)	3,203
– of which non-performing exposures forborne	4,668	(2,032)	2,636
Total	**71,140**	**(2,820)**	**68,320**

in millions of CZK	2020	2019
Share of exposures forborne in the total loans provided to customers	9.55%	4.53%
Share of non-performing exposures in total loans to customers	4.17%	4.69%

(b) Concentration of loans to customers by economic sector

k 31.12.2020

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	58,773	(1,129)	57,644
Financial institutions	29,766	(131)	29,635
Households	2,172	(90)	2,082
Total	**90,711**	**(1,350)**	**89,361**
Forborne			
Non-financial institutions	10,667	(2,417)	8,250
Financial institutions	1,150	(60)	1,090
Households	178	(84)	94
Total	**11,995**	**(2,561)**	**9,434**

k 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	51,753	(612)	51,141
Financial institutions	12,212	(74)	12,138
Households	1,951	(63)	1,888
Other	91	(35)	56
Total	**66,007**	**(784)**	**65,223**
Forborne			
Non-financial institutions	4,942	(1,951)	2,991
Households	191	(85)	106
Total	**5,133**	**(2,036)**	**3,097**

(c) Concentration of loans to customers by industry

in millions of CZK	2020	2019
Real estate activities	17,942	15,240
Transportation and storage	11,628	233
Financial activities	11,576	5,319
Wholesale and retail	9,885	8,943
Cultural, sports, entertainment and recreation activities	9,810	6,879
Construction	7,779	5,100
Manufacturing	5,927	6,581
ICT	5,131	7,811
Accommodation and food service activities	4,990	3,492
Production and distribution of electricity, gas and heat	4,637	2,829
Administrative and support service activities	2,606	33
Professional, scientific and technological activities	1,462	1,239
Private households and employed persons	1,441	1,239
Mining, quarrying and agriculture	1,226	883
Healthcare and social work	655	409
Water supply, services relating to water, waste management and redevelopment	617	705
Agriculture, forestry and fishing	106	22
Education	73	83
Other	1,304	1,280
Total	**98,795**	**68,320**

(d) Concentration of loans to customers by location

in millions of CZK	2020	2019
Czech Republic	25,034	23,087
Luxembourg	24,326	8,749
Cyprus	16,944	14,655
Slovakia	7,736	6,985
Croatia	3,957	3,093
Austria	3,768	–
Switzerland	3,438	3,164
Germany	2,807	1,070
The Netherlands	2,435	294
Russia	1,851	2,313
Great Britain	1,512	262
France	1,039	965
Guernsey, C.I.	956	–
Poland	842	904
Cayman Islands	517	520
Malta	427	470
Monaco	366	329
Maldives	356	309
Ireland	221	220
British Virgin Islands	1	667
Other	262	264
Total	**98,795**	**68,320**

(e) Concentration of loans to customers by location of project implementation and collateral

in millions of CZK	2020	2019
Czech Republic	39,752	33,901
Great Britain	13,486	1,108
France	7,852	3,589
Slovakia	7,586	7,162
Austria	4,860	40
China	4,801	2,688
Croatia	4,443	3,800
Luxembourg	3,513	251
Russia	1,850	2,363
Ukraine	1,824	1,921
Germany	1,581	3,643
Slovenia	1,546	1,753
Spain	1,212	1,394
USA	943	480
Poland	843	2,204
Cyprus	543	530
Hungary	517	520
The Netherlands	466	111
Monaco	362	329
Maldives	355	309
Malta	63	–
Greece	36	47
Other	358	177
Total	**98,795**	**68,320**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with provided loans and repurchase agreements

As at 31 December 2020

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2 – individually				
Gross amount	5,422	38,091	64,717	31,143
Expected credit losses	(6)	–	(1,183)	–
Stage 1 and 2 – collectively				
Gross amount	–	–	–	–
Expected credit losses	–	–	–	–
Stage 3 and POCI – individually				
Gross amount	–	–	6,844	2
Expected credit losses	–	–	(2,728)	–
Total	**5,416**	**38,091**	**67,650**	**31,145**
Stage 1 and 2 – by maturity				
– to maturity date	5,416	38,091	63,459	31,143
– up to 1 month past due	–	–	60	–
– 1 to 3 months past due	–	–	15	–
Stage 3 and POCI – by maturity				
– to maturity date	–	–	3,663	–
– up to 1 month past due	–	–	2	–
– 1 to 6 months past due	–	–	342	–
– 6 to 12 months past due	–	–	24	2
– more than 12 months past due	–	–	85	–
Total	**5,416**	**38,091**	**67,650**	**31,145**

As at 31 December 2019

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2 – individually				
Gross amount	4,745	56,232	53,318	11,983
Expected credit losses	(8)	–	(345)	–
Stage 1 and 2 – collectively				
Gross amount	–	–	162	–
Expected credit losses	–	–	(1)	–
Stage 3 and POCI – individually				
Gross amount	–	–	5,677	–
Expected credit losses	–	–	(2,474)	–
Total	**4,737**	**56,232**	**56,337**	**11,983**
Stage 1 and 2 – by maturity				
– to maturity date	4,737	56,232	53,119	11,983
– up to 1 month past due	–	–	11	–
– 1 to 3 months past due	–	–	4	–
Stage 3 and POCI - by maturity				
– to maturity date	–	–	3,006	–
– up to 1 month past due	–	–	14	–
– 1 to 6 months past due	–	–	51	–
– 6 to 12 months past due	–	–	8	–
– more than 12 months past due	–	–	124	–
Total	**4,737**	**56,232**	**56,337**	**11,983**

Assets classified as "Neither past due nor impaired with a sign of impairment" and "Past due with no loss allowance" represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no allowance has been created.

The part of the receivables that is not past due is presented in the line "To maturity date" and the Group does not assume any problems with the counterparty's payment behaviour. Past due receivables are presented in the appropriate columns according to the period past due.

The Group classifies provided loans into internal rating groups while considering a number of factors. The following table summarises receivables by internal rating.

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	2,184	14	–	–	2,198
Low risk	5,058	148	–	–	5,206
Medium risk	50,013	6,249	–	–	56,262
High risk	927	124	46	–	1,097
Defaulted	–	1	6,258	539	6,798
Debits and reverse repurchase agreements – without rating	31,143	–	2	–	31,145
ECL	(875)	(308)	(2,623)	(105)	(3,911)
Total as at 31 December 2020	**88,450**	**6,228**	**3,683**	**434**	**98,795**

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,378	5	–	–	1,383
Low risk	3,582	149	–	–	3,731
Medium risk	43,308	4,124	–	–	47,432
High risk	934	–	81	–	1,015
Defaulted	–	–	5,092	504	5,596
Debits and reverse repurchase agreements – without rating	11,983	–	–	–	11,983
ECL	(229)	(117)	(2,372)	(102)	(2,820)
Total as at 31 December 2019	**60,956**	**4,161**	**2,801**	**402**	**68,320**

(g) Sensitivity analysis for expected credit losses

The sensitivity of expected credit losses is affected by the probability of default (PD) and impairment losses. The table below shows the comparison of reported expected credit losses from impaired loans to customers. The optimistic and pessimistic scenario reflects the amount of expected credit losses on a change of impairment losses by 10% ("LGD") and the probability of default by 10% ("PD"):

in millions of CZK	Optimistic	Elementary	Pessimistic
Change in LGD			
ECL 2020	(3,615)	(3,911)	(4,228)
ECL 2019	(2,616)	(2,820)	(3,013)
Change in LGD			
ECL 2020	(3,807)	(3,911)	(4,078)
ECL 2019	(2,788)	(2,820)	(2,852)

Considering the situation on the market as a result of the COVID-19 pandemic, in 2020 the Group also performed a sensitivity analysis on changes in expected credit losses for loans as a result of changes in GNP as the key future development indicator. In particular the Group analysed effects of predicted changes in GNP by +/- 1% on the value of ECL. The change of predictions did not have significant effect on ECL 2019.

in millions of CZK	Optimistic	Elementary	Pessimistic
ECL 2020	(3,888)	(3,911)	(3,942)

(h) Collateral and credit enhancements for provided loans and repurchase agreements

31.12.2020

in millions of CZK	Carrying amount of pledges Stage 1 and 2	Accepted collateral value of pledges Stage 1 and 2	Carrying amount of pledges Stage 3	Fair value of pledges Stage 3
To maturity date:	**94,423**	**106,429**	**2,436**	**2,686**
– Guarantees	2,874	4,673	–	–
– Promissory notes	189	967	–	–
– Real estate	13,736	16,769	2,259	2,426
– Cash deposits	3,424	3,489	–	–
– Securities	32,158	34,255	67	134
– Other	1,482	5,716	110	126
– Securities received under reverse repurchase agreements	40,560	40,560	–	–
Past due:	**195**	**322**	**181**	**269**
– Real estate	195	322	179	264
– Other	–	–	2	5

31.12.2019

in millions of CZK	Carrying amount of pledges Stage 1 and 2	Accepted collateral value of pledges Stage 1 and 2	Carrying amount of pledges Stage 3	Fair value of pledges Stage 3
To maturity date:	**99,543**	**110,931**	**3,302**	**3,545**
– Guarantees	1,490	4,977	–	–
– Promissory notes	909	3,363	–	–
– Real estate	13,805	15,637	1,796	2,043
– Cash deposits	3,070	3,070	–	–
– Securities	11,822	12,600	–	–
– Other	9,410	12,247	1,506	1,502
– Securities received under reverse repurchase agreements	59,037	59,037	–	–
Past due:	**95**	**161**	**1,842**	**2,263**
– Real estate	92	158	138	313
– Other	3	3	1,704	1,950

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The fair value is not adjusted by the stress coefficient and is not limited by the carrying amount of a receivable.

Collateral value is monitored and revised on regular basis.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(i) Credit risk processes

Evaluating the risk of failure of a counterparty is based on a credit analysis, processed by the Credit Risk Management department. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens or if the counterparty fails to comply with contractual conditions.

The results from the credit development analyses are reported to the Board of Directors or respective committee, which decides on adjustments of limits or relations with the counterparty (e.g. in the form of closing or limiting positions or adjustment of limits).

Credit risk of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, at least once a month.

The level of risk is assessed by the Credit Risk Management department If the set internal credit limits (trading portfolio exposure, derivative transactions, margin trading) are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In certain pre-determined cases, the Board of Directors or members of the Investment Instrument Committee also get informed.

(j) Credit risk monitoring

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Group. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Group's scoring system.

The Group's scoring system has thirteen rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, as well as proposed conditions for effecting the transaction.

The Group also evaluates financial and non-financial indicators that may not be monitored within the scoring system.

(k) Credit risk measurement

The Group regularly analyses and monitors credit risk of the trading book. At portfolio level, credit risk of the trading book is managed primarily based on the IRB (Internal Rating Based) methodology.

In order to assess the impact of extremely unfavourable credit conditions, the Group performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level on open positions in bonds is evaluated.

in millions of CZK	2020	2019
Decrease of the trading portfolio value due to a rating migration by one credit class	131	159

(in the Standard & Poor's scale)

(l) Risk management of customer trades

The Group prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Group has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Group closes all of the customer's positions immediately.
3. The Group accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Group also restricts the total volume of individual instruments used as collateral.

42. Liquidity risk

Liquidity risk represents a risk that the Group is not able to meet its commitments as they are becoming mature. The Group is required to report a system of indicators to the Czech National Bank, which is done on a regular basis. The Group's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Group performs everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Group is using as well as obligations the Group has to pay. For the purpose of sufficient liquidity reserve the Group holds sufficient amount of highly liquid instruments (such as government bonds and similar securities), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Group assorts all cash flows into time frames according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

Three scenarios are used in terms of liquidity risk management:
A) Expected scenarios
B) Alternative scenarios
C) Stress scenarios

Alternative Scenarios are based on stress imposed on components that might be negatively affected when liquidity problems crisis starts to approach.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When an actual or possible breach of the adopted internal / external liquidity limits is identified, Asset and Liability Management Committee (ALCO) is informed to ensure compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Group has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors.

a) Liquidity risk as at 31 December 2020

The table shows the liquidity risk based on remaining contractual maturity dates.

in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	43,870	43,949	43,342	10	50	219	328
Securities (excl. derivatives)	24,601	26,459	580	1,284	13,017	1,695	9,883
Advances to customers	98,795	110,369	38,980	16,209	43,406	11,767	7
Total	**167,266**	**180,777**	**82,902**	**17,503**	**56,473**	**13,681**	**10,218**
Off balance							
Bank commitments	6,366	6,366	5,132	340	880	—	14
Bank guarantees	1,891	1,891	1,891	—	—	—	—
Liabilities							
Deposits and loans from banks	2,437	2,436	1,917	501	17	1	—
Deposits from customers	138,620	140,186	81,117	30,378	27,303	468	920
Subordinated debt	224	250	99	44	107	—	—
Lease liabilities	150	150	10	28	106	6	—
Total	**141,431**	**143,022**	**83,143**	**30,951**	**27,533**	**475**	**920**
Net liquidity position	**25,835**	**37,755**	**(241)**	**(13,448)**	**28,940**	**13,206**	**9,299**
Cumulative liquidity position	**—**	**—**	**(241)**	**(13,689)**	**15,251**	**28,457**	**37,755**

Expected maturity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that short-term loans and deposits are prolonged. In addition, as outstanding balances on current accounts or short-term deposits are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the Group regularly monitors the period and percentage of deposits that remain available and those that are prolonged. These ratios are used for managing the liquidity risk.

For loans, in the worst-case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project. The latest expected completion date may differ from contractual maturity date.

Loans whose refinancing is already being negotiated are recognised based on the expected refinancing date.

The expected maturity of other financial assets and liabilities not mentioned below is similar to their contractual maturity.

in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	98,795	110,793	35,299	12,301	51,073	11,989	131
Liabilities							
Deposits from customers	138,620	140,690	51,455	25,786	36,198	26,031	1,220
Subordinated debt	224	243	109	44	90	—	—

b) Liquidity risk as at 31 December 2019

The table shows the liquidity risk based on remaining contractual maturity dates.

in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	61,289	61,397	60,359	60	49	228	701
Securities (excl. derivatives)	18,169	20,015	512	1,097	6,479	3,265	8,662
Advances to customers	68,320	78,916	16,674	11,490	40,012	10,731	9
Total	**147,778**	**160,328**	**77,545**	**12,647**	**46,540**	**14,224**	**9,372**
Off balance							
Bank commitments	8,369	8,369	646	4,605	2,896	207	15
Bank guarantees	2,375	2,375	2,375	–	–	–	–
Liabilities							
Deposits and loans from banks	4,838	4,843	4,809	4	19	8	3
Deposits from customers	114,551	115,773	66,676	26,161	21,990	457	489
Subordinated debt	809	986	109	332	250	295	–
Lease liabilities	195	196	16	62	104	14	–
Total	**120,393**	**121,798**	**71,610**	**26,559**	**22,363**	**774**	**492**
Net liquidity position	**27,385**	**38,530**	**5,935**	**(13,912)**	**24,177**	**13,450**	**8,880**
Cumulative liquidity position			**5,935**	**(7,977)**	**16,200**	**29,650**	**38,530**

Expected maturity

in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	68,320	78,851	18,375	11,582	38,654	10,179	61
Liabilities							
Deposits from customers	114,551	116,377	36,156	24,048	29,409	26,275	489
Subordinated debt	809	1,195	113	346	682	54	–

c) Liquidity risk as at 31 December 2020 – derivatives – non-discounted cash flows

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in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
Currency derivatives					
– inflow	914	1,816	1,659	92	65
– outflow	–	(888)	(888)	–	–
Cross currency derivatives					
– inflow	112	5,913	–	217	5,696
– outflow	–	(5,964)	–	(260)	(5,704)
Equity derivatives					
– inflow	35	35	35	–	–
Other derivatives					
– inflow	2	2	1	–	1
Total	**1,063**	**914**	**807**	**49**	**58**
Derivative financial liabilities					
Currency derivatives					
– inflow	–	107	107	–	–
– outflow	(709)	(816)	(419)	(177)	(220)
Cross currency derivatives					
– inflow	–	5,636	–	247	5,389
– outflow	(54)	(5,541)	–	(186)	(5,355)
Other derivatives					
– outflow	(1)	(1)	–	–	(1)
Total	**(764)**	**(615)**	**(312)**	**(116)**	**(187)**

31.12.2019

in millions of CZK	Carrying amount	Contractual cash inflows/ (outflows)	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
Currency derivatives					
– inflow	839	2,180	1,646	372	162
– outflow	–	(1,343)	(1,343)	–	–
Cross currency derivatives					
– inflow	116	4,586	–	–	4,586
– outflow	–	(4,620)	–	–	(4,620)
Equity derivatives					
– inflow	18	18	–	18	–
Other derivatives					
– inflow	5	5	3	–	2
Total	**978**	**826**	**306**	**390**	**130**
Derivative financial liabilities					
Currency derivatives					
– inflow	–	523	523	–	–
– outflow	(525)	(1,049)	(788)	(188)	(73)
Cross currency derivatives					
– inflow	–	4,124	–	–	4,124
– outflow	(51)	(4,076)	–	–	(4,076)
Other derivatives					
– outflow	(6)	(6)	(6)	–	–
Total	**(582)**	**(484)**	**(271)**	**(188)**	**(25)**

43. Market risk

Market risk is the risk of loss to the Group arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the trading portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in note 44 and 45, respectively.

The Group uses the Value at Risk ("VaR") methodology to evaluate market risk of its trading portfolio, the foreign currency ("FX") and commodity position using a confidence level of 99% and a horizon of 10 business days.

The risks are evaluated (on an individual basis) and compared to limits set by the Risk Management Dept. on a daily basis. If the limits are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors.

The decision-making power is given by internal rules to the Board of Directors and the Investment Instrument Committee.

The Group performs daily backtesting of the market risk associated with its trading portfolio, foreign exchange and commodity positions, using the hypothetical back-testing method.

The VaR statistics as of 31 December 2020 and 31 December 2019 are as follows:

in millions of CZK	2020	2019
VaR market risk overall	90	107
VaR interest rate risk	28	47
VaR FX risk	104	146
VaR equity risk	40	10
VaR commodity risk	2	2

In order to assess the impact of extremely unfavourable market conditions, the Group performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible. As part of the stress testing, a short-term, medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Group as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the last two years (short-term scenario), five (medium-term scenario) or fifteen years (long-term scenario). The potential change in the fair value of the portfolio is monitored and assessed.

Change in the fair value of the trading portfolio due to historic shock scenario:

in millions of CZK	2020	2019
short-term scenario	(119)	(105)
medium-term scenario	(119)	(257)
long-term scenario	(333)	(501)

The Group performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve.

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

(% Tier 1 + Tier 2)	2020	2019
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	4.66	5.46

44. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2020 is as follows:

in millions of CZK	Up to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	41,425	–	–	2,445	**43,870**
Securities and positive fair value of derivatives	4,215	10,229	1,436	9,784	**25,664**
Investment in associates and joint ventures	–	–	–	701	**701**
Loans and other advances to customers	90,280	4,481	1,063	2,971	**98,795**
Current tax asset	–	–	–	143	**143**
Deferred tax asset	–	–	–	382	**382**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	–	–	–	4,962	**4,962**
Disposal groups held for sale	–	–	–	520	**520**
Total assets	**135,920**	**14,710**	**2,499**	**21,908**	**175,037**

in millions of CZK	Up to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
Liabilities and equity					
Deposits and loans from banks	1,737	16	2	682	**2,437**
Deposits from customers	86,128	33,536	396	18,560	**138,620**
Negative fair value of derivatives	489	274	–	1	**764**
Subordinated debt	203	21	–	–	**224**
Current tax liability	–	–	–	7	**7**
Deferred tax liability	–	–	–	99	**99**
Disposal groups held for sale	–	–	–	1	**1**
Other liabilities and equity	94	3	1	32,787	**32,885**
Total equity and liabilities	**88,651**	**33,850**	**399**	**52,137**	**175,037**
Net interest rate risk	**47,269**	**(19,143)**	**2,100**	**(30,226)**	**–**
Cumulative interest rate risk	**47,269**	**28,126**	**30,226**	**–**	**–**

Rates for which banks borrow funds from one another within an inter-bank monetary market are designated as Interbank Offered Rates (IBOR). In the past, serious cases of manipulation with certain reference rates (LIBOR, EURIBOR) occurred, undermining confidence in these rates and giving raise to doubt whether they have been set transparently. Consequently, these rates are currently being reformed and the whole process is called IBOR transition or replacement. As the economic significance of these rates is high, it is necessary to ensure the accuracy and reliability of reference values and processes of their determination (methodology, governance structure). For this reason, working groups have been created to identify new reference rates and ensure the transition to alternation, risk-free reference rates (RFRs).

The Group has been intensively analysing and quantifying the impacts of the transition to the system of risk-free reference rates.

For derivatives, the Group only reports interest rate swaps with PRIBOR as a reference rate. PRIBOR is compatible with Regulation of the European Parliament 2016/1011, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and may remain in application. The Group does not plan any transition to any other alternative risk-free reference rate.

Where ISDA Master Agreements and their Czech equivalent - CEMA (framework agreements for trading on financial markets) are concerned, templates of contracts were amended in 2020 to allow the automatic transition of existing ISDA contracts to new risk-free reference rates.

For hedge accounting, the Group uses only FX derivatives. The Group does not use any interest rate swaps with variable interest rates for hedging purposes.

The Group considers the following implications of the reform of rates as most significant:
- legal implications – adjustment of reference rates in contracts (loan contracts, contracts for deposit products, ISDA and CEMA agreements, supplier contracts, etc.), product lists, prospectuses, etc.
- valuation of financial instruments – construction and definition of yield curves, risk management, financial plans, price setting, performance calculations, etc.
- IT systems and processes – technical preparedness of systems for the transition to risk-free reference rates, data inputs in resource systems, etc.
- accounting – impact on the modification and classification of financial instruments, etc.

Interest rate risk exposure as at 31 December 2019 is as follows:

in millions of CZK	Up to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	60,212	–	–	1,077	**61,289**
Securities and positive fair value of derivatives	1,871	5,509	3,334	8,433	**19,147**
Investment in associates and joint ventures	–	–	–	536	**536**
Loans and other advances to customers	57,618	8,263	912	1,527	**68,320**
Current tax asset	–	–	–	27	**27**
Deferred tax asset	–	–	–	267	**267**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	31	–	–	1,972	**2,003**
Disposal groups held for sale	–	–	–	133	**133**
Total assets	**119,732**	**13,772**	**4,246**	**13,972**	**151,722**

in millions of CZK	Up to 1 year	1 to 5 years	Over 5 years	Maturity undefined	Total
Liabilities and equity					
Deposits and loans from banks	4,433	18	5	382	**4,838**
Deposits from customers	68,742	26,435	429	18,945	**114,551**
Negative fair value of derivatives	459	123	–	–	**582**
Subordinated debt	467	342	–	–	**809**
Current tax liability	–	–	–	218	**218**
Deferred tax liability	–	–	–	108	**108**
Other liabilities and equity	245	133	2	30,236	**30,616**
Total equity and liabilities	**74,346**	**27,051**	**436**	**49,889**	**151,722**
Net interest rate risk	**45,386**	**(13,279)**	**3,810**	**(35,917)**	**–**
Cumulative interest rate risk	**45,386**	**32,107**	**35,917**	**–**	**–**

45. Foreign exchange risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Group's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income. The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

Foreign exchange risk exposure as at 31 December 2020 was as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	39,842	224	2,784	318	702	**43,870**
Securities and positive fair value of derivatives	12,934	205	9,454	2,096	975	**25,664**
Investment in associates and joint ventures	701	–	–	–	–	**701**
Loans and other advances to customers	15,197	10,365	57,165	1,624	14,444*	**98,795**
Current tax asset	79	–	43	21	–	**143**
Deferred tax asset	300	–	84	–	(2)	**382**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	1,359	117	2,957	439	90	**4,962**
Disposal groups held for sale	374	–	–	62	84	**520**
Total assets	**70,786**	**10,911**	**72,487**	**4,560**	**16,293**	**175,037**

*This mainly includes the GBP position of CZK 13 533 million and positions relating to other currencies that are individually immaterial.

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Liabilities and equity						
Deposits and loans from banks	146	9	2,132	120	30	**2,437**
Deposits from customers	80,880	3,021	50,534	2,749	1,436	**138,620**
Negative fair value of derivatives	763	—	—	1	—	**764**
Subordinated debt	153	—	71	—	—	**224**
Liabilities associated with disposal groups held for sale	1	—	—	—	—	**1**
Current tax liability	7	—	—	—	—	**7**
Deferred tax liability	3	—	—	96	—	**99**
Other liabilities and equity	29,995	839	4,136	(1 661)	(424)	**32,885**
Total equity and liabilities	**111,948**	**3,869**	**56,873**	**1,305**	**1,042**	**175,037**
Long position of off-balance sheet instruments:						
– items from derivative transactions	76,376	5,123	41,745	625	5,761	**129,630**
– items from spot transactions with share instruments	10	—	27	—	—	**37**
Short position of off-balance sheet instruments:						
– items from derivative transactions	45,228	12,322	50,382	533	20,436	**128,901**
– items from spot transactions with share instruments	10	—	26	—	1	**37**
Open position asset/(liability)	**(10,014)**	**(157)**	**6,978**	**3,347**	**575**	**729**

Foreign exchange risk exposure as at 31 December 2019 was as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	57,748	350	1,995	554	642	**61,289**
Securities and positive fair value of derivatives	6,637	681	7,784	3,099	946	**19,147**
Investment in associates and joint ventures	536	—	—	—	—	**536**
Loans and other advances to customers	17,025	3,771	43,485	2,043	1,996	**68,320**
Current tax asset	3	—	—	24	—	**27**
Deferred tax asset	170	—	95	—	2	**267**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	744	111	346	709	93	**2,003**
Disposal groups held for sale	64	—	—	6	63	**133**
Total assets	**82,391**	**4,913**	**53,705**	**6,435**	**4,278**	**151,722**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Liabilities and equity						
Deposits and loans from banks	2,047	8	2,353	398	32	**4,838**
Deposits from customers	63,513	2,693	43,795	3,323	1,227	**114,551**
Negative fair value of derivatives	580	–	–	2	–	**582**
Subordinated debt	563	174	72	–	–	**809**
Current tax liability	208	–	10	–	–	**218**
Deferred tax liability	4	–	–	104	–	**108**
Other liabilities and equity	27,217	338	4,177	(705)	(411)	**30,616**
Total equity and liabilities	**94,132**	**3,213**	**50,407**	**3,122**	**848**	**151,722**
Long position of off-balance sheet instruments:						
– items from derivative transactions	48,201	2,706	35,940	469	4,361	**91,677**
– items from spot transactions with share instruments	16	77	–	–	–	**93**
Short position of off-balance sheet instruments:						
– items from derivative transactions	37,249	4,995	41,141	1,699	6,137	**91,221**
– items from spot transactions with share instruments	15	77	–	–	1	**93**
Open position asset/(liability)	**(788)**	**(589)**	**(1,903)**	**2,083**	**1,653**	**456**

46. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal and compliance risk.

The Group's objective of managing the operational risk is to minimize the risk and securing the Group's activities at the required level.

The primary responsibility for the implementation of controls to address operational risk is assigned to the management of the Group or the established Operational Risk and Damage Committee. This responsibility is supported by the development of overall standards within the Group for the management of operational risk which is done by the Risk Management Dept. and which cover the following areas (reflecting the proportionality principle):

- Identification of operational risk within the framework of each subsidiary's control system and development of conditions for decreasing and limiting operational risk (while the required level of activities is secured), as well as its impacts and consequences; recommendations for appropriate solutions in this area.
- Reporting of operational risk events by entering the corresponding information into the Group's database of operational risk events.
- This overview of the Group's operational risk events allows the Group to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely.

47. Capital management

The Group's strategy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of the business.

As of 1 January 2014, the consolidated capital adequacy ratios are calculated in accordance with Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") 26 June 2013.

Own funds (regulatory capital) of the Group are analysed in two parts:
- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, other temporary adjustments CET1, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes instruments (subordinated income certificates) issued in accordance with CRR (note 24).
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank of CZK 64 million (31 December 2020: CZK 137 million).

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% and countercyclical buffer on all the levels of regulatory capital.

From 1 January 2018, the Group decided to apply upon the adoption of IFRS 9 Article 473a of Regulation (EU) 2017/2395 of the European Parliament and of the Council, and to include an amount equal to the difference between allowances and provisions under IAS 39 as at 31 December 2017 and expected credit losses under IFRS 9 as at 1 January 2018 in Common Equity Tier 1 (CET1) capital, for the transitional period of 5 years as well as expected credit losses under IFRS 9 as at 1 January 2018. The difference is further recalculated using a stipulated coefficient. At the same time, the Group modified the method of calculating specific adjustments for credit risk, accordingly.

The specific countercyclical capital buffer rate is calculated in accordance with Section 63 ČNB decree No. 163/2014 Coll. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Group has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates. These have gradually been also set for other relevant states.

Minimum requirements for capital ratios for 31 December 2020 and 31 December 2019 are as follows:

in %	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.35%	7.35%
Tier 1 capital	6%	2.5%	0.35%	8.85%
Total regulatory capital 2020	**8%**	**2.5%**	**0.35%**	**10.85%**
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.84%	7.84%
Tier 1 capital	6%	2.5%	0.84%	9.34%
Total regulatory capital 2019	**8%**	**2.5%**	**0.84%**	**11.34%**

Regulatory capital

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2020 and 31 December 2019, providing a complete reconciliation of individual items of regulatory capital to equity items.

As at 31 December 2020

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	8,053	8,154
Profit for the period	–	1,666
Accumulated other comprehensive income	(1,876)	(1,816)
Reserve funds	53	218
Non-controlling interest	–	1,080
(-) Additional value adjustments (AVA)	(27)	–
(-) Intangible assets other than goodwill	(135)	–
(-) Deferred tax assets dependent on future profit not arising from temporary differences less related tax liabilities	(4)	–
Deferred tax liabilities associated with intangible assets other than goodwill	6	–
(-) Goodwill	(33)	–
Transitional adjustments to CET1 instruments	309	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**19,581**	**n/a**
Total Tier 2 capital	64	–
Total regulatory capital/equity	**19,645**	**22,537**

As at 31 December 2019

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	5,125	5,370
Profit for the period	–	3,156
Accumulated other comprehensive income	(1,296)	(1,270)
Reserve funds	51	217
Non-controlling interest	–	806
(-) Additional value adjustments (AVA)	(19)	–
(-) Intangible assets other than goodwill	(123)	–
(-) Deferred tax assets dependent on future profit not arising from temporary differences less related tax liabilities	(2)	–
Deferred tax liabilities associated with intangible assets other than goodwill	3	–
(-) Goodwill	(33)	–
Transitional adjustments to CET1 instruments	375	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,316**	**n/a**
Total Tier 2 capital	137	–
Total regulatory capital/equity	**17,453**	**21,514**

Risk weighted assets (RWA) and capital ratios

in millions of CZK	31 December 2020	31 December 2019
Central governments or central banks	1,527	485
Institutions	1,157	1,003
Corporates	51,146	48,281
Retail	87	75
Secured by mortgages on immovable property	11,921	10,195
Exposures in default	4,932	2,754
Items associated with particular high risk	29,534	17,874
Covered bonds	53	51
Collective investments undertakings (CIU)	5,563	4,543
Shares	1,472	1,262
Other items	3,678	1,839
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**111,070**	**88,362**
Traded debt instruments	3,651	2,935
Shares	690	648
Position risk in collective investment undertakings (CIUs)	18	20
Foreign Exchange	4,501	3,891
Total risk exposure amount for position, foreign exchange and commodity risks	**8,860**	**7,494**
Operational risk	10,902	9,778
Total risk exposure amount for credit valuation adjustment	495	260
Total risk exposure amount	**131,327**	**105,894**

Capital adequacy ratios

in %	31 December 2020	31 December 2019
Common Equity Tier 1 capital (CET 1)	12.93%	13.90%
Tier 1 capital	14.91%	16.35%
Total regulatory capital	**14.96%**	**16.48%**

Based on the opinion of the Czech National Bank, retained earnings were reduced by the amount of the anticipated payment from subordinated income certificates (AT1 instruments) in the next four quarters not covered by a special-purpose fund for the payment of the income from those certificates before their inclusion in regulatory capital.

The key goal of capital management of the Group is to ensure that the risks faced do not threaten the solvency of the Group and capital adequacy regulatory limit compliance.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Group capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Group's management.

The decision-making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

48. Fair value information

Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates were made in the case of fixed rate loans.

Financial instruments held to maturity: Fair value is based on quoted market prices traded in active markets at the statement of financial position date.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

Estimates of the fair value of financial assets measured at amortized cost, analysed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

31 December 2020

in millions of CZK	Level 1	Level 2	Level 3	Total fair value estimate	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	43,890	–	43,890	43,870
Loans and other advances to customers	–	–	105,348	105,348	98,795
Financial liabilities					
Deposits and loans from banks	–	2,429	–	2,429	2,437
Deposits from customers	–	137,660	–	137,660	138,620
Subordinated debt	–	212	–	212	224

31 December 2019

in millions of CZK	Level 1	Level 2	Level 3	Total fair value estimate	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	—	61,343	—	61,343	61,289
Loans and other advances to customers	—	—	70,835	70,835	68,320
Financial liabilities					
Deposits and loans from banks	—	4,827	—	4,827	4,838
Deposits from customers	—	113,580	—	113,580	114,551
Subordinated debt	—	802	—	802	809

49. Acquisitions and disposals of subsidiaries, associates and joint ventures

a) Acquisitions of subsidiaries, associates and joint ventures, contributions to subsidiaries' capital

Acquisitions of subsidiaries and contributions to subsidiaries' capital in 2020

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Cash outflow
J&T Leasingová společnost, a.s.	15.06.2020	—	110	—
Rustonka Development II s.r.o.	18.12.2020	986	—	986
Total		**986**	**110**	**986**

Acquisitions of subsidiaries and contributions to subsidiaries' capital in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Cash outflow
J&T Leasingová společnost, a.s.	26.9.2019	—	40	—
Moskovskij Neftechnimiceskij Bank	2.10.2019	197	—	197
ALTERNATIVE UPRAVLJANJE d.o.o.	14.10.2019	50	—	50
Total		**247**	**40**	**247**

New joint ventures in 2020

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Cash outflow
CI Joint Venture s.r.o.	24.1.2020	—	—	—
Total	**—**	**—**	**—**	

New joint ventures in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Cash outflow
OSTRAVA AIRPORT MULTIMODAL PARK s.r.o.	23.4.2019	530	–	410
Total		**530**	**–**	**410**

The Group increased the capital in subsidiaries in 2020 a 2019 (note 1).

Contribution to capital of subsidiaries does not represent cash outflow from the Group.

b) Formation/establishment of subsidiaries and joint ventures

New subsidiaries in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Cash outflow
Colorizo Investment, a.s.	18.4.2019	2	–	2
Total		**2**	**–**	**2**

The Group did not form/establish any new subsidiaries and joint ventures in 2020.

The Group did not increase the capital of joint ventures in 2019.

Contribution to capital of subsidiaries does not represent cash outflow from the Group.

c) Effect of acquisitions of subsidiaries

The acquisitions of new subsidiaries (only consolidated "full method") had the following effect on the Group´s assets and liabilities:

1/1 to 31/12/2020:

in millions of CZK	2020
Cash and cash equivalents	152
Due from banks and other financial institutions	9
Financial assets mandatorily at fair value through profit or loss	167
Financial assets at fair value through other comprehensive income	257
Investment property	501
Property, plant and equipment	2,174
Current tax asset	1
Deferred tax asset	2
Prepayments, accrued income and other assets	30
Total assets	**3,292**
Deposits and loans from banks	1,012
Deferred tax liability	3
Other liabilities	753
Total liabilities	**1,769**
Net identifiable assets and liabilities	**1,523**
Non-controlling interest	–
Gain on a bargain purchase	**–**
Consideration transferred, paid in cash	(986)
Cash acquired	**(834)**
Profit or loss before the date of acquisition	1
Income before the date of acquisition	5
Profit or loss of acquired companies since the date of acquisition	4
Income after the date of acquisition	–

1/1 to 31/12/2019:

in millions of CZK	2019
Cash and cash equivalents	1,679
Financial assets for trading	496
Due from banks and other financial institutions	21
Loans and other advances to customers	548
Financial assets at amortised cost	279
Property, plant and equipment	83
Investment property	51
Current tax asset	4
Deferred tax asset	10
Prepayments, accrued income and other assets	31
Disposal groups held for sale	2
Total assets	**3,204**
Deposits and loans from banks	32
Deposits from customers	2,400
Financial liabilities at fair value through profit or loss	4
Subordinated debt	137
Other liabilities	31
Total liabilities	**2,604**
Net identifiable assets and liabilities	**600**
Non-controlling interest	–
Gain on a bargain purchase	**136**
Consideration transferred, paid in cash	(197)
Cash acquired	**1,482**
Profit or loss before the date of acquisition	(50)
Income before the date of acquisition	232
Profit or loss of acquired companies since the date of acquisition	5
Income after the date of acquisition	40

d) Disposals of subsidiaries

The Group did not dispose of any subsidiary in 2020 and 2019.

e) Disposals of associates and joint ventures

The Group did not dispose of any associates and joint ventures in 2020 and 2019.

50. Investment in equity accounted investees

The following table shows a break-down of individual investments in equity accounted investees.

31 December 2020

in millions of CZK	XT-card a.s. Associate	Group OSTRAVA AIRPORT MULTIMODAL PARK Joint venture	CI Joint Venture s.r.o. Joint venture
Group's share in the consolidated fair value of equity at the date of acquisition	6	530	—
Investment decrease	—	(2)	—
Group's share in the post-acquisition profit / (loss) 2020	—	145	24
Total	**6**	**673**	**24**

The Group OSTRAVA AIRPORT MULTIMODAL PARK consists of shares in companies OAMP Holding s.r.o., OAMP Hall 2 s.r.o., OAMP Hall 3 s.r.o., OAMP Hall 4 s.r.o., OAMP Hall 5 s.r.o., OAMP Hall 6 s.r.o., OAMP Services s.r.o.

In 2020, the company OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. was divided into the successor companies OAMP Hall 1 s.r.o., OAMP Infrastructure s.r.o., OAMP Distribution s.r.o., OAMP Holding s.r.o.

During the split-up, an even exchange ratio of shares was determined, ie the share of individual partners of the divided company is the same in each successor company as their share in the divided company at the date of the split-up, ie 50%.

31 December 2019

in millions of CZK	XT-card a.s. Associate	Group OSTRAVA AIRPORT MULTIMODAL PARK Joint venture
Group's share in the consolidated fair value of equity at the date of acquisition	6	530
Group's share in the post-acquisition profit / (loss) 2015-2018	1	—
Group's share in the post-acquisition profit / (loss) 2019	(1)	—
Total	**6**	**530**

Summary financial information for equity accounted investees as at 31 December 2020

in millions of CZK	XT-card a.s. Associate	Group OSTRAVA AIRPORT MULTIMODAL PARK Joint venture	CI Joint Venture s.r.o. Joint venture	Total
Assets	27	2 341	1 212	2 272
Liabilities	7	1 636	910	1 837
Net assets	**20**	**705**	**(302)**	**434**
Income	47	393	(48)	197
Expenses	(46)	(103)	–	(149)
Profit (loss)	**1**	**290**	**(48)**	**48**
Group's share	32%	50%	50%	–
Group's share in profit / (loss) of equity accounted investees	**–**	**145**	**24**	**169**

OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. and CI Joint Venture s.r.o. companies operates in construction and lease of logistics hall business in Czech Republic.

Summary financial information for equity accounted investees as at 31 December 2019

in millions of CZK	XT–card a.s. Associate	Group OSTRAVA AIRPORT MULTIMODAL PARK Joint venture	Total
Assets	24	451	475
Liabilities	(9)	(451)	(460)
Net assets	**15**	**–**	**15**
Income	43	2	45
Expenses	(44)	(2)	(46)
Profit / (loss)	**(1)**	**–**	**(1)**
Group's share	32%	50%	–
Group's share in profit / (loss) of equity accounted investees	**(1)**	**–**	**(1)**

51. Material subsequent events

There are no subsequent events to be reported in these consolidated financial statements for the period ended as 31 December 2020.

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This document is an unsigned English translation of the Czech independent auditor's report that we issued on 28 April 2021 on the statutory consolidated financial statements included in the consolidated annual report of J&T BANKA, a.s., prepared in accordance with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"), related to the financial statements. The accompanying consolidated annual report has not been prepared in accordance with the ESEF Regulation and therefore does not represent a statutory consolidated annual report. Consequently, neither it nor this copy of the auditor's report is a legally binding document. We did not audit the consistency of the accompanying consolidated annual report with the statutory and legally binding consolidated annual report under the ESEF Regulation in Czech, and therefore we do not provide an opinion on the accompanying consolidated annual report.

Independent Auditor's Report to the Shareholder of J&T BANKA, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of J&T BANKA, a.s. ("the Company") and its subsidiaries (together "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs), which may be supplemented and amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses for loans and advances to customers at amortised cost
Expected credit losses for loans and advances amounted to CZK 3 911 million as at 31 December 2020 (31 December 2019: CZK 2 820 million).

Refer to Note 3 (Accounting policies), Note 10 (Loans and advances to customers at amortised cost) and Note 11 (Expected credit losses) in the notes to the consolidated financial statements.

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Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra

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Key audit matter

Impairment allowances represent management's best estimate of the expected credit losses ("the Expected Credit Losses", "ECLs") within loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements over the amounts of any such impairment.

In the process, the loans are allocated into one of the three stages prescribed by IFRS 9 Financial instruments in order to estimate the loss allowances. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans being those for which significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, credit-impaired loans.

Key assumptions and judgements in the calculation of the Expected Credit Losses include the following:
- application of the definition of default and significant increase in credit risk SICR;
- the probability of default (PD), loss given default (LGD) and exposure at default (EAD); and
- forward-looking information (FLI) based on several macroeconomic scenarios.

PD parameters have been determined based on annualized migration matrix resulting from the external market data adjusted for FLI with probability-weighted scenarios considered. PD parameter is assigned to the loan based on its internal rating. LGD is determined by estimating the probability-weighted discounted future cash flows for each exposure, often considering the realisable value of the related loan collateral.

Due to the above factors and complexities, coupled with the need to consider the effects of the COVID-19 pandemic on the Group's business environment and the measurement of ECLs, the area required our increased attention in the audit and as such was determined to be a key audit matter.

How the audit matter was addressed

Assisted by our own credit risk, valuation and information technology (IT) specialists, we performed, among other things, the procedures outlined below:

We assessed the Group's accounting policies and processes related to estimating ECLs. This included assessing whether the relevant methods, models, assumptions and data used therein comply with the requirements of the relevant financial reporting standards and industry practice. As part of the above, we assessed the process of identifying indicators of default, SICR, and allocating of loans to particular stages of IFRS 9. In addition, we tested IT control environment for data security and access.

We tested the design, implementation and operating effectiveness of selected IT-based and manual controls over the approval, recording and monitoring of loans and advances, matching of incoming payments, calculating days past due, and calculation of effective interest rate. We tested the controls by making inquiries of heads of risk, finance and IT department and other relevant IT and risk department personnel, in combination with the observation, inspection of underlying documentation and, where applicable, reperformance of controls.

We evaluated whether in its ECL measurement the Group appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic.

We assessed the key assumptions applied in the ECL measurement as follows:
- definition of default and of SICR – by assessing whether the financial instruments standard's definition of default and staging criteria were consistently applied;
- PD parameter – by reference to external market data and considering any required adjustments to reflect expected changes in circumstances;
- LGD and EAD parameters – by reference to the Group's historical and contractual data and considering any required adjustments to reflect expected changes in circumstances, and

- forward-looking indicators – by means of corroborating inquiries of the Management Board, applying our knowledge of the Group and inspecting publicly available data and reports.

For a sample of loans, by reference to the underlying documentation (loan files) and through inquiries of the Group's credit officers, we evaluated whether the loans were allocated to appropriate stages of IFRS 9, and whether appropriate internal rating and LGD parameter were applied to on-balance and off-balance exposures in determining the related ECLs. As part of the procedure, we specifically focused on the robustness of the Group's financial analysis of the borrower, the repayment pattern for the loan and the collateral provided.

For the selected groups of loans, we checked whether PD and EAD parameters were reasonably and consistently applied to on-balance and off-balance exposures in determining the related ECLs.

We challenged the loan collateral valuation methods (including the appropriateness of any haircuts applied) applied on a sample of loans pledged by the real estate collateral. As part of the procedure, among other things, we challenged the assumptions in the valuations used by the Group by reference to independent market sources (including market pricing data).

We critically assessed the overall reasonableness of the estimated ECLs, including the loans provision coverage, by benchmarking them against available industry data.

We examined whether the loan impairment and credit risk-related disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the separate and the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:
- the other information describing matters that are also presented in the separate and the consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group'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 statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
The Supervisory Board is responsible for overseeing the Group's financial reporting process. The Audit Committee is responsible for monitoring the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 above 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 consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

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Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group by the General Meeting of Shareholders on 17 September 2020 and our uninterrupted engagement has lasted for 20 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 April 2021 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or consolidated annual report.

Report on Compliance with the ESEF Regulation

We have undertaken a reasonable assurance engagement on the compliance of all financial statements included in the consolidated annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"), related to the financial statements.

Responsibilities of the Statutory Body

The Company's statutory body is responsible for the preparation of financial statements that comply with the ESEF Regulation. This responsibility includes:

- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation;
- the preparation of all financial statements included in the consolidated annual report in the applicable XHTML format; and
- the selection and application of XBRL mark-ups as required by the ESEF Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the financial statements included in the consolidated annual report comply, in all material respects, with the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000").

The nature, timing and extent of procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance, but is not a guarantee that an assurance engagement conducted in accordance with the above standard will always detect any existing material non-compliance with the ESEF Regulation.

Our selected procedures included:

- obtaining an understanding of the requirements of the ESEF Regulation;
- obtaining an understanding of the Company's internal control relevant to the application of the ESEF Regulation;
- identifying and assessing the risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- based on the above, designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

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The objective of our procedures was to evaluate whether:

- the financial statements included in the consolidated annual report were prepared in the applicable XHTML format;
- the disclosures in the consolidated financial statements as specified in the ESEF Regulation were marked up, with all mark-ups meeting the following requirements:
  - the XBRL mark-up language was used;
  - the elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
  - the mark-ups complied with the common rules on mark-ups specified in the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

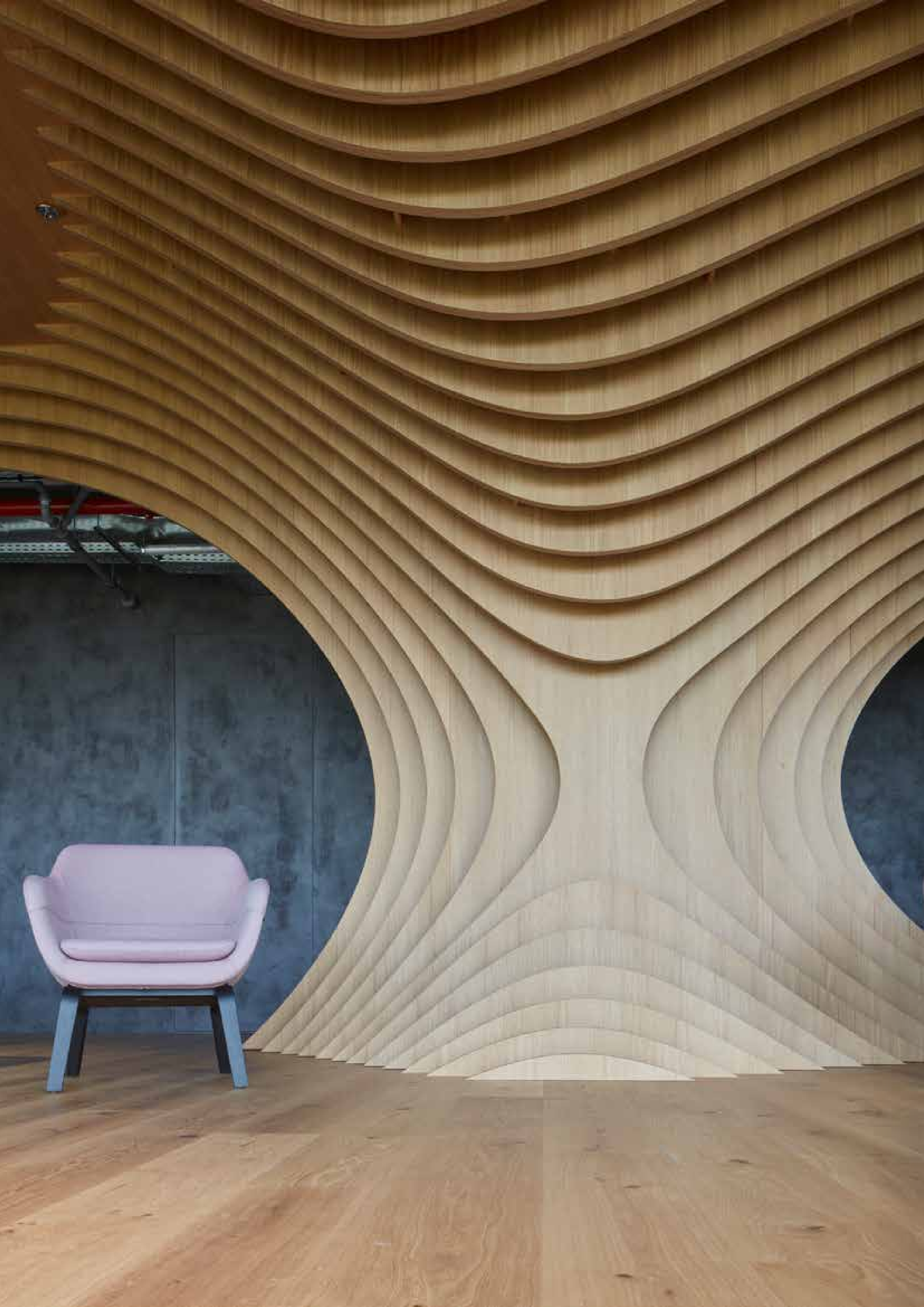
In our opinion, the Company's financial statements for the year ended 31 December 2020 included in the consolidated annual report are, in all material respects, in compliance with the ESEF Regulation.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the consolidated financial statements of J&T BANKA, a.s. as at 31 December 2020, based on which this independent auditor's report has been prepared.

Prague, 28 April 2021

Signed by	Signed by
KPMG Česká republika Audit, s.r.o. Registration number 71	Jindřich Vašina Partner Registration number 2059



21,46

billion CZK

Equity makes it possible to grow and develop in the years to come

Statement of financial position as at 31 December 2020

in millions of CZK	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	5	40,192	57,949
Due from banks and other financial institutions	6	2,287	1,442
Positive fair value of derivatives	7	1,036	955
Loans and advances to customers at amortised cost	10	93,381	62,959
Financial assets for trading	8a	8,333	2,324
Financial assets mandatorily at fair value through profit or loss	8b	8,401	7,578
Financial assets at fair value through other comprehensive income	8c	3,991	3,116
Disposal groups held for sale	1	240	64
Ownership interests	1	4,836	4,116
Current tax asset	23	104	–
Deferred tax asset	24	373	259
Property, plant and equipment	13	1,663	218
Intangible assets	14	105	92
Prepayments, accrued income and other assets	16	1,294	817
Total assets		**166,236**	**141,889**
Liabilities			
Deposits and loans from banks	17	1,405	4,492
Deposits from customers	18	132,428	107,549
Negative fair value of derivatives	7	764	622
Current tax liability	23	–	209
Subordinated debt	19	209	620
Provisions	21	1,473	1,290
Other liabilities	20	9,069	7,116
Total liabilities		**145,348**	**121,898**
Share capital	22	10,638	10,638
Retained earnings and other reserves	22	7,653	6,756
Other equity instruments	22	2,597	2,597
Total equity		**20,888**	**19,991**
Total equity and liabilities		**166,236**	**141,889**

The accompanying notes set out on pages 194 to 273 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2020

in millions of CZK	Note	2020	2019
Interest income calculated using effective interest rate method	25	4,566	4,881
Other interest income	25	144	111
Interest expense	26	(1,478)	(1,382)
Net interest income		**3,232**	**3,610**
Fee and commission income	27	1,258	1,340
Fee and commission expense	28	(300)	(209)
Net fee and commission income		**958**	**1,131**
Dividends from ownership interests		251	232
Net change in loss allowances for financial assets at fair value through other comprehensive income	12	(93)	(34)
Net trading income/(loss)	29	489	587
Other operating income	30	23	41
Operating income		**4,860**	**5,567**
Personnel expenses	31	(1,015)	(1,244)
Other operating expenses	32	(1,118)	(1,004)
Depreciation and amortisation	13,14	(158)	(140)
Operating expenses		**(2,291)**	**(2,388)**
Profit before allowances, provisions and income tax		**2,569**	**3,179**
Net change in provisions for off-balance sheet items and other financial activities	12	(101)	73
Net change in loss allowances for loans	12	(962)	704
Net change in allowances for ownership interests	1	(157)	(337)
Profit before tax		**1,349**	**3,619**
Income tax	23	(292)	(740)
Profit for the period		**1,057**	**2,879**
Attributable to:			
Shareholders of the Bank		1,057	2,879
Profit for the period		**1,057**	**2,879**

in millions of CZK	Note	2020	2019
Other comprehensive income – items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments			
Remeasurement to fair value		(9)	(3)
Expected credit losses		94	34
Related tax		2	1
Revaluation differences		(1)	(1)
Other comprehensive income – items that will not be reclassified to profit or loss in subsequent periods:			
Revaluation reserve – financial assets at fair value through other comprehensive income – equity instruments			
Remeasurement to fair value		(3)	7
Related tax		1	(1)
Other comprehensive income for the period, net of tax		**84**	**37**
Total comprehensive income for the period		**1 141**	**2 916**

The accompanying notes set out on pages 194 to 273 are an integral part of these financial statements.

The Board of Directors approved these financial statements on 28 April 2021.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Igor Kováč
Member of the Board of Directors

Statement of changes in equity for the year ended 31 December 2020

in millions of CZK	Share capital
Balance as at 1 January 2019	**10,638**
Total comprehensive income for the period	
Profit for the period	–
Dividends	–
Payment of earnings from investment certificates	–
Establishment of special-purpose fund for payment of revenue from inv. certificates	–
Other comprehensive income – items that will be reclassified to profit or loss in subsequent periods:	
Foreign exchange differences	–
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments	
Remeasurement to fair value	–
Expected credit losses	–
Related tax	–
Other comprehensive income – items that will be reclassified to profit or loss in subsequent periods:	
Revaluation reserve – financial assets at fair value through other comprehensive income – equity instruments	
Remeasurement to fair value	–
Related tax	–
Balance as at 31 December 2019	**10,638**
Balance as at 1 January 2020	**10,638**
Total comprehensive income for the period	
Profit for the period	–
Dividends	–
Payment of earnings from investment certificates	–
Establishment of special-purpose fund for payment of revenue from inv. certificates	–
Other comprehensive income – items that will be reclassified to profit or loss in subsequent periods:	
Foreign exchange differences	–
Revaluation reserve – financial assets at fair value through other comprehensive income – debt instruments	
Remeasurement to fair value	–
Expected credit losses	–
Related tax	–
Other comprehensive income – items that will be reclassified to profit or loss in subsequent periods:	
Revaluation reserve – financial assets at fair value through other comprehensive income – equity instruments	
Remeasurement to fair value	–
Related tax	–
Balance as at 31 December 2020	**10,638**

Further information about equity instruments is disclosed in note 22. The accompanying notes set out on pages 194 to 273 are an integral part of these financial statements.

	Retained earnings	Perpetuity fund	Other equity instruments	Revaluation reserve	Total
	5,290	**161**	**2,597**	**(80)**	**18,606**
	2,879	–	–	–	2,879
	(1,292)	–	–	–	(1,292)
	–	(239)	–	–	(239)
	(242)	242	–	–	–
	–	–	–	(1)	(1)
	–	–	–	(3)	(3)
	–	–	–	34	34
	–	–	–	1	1
	–	–	–	7	7
	–	–	–	(1)	(1)
	6,635	**164**	**2,597**	**(43)**	**19,991**
	6,635	**164**	**2,597**	**(43)**	**19,991**
	1,057	–	–	–	1,057
	–	–	–	–	–
	–	(244)	–	–	(244)
	(242)	242	–	–	–
	–	–	–	(1)	(1)
	–	–	–	(9)	(9)
	–	–	–	94	94
	–	–	–	2	2
	–	–	–	(3)	(3)
	–	–	–	1	1
	7,450	**162**	**2,597**	**41**	**20,888**

Statement of cash flows for the year ended 31 December 2020

in millions of CZK	Note	2020	2019
Cash flows from operating activities			
Profit before tax		1,349	3,,619
Adjustments for:			
Depreciation and amortisation	13, 14	158	140
Net change in loss allowances for loans	12	962	(704)
Net change in loss allowances for provisions for off-balance sheet items		101	(73)
Foreign exchange differences from losses resulting from impairment of loans	12	11	(20)
Amortised cost of sold intangible assets and property, plant and equipment		125	24
Change in other provisions		171	339
Change in revaluation of financial assets at fair value through profit or loss		(74)	(19)
Ownership interests – remeasurement of hedged item / FV hedge		399	(222)
Creation of allowances for ownership interests	1	157	337
Securities measured at FVOCI – remeasurement of hedged item / FV hedge		(6)	2
Impairment of financial assets measured at FVOCI	8c	93	34
Net unrealised foreign exchange gains /(losses)		(156)	41
(Increase) / decrease in operating assets:			
Compulsory minimum reserves in central banks		(822)	689
Due from banks and other financial institutions		(30)	233
Loans and other advances to customers		(31,383)	4,783
Financial assets for trading at fair value through profit or loss		(7,112)	322
Prepayments, accrued income and other assets		(477)	100
Increase / (decrease) in operating liabilities:			
Deposits and loans from banks		(3,087)	1,444
Deposits from customers		24,879	(5,387)
Deferred income, accrued expenses and other liabilities (without provisions)		1,187	197
Income tax paid		(713)	(645)
Credit Linked Notes paid		–	(52)
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		61	(171)
Net cash flows from operating activities		**(14,207)**	**5,010**

in millions of CZK	Note	2020	2019
Cash flows from financing activities			
Dividends paid		–	(1,292)
Distribution of income from other equity instruments		(244)	(239)
Repayment of subordinated debt		(411)	(129)
Lease liabilities paid		(88)	(73)
Net cash flows from financing activities		**(743)**	**(1,733)**
Cash flows from investing activities			
Acquisition of property plant and equipment and intangible assets		(767)	(63)
Ownership interests – contribution to capital		(1,087)	(90)
Financial assets at fair value through other comprehensive income		(962)	89
Net cash flows used in investing activities		**(2,816)**	**(64)**
increase in cash and cash equivalents		**(17,766)**	**3,214**
Cash and cash equivalents at beginning of period	5	57,949	54,737
Effects of exchange rate fluctuations on cash held		9	(2)
Cash and cash equivalents at end of period	5	40,192	57,949
Cash flows from operating activities include:			
Interest received		4,086,	4,803
Interest paid		949	,818
Interest paid / lease liabilities		1	2
Dividends received		273	263

The accompanying notes set out on pages 194 to 273 are an integral part of these financial statements.

Notes to the separate financial statements for the year ended 31 December 2020

1. General information

J&T BANKA, a.s. ("the Bank") is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank's licence was extended to include that activity.
The Bank's activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of the Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure, liquidity and the Bank's foreign currency position etc.

In 2020 the Bank changed its registered office to Sokolovská 700/113a, 186 00 Prague 8. The official name in Commercial register was changed from „J & T BANKA, a.s." to „J&T BANKA, a.s." due to Corporate Identity manual that does not approve the spaces around „&" mark.

The Bank (including its branch in the Slovak Republic) had the average of 553 employees in 2020 (2019: 529). The Bank operates in the Czech Republic and Slovakia.

A Slovak branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit "J&T BANKA, a.s., pobočka zahraniční banky", Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35 964 693.

The Bank's ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), and Rainbow Wisdom Investments Limited (9.90%).

Ownership interests
In connection with the shareholder's intention to centralise financial services under the Bank, the following companies have become subsidiaries of the Bank. The Bank provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. It is expected that all acquisitions will significantly contribute to the Bank's growth of profitability.

Balance at 31/12/2020 in millions of CZK

Company	Net balance	Impairment	Share capital	% shareholding	Principal activities	Country of incorporation
ALTERNATIVE UPRAVLJANJE d.o.o.	40	(10)	0,07	100	Investment act.	Croatia
ATLANTIK finanční trhy, a.s.	82	(192)	81	100	Investment act.	CR
J&T Bank, a.o.	1,966	(284)	1,835	99.95	Banking activities	Russia
J&T banka d.d.	290	(598)	1,068	84.17	Banking activities	Croatia
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	CR
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment act.	CR
J&T Leasingová společnost, a.s.	290	–	32	100	Financing activities	CR
J&T REALITY, o.p.f.	582	(67)	–	53.08	Investment act.	CR
J&T ADVANCED SOLUTION SICAV	–	–	–	99.97	Investment act.	Malta
J&T VENTURES I u.p.f.	178	–	–	94.14	Investment act.	CR
Rustonka Development II s.r.o.	986	–	0.10	100	Investment property	CR
TERCES MANAGEMENT LIMITED	271	(224)	0.06	99.00	Investment act.	Cyprus
Total	**4,836**	**(1,375)**				

On 15 June 2020, the Bank increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 110 million in excess of contributions made by the shareholders in the registered capital.

On 18 December 2020, the Bank purchased a 100% share in Rustonka Development II s.r.o. This company is the owner of the Rustonka building, in which the Bank has had its registered office since 14 September 2020.

In 2020, the Bank transferred its share in J&T VENTURES I u.p.f. from its portfolio of financial assets mandatorily at fair value through profit or loss to the portfolio of ownership interests as a result of the reassessment of control over the fund.

In 2020, the Bank created allowances for ownership interests of CZK 157 million.

A year-on-year change in total allowances for ownership interests of CZK 115 million was affected by additions to allowances in 2020 and by a positive foreign exchange difference of CZK 42 million from the translation of allowances for ownership interests in currencies other than Czech crowns.

During 2020, no restrictions applied to the ownership rights held over subsidiaries.

Balance at 31/12/2019 in millions of CZK

Company	Net balance	Impairment	Share capital	% shareholding	Principal activities	Country of incorporation
ALTERNATIVE UPRAVLJANJE d.o.o.	39	(10)	0,07	100	Investment act.	Croatia
ATLANTIK finanční trhy, a.s.	82	(192)	81	100	Investment act.	CR
J&T Bank, a.o.	2,481	(197)	2,323	99.95	Banking activities	Russia
J&T banka d.d.	285	(587)	1,048	84.17	Banking activities	Croatia
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	CR
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment act.	CR
J&T Leasingová společnost, a.s.	180	–	32	100	Financing activities	CR
J&T REALITY, o.p.f.	582	(67)	–	53.08	Investment act.	CR
J&T ADVANCED SOLUTION SICAV	–	–	–	99.97	Investment act.	Malta
TERCES MANAGEMENT LIMITED	316	(207)	0,06	99.00	Investment act.	Cyprus
Total	**4,116**	**(1,260)**				

On 26 September 2019, the Bank increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 40 million in excess of contributions made by the shareholders in the registered capital.

On 14 October 2019, the Bank purchased a 100% share in ALTERNATIVE UPRAVLJANJE d.o.o. This company owns a 11.86% share in J&T banka d.d, which increased the Bank's total share in J&T banka d.d. to 96.03%.

In 2019, the Bank created allowances for ownership interests of CZK 337 million.

A year-on-year change in total allowances for ownership interests of CZK 331 million was affected by additions to allowances in 2019 and by a positive foreign exchange difference of CZK 6 million from the translation of allowances for ownership interests in currencies other than Czech crowns.

During 2019, no restrictions applied to the ownership rights held over subsidiaries.

Disposal groups held for sale

Company	Balance	% Shareholding	Principal activities	Country of incorporation
Balance at 31/12/2020 in millions of CZK				
J&T Ostravice Active Life UPF	64	46.74	Investments in companies owning real estate	CR
J&T DIVIDEND Fund	176	56.77	Investment act.	CR
Total	**240**			
Balance at 31/12/2019 in millions of CZK				
J&T Ostravice Active Life UPF	64	46.74	Investments in companies owning real estate	CR
Total	**64**			

In autumn 2020, J&T Ostravice Active Life UPF began offer plots of land within the second phase planned for the location. The networking of other parts of land is still in progress, as it is the key condition for the sale of land in the following years. The occupancy permit procedure is planned to be completed by the end of 2021. After further sale of land, there will be more redemptions, and the Bank's shareholding will decrease.

J&T DIVIDEND Fund was reclassified from financial assets mandatorily at fair value through profit or loss to assets held for sale owing to the Bank's intention to actively sell the respective assets to clients on the market during the course of 2021.

2. Basis of preparation

(a) Statement of compliance

The unconsolidated financial statements comprise the accounts of the members of the Bank and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 01 January 2020 to 31 December 2020 ("reporting period").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except for financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives, which are measured at fair value.

The Bank maintains its accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

The below-stated accounting methods have been applied consistently in all periods presented in these financial statements.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2020, and have not been applied in preparing these financial statements:

Amendments to IFRS 16 Leases- COVID-19-Related Rent Concessions

Effective for annual periods beginning on or after 01 January 2020.

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

This practical expedient is not available for lessors.

The Bank expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Standards and interpretations issued but not yet endorsed by the EU

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The European Commission decided to defer the endorsement indefinitely.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank expects that the Standard will not have a significant effect on the financial statements of the Bank.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current
Effective for annual periods beginning on or after 01 January 2023.

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The Bank expects that the Standard will not have a significant effect on the financial statements of the Bank.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use
Effective for annual periods beginning on or after 01 January 2022.

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The Bank expects that the Standard will not have a significant effect on the financial statements of the Bank.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Effective for annual periods beginning on or after 01 January 2022.

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Bank expects that the Standard will not have a significant effect on the financial statements of the Bank.

Annual Improvements to IFRS Standards 2018-2020
Effective for annual periods beginning on or after 01 January 2022.

Amendment to IFRS 9 Financial Instruments
The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under

the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendment to Illustrative Examples accompanying IFRS 16 Leases
The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

The Bank expects that the Standard will not have a significant effect on the financial statements of the Bank.

Other new International Financial Reporting Standards and Interpretations not yet effective
The Bank has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Bank elects to apply the standards prospectively from the date of transition. The management of the Bank does not expect that further new standards will have any significant impact on the financial statements of the Bank.

(c) Functional and presentation currency
The accompanying financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million. Functional currency of the Slovak branch is the Euro ("EUR").

3. Accounting policies

The particular accounting policies adopted in preparation of the accompanying financial statements are described below.

(a) Financial assets and liabilities
Classification and measurement of financial assets and liabilities

Financial assets under IFRS 9
The Bank assesses the classification and measurement of a financial asset based on:
- the Bank 's business model for managing the asset such as:
  - the stated policies and objectives for the portfolio and the operation of those policies in practise;
  - how the performance of the portfolio is evaluated and reported;
  - the risks that affect the performance of assets, including the strategy of their management;
  - the frequency, volume and timing of sales in prior periods, including the reasons for such sales and expectations about future sales activity;
- the contractual cash flow characteristics of the asset ("SPPI - solely payments of principal and interest on the principal outstanding").

The Bank defines business models and its classification as follows:
- "Hold and collect" – financial assets at amortised costs (AC);
- "Hold, collect and sell" – financial assets at fair value through other comprehensive income (FVOCI);
- "Trading" – financial assets at fair value through profit and loss (FVTPL);
- "Fair value option" – financial assets at fair value through profit and loss;
- "Mandatorily at fair value" – financial assets at fair value through profit and loss.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI). For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI.

The Bank takes into consideration the following criteria when performing an SPPI test:
- non-standard currency characteristics;
- non-standard interest rate;
- financial leverage;
- early repayment options;
- longer repayment options;
- non-recourse arrangement;
- contract-linked instruments;
- hybrid instruments;
- instruments purchased with a significant discount/premium.

Financial assets at amortised cost

The "Hold and collect" strategy is aimed at holding financial assets in order to collect contractual cash flows of both principal and interest payments. Examples of such financial assets are loans, securities held to maturity, and trade receivables. Breach of the "Hold and collect" model does not occur even if there is a significant increase in counterparty credit risk during the course of the holding of the financial asset and the Bank decided to proceed with the sale of that asset.

Financial assets in the model "Hold and collect" are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments plus or minus the cumulative amortised cost using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance – expected credit loss. Expected credit loss is recognised in profit or loss together with foreign currency differences and interest income using the effective interest rate.

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" is aimed at both collecting contractual cash flows from the principal and interest and selling financial assets; the model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment for equity instruments and for debt instruments.

Debt instruments that meet the criteria of SPPI test in the business model 'hold, collect and sell' are measured at fair value through other comprehensive income. When the financial asset is derecognized, gain or loss from remeasurement is reclassified to profit or loss. Expected credit losses are recognized in profit or loss together with foreign exchange differences arising from the amortised cost. Interest income is calculated using the effective interest rate and is presented in Net interest income.

If impairment of a debt instrument is identified, accumulated gains or losses recorded in prior periods in other comprehensive income are reclassified to profit and loss as at the reporting date.

Equity instruments that are held within the strategy "Hold, collect and sell" and not held for trading are measured as financial assets at FVOCI including FX differences from remeasurement. When this financial asset is derecognized, gain or loss from remeasurement is not recognized in profit or loss. Where dividends do not decrease the investment value, they are recognized in profit or loss. These assets are not subject to ECL calculation.

Financial assets at fair value through profit or loss

Strategy "Trading" is aimed at actively trading with financial asset. The collection of cash flows is only random in relation to the business model objective. Typical assets in this category are trading derivatives and trading financial assets. Changes in fair values of these assets including FX differences are recognised in profit or loss. These assets are not subject to ECL calculation.

Strategy "Fair value option" is used for assets that are at initial recognition irrevocably designated as measured at FVTPL in order to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains and losses using different bases. Debt instruments are measured at FVTPL, although they meet the criteria for a measurement at AC or FVOCI.

Strategy "Mandatorily at FV" is used for financial assets that are held for the purpose of holding and collecting, or holding and collecting and selling, but which have not passed through the SPPI test and cannot be measured at AC or FVOCI.

Reclassification
If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

Initial recognition
On initial recognition at the date of transaction, the Bank recognizes financial assets and financial liabilities at fair value adjusted for transaction costs directly attributable to the acquisition/issue or disposal of a financial asset/liability. Trade receivables without a significant financial component are recognized at the transaction price. Transaction costs related to the acquisition of financial assets measured at fair value through profit or loss are directly charged to the statement of comprehensive income.

Financial assets at FVTPL are recognized on the date the Bank commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

Financial assets classified at FVOCI are recognized on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Measurement
Subsequent to initial recognition, all assets designated at FVTPL and all at FVOCI are measured at fair value according to Note 4 (Determining fair values). Any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial assets is based on their quoted market price at the reporting date, without any deduction for transaction costs. If a quoted market price is not available, the fair value of the asset is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement
Gains and losses arising from changes in the fair value of financial assets at FVTPL are recognised in profit or loss while gains and losses arising from changes in the fair value of FVOCI assets are recognized directly in equity as differences arising from revaluation of assets and liabilities. When a debt asset measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity instrument designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to equity.

Interest on debt instruments measured at FVOCI is recorded in the statement of comprehensive income.

Derecognition
A financial asset is derecognised when the Bank's contractual rights to cash flows from financial assets expire or the Bank transfers the rights to receive contractual cash flows within a transaction during which in principle all rights and rewards arising from the ownership of financial assets are transferred or during which the Bank does not transfer or maintain in principle all risks and rewards arising from the ownership of the financial assets nor does it maintain control over the financial assets. Upon derecognition, the difference between the asset's carrying amount, and the sum of the consideration received and any cumulative gain or loss previously recorded in other comprehensive income is recognised in profit or loss.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised on the date the Bank commits to sell the assets.

Financial assets held to maturity and provided loans and receivables are derecognised on the date the Bank sold them.

The Bank derecognises financial liabilities when the related obligation specified in the contract has been discharged, cancelled, or expired.

Financial liabilities under IFRS 9
Financial liabilities are classified and measured at amortized cost with the exception of:
- financial liabilities held for trading including derivatives – these are measured at FVTPL;
- financial liabilities that use the option to be measured at FVTPL - FV Option;
- financial liabilities arising from the transfer of financial assets that do not qualify for derecognition – short sales measured at FVTPL;
- contingent liabilities (if IFRS 9 recognition criteria are met) – measured at FVTPL;
- hybrid financial liabilities when the fair value measurement results in:
  - the elimination or significant limitation of the mismatch between the financial liability that would normally be measured at amortized cost and the related derivative measured at fair value;
  - the measurement of a hybrid contract as a whole, even if it contains an embedded derivative that would otherwise have to be separated.

The change in the fair value of financial liabilities associated with the change in credit risk is presented in other comprehensive income. The other part of the change in FV is presented in profit or loss. It is the difference between the credit risk and the performance risk of a particular assets – the risk an asset or group of assets will be underperforming or its performance will be impaired. An example may be a liability to investors whose performance is determined by the performance of a specific asset (e.g. Investment certificates).

In provisions within liabilities, the Bank also reports ECL for off-balance sheet items in form of granted commitments and guarantees.

Impairment
The Bank applies the IFRS 9 model of expected credit losses (ECL), which means that a loss event will no longer need to occur before an impairment allowance is recognised. The impairment model in IFRS 9 shall apply to financial assets measured at amortised cost, debt instruments measured at FVOCI, and loan commitments and financial guarantees measured at amortised cost.

For the purposes of ECL model calculation, the portfolio of financial assets is split into three segments (Stage 1,2,3) or in the group of financial assets that are impaired at the date of the initial recognition - Purchased or originated credit-impaired assets ("POCI"). At the date of the initial recognition, the financial asset is included in Stage 1 or classified as POCI and recorded in Stage 3. Subsequent reclassification to other stages is carried out depending on the rate of increase in credit risk (Stage 2), i.e. the impairment of a particular asset from the moment of initial recognition (Stage 3).

Stage 1
- initial recognition of a financial asset;
- 12-month ECLs - all discounted cash flows that are not expected to be received until maturity of the financial asset that result from possible default events within the 12 months after the reporting date;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 2
- if the credit risk increases significantly from the initial recognition of the financial asset, the financial asset is reclassified to Stage 2;
- lifetime ECLs that result from all possible default events over the expected life of a financial instrument, i.e. all discounted cash flows that are not expected to be received until maturity of the financial asset as a result of a default;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 3
- the credit quality of the financial asset has significantly deteriorated and resulted in a credit loss or impairment of the asset;
- lifetime ECLs are used to calculate impairment;
- interest income should be calculated from net amortised costs, i.e. from the gross carrying amounts ("GCA") decreased by ECLs;
- lifetime ECLs are used to calculate impairment – all discounted cash flows that are not expected to be received until the maturity arising from a default event.

Financial assets with low credit risk

The Bank may decide that a credit risk of a financial asset did not increase significantly where the asset is classified as an asset with a low credit risk as at the end of the reporting period.

The credit risk of a financial instrument is considered to be low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations. Hedging does not affect a decision on whether or not an asset is classified as having a low risk of default.

Lifetime ECL's of a financial asset are not calculated solely on the basis of the low-risk classification in the last accounting period, but on the basis of an assessment at the balance sheet date. In this case, the Bank assesses whether there has been a significant increase in credit risk.

However, financial assets are not deemed financial assets with low credit risk where collateral influences whether a financial instrument has a low credit risk. In addition, financial assets are not deemed financial assets with low credit risk solely due to the fact that they have a lower risk of default than other financial assets.

At the end of the reporting period the Bank assesses whether individual financial assets with a low credit risk classified in Stage 1 meet the characteristics pertaining to this stage.

Purchased or originated credit-impaired financial assets (POCI)

In addition to purchased defaulted loans, POCI may arise as a result of the restructuring of borrowers in financial difficulties that lead to significant changes in terms of the loan and result to derecognition. Apart from the recognition of losses arising from significant changes to assets, no losses are initially recorded, without distinguishing between 12-month and lifetime ECLs. Initial ECL over the lifetime shall be taken into account in the EIR which takes into account credit risk of counterparty that is subsequently used to record interest revenue. Subsequent changes in the ECL are recorded against the impairment loss/gain and loss allowance. These assets are categorized separately (in nature they are similar to Stage 3) and remain so for the entire period of the holding.

Significant increase in credit risk

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial asset as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Bank adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Bank will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

The Bank may assume that the credit risk associated with the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial asset since its initial recognition, the Bank uses reasonable and supportable information that is relevant and available without undue cost or effort.

Quantitative factors to be considered in assessment:

- the receivable or its significant portion is overdue for more than 30 days;
- credit risk deterioration will be considered on the basis of a change in rating since initial recognition. The current rating is compared with the rating assigned at the time of initial recognition;
- the Bank uses internal rating system with 12 rating grades and the transition matrix which defines movements (rating deterioration) considered as significant, the 13th grade is referred as default: The Bank uses the transition matrix which defines movements (rating deterioration) considered as significant:
  - ratings 1-3 falling under investment grade are considered to be low credit risk, migrations within these ratings are not considered to be SICRs;
  - for other grades, the PD formula is used, after which the exposure will be assigned to Stage 2;
  - in line with the regulatory recommendation, the Bank uses a maximum of three times the PD increase for Stage 2 transition to ensure that the PD threshold for Stage 2 is not greater than three times the rating PD's average PD for any rating class a specific exposure can happen, but only if the corresponding PD is lower than its PD of the highest rating when it is created;
  - at the same time, the value of the thresholds increases with higher ratings, so that for high ratings with a high PD mean less than a threefold increase in PD, all significant changes in PD are captured.

Quantitative factors to be considered in assessment:

- the nature of the project has changed with a negative impact on the debtor's ability to generate cash flow;
- the debtor does not meet non-financial contractual obligations for more than 6 months etc.

For other products such as debits and repurchase agreements (reverse repurchase agreements with clients), the Bank does not determine ratings, scoring, and PD, and consequently may not compare their development for SICRs purposes over the time as in the case of other credit receivables. In such cases, credit risk deterioration is assessed based on other credit quality factors of an entity from which the Bank reports receivables, e.g. specific phases occurring during the debt collection process, exceeding the period for the reporting of receivables from the entity, etc.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events defined as the "default of the borrower" that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

To determine whether a financial asset is in default, the Bank assesses the common signs of default that are listed below:

- the situation when the Bank filed a petition for declaring the bankruptcy of the debtor;
- the situation when the debtor has applied for bankruptcy announcement;
- the situation when the bankruptcy was announced;
- the debtor has entered or intends to enter into liquidation;
- the court has ruled that the debtor (legal person) was not founded (does not exist) or the debtor (natural person) has died;

- the final judgement of the court or administrative authority was ordered to enforce the decision by selling the debtor's assets or executing the debtor's assets;
- the situation when the debtor's liability to the Bank (or its significant portion) is overdue for more than 90 days;
- the situation when the receivable in the category of default must be restructured;
  - delay in expected funding from another financial institution for more than 12 months;
  - the situation when payments in the aggregate amount of at least 50% (in the sense of monitoring the repayment from the point of granting the loan) have been reduced, etc.

Financial assets where the debtor's default is proved are classified in Stage 3 or designated as POCI, if the relevant conditions have been met as at the date of the financial asset's initial recognition.

If a bond instrument is impaired at FVOCI, gains and losses recognized in prior periods in OCI are reclassified to profit or loss in that period.

In the event of an impairment of an equity instrument at FVOCI as a result of a decrease in share capital, the resulting profit is recognized in equity.

Determination of expected credit losses (ECL)
The term ECL refers to the multiplication of probability of default (PD), expected loss given default (LGD) and exposure at default (EAD).

The Bank updates ECLs as at the reporting date, i.e. at the end of each month. ECL are measured on an individual basis, for loans with similar economic risk characteristics. The measurement is based on the present value of expected future cash flows from the asset, using the original EIR for assets with fixed interest rate, and the current EIR for assets with variable interest rate.

Determination of probability of default (PD)
The probability of default comprises a calculation of the likelihood that a default event will occur for the exposure. The Bank takes as a basis a scoring, for non-derivative financial assets with fixed or determinable payments not listed on active market, and for loan commitments and guarantees issued and credit lines not drawn.

Probability of default is not determined for assets, loan commitments, guarantees and credit lines not drawn that the Bank intends to sell immediately or in near future, if they are classified as held for trading, or if designated upon initial recognition as instruments at fair value through profit or loss or as equity instruments through other comprehensive income.

The calculation of PD applied by the Bank is divided into 2 steps: calculation of one-year PDs as the long-term average of observed failure rates; and calculation of multi-annual (cumulative) PDs. Probability of default is assigned as follows:
- if the exposure is included in Stage 3, PD is 100 %;
- if the exposure is included in Stage 2, the corresponding life-time PD is assigned to the exposure;
- if the exposure is included in Stage 1, maximum one-year PD is determined;

Probability of default (PD) over a selected number of years is calculated using a credit migration matrix, in particular the Markov Matrix, a square transition matrix multiplied according to the selected number of years. The outcome is multi-annual (depending on the selected horizon) probability of default (PD) of a given rating.

An external rating is assigned to every internal rating stage, so the corresponding external PD falls within the PD interval for the appropriate internal rating stage (on condition that such external PD exists). If external PD does not exist, the rating as close to the centre of the internal rating interval as possible is used. Probability of default (PD) during the cycle is subsequently adjusted according to macroeconomic developments to reflect the appropriate phases of the economic cycle.

Scoring models also use external data (i.e. benchmarking models). These are usually used for portfolios in which the variables used are identical or very similar for a large number of banks (e.g. operating financing or employee loans).

Determination of loss given default (LGD)
LGD, which is necessary for the calculation of ECL, is an estimate of the loss arising when default occurs at a given time (expressed as percentage).

LGD is determined individually in the form of a scenario analysis or a credit analysis. Individual LGD is determined as weighted average of relevant cash flows according to the scenario analysis. The Bank commonly uses scenarios such as: breach of covenants resulting in full repayment request, significant decrease in financial performance (i.e. significantly below the thresholds for immediately full repayment of the contract), realization of collateral or severe drop in performance parameters. In determining the LGD value, the Bank takes into account collateral of the receivable, when the Bank has legal right that in the event of default of the borrower, the collateral can be realized within reasonable time. For collateralized receivables, the calculation of the present value of the expected future cash flows also takes into account expenses associated with the realization of collateral. For the purposes of LGD calculation, the Bank takes into account only collateral up to the amount that is not used as security for other assets or assets of third parties if they are entitled to satisfaction before the Bank (i.e. value of such collateral is reduced by the amount owed to more senior debtors).

Furthermore, collateral is used only up to the carrying amount of the collateralized assets recognized in the balance sheet.

For homogeneous segments below the materiality threshold, such as credit cards, overdrafts and loans, or in case of lack of data, LGDs may be determined from historical observations, from parameters set in the regulatory framework or from the average of historical LGDs published by a local national bank (e. g. Czech National Bank) in the Financial Stability Report. Nonetheless, regular calibration of these parameters is performed at least once a year on the basis of current data.

Determination of Exposure at default (EAD)
Determination of Exposure at default (EAD) EAD refers to the level of exposure at default of the client which is then multiplied by PD and LGD in order to calculate the expected credit loss (ECL). Thus, EAD is a discounted estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.

For off-balance sheet exposures, the EAD represents the approved undrawn commitment adjusted by the conversion factor. Not enough data is usually available to compile a statistical model for determining CCF for credit products, so the CCF may be determined on the basis of the historical experience (e.g. overdrafts, cards) or regulatory parameters (e.g. for guarantees and commitments).

Forward looking indicators
The expected loss model also considers information about future events. This information includes outlooks for industries in which individual counterparties operate, analysis from economic experts, financial analysts reports, data from government institutions, think tanks and other, including also consideration of internal and external sources of information relating to the current and future state of the general economic issues. The Bank assigns counterparties relevant internal assessment of credit risk depending on their creditworthiness.

ECL presentation in the statement of financial position:
- for financial assets measured at amortised cost as a deduction from the GCA of the assets;
- for debt instruments measured at fair value through OCI, expected credit losses are not deducted from the carrying amount of a financial asset, as the carrying amount is already measured at fair value. However, an allowance is recorded as a decrease in revaluation reserve in OCI;
- for loan commitments and financial guarantee contracts generally as a provision.

Modification of financial assets
If there is a change in the cash flows of a financial asset due to a change in the contractual terms between the Bank and the counterparty (modification not only due to financial difficulties) while the change in the terms of the contract is classified as significant, the financial asset is derecognised and a new financial asset is recognised at fair value, including transaction costs. The present value of cash flows is discounted using a new effective interest rate, which is also used for a calculation of interest revenues.

If the change in the terms of the contract is not classified as significant (i.e. the difference between the net present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows is close to 10%) and the financial asset was not derecognized, the Bank recalculates the present value of the modified cash flows from the financial asset, and the difference between the gross carrying amount before the change in the terms and conditions (not considering existing impairment) is recorded as the effect of the modification of assets to the profit or loss. The present value of the modified cash flows is discounted using the original EIR.

Costs and fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

Write-off

The gross carrying amount of a financial asset should be reduced directly when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This involves situations in which the Bank determines that the debtor does not have necessary assets or resources of income to repay the debt. The assessment is performed on an item-by-item basis. In the case of write-off, the Bank directly decreases the gross carrying amount of a financial asset. Write-offs do not affect profit or loss, as the written-off amounts are included in loss allowances. A write-off constitutes a derecognition event. However, derecognised financial assets may still be recovered by the Bank in accordance with its debt recovery policies.

Treasury bills

Treasury bills, comprising bills issued by Czech government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives

Derivatives including currency forwards, cross currency swaps, interest rate swaps and options are initially recognised in the statement of financial position at fair value. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognised as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when these do not involve financial instruments under IFRS 9, their risks and characteristics are not closely related to those of the host contract, financial instruments enjoy the same conditions as embedded derivatives and would meet the definition of financial derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in Net trading income.

Hedge accounting – Fair Value Hedge

The Bank decided to continue the original recognition under IAS 39 as part of its choice to apply IFRS 9 when recognising hedging derivatives. Hedging derivatives are derivatives that serve the Bank to hedge the currency risk and meet all conditions of the classification of hedging derivatives under International Accounting Standards.

At the inception of a hedging transaction, the relationship between the hedging instrument and the hedged item is documented. Hedge effectiveness is tested during the inception and duration of the hedging relationship by mutually offsetting changes in fair value or cash flows of the hedging instrument and the hedged item with the result in the range from 80 to 125%.

Changes in the fair value of derivatives to hedge against changes in fair value are recognised in the income statement together with changes in the fair value of hedged assets and liabilities to which a hedging risk can be assigned. Hedge accounting is discontinued when the hedging relationship is terminated by the Bank, the hedging instrument expires,

is sold, terminated, or the respective contract is exercised, or the hedging relationship ceases to meet the criteria of hedge accounting.

The positive fair value of hedging derivatives is recognised as Positive fair value of derivatives within assets in the statement of financial position. The negative fair value of hedging derivatives is recognised as Negative fair value of derivatives within liabilities and equity in the statement of financial position. A change in the fair value of hedging derivatives and of the hedged item is recognised as Net trading profit or loss in the statement of comprehensive income.

(b) Sale and repurchase agreements

Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received.

Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded in the statement of financial position and the consideration paid is recorded as a loan granted. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repurchase and reverse repurchase transactions are recognised on a settlement date basis.

(c) Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Depreciation is carried out on a straight-line basis over the estimated useful economic lives of assets, ranging from 2 to 21 years.

Software	
Operating applications	3-9 years
Application for management of clients' portfolios	2-10 years
Application for management of banking products	18 - 21 years
Other intangible assets	2-9 years

(d) Property, plant and equipment

Intangible assets are stated at historical cost less depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset.

Buildings	30-50 years
Office equipment, safe deposit boxes	3-10 years
Fixtures and fittings	3-5 years
Right of use	according to the duration of a lease contract

Land is not depreciated. Assets under construction are not depreciated.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(e) Leases

Bank as the lessor

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

Bank as the lessee

The Bank applies IFRS 16 to all leases. At the commencement date of a contract, the Bank assesses whether the contract has the character of a lease or contains a lease. A contract has the character of a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank assesses whether the contract contains a lease for each potential individual lease component. The broader economics of the contract are taken into account in respect of short-term leases.

If a contract contains a lease, the Bank as the lessee recognises the right-of-use asset and the lease liability as at the start of the contract. The classification of the right-of-use into tangible/intangible assets class is based on the leased asset, i.e. on the underlying asset. The Bank has lease contracts where the leased assets are buildings (the bank's office premises, branches) and cars.

The Bank uses the exception for lease classification under IFRS 16 for:

- short-term leases
  - leases with a lease term of 12 months or less as at the commencement date of the lease
  - leases concluded for an indefinite lease term with a notice period of less than 12 months
- leases whose underlying asset has a low value (EUR 5 000/CZK 130 000)
  - underlying low-value assets can include for instance tablets and personal computers, small items of office furniture and phones.

The Bank as the lessee recognises lease payments relating to lease contracts in the recognition exemption regime as expenses over the term of the lease.

As at the commencement date, the Bank shall measure the right-of-use asset at acquisition cost. Acquisition cost of a right-of-use asset includes the amount of lease liability initial recognition, all lease payments made at or before the commencement date net of all lease incentives received, all initial direct costs incurred by the Bank, an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Bank shall measure the right-of-use asset using the model of measuring at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

As at the commencement date, the Bank shall measure the lease liability as the present value of lease payments that have not been paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Bank's incremental borrowing rate, if not.

On initial recognition, the Bank subsequently measures the lease liability by recognising interest on the lease liability, decreasing the carrying amount of the liability to reflect lease payments, remeasuring the carrying amount to reflect any lease revaluation or modifications.

After commencement date, the Bank as the lessee recognises in the statement of comprehensive income interest on a lease liability and a variable lease payment not included in the measurement of a lease liability.

The Bank shall reassess whether the contract has the character of a lease or contains a lease only if the terms and conditions of the contract are changed.

While right-of-use assets are presented under Property, plant and equipment in the statement of financial position, lease liabilities are presented under Other liabilities. The Bank recognises interest expense on a lease liability separately from the right-of-use asset depreciation in the statement of comprehensive income. Lease liability interest expense represents a component of finance expense.

(f) Foreign currency translation

Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(g) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses).

For purchased or originated credit-impaired financial assets (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income from debt instruments in FVTPL is recognised as other interest income.

Penalty interest is recorded as off-balance sheet items and recognised as interest income at the moment the payment from the debtor is received.

Negative income from financial assets is recognized as interest expense, positive income from financial liability as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fee and commission is accounted for pursuant to IFRS 15, applying the basic principle according to which revenue is recognised in a manner to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To apply the basic principle of recognising revenue under IFRS 15, the Bank applies the following five-step model:

1. identification of a contract
2. identification of contractual obligations (so called “performance obligation”)
3. determination of the transaction price
4. allocation of the transaction price to each performance obligation
5. recognition of revenue when a performance obligation is satisfied.

Fees and commissions are divided into the following groups based on the nature of the fee and the type of service provided:

- fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
- fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
- fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

The Bank accounts for fees and commissions based on their nature as follows:

- fees and commissions are accounted for in accordance with the accruals principle and are released into profit or loss on a straight-line basis; these include fees and commissions relating to:
  - administrative services for collective investment activities

  - administration, management, custody and safekeeping of valuables
  - loan activities including fees for the provision of loan commitments ( )
  - other fees and commissions
- fees and commissions are recognised once the transaction takes place; these include fees and commissions associated with:
  - issue of securities
  - obtaining financial instruments
  - mediation of payment transactions.

(h) Income tax

Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(i) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Bank has no further pension or post retirement commitments.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks (excluding statutory minimum provisions) and other banks and short-term highly liquid assets with original maturities of three months or less.

(k) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(m) Ownership interests

The subsidiary consists of participation with controlling influence in an entity where the Bank identified control/supervision. Control arises when the Bank receives or is entitled to receive variable returns from its participation in the company and has the ability to affect those returns through its power over the company, regardless of the ownership share.

In the case of control/supervision all following conditions must be met:
- power over the company in which it has been invested;
- the right or authority to acquire rights to obtain variable returns based on the investment in the company;
- the ability to use the power over the company, in order to influence the amount of the Bank's returns from this investment.

An associate enterprise consists of participation with significant influence is an entity where the Bank has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in decisions on the financial and operating policy of the invested subject, but it does not involve control or joint control over those policies.

A joint venture is a joint arrangement where parties that together control the arrangement have rights to the net assets of this arrangement. Joint control is the contractually agreed sharing of control over the arrangement which exists when decisions about the relevant activities require the unanimous consent of the parties that share control.

Ownership interests are appraised at cost. The Bank creates allowances to this appraised ownership interests on the date of the annual financial statements in the amount of the difference between the value of appraised ownership interests recorded in the accounting and the recoverable amount.

The Bank applies fair value hedge accounting for ownership interests held in foreign currency that applies only to foreign currency risk.

(n) Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are available for immediate sale in their present condition; they are offered for sale at a price which is appropriate compared to their fair value and a plan of sale leading to finding a buyer has been started, i.e. the sale is highly probable. If the situation in the market allows, the sale is expected to be completed within one year from the date of classification to "Disposal groups held for sale".

Disposal groups held for sale are measured at the lower of:

– Net book value of the asset at the date of classification to "Disposal groups held for sale";
– The fair value less estimated costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(o) Dividends

Dividend expense is recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the statement of profit or loss depends on the classification and measurement of the ownership interests, i.e.:

– for equity instruments which are held for trading, dividend income is presented in net trading income;
– for equity instruments designated at FVOCI, dividend income is presented in net trading income except for those resulting from a decrease in share capital of the invested entity, which is recorded in other comprehensive income.
– for equity instruments that are not designated at FVOCI and are not held for trading, dividend income is presented in dividends from ownership interests in the statement of comprehensive income.

(p) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

(q) Other equity instruments

Other equity instruments are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter "Certificates"). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of equity and debt securities.

The Bank classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:

- the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
- if the Certificates are or may be settled in the entity's own equity instruments, the Certificates are non-derivative instruments, which include no contractual obligation for the issuer to deliver a variable number of its own equity instruments.

The Bank may redeem the Certificates with the approval of the Czech National Bank. Holders of Certificates have no right to ask for redemption, except in the event of the Bank's liquidation.

The Bank commits to paying interest income generated from Certificates to the holders but may also decide not to pay the interests accrued by the Certificates without compensating this in future periods. The Bank will pay interest if there are funds available and if it is approved to be used by the General Meeting of the Bank. When there are not sufficient funds available, the payment is reduced proportionately. Payment of earnings can be drawn from:

- the Bank's net income after allocation to mandatory (reserve) funds ascertained in the Bank's unconsolidated financial statements for the given reporting period;
- retained earnings;
- other equity components that the Bank is authorised to distribute to its shareholders by its decision.

As the Bank has no obligation to deliver cash to the holders of Certificates or to settle the contractual obligation by providing other financial assets, (i.e. Certificate holders do not have right to redemption of the principal amount or the interest income and as the Certificates have no maturity date), they are included in additional Tier 1 capital (AT1). This inclusion is subject to approval by the Czech National Bank.

4. Critical accounting estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Expected credit losses

Expected credit losses are determined for those assets classified at amortised cost, debt instruments at fair value through other comprehensive income, guarantees and commitments. Basis used for its calculation and principles considered are described in accounting policy 3(a).

Calculation of expected credit losses and identified future liabilities considers uncertainties about the results of related risks and requires significant Bank's management assessments when estimating the amount of loss, including future economic conditions and credit behaviour.

Amounts reported as provisions for off-balance sheet items are based on management's judgement and represent the best estimate of expenditures required to settle the liability with uncertain timing or the uncertain amount of the obligation.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(a). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Bank determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:

- Level 1 - entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Bank has access at value date;
- Level 2 - inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  - quoted prices of similar assets or liabilities in active markets,
  - quoted prices of identical assets on markets that are not active,
  - input quantities other than quoted prices that are observable,
  - market-supported inputs;
- Level 3 - inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:

a) the items traded on the market are homogeneous;
b) it is possible to find willing buyers and sellers at any time and
c) prices are publicly available.

If there is no active market for the financial asset, the fair value is estimated using valuation techniques. When using valuation techniques, management uses estimates and assumptions based on available information about the estimates and assumptions that market participants would use to determine the price of the financial instrument.

In the vast majority of cases, the fair value of Level 3 investments, debt instruments, provided loans, was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specifics of the industries and countries in which the investments operate.

The key assumptions used in the valuations were the expected cash flows and discount rates.

The structure of selected assets and liabilities following the hierarchical system is described in note 45. Detailed information on securities classified in Level 3 are disclosed in note 8.

4.1. The COVID-19 pandemic

The COVID-19 pandemic and the related restrictive measures adopted to prevent the spread of the infection, negatively affected the economic environment and caused heavy disruptions and volatility on the financial markets. The pandemic's repercussions include a decrease in the gross national product, a reduction of employment and deterioration of debtor payment morale, all this leading to an increase in expected credit losses. According to the most current estimates made by the Czech National Bank, in 2020 the gross national product decreased by 5.6% in the Czech Republic and 5.2% in Slovakia. According to Eurostat, the Eurozone economy fell even more significantly, by 6.6%. Growth of unemployment was slowed down by significant fiscal and monetary incentives. The unemployment rate as at 31 December 2020 was at 3% and 8.1% in the Czech Republic and the Eurozone, respectively, compared with 2% and 7.5% at the end of 2019.

In the early days of the pandemic, the resulting panic led to two-digit declines across all sectors on the financial markets. An increase in the preference for safe assets also led to the volatility of the Czech crown, which for the first time after the end of the CNB's interventions exceeded the rate of CZK 27 per euro.

During the course of 2020, the Bank monitored the pandemic's development, paid attention to measures adopted by government bodies and heeded the opinions of healthcare specialists. As a response, the Bank adopted measures to protect the health of its employees while maintaining the Bank's operations, which included:

- Employees whose work was not necessarily tied to a workplace in the Bank's premises were ordered to work from home. The Bank provided these employees with the necessary equipment to perform their work.
- Employees whose nature of work did not allow work from home were allowed to work in the Bank's premises under very strict safety conditions. Some departments and divisions divided their employees into shifts that regularly rotated at the workplace. Some employees were transferred to a backup workplace.
- Employees working at the Bank's premises were provided with protective tools. The Bank's premises were regularly disinfected.
- Business trips were restricted effective from 9 March 2020.
- Voluntary COVID-19 testing was performed at the Bank's premises.

The Bank did not report any limitations in the availability of services or products, mainly due to enhanced support for digital and telecommunication channels allowing contact with its clients.

Effect on the Bank's liquidity

From March until the end of 2020, the volume of client deposits continued to grow (CZK 26.3 billion), mainly due to the Bank not significantly decreasing interest rates on client accounts and due to a generally-observable increase in the savings of households within the entire Czech banking sector as a result of the restricted consumption during the pandemic. Funds from clients were appropriately allocated by the Bank to highly liquid assets whose volume was continuously high, considering the liquidity risk scenario. For assets, the postponement of repayments totalling CZK 1.1 billion due to the moratorium did not have a significant negative effect on liquidity, as this was sufficiently compensated by a significant increase in funds received from client deposits and, simultaneously, material default events relating to loans did not take place. The Bank's strategic goal is to continue to maintain the stability of liquidity indicators and fulfil regulatory and internal requirements for a sufficient liquidity buffer in the long-term.

Effect on market risk

The volatility on the financial markets had an impact on the Bank's exposure to market risk. The increased volatility of market quantities led to an increase in market risk. To cover this risk, the Bank had to allocate a higher volume of internal capital and adjust internal limits (limits for individual currencies, securities, etc.). This was also taken into account in the Bank's internal stress scenarios.

Effect on credit risk

The COVID-19 pandemic and governmental emergency measures significantly affected the loan portfolios of banks. The Bank's response to the situation developed over time; first, the Bank in principle completely suspended the provision of new loans, later on, however, the situation slowly returned back to normal. However, in certain sectors, the Bank began applying stricter assessment criteria (e.g. a more detailed analysis of variable and fixed costs or the quality of working capital, stress scenarios focusing on the length and severity of anti-COVID 19 measures, etc.).

After the World Health Organisation declared the coronavirus outbreak the pandemic on 11 March 2020, the Bank analysed in detail its portfolio of significant loans, especially relating to sectors affected by the pandemic, and collected information about individual clients to make first estimates of the pandemic's impact on the Bank's portfolio. Clients that were most affected regularly provided the Bank with up-to-date and detailed information on their situation and future prospects. As a result, during the year the Bank regularly adjusted the classification of clients and updated the effects of the pandemic on the Bank's portfolio. Clients made use of the situation on capital markets and showed increased interest in investment in stock markets, which resulted in an increase in the volume of margin lending transactions.

Changes to credit risk management processes

No significant changes were made to the management of credit risk. During the year, the Bank intensified the monitoring of clients most affected by the COVID-19 pandemic.

Changes in PD, LGD, FLI, SICR

In 2020, the Bank performed standard updates relating to LGD, FLI and SICR. This mainly involved the inclusion of the most up-to-date data in models. More significant changes were made to the FLI model (see below).

FLI model

Considering the nature of the Bank's portfolio of loans and bonds, the Bank uses publicly available data from Moody's to determine the probability of default (PD). TTC (through the cycle) and PIT (point in time) matrices derived from long-term series of defaults of companies in the US market are statistically adjusted and made real by the Bank using an FLI (forward looking information) indicator, the z-component, which helps transfer the effect of macroeconomic variables of individual states to the appropriate PIT matrices. Macroeconomic variables in question were, inter alia, the real gross national product, the unemployment rate, inflation, state indebtedness, etc. After taking into account several macroeconomic scenarios, the relationship between the z-component and GNP developments was found the most suitable and adequate to predict PD for a given country to which the Bank is exposed to in terms of credit risk.

Bank's response to COVID-19 through an adjustment of the FLI model

Since the model for determining the z-component has not been calibrated for the extreme falls of GNP that are predicted by the relevant institutions for 2020 and 2021 (as such falls have never occurred in the past), the z-components generated by the model (based on extremely negative decreases of GNP) were tested at a 5% level of significance whether they meet the conditions of normality, symmetry or whether they produce fat-tails. The Shapiro-Wilk normality test was made, as this type of test is recommended for a low number of observations. The test results show that the z-components do not correspond to the normal distribution and symmetricity and generate very fat-tails. The Bank's management took into account these characteristics and determined a z-component threshold meeting the initial assumption of normality requirement.

The Bank thus transforms the z-component to meet the normal distribution requirement. Without the transformation, the model would generate erroneous (biased) values.

Significant changes in assumptions/FLI model

The capped z-component for 2020 is -3.7 (retrospectively calculated value corresponding to a decrease in the CR's GNP of approx. -6.3%; for information on other states, please see the table below); the z-component for 2021 based on the model is without limitations. The situation in 2020 was affected by the COVID-19 pandemic and the support provided by individual state governments to their economy. These artificial types of aid will postpone the events of default of companies by a number of months (depending on the period a particular subsidy or relief can be utilised). When determining PD, the Bank took into account the effect of such delays using a scale to reflect the effects of macroeconomic environment not only in a given year but also in the following year. The Bank weighs the PIT matrix as follows: 75% PIT matrix 2020 + 25% PIT matrix 2021.

z-component		CZE	SVK	CRO	AU	Other	GB	PL	UA
selected scenario for macro predictions		CNB – longer pandemic scenario	National Bank	IMF	IMF	OECD	National Bank	OECD	IMF
z-component before capping	prediction 2020	-5.5	-5.61	-4.92	-4.15	-4.47	-7.56	-5.22	-4.26
	GNP 2020	-10.1	-10.3	-9	-7	-8	-14	-10	-7.7
z-component used for the calculation of ECL at 31/12/2020	prediction 2020	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
	GNP 2020	-6.3	-6.2	-6.4	-6	-6.4	-5.9	-6.8	-6.6
	prediction 2021	-0.97	1.47	-0.01	0.09	-0.86	4.08	-1.34	-0.44
	GNP 2021	3.2	8.4	4.9	4.5	2.8	15	2.4	3.6

State guarantees

Clients may also find help in governmental credit programmes. However, only a minimum number of clients used this opportunity. The total amount of aid received was insignificant.

Description of moratoria

In connection with the pandemic and its implications, the Bank's clients applied for the postponement of instalments totalling CZK 1.1 billion, the significant part of which (approx. 2/3 of them) were postponements within the statutory moratorium. The overall exposure of these clients represents approx. CZK 11.1 billion. Apart from requests for the postponement of instalments, clients also asked for the waiver of certain credit terms and conditions, especially financial covenants monitoring their current performance or indebtedness. Most affected by the COVID-19 pandemic are clients from the following sectors: automotive, real estate (in particular shopping centres), travel and tourism and related services.

The postponement of instalments and other types of relief provided had an impact on the classification of clients, where some clients were transferred to Stages 2 or 3.

Based on information available at the date of these financial statements, the Bank's management is not aware of any facts that would cast doubt on the Bank's ability to continue as a going concern, based on which these financial statements have been prepared.
Despite the adverse effects of the pandemic on the Bank and its clients, the Bank continues to hold sufficient capital. Capital adequacy as at 31 December 2020 was 16.74% (2019: 18.28%). For more information in this respect, please see Note 44 to the financial statements. The Bank complies with all limits set by the Czech National Bank as well as internal limits and has an adequate and sufficient capital buffer. The Bank also prudentially monitors and evaluates the risks to which it is exposed and analyses stress scenarios.

The Company's management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur. However, the Bank's management cannot exclude that the restrictive measures will be prolonged or further restricted or that the negative effect of such measures will affect the economic environment in which the Bank operates or that all this will have an adverse effect on the Bank, its financial performance and operating results, both in the medium and long-term.

5. Cash and cash equivalents

in millions of CZK	31.12.2020	31.12.2019
Cash on hand and current accounts with central banks	1,757	374
Term deposits in central banks up to 3 months	–	880
Loans to central banks – reverse repurchase agreements	38,051	56,232
Current accounts with banks or payable within 3 months	384	463
Total	**40,192**	**57,949**

6. Due from banks and other financial institutions

in millions of CZK	31.12.2020	31.12.2019
Compulsory minimum reserves in central banks	1,720	897
Subordinated loans to banks	358	459
Expected credit losses for subordinated loans	(6)	–
Other receivables due from banks	215	86
Total	**2,287**	**1,442**

The obligatory minimum reserves are maintained under regulations of the Czech National Bank and National Bank of Slovakia. The obligatory minimum reserve is stated as 2% of primary deposits with maturity of less than two years and is interest bearing. The Bank must maintain the obligatory minimum reserves in accounts with the respective central banks. Compliance with this requirement is measured using the average daily closing balance over the whole month.

The Bank has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central bank, short term deposits in financial institutions and highly liquid corporate and government bonds. The Bank decides on placements based on the credibility of the counterparty and the offered conditions.

Subordinated loans to banks are provided to related parties.

Other receivables due from banks include primarily cash collateral of derivative transactions amounting to CZK 197 million (2019: CZK 83 million).

There were no overdue receivables from banks as at 31 December 2020 and 31 December 2019.

The contractual weighted average interest rate on deposits and loans with other banks was 3.19%(p.a. (2019: 2.04%).

All exposures classified as cash and cash equivalents, balances with central banks and due from financial institutions are classified at amortised cost, categorised in Stage 1, financial assets with low credit risk. These balances, apart from subordinated loans to banks, have immaterial ECL as at both 31 December 2020 and 2019.

7. Derivatives

(a) Derivatives held for trading

in millions of CZK	31/12/2020 Notional amount buy	31/12/2020 Notional amount sell	31/12/2020 Positive fair value	31/12/2020 Negative fair value
FX derivatives	113,281	(113,148)	840	(687)
Cross currency derivatives	10,189	(10,190)	96	(54)
Other derivatives	960	(960)	3	(1)
Balance as at 31 December 2020	**124,430**	**(124,298)**	**939**	**(742)**

in millions of CZK	31/12/2019 Notional amount buy	31/12/2019 Notional amount sell	31/12/2019 Positive fair value	31/12/2019 Negative fair value
FX derivatives	76,887	(76,577)	767	(511)
Cross currency derivatives	8,696	(8,696)	103	(51)
Other derivatives	438	(438)	5	(8)
Total as at 31 December 2019	**86,021**	**(85,711)**	**875**	**(570)**

All derivatives held for trading are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

Currency contracts, generally forward currency contracts, are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent economic hedges, they are reported as held for trading as the Bank did not classify them as derivatives held for risk management purposes (hedging derivatives).

The foreign currency structure of these transactions was as follows:

in %	CZK	EUR	USD	Other
Long position				
31 December 2020	59%	33%	3%	5%
31 December 2019	53%	40%	3%	4%

The foreign currency structure of the second leg of these transactions was as follows:

in %	CZK	EUR	USD	Other
Short position				
31 December 2020	35%	39%	9%	17%
31 December 2019	41%	45%	5%	9%

(b) Derivatives held for risk management

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency derivatives – hedging for equity instruments at FVOCI			**16**	**–**
– Payable between 3 months and 1 year	570	(551)		
Currency derivatives – hedging for ownership interests			**81**	**(22)**
– Payable in less than 1 month	982	(975)		
– Payable in more than 1 month and less than 3 months	2,022	(1,959)		
– Payable from 1 to 5 years	3,103	(3,058)		
Balance as at 31 December 2020	**6,677**	**(6,543)**	**97**	**(22)**

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency derivatives – hedging for equity instruments at FVOCI			**13**	**–**
– Payable from 1 to 5 years	570	(534)		
Currency derivatives – hedging for ownership interests			**67**	**(52)**
– Payable in more than 1 month and less than 3 months	2,477	(2,525)		
– Payable between 3 months and 1 year	1,738	(1,704)		
– Payable from 1 to 5 years	1,505	(1,436)		
Total as at 31 December 2019	**6,290**	**(6,199)**	**80**	**(52)**

To hedge capital instruments at FVOCI, the Bank used a CZK/EUR derivative (purchase/sale), and to hedge ownership interests, it used CZK/EUR, EUR/HRK, EUR/RUB, EUR/USD and USD/RUB derivatives.

All derivatives held for risk management are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

The carrying amount of hedged equity instruments at FVOCI at 31 December 2020 was CZK 165 million (2019: CZK 164 million) and foreign currency ownership interests of CZK 3 057 million (2019: CZK 2 793 million).

As at 31 December 2020, the cumulated value of hedged items in RUB was CZK -1 099 million (2019: CZK -713 million), CZK 78 million (2019: CZK 96 million) in USD, CZK -2 million (2019: CZK 0 million) in EUR, and CZK -30 million (2019: CZK -36 million) in HRK.

The objective of this hedge is to cover the foreign currency exposure to changes in the fair value of foreign currency financial assets at FVOCI and foreign currency ownership interests. The Bank uses currency forwards and foreign currency fixed-term deposits to achieve hedge effectiveness. The set hedges are in all cases effective.

8. Securities

a) Financial assets for trading

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– domestic	279	275
– foreign	66	39
Bonds		
– domestic	6,903	927
– foreign	796	1,078
Allotment certificates		
– domestic	285	1
– foreign	4	4
Total	**8,333**	**2,324**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– listed	345	314
Bonds		
– listed	7,699	2,005
Allotment certificates		
– not listed	289	5
Total	**8,333**	**2,324**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– financial institutions	96	71
– corporate	249	243
Bonds		
– government	6,640	612
– financial institutions	396	301
– corporate	663	1,092
Allotment certificates		
– financial institutions	289	5
Total	**8,333**	**2,324**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– Level 1	267	285
– Level 2	74	26
– Level 3	4	3
Bonds		
– Level 1	6,433	432
– Level 2	870	1,515
– Level 3	396	58
Allotment certificates		
– Level 2	289	5
Total	**8,333**	**2,324**

As at 31 December 2020, foreign bonds included mainly non-government bonds of CZK 650 million (2019: CZK 926 million) issued by companies from the following states and in the following amounts: Slovakia of CZK 452 million (2019: CZK 719 million), Luxembourg of CZK 68 million (2019: CZK 80 million), the Netherlands of CZK 58 million (2019: CZK 68 million), Malta of CZK 37 million (2019: CZK 35 million), Cyprus of CZK 30 million (2019: CZK 3 million) and the USA of CZK 4 million (2019: CZK 19 million).

Foreign government bonds of CZK 146 million (2019: CZK 152 million) represent Polish government bonds of CZK 65 million (2019: CZK 65 million), Romanian bonds of CZK 60 million (2019: CZK 58 million) and Turkish bonds of CZK 21 million (2019: CZK 29 million).

(b) Financial instruments mandatorily at fair value through profit or loss

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Allotment certificates		
– domestic	3,067	2,522
– foreign	5,334	5,056
Total	**8,401**	**7,578**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Allotment certificates		
– not listed	8,401	7,578
Total	**8,401**	**7,578**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Allotment certificates		
– financial institutions	8,401	7,578
Total	**8,401**	**7,578**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Allotment certificates		
– Level 2	6,150	5,253
– Level 3	2,251	2,325
Total	**8,401**	**7,578**

Foreign allotment certificates mainly include the Malta certificates of CZK 5 013 million (2019: CZK 5 004 million) and Slovak allotment certificates in the amount of CZK 321 million (2019: CZK 52 million).

(c) Financial assets at fair value through other comprehensive income

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– domestic	170	167
– foreign	196	197
Bonds		
– domestic	407	509
– foreign	3,218	2,243
Total	**3,991**	**3,116**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– listed	366	364
Bonds		
– listed	2,759	2,423
– not listed	866	329
Total	**3,991**	**3,116**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– corporate	366	364
Bonds		
– financial institutions	597	691
– corporate	3,028	2,061
Total	**3,991**	**3,116**

in millions of CZK	31/12/2020 Fair value	31/12/2019 Fair value
Shares		
– Level 1	170	200
– Level 2	196	164
Bonds		
– Level 1	1,195	–
– Level 2	106	728
– Level 3	2,324	2,024
Total	**3,991**	**3,116**

Foreign shares comprise Slovak shares of CZK 165 million (2019: CZK 165 million) and Swiss shares of CZK 31 million (2019: CZK 32 million).

Foreign bonds only comprised Slovak bonds in 2020 and 2019.

In 2020 and 2019, no shares from the Bank's portfolio were sold. The shares of the following segments accounted for a significant share in total shares at fair value through OCI:

in millions of CZK	2020 Fair value	2020 Dividends received	2019 Fair value	2019 Dividends received
Energy and manufacturing industry	201	(10)	199	(9)
Tourism	165	–	165	–
Total	**366**	**(10)**	**364**	**(9)**

The Bank classifies bonds measured at FVOCI into internal rating groups, taking into account a number of factors. The following table summarises these bonds by levels.

Risk category

in millions of CZK	Very low risk	Low risk	Medium risk	Total
Stage 1	528	—	1,638	2,166
Stage 2	—	—	1,459	1,459
Total 2020	**528**	**—**	**3,097**	**3,625**
Stage 1	512	366	179	1,057
Stage 2	—	—	1,695	1,695
Total 2019	**512**	**366**	**1,874**	**2,752**

More detailed information on bonds as at 31 December 2020 and their classification, expected credit losses and gross carrying amounts are disclosed in note 11 and 12.

(d) Fair value measurement of financial assets at level 3

The Bank regularly monitors the classification of securities into the fair value hierarchy. The Bank always assesses the individual ISIN codes of securities according to the frequency and volume of trades. Thus, a situation may arise that securities of one issuer may be classified under Level 1, whereas securities of another issuer may be classified under Level 2 or 3, based on the criteria shown in an internal decision-making tree.

The following table shows a reconciliation of the opening and closing balances for Level 3 financial assets that are recorded at fair value:

in millions of CZK	01/01/ 2020	Revaluation to OCI	Revaluation to profit or loss	Transfer from/to Level 2	Additions	Disposals	FX move-ment	Interest income	31/12/ 2020
Financial assets for trading									
shares	3	—	1	—	—	—	—	—	4
bonds	58	—	(18)	251	275	(176)	—	6	396
Financial instruments mandatorily at fair value through profit or loss									
allotment certificates	2,325	—	57	(178)	—	—	47	—	2,251
Financial assets at fair value through other comprehensive income									
bonds	2,024	11	—	512	—	(297)	75	(1)	2,324
Total	**4,410**	**11**	**40**	**585**	**275**	**(473)**	**122**	**5**	**4,975**

in millions of CZK	01/01/ 2019	Revalution to OCI	Revalation to profit or loss	Transfer from/to Level 2	Additions	Disposals	FX move- ment	Interest income	31/12/ 2019
Financial assets for trading									
shares	2	–	–	–	–	–	1	–	3
bonds	40	–	–	12	6	–	–	–	58
Financial instruments mandatorily at fair value through profit or loss									
allotment certificates	2,068	–	19	–	128	–	110	–	2,325
Financial assets at fair value through other comprehensive income									
bonds	2,328	1	–	–	–	(264)	(41)	–	2,024
Total	**4,438**	**1**	**19**	**12**	**134**	**(264)**	**70**	**–**	**4,410**

The following table sets out information about significant unobservable inputs used as at 31 December 2020 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Fair value as at 31/12/2020	Range of estimates	Fair value measurement sensi- tivity to unobservable inputs
bonds	discounted CF	Credit Spread		0.5%-5%	A significant increase may result in lower fair value.
		Risk-free rate	2,720	-1%-1.5%	
shares	discounted CF	Discount rates		7.3%-10%	A significant increase may result in lower fair value.
		EBITDA growth coefficient	4	2%-3.5%	
allotment certificates	net asset value	Expected CF from fund	2,251	Investment based	A significant increase may result in higher fair value

The following table sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Fair value as at 31/12/2019	Range of estimates	Fair value measurement sensi- tivity to unobservable inputs
bonds	discounted CF	Credit Spread		0.5%-4%	A significant increase may result in lower fair value.
		Risk-free rate	2,082	-0.5%-2.5%	
shares	discounted CF	Discount rates		7.7%-14.6%	A significant increase may result in lower fair value.
		EBITDA growth coefficient	3	2%	
allotment certificates	net asset value	Expected CF from fund	2,325	Investment based	A significant increase may result in higher fair value

If fair values were by 10% higher or lower than the Bank management's estimates, the determined carrying amount of financial assets at Level 3 would be by CZK 498 million higher or lower than the carrying amount recognised as at 31 December 2020 (2019: CZK 441 million).

The effect of the remeasurement of fair values of the Level 3 financial assets as a result of an increase or decrease of some of the inputs by 1% used on the calculation of fair values is shown below:

in millions of CZK	Effect on profit or loss Increase	Effect on profit or loss Decrease	Effect on other comprehensive income Increase	Effect on other comprehensive income Decrease
Bonds 2020				
change in risk-free rates by 1%	(17)	17	(109)	116
change in credit markups by 1%	(17)	17	(128)	138
Shares 2020				
change in discount rates by 1%	(1)	2	–	–
change in EBITDA by 5%	–	–	–	–
Bonds 2019				
change in risk-free rates by 1%	(2)	2	–	–
change in credit markups by 1%	(4)	4	–	–
Shares 2019				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–

9. Repurchase and resale agreements

(a) Resale agreements (reverse repurchase agreements)

The Bank purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Ownership title to the securities is transferred to the Bank, or the entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As at 31 December 2020 and 31 December 2019, assets purchased pursuant to the agreements to resell them were as follows:

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 5)	37,429	38,051	up to 1 month	38,054
Loans and other advances to customers (note 10)	890	545	up to 1 month	547
Loans and other advances to customers (note 10)	2,240	1,376	up to 3 months	1,384
Total as at 31 December 2020	**40,559**	**39,972**		**39,985**

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 5)	55,533	56,232	up to 1 month	56,252
Loans and other advances to customers (note 10)	1,473	832	up to 1 month	834
Loans and other advances to customers (note 10)	2,031	1,185	up to 3 months	1,191
Total as at 31 December 2019	**59,037**	**58,249**		**58,277**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repurchase transaction) at a predetermined price are accounted for as loans collateralised by the securities. Ownership title to securities is transferred to the Bank, or the entity which is a loan provider. Securities transferred under repurchase agreements are reported within the respective items of securities in the Bank's statement of financial position. The amount received from the transfer of securities under repurchase agreements is presented under "Deposits and loans from banks" or "Deposits from customers".

in millions of CZK	Fair value of assets provided as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Loans from banks (note 17)	–	–		–
Total as at 31 December 2020	**–**	**–**		**–**
Loans from banks (note 17)	4,627	4,030	up to 1 month	4,029
Loans from customers (note 18)	3	2	up to 1 month	3
Total as at 31 December 2019	**4,630**	**4,032**		**4,032**

10. Loans and other advances to customers at amortised cost

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 - POCI	Net carrying amount
Loans to customers	65,267	(829)	(295)	(1 824)	(54)	62,265
Receivables from reverse repurchase agreements with customers	1,921	–	–	–	–	1,921
Margin lending (debits)	28,998	–	–	–	–	28,998
Other receivables from customers	203	(3)	–	(1)	(2)	197
Total as at 31 December 2020	**96,389**	**(832)**	**(295)**	**(1,825)**	**(56)**	**93,381**

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 - POCI	Net carrying amount
Loans to customers	53,201	(193)	(105)	(1 611)	(51)	51,241
Receivables from reverse repurchase agreements with customers	2,017	–	–	–	–	2,017
Margin lending (debits)	9,701	–	–	–	–	9,701
Other receivables from customers	3	–	–	(1)	(2)	–
Total as at 31 December 2019	**64,922**	**(193)**	**(105)**	**(1,612)**	**(53)**	**62,959**

Loans not bearing interest as at 31 December 2020 amount to CZK 382 million (2019: CZK 199 million), of which loans acquired from the former Podnikatelská banka of CZK 37 million are still subject to bankruptcy proceedings (2019: CZK 37 million). In addition, these also include an additional payment for the purchase price of a ceded receivable of CZK 200 million and loans that are past due, do no longer bear interest and are subject to recovery procedures. 100% allowances are established for these receivables.

The contractual weighted average interest rate on loans to customers was 4.79% (2019: 5.28%).

Details of changes in gross carrying amounts of loans, including movements in ECLs for 2020 are disclosed in note 11 and 12.

For further information about loans and advances to customers refer to note 38.

11. Gross carrying amount of financial assets

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**57,490**	**4,013**	**2,990**	**429**	**64,922**
Transfers:					
– transfers to Stage 1	21	(1)	(20)	—	—
– transfers to Stage 2	(5,523)	5,917	(394)	—	—
– transfers to Stage 3	(1,550)	(407)	1,957	—	—
Increase due to origination and acquisition – gross	54,488	—	—	30	54,518
Movement in interest – accrued less paid (except for full repayment)	229	(5)	(141)	20	103
Partial repayment of the principal / drawing of loan during the reporting period	902	(3)	528	(12)	1,415
Financial assets derecognised during the period	(21,460)	(3,111)	(797)	—	(25,368)
Changes due to modification without derecognition (net)	—	11	35	—	46
Foreign exchange rate movements	694	5	40	14	753
Total as at 31 December 2020	**85,291**	**6,419**	**4,198**	**481**	**96,389**

"Increase due to origination and acquisition - gross" represents an increase of CZK 30 919 million in receivables from reverse repurchase agreement and debits; "financial assets derecognised during the period" of CZK 11 718 million represent decreases in receivables from reverse repurchase agreements and debits. The remaining movements represent the newly provided loans or repayment of previously provided loans. "Increase due to origination and acquisition – gross" for Stage 3 – POCI amounting to CZK 5 million represents loans with significant modifications, measured at fair value. The impact of modification of CZK 1 million was recognised in profit or loss.

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**60,879**	**2,851**	**6,361**	**2**	**70,093**
Transfers:					
– transfers to Stage 1	54	(54)	—	—	—
– transfers to Stage 2	(3,169)	3,169	—	—	—
– transfers to Stage 3	(512)	(454)	966	—	—
Increase due to origination and acquisition – gross	25,865	604	45	715	27,229
Movement in interest – accrued less paid (except for full repayment)	(121)	(47)	(5)	21	(152)
Partial repayment of the principal / drawing of loan during the reporting period	(1,692)	(114)	(24)	(16)	(1,846)
Financial assets derecognised during the period	(23,548)	(1,915)	(3,834)	(286)	(29,583)
Write-off and sale of receivables	—	—	(506)	—	(506)
Changes due to modification without derecognition (net)	(1)	(25)	4	—	(22)
Foreign exchange rate movements	(265)	(2)	(17)	(7)	(291)
Total as at 31 December 2019	**57,490**	**4,013**	**2,990**	**429**	**64,922**

"Increase due to origination and acquisition - gross" comprises an increase CZK 11 756 million in receivables from reverse repurchase agreements with customers and debits; "financial assets derecognized during the period" of CZK 10 958 million comprise a decrease in receivables from reverse repurchase agreements and debits. The remaining movements represent the newly provided loans or repayment of previously provided loans. "Increase due to origination and acquisition – gross" for Stage 3 – POCI amounting to CZK 715 million represents loans with significant modifications, measured at fair value. The impact of modification originally amounted to CZK 150 million and was recognised in profit or loss; subsequently, CZK 103 million was released as a result of the derecognition of part of modified assets.

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**1,057**	**1,695**	**—**	**—**	**2,752**
Movement in interest – accrued less paid (except for full repayment)	9	—	—	—	9
Increase due to origination and acquisition – gross	1,195	—	—	—	1,195
Financial assets derecognised during the period	(110)	(297)	—	—	(407)
Fair value revaluation to OCI	(11)	2	—	—	(9)
Foreign exchange rate movements	26	59	—	—	85
Total as at 31 December 2020	**2,166**	**1,459**	**—**	**—**	**3,625**

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**2,883**	**—**	**—**	**—**	**2,883**
Transfers					
– transfers to Stage 2	(1,735)	1,735	—	—	—
Movement in interest – accrued less paid (except for full repayment)	(8)	—	—	—	(8)
Partial repayment of the principal / drawing of loan during the reporting period	—	(19)	—	—	(19)
Increase due to origination and acquisition – gross	180	—	—	—	180
Financial assets derecognised during the period	(264)	—	—	—	(264)
Fair value revaluation to OCI	1	1	—	—	2
Foreign exchange rate movements	—	(22)	—	—	(22)
Total as at 31 December 2019	**1,057**	**1,695**	**—**	**—**	**2,752**

12. Expected credit losses to financial assets, including guarantees and commitments

ECL to loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**193**	**105**	**1 612**	**53**	**1,963**
Transfers:					
– transfers to Stage 2	(87)	90	(3)	—	—
– transfers to Stage 3	(5)	(67)	72	—	—
Net change in credit risk	530	193	476	(2)	1 197
Changes due to modification without derecognition	96	6	229	(1)	330
New financial assets originated or purchased	212	—	—	—	212
Unwind of discount	—	—	(62)	5	(57)
Financial assets derecognised during the period	(94)	(27)	(527)	—	(648)
Foreign exchange rate movements	(13)	(5)	28	1	11
Total as at 31 December 2020	**832**	**295**	**1,825**	**56**	**3,008**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**175**	**43**	**2,907**	**2**	**3,127**
Transfers:					
– transfers to Stage 2	(12)	12	—	—	—
– transfers to Stage 3	—	(4)	4	—	—
Net change in credit risk	15	72	140	49	276
Changes due to modification without derecognition	(6)	(9)	64	—	49
New financial assets originated or purchased	36	—	—	—	36
Unwind of discount	—	—	29	2	31
Financial assets derecognised during the period	(15)	(9)	(1,010)	—	(1,034)
Write-offs/Use of allowances	—	—	(502)	—	(502)
Foreign exchange rate movements	—	—	(20)	—	(20)
Total as at 31 December 2019	**193**	**105**	**1,612**	**53**	**1,963**

Write-offs and the use of allowances for the year ended 31 December 2020 amounted to CZK 0 (2019: CZK 502 million, mainly comprising the use of an allowance for loans of CZK 499 million; at the time of sale, allowances of CZK 1 064 million were established. The remaining part of the decrease in allowances accounts for the release of an allowance reported in "Financial assets derecognised during the period").

ECL to Financial guarantees and commitments

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**18**	**6**	**6**	**–**	**30**
Transfers					
– transfers to Stage 2	(1)	1	–	–	–
Net change in credit risk	43	(2)	42	–	83
New financial assets originated or purchased	36	–	3	–	39
Financial assets derecognised during the period	(32)	–	–	–	(32)
Foreign exchange rate movements	(2)	–	–	–	(2)
Total as at 31 December 2020	**62**	**5**	**51**	**–**	**118**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**20**	**2**	**97**	**–**	**119**
Transfers					
– transfers to Stage 2	(1)	1	–	–	–
Net change in credit risk	(16)	1	(4)	–	(19)
New financial assets originated or purchased	16	2	–	–	18
Financial assets derecognised during the period	(1)	–	(86)	–	(87)
Foreign exchange rate movements	–	–	(1)	–	(1)
Total as at 31 December 2019	**18**	**6**	**6**	**–**	**30**

ECL to debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2020	**3**	**40**	**–**	**–**	**43**
Net change in credit risk	36	28	–	–	64
New financial assets originated or purchased	30	–	–	–	30
Foreign exchange rate movements	–	(1)	–	–	(1)
Total as at 31 December 2020	**69**	**67**	**–**	**–**	**136**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**10**	**–**	**–**	**–**	**10**
Transfers					
– transfers to Stage 2	(3)	3	–	–	–
Net change in credit risk	(8)	38	–	–	30
New financial assets originated or purchased	4	–	–	–	4
Foreign exchange rate movements	–	(1)	–	–	(1)
Total as at 31 December 2019	**3**	**40**	**–**	**–**	**43**

13. Property, plant and equipment

Right-of-use assets

in millions of CZK	Land and buildings	Fixtures, fittings and equipment	Land and buildings	Equipment - cars	Total
Acquisition cost					
1 January 2019 (+ Application of IFRS 16)	21	67	260	18	366
Additions	–	2	5	2	9
Change due to modification of IFRS 16	–	–	(21)	–	(21)
31 December 2019	**21**	**69**	**244**	**20**	**354**
Accumulated depreciation					
1 January 2019 (+ Application of IFRS 16)	13	40	–	–	53
Depreciation	3	1	72	8	84
Disposals	–	(1)	–	–	(1)
31 December 2019	**16**	**40**	**72**	**8**	**136**
Acquisition cost					
1 January 2020	21	69	244	20	354
Additions	–	9	1,521	3	1 533
Disposals	(1)	(7)	(74)	(3)	(85)
Changes due to modification IFRS 16	–	–	31	3	34
Exchange rate difference	–	–	4	–	4
31 December 2020	**20**	**71**	**1,726**	**23**	**1,840**
Accumulated depreciation					
1 January 2020	16	40	72	8	136
Depreciation	2	2	111	8	123
Disposals	(1)	(4)	(74)	(3)	(82)
31 December 2020	**17**	**38**	**109**	**13**	**177**
Net book value					
31 December 2019	**5**	**29**	**172**	**12**	**218**
31 December 2020	**3**	**33**	**1,617**	**10**	**1,663**

The Bank did not record any property, plant and equipment under construction as at the end of 2020 and 2019.

Property is insured against theft and natural disaster.

Right-of-use assets increased in 2020 primarily as a result of concluding a contract for the lease of office premises in the Rustonka building in Prague. The Bank leases the major part of the overall space in this building. The lease has been agreed for 15 years. The lease term was taken into account on the initial measurement of the related right-of-use asset and lease liability. The new right-of-use asset also includes costs incurred for specific modifications to the building based on the Bank's requirements; these were paid at the beginning of the lease relationship.

In addition to the agreed lease term, the lease contract also contains an option to extend the lease term, up to two times and always by five years. When deciding on this option to extend the lease term, the Bank took into account all the requirements prescribed by IFRS 16. The Bank considered:

– the situation on the real estate market, both demand and supply

- price levels on the market compared with the amount of rent paid at the Rustonka building
- effects of the COVID-19 pandemic on the real estate market and the Bank's current trend allowing employees to work from home, which may in the future reduce demand for office premises in Prague and decrease expenses charged for the lease of office premises on the market
- the amount of expenses paid by the Bank for the modifications to the building based on the Bank's requirements and their amount after the expiry of the lease term
- an estimate of expenses for moving to other premises
- the average period of contracts for the lease of office premises in the Bank's past

After performing a detailed analysis and considering all significant qualitative and quantitative factors, the Bank arrived at the conclusion that it is unlikely that the Bank will utilise the option and, consequently, when measuring the right-of-use asset, the current lease term of 15 years was taken into account.

During the lease term, the Bank will assess the possibility to use the option to extend the lease term on a regular (annual) basis while taking into account market developments and the Bank's strategy.

14. Intangible assets

in millions of CZK	Software	Other	Total
Acquisition cost			
01 January 2019	527	10	537
Additions	53	8	61
Disposals	(3)	–	(3)
31 December 2019	**577**	**18**	**595**
Amortisation and impairment losses			
01 January 2019	446	1	447
Amortisation for the year	56	–	56
31 December 2019	**502**	**1**	**503**
Acquisition cost			
01 January 2020	577	18	595
Additions	61	1	62
Disposals	(32)	(16)	(48)
31 December 2020	**606**	**3**	**609**
Amortisation and impairment losses			
01 January 2020	502	1	503
Amortisation for the year	35	–	35
Disposals	(34)	–	(34)
31 December 2020	**503**	**1**	**504**
Carrying amount			
31 December 2019	**75**	**17**	**92**
31 December 2020	**103**	**2**	**105**

The Bank did not record any intangible assets under construction as at the end of 2020 and 2019.

15. Leases

(a) Leases entered into as lessee

The Bank as lessee accounts for lease contracts pursuant to IFRS 16.

(b) Leases entered into as lessor

The Bank does not report any significant receivables from non-cancellable operating leases at the end of 2020.

in millions of CZK	31/12/2019
Up to one year	1
1 year to 5 years	2
Total	**3**

16. Prepayments, accrued income and other assets

in millions of CZK	31/12/2020	31/12/2019
Prepayments and accrued income	137	44
Receivables from customers from securities trading	669	281
Other trade receivables	253	374
Receivables from fees for portfolio management	68	58
Other receivables	33	36
Advance payments – other	135	25
Expected credit losses for other assets	(1)	(1)
Total	**1,294**	**817**

Receivables from customers from securities trading increased in 2020 due to higher volume of customer trades during year-end.

Other trade receivables as at 31 December 2020 include various receivables such as receivables from the issue of bonds and promissory notes of CZK 17 million (2019: CZK 67 million) and other individually insignificant receivables.

All other assets are classified at amortised cost and categorised in Stage 2. Expected credit losses did not change year-on-year and their amount was CZK 1 million as at the end of 2020 (2019: CZK 1 million).

17. Deposits and loans from banks

in millions of CZK	31.12.2020	31.12.2019
Deposits from banks	907	462
Loans from banks – repurchase agreements (note 9)	—	4,030
Liabilities to central banks	498	—
Total	**1,405**	**4,492**

Deposits from banks include current deposits, term deposits and other financial liabilities.

The contractual weighted average interest rate on liabilities to banks was 0% (2019: -0.12%).

18. Deposits from customers

in millions of CZK	31/12/2020	31/12/2019
Current accounts	32,379	31,745
Term deposits and escrow accounts	100,049	75,802
Loans from customers – repurchase agreements (note 9)	–	2
Total	**132,428**	**107,549**

The contractual weighted average interest rate on liabilities to banks was 1.10% (2019: 0.77%).

19. Subordinated debt

in millions of CZK	31/12/2020	31/12/2019
Subordinated debt – term deposits	209	620
Total	**209**	**620**

in millions of CZK	2020	2019
Interest expense for subordinated debt:	21	39
– of which interest paid	17	1

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.10 % p.a. and 6.50 % p.a. The Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes. Year-on-year decreased was caused by maturity of each debt.

20. Other liabilities

in millions of CZK	31/12/2020	31/12/2019
Payables to clients from securities trading	7,448	6,434
Trade payables	218	128
Accruals and deferred income	183	150
Other tax liabilities	51	38
Payables to employees	35	31
Social security liabilities	17	15
Lease liabilities	866	180
– Up to 1 year	63	74
– Over 1 year	803	106
Other liabilities	251	140
Total	**9,069**	**7,116**

Payables to clients from securities trading increased as at year end 2020 due to higher volume of customer trades.

Lease liabilities increased in 2020 due to conclusion of leasing contract related to rent of office premises in Rustonka building, Prague (note 13).

Other liabilities primarily include payables from clearing of CZK 81 million (2019: CZK 21 million) and incoming and outgoing payments from nostro accounts of CZK 4 million (2019: CZK 1 million) and other minor items.

21. Provisions

in millions of CZK	31.12.2020	31.12.2019
Provision for employee bonuses	1,270	1,188
Provision for off-balance sheet items	118	30
Stage 1	62	18
Stage 2	5	6
Stage 3	51	6
Provision for loyalty programmes – customers	27	28
Provision for untaken holiday	28	20
Provision for loyalty programmes – employees	2	1
Other provisions	28	23
Total	**1,473**	**1,290**

A provision for employee bonuses is established in relation to the approval of Bank employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the Bank may grant and pay to an employee in proportion to his/her job performance in the evaluated period, most commonly a year. It also comprises bonuses with deferred due payment. The Bank's remuneration policy is in accordance with the policies of risk management and remuneration in accordance with Decree 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.

A provision for off-balance sheet items comprises in particular the provision for loan commitments and guarantees of CZK 118 million (2019: CZK 30 million).

Other provisions are short-term and expected to be utilised within 12 months after the reporting date.

Provisions

in millions of CZK	Balance as at 01/01/2020	Creations	Use / Release	FX movements	Balance as at 31/12/2020
Provision for employee bonuses	1,188	431	(364)	15	1,270
Provision for off-balance sheet items – financing activities	30	122	(32)	(2)	118
Provision for loyalty programmes – customers	28	–	(1)	–	27
Provision for untaken holiday	20	17	(11)	2	28
Provision for loyalty programmes – employees	1	5	(4)	–	2
Other provisions	23	27	(22)	–	28
Total	**1,290**	**602**	**(434)**	**15**	**1,473**

22. Equity

in millions of CZK	31/12/2020
Share capital is fully paid and consists of:	
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The owners of ordinary shares are entitled to the payment from approved dividends.

The allocation of the profit will be approved at the general meeting. The Bank's management assumes that a relevant part of profit will be transferred to the special-purpose capital fund for the distribution of revenue from certificates that are part of the Bank's equity and the remaining part will be used based on a decision and approval by a general meeting. Owing to the worldwide COVID-19 pandemic, in 2020 the Bank did not pay out dividends from retained profits for 2019 and transferred CZK 2 638 million to Other reserves. In 2019, dividends paid from retained profits for 2018 amounted to CZK 1 292 million, with a dividend per share of CZK 114.

The Bank does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

Retained earnings
Retained earnings are distributable to the Bank's shareholders and are subject to the approval of the shareholders' general meeting. As at 31 December 2020, retained earnings amounted to CZK 7 450 million (2019: CZK 6 635 million). For details related to retained earnings, refer to the Statement of changes in equity.

Capital funds
Capital funds consist of a special-purpose fund for income distribution from subordinated income certificates. For details related to the special-purpose fund, refer to the last paragraph in Other equity instruments.

Revaluation reserve

a) Revaluation reserve from financial assets at fair value through other comprehensive income
Gains and losses on revaluation of financial assets at fair value through other comprehensive income are recognised in equity as revaluation of assets and liabilities. As at 31 December 2020, a provision for the revaluation of these financial assets was positive, amounting to CZK 43 million (2019: negative, amounting to CZK 43 million).

b) Other revaluation reserves
Other revaluation reserves represent FX differences from the translation of the Slovak branch's statements of CZK 1 million (2019: CZK -1 million).

Assets and liabilities of the Bank's Slovak branch are translated to Czech crowns using a rate of exchange valid as at the reporting date. Income and expenses of the Bank's Slovak branch are translated to Czech crowns using the average rate of exchange for the relevant period.

Other equity instruments
On 19 June 2014, the Czech National Bank approved the issue prospectus for revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus for the second issue of revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus for the third issue of revenue certificates with an expected total nominal amount of EUR 50 million and interest revenue of 9% p.a.

As at 31 December 2020, the volume of issued certificates was CZK 2 597 million (2019: CZK 2 597 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a special-purpose capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. In 2020, the Bank transferred another CZK 242 million (2019: CZK 242 million) within the distribution of profit for 2019. The payment of revenue from certificates depends on a decision of the Bank as the issuer and is governed by the conditions defined in the prospectus. In 2019, revenue of CZK 244 million (2019: CZK 239) was distributed from this fund. As at 31 December 2020, the special-purpose capital fund for the payment of revenue from certificates amounted to CZK 162 million (2019: CZK 164 million).

23. Income tax

Income tax for 2020 was calculated in accordance with Czech tax regulations at the rate of 19% (2019: 19%). The corporate income tax rate for 2021 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax regulations. The income tax rate in Slovakia is 21% In 2021 the income tax rate in Slovakia will be 21%. The tax paid by the branch in Slovakia is offset against the income tax for the Bank as a whole paid in the Czech Republic.

The Czech Republic currently has a number of laws regulating various taxes and charges imposed by the state. These include namely value-added tax, corporate income tax, employment tax, social security and health insurance charges etc. Tax returns, together with other legal compliance areas (such as customs and currency control matters) are subject to inspection by a number of authorities, who are authorised by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic being substantially higher than the ones typically found in countries with more developed tax systems.

The management believes that it has adequately provided for the tax liabilities in the accompanying financial statements.

Reconciliation of the expected income tax expense is as follows:

in millions of CZK	2020	2019
Profit before tax	1,349	3,619
Statutory income tax rate	19%	19%
Income tax	256	688
Non-taxable income	(64)	(56)
Non-deductible expenses	101	102
Tax impacts of foreign tax rates	–	6
Correction of tax expenses from previous periods and additional tax payments	(1)	–
Total income tax	**292**	**740**
Effective tax rate	21,9%	20,4%
Of which:		
Income tax – deferred	(108)	42
Income tax – current	400	698

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income to be deducted from, and tax non-deductible expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible provisions to receivables, creation of provisions and representation expenses. Main non-deductible expenses are dividend income from ownership interests, release/use of allowances for receivables and release/use of provisions.

Current income tax is calculated in accordance with the Czech Accounting Standards from profit adjusted according to the Czech Act on Income Tax, as amended.

24. Deferred tax assets and liabilities

The Bank has the following deferred tax assets and liabilities:

Deferred tax asset /(liability)

in millions of CZK	31/12/2020	31/12/2019
Difference between the carrying and tax value of property, plant and equipment and intangible assets	(3)	–
Financial assets at fair value through other comprehensive income	22	20
Provision for off-balance sheet items	17	5
Allowances for credit receivables	84	–
Provision for bonuses and untaken holidays	247	230
Estimated payables/other provisions	6	4
Net deferred tax asset/(liability)	**373**	**259**

The deferred tax asset or liability is calculated using the 2020 corporate income tax rate, i.e. 19% (2019: 19%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax assets in 2020.

in millions of CZK	31/12/2020	31/12/2019
Net deferred tax asset/(liability) as at 31 December	259	303
Deferred tax recognised in profit or loss (note 23)	108	(42)
Change in deferred tax due to FX translation differences recognised in equity	2	2
FX difference (Slovak branch)	4	(3)
Deferred tax asset / (liability) at the end of the period	**373**	**259**

25. Interest income

in millions of CZK	2020	2019
Interest income from:		
Due from financial institutions	78	82
Loans and advances to customers	3 788	3 298
Reverse repurchase transactions	567	1 364
Bonds and other fixed income securities	277	248
Total	**4 710**	**4 992**

Interest income from "Loans and advances to customers" includes fees associated with the provision of loans of CZK 135 million (2019: CZK 118 million) that are part of effective interest rate.

Interest income by asset classes:

in millions of CZK	2020	2019
Interest income from:		
Financial instruments at fair value through profit or loss:		
– financial assets held for trading	144	110
– financial assets mandatorily at fair value	—	1
Other interest income	**144**	**111**
Financial assets at FVOCI	133	137
Loans and other advances at amortised cost	4,433	4,744
– of which:		
unpaid interest on impaired loans	178	188
forbearance	21	83
Interest income calculated using effective interest rate	4,566	4,881
Total	**4,710**	**4,992**

26. Interest expense

in millions of CZK	2020	2019
Interest expense on:		
Deposits and loans from banks	(9)	(32)
Deposits from customers	(1,443)	(1,309)
Lease liabilities	(9)	(4)
Repurchase transactions	(17)	(37)
Total	**(1,478)**	**(1,382)**

Interest expense by liability classes:

in millions of CZK	2020	2019
Interest expense on:		
Financial liabilities at amortised cost	(1,478)	(1,381)
Financial liabilities at fair value through profit or loss	—	(1)
Total	**(1,478)**	**(1,382)**

27. Fee and commission income

in millions of CZK	2020	2019
Fee and commission income from:		
issue of securities	351	611
obtaining financial instruments	399	306
administration, management, custody and safekeeping of valuables	153	112
administrative services for collective investment	122	99
loan activities	54	46
mediation of payment transactions	68	53
obtaining clients to funds	96	96
mediation – other	2	–
other	13	17
Total	**1,258**	**1,340**

All fee and commission income are recognised in compliance with IFRS 15 standards Revenue from Contracts with Customers.

28. Fee and commission expense

in millions of CZK	2020	2019
Fee and commission expense on:		
transactions in financial instruments	(217)	(152)
administration, custody and safekeeping of valuables	(37)	(24)
mediation of payment transactions	(23)	(20)
other	(23)	(13)
Total	**(300)**	**(209)**

29. Net trading income/(loss)

Net trading income/(loss) includes:

in millions of CZK	2020	2019
Realised/unrealised gains on securities	190	619
Net gains / (losses) on derivative operations	942	(146)
Net gains / (losses) from foreign currency translation	(663)	83
Net gains / (losses) on hedging derivative operations	(2)	–
Dividend income – financial assets	22	31
Total	**489**	**587**

Net trading income/(loss) includes:

in millions of CZK	2020	2019
Financial assets and liabilities at fair value		
through profit or loss:		
– those held for trading	975	29
– financial assets mandatorily at fair value	167	467
Financial assets at fair value through other comprehensive income	10	9
Foreign exchange differences	(663)	82
Total	**489**	**587**

30. Other operating income

in millions of CZK	2020	2019
Outsourcing income	12	11
Rental income	3	3
Other income	8	27
Total	**23**	**41**

Other income includes many sundry items that are not significant on an individual basis.

31. Personnel expenses

in millions of CZK	2020	2019
Wages and salaries	(624)	(879)
Remuneration paid to key management personnel	(118)	(107)
Compulsory social security contributions	(193)	(183)
Other social expenses	(80)	(75)
Total	**(1,015)**	**(1,244)**
Average number of employees during the reporting period	**553**	**529**

There were 5 members of the Bank's Board of Directors as at 31/12/2020 (2019: 5).

32. Other operating expenses

in millions of CZK	2020	2019
Rental expense	(91)	(64)
of which recognition exemption applied under IFRS 16		
– lease of low-value assets	(34)	(21)
– short-term leases	(7)	(12)
– variable lease payments	(41)	(20)
Contributions to Deposit Insurance Fund	(36)	(38)
Contributions to Crisis Resolution Fund	(81)	(85)
Taxes and charges	(49)	(47)
Operating costs:		
Outsourcing	(316)	(282)
Advertising expenses and promotion	(161)	(204)
Repairs and maintenance – IS, IT	(38)	(36)
Sponsorship and gifts	(126)	(25)
Rental expense	(11)	(10)
Audit, legal and tax consulting	(39)	(37)
– statutory audit of the annual financial statements	(8)	(8)
– other assurance services	(8)	(7)
– tax advisory	(1)	(2)
– other services	(22)	(20)
Consulting expenses	(16)	(23)
Communication expenses	(15)	(13)
Transport and accommodation, travel expenses	(8)	(12)
Materials	(12)	(11)
Repairs and maintenance – other	(2)	(3)
Other operating expenses	(117)	(114)
Total	**(1,118)**	**(1,004)**

Other operating expenses of CZK 117 million as at 31 December 2020 (2019: CZK 114 million) include many sundry items that are not significant on an individual basis.

While monetary payments of the principal of a lease liability amounted to CZK 88 million (2019: CZK 75 million), monetary payments of the interest part of the lease liability amounted to CZK 9 million (2019: CZK 4 million).

The Crisis Resolution Fund is a source for the use of crisis resolution tools at an institution, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and charges include a special bank levy to the Slovak Tax Authority for the Slovak branch of the Bank. This levy does not fall within the scope of IAS 12 Income Taxes and, consequently, the Bank considers the levy to be operational in nature. On 9 July 2020, the National Council of the Slovak Republic approved an Act amending certain laws in connection with the improvement of the business environment affected by measures to prevent the spread of dangerous infectious human disease COVID-19 under which it was approved the abolition of the obligation to pay instalments of the bank levy for Q3 and Q4 2020.

33. Analysis of changes in liabilities from financial cash flows

in millions of CZK	Subordinated debt	Lease liability
Balance as at 1 January 2020	**620**	**180**
Changes in financial cash flows		
Repayment of subordinated debt	(404)	—
Lease liabilities paid	—	(88)
Net cash flows from financing activities	**(404)**	**(88)**
FX movements	**3**	**(21)**
Other changes	**—**	**796**
Related changes		
Interest expenses	21	9
Interest paid	(31)	(9)
Total related changes with liabilities	**(10)**	**—**
Balance as at 31 December 2020	**209**	**866**

Other changes in lease liability represent new lease contracts (note 13) and impact from lease agreements modifications.

34. Financial commitments and contingencies

Financial commitments and contingencies comprise:

in millions of CZK	Stage 1	Stage 2	Stage 3	2020
Unused credit lines	6,196	268	98	6,562
Granted guarantees	1,528	78	105	1,711

in millions of CZK	Stage 1	Stage 2	Stage 3	2019
Unused credit lines	8,598	210	33	8,841
Granted guarantees	1,898	21	63	1,982

Clients' assets taken into custody and administration as at 31 December 2020 amounted to CZK 72 361 million (2019: CZK 65 080 million).

35. Geographic segmentation of assets, liabilities, income and expenses

In presenting information on the basis of geographical areas, revenue/expense is based on the customer/counterparty's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 38d.

Statement of financial position as at 31 December 2020

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	39,762	2,129	465	123	42,479
Securities and positive fair value of derivatives	11,371	4,198	6,003	189	21,761
Ownership interests	2,269	—	601	1,966	4,836
Loans and other advances to customers	23,562	7,656	54,643	7,520	93,381
Current income tax receivable	61	43	—	—	104
Deferred tax asset	291	82	—	—	373
Prepayments, accrued income and other assets	2,651	146	183	82	3,062
Disposal groups held for sale	65	—	175	—	240
Total assets	**80,032**	**14,254**	**62,070**	**9,880**	**166,236**
Negative fair value of derivatives	310	1	221	232	764
Deposits and loans from banks	145	503	707	50	1,405
Deposits from customers	85,027	23,813	22,013	1,575	132,428
Subordinated debt	153	1	55	—	209
Other liabilities and provisions	6,423	902	3,069	148	10,542
Equity	20,889	(1)	—	—	20,888
Total equity and liabilities	**112,947**	**25,219**	**26,065**	**2,005**	**166,236**

Great Britain withdrew from the EU as at 31 January 2020. It was reported under "Other countries", total assets of CZK 1 733 million (2019: CZK 827 million); total equity and liabilites of CZK 439 million (2019: CZK 4 618 million).

Statement of financial position as at 31 December 2019

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	57,859	1,030	343	159	59,391
Securities and positive fair value of derivatives	4,743	3,220	5,920	90	13,973
Ownership interests	996	—	639	2,481	4,116
Loans and other advances to customers	21,750	6,901	28,943	5,365	62,959
Deferred tax asset	164	95	—	—	259
Prepayments, accrued income and other assets	673	197	155	102	1,127
Disposal groups held for sale	64	—	—	—	64
Total assets	**86,249**	**11,443**	**36,000**	**8,197**	**141,889**
Negative fair value of derivatives	178	2	389	53	622
Deposits and loans from banks	50	5	4,362	75	4,492
Deposits from customers	67,517	21,120	17,125	1,787	107,549
Subordinated debt	566	1	53	—	620
Other liabilities and provisions	3,633	878	3,820	75	8,406
Current tax liability	199	10	—	—	209
Equity	19,991	—	—	—	19,991
Total equity and liabilities	**92,134**	**22,016**	**25,749**	**1,990**	**141,889**

Statement of comprehensive income for the year ended 31 December 2020

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	903	246	1,680	403	3,232
Net fee and commission income	489	174	274	21	958
Dividends from ownership interests	137	—	—	114	251
Net trading income/(loss), Net change in loss allowances for financial assets at fair value through other comprehensive income	(91)	452	182	(147)	396
Other operating income	20	2	—	1	23
Operating income	**1,458**	**874**	**2,136**	**392**	**4,860**
Personnel expenses	(902)	(113)	—	—	(1,015)
Other operating expenses	(781)	(323)	6	(20)	(1,118)
Depreciation and amortisation	(131)	(27)	—	—	(158)
Profit before allowances, provisions and income tax	**(356)**	**411**	**2,142**	**372**	**2,569**
Net change in provisions for off-balance sheet items and other financial activities	(89)	(8)	(3)	(1)	(101)
Net change in loss allowances for loans	(40)	(416)	(444)	(62)	(962)
Net change in allowances for ownership interests	—	—	(28)	(129)	(157)
Profit before tax	**(485)**	**(13)**	**1,667**	**180**	**1,349**
Income tax	(245)	(47)	—	—	(292)
Profit for the period	**(730)**	**(60)**	**1,667**	**180**	**1,057**

Statement of comprehensive income for the year ended 31 December 2019

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,644	360	1,251	355	3,610
Net fee and commission income	536	341	238	16	1,131
Dividends from ownership interests	133	–	–	99	232
Net trading income, Net change in loss allowances for financial assets at fair value through other comprehensive income	74	(32)	683	(172)	553
Other operating income	24	8	9	–	41
Operating income	**2,411**	**677**	**2,181**	**298**	**5,567**
Personnel expenses	(934)	(310)	–	–	(1,244)
Other operating expenses	(768)	(216)	(6)	(14)	(1,004)
Depreciation and amortisation	(115)	(25)	–	–	(140)
Profit before allowances, provisions and income tax	**594**	**126**	**2,175**	**284**	**3,179**
Net change in provisions for off-balance sheet items and other financial activities	(28)	99	1	1	73
Net change in loss allowances for loans	(108)	692	127	(7)	704
Net change in allowances for ownership interests	(17)	–	(124)	(196)	(337)
Profit before tax	**441**	**917**	**2,179**	**82**	**3,619**
Income tax	(696)	(44)	–	–	(740)
Profit for the period	**(255)**	**873**	**2,179**	**82**	**2,879**

36. Related parties: Definition of related parties

The outstanding balances and transactions with related parties of the Bank are presented in the following tables. All material transactions with related parties were carried out based on the arm's length principle.

The transactions with the related parties are divided into the following categories:

I. Parent company J&T FINANCE GROUP SE.
II. Majority owners of J&T FINANCE GROUP SE Jozef Tkáč and Ivan Jakabovič and companies they own. These companies do not prepare consolidated financial statements that would include the Bank, with the exception of J&T FINANCE GROUP SE.
III. Subsidiaries This category includes subsidiaries of J&T FINANCE GROUP SE which are included in its consolidated financial statement and the subsidiaries of the Bank.
IV. Associates and joint-ventures. This category includes associates and joint ventures of the Bank and J&T FINANCE GROUP SE.
V. Key management personnel of the Bank or its parent and companies controlled or jointly controlled by this key management personnel. This category includes related parties which are connected to the Bank through key management personnel of the Bank or its parent.

Balance and off-balance sheet items as at 31/12/2020

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	219	117	3 525	793	1 197	5,851
Liabilities	765	116	1 149	80	987	3,097
Granted guarantees	–	–	–	–	6	6
Received guarantees	–	–	42	–	–	42
Provided loan commitments	232	1	920	–	33	1,186
Received collateral	–	48	330	793	550	1,721
Profit / loss items for period ended 31/12/2020						
Expenses	(1,078)	–	(2,064)	–	(144)	(3,286)
Income	1 162	4	2 187	72	133	3 558

Balance and off-balance sheet items as at 31 December 2019

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	1	–	3,504	906	740	5,151
Liabilities	2,226	349	1,485	61	905	5,026
Granted guarantees	–	–	9	–	5	14
Received guarantees		–	28	–	–	28
Provided loan commitments	508	–	1,324	–	36	1,868
Received collateral	–	–	318	906	461	1,685
Profit / loss items for period ended 31 December 2019						
Expenses	(398)	–	(2,829)	–	(25)	(3,252)
Income	372	–	2,498	164	198	3,232

Receivables from related parties consist primarily of loans and overdrafts.

Payables to related parties especially include term deposits, deposits payable on demand, savings and tied deposits.

Revenues and expenses consist mainly of gains / losses on currency derivatives, interest income, income from fees and commission and brokering fees.

Receivables/payables from/to the Bank's key management personnel

in millions of CZK	31/12/2020	31/12/2019
Provided loans	12	6
Received deposits	44	162

The members of the Board of Directors, Supervisory Board, Executive Board and Investment Instrument Committee represent the Bank's key executives.

The Bank's key management received no other remuneration in the form of short-term benefits, post-employment benefits, other long-term employee benefits, early termination benefits, or share-based payments.

Loans to the Bank's employees as at 31 December 2020 amounted to CZK 59 million (2019: CZK 58 million).

The loans provided to key management personnel were provided on the arm's length basis.

37. Risk management procedures

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the risk taken, while considering the Bank's risk appetite.

In doing so, it must be ensured that the outcome of Bank activities is predictable and in compliance with both business goals and risk appetite of the Bank.

In order to meet this goal, the risks faced by the Bank are managed in a quality and prudential manner within the framework of the Bank:
- In terms of the above, risks are monitored, assessed and eventually limited, at least as strictly as required by the Czech National Bank. The internal limits are regularly reviewed (especially in the case of significant changes of market conditions) to ensure their compliance with both the Bank's overall strategy and market and credit conditions. The adherence to the limits is monitored and reported daily (on an individual basis). In case of their potential breach, the Bank immediately adopts appropriate remedial measures.
- The Bank establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
- The Bank establishes targets for selected indicators of liquidity that it wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
- The Bank establishes goals for other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, operational risk etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Bank. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of the Bank's Risk Appetite Statement.

38. Credit risk

The Bank's primary exposure to credit risk arises through its loans and advances and investment in securities. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Bank is exposed to off-balance sheet credit risk through commitments and guarantees to extend credit.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Forbearance

The Bank monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. The Bank treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards.

Forbearance is an exposure where the Bank decides, due to the debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Performing exposures comprise primarily exposures classified in Stage 1 and 2. Non-performing exposures comprise receivables with debtor's failure classified in Stage 3 Under special conditions defined by EBA, exposures in Stage 2 might also be categorised as non-performing exposures. If more than 20% of total debtor's exposure is overdue more than 90 days, the Bank shall include all of the debtor's balance sheet and off-balance sheet exposures as non-performing. The Bank also evaluates the classification of debtors from the same group of related parties to verify the condition for being classified as non-performing exposure..

as at 31/12/2020

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	91,709	(1,127)	90,582
– of which performing exposures forborne	6,272	(274)	5,998
Non-performing exposures	4,680	(1,881)	2,799
– of which non-performing exposures forborne	3,964	(1,671)	2,293
Total	**96,389**	**(3,008)**	**93,381**

as at 31/12/2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	61,503	(298)	61,205
– of which performing exposures forborne	405	(1)	404
Non-performing exposures	3,419	(1,665)	1,754
– of which non-performing exposures forborne	3,076	(1,558)	1,518
Total	**64,922**	**(1,963)**	**62,959**

in millions of CZK	2020	2019
Share of exposures forborne in the total loans provided to customers	8.88%	3.05%
Share of non-performing exposures in total loans to customers	3.00%	2.79%

(b) Concentration of loans to customers by economic sector

as at 31/12/2020

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	54,990	(877)	54,113
Financial institutions	29,549	(144)	29,405
Households	1,614	(42)	1,572
Total	**86,153**	**(1,063)**	**85,090**
Forborne			
Non-financial institutions	8,914	(1,802)	7,112
Financial institutions	1,149	(59)	1,090
Households	173	(84)	89
Total	**10,236**	**(1,945)**	**8,291**

as at 31/12/2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	48,011	(288)	47,723
Financial institutions	12,055	(75)	11,980
Households	1,284	(6)	1,278
Other	91	(35)	56
Total	**61,441**	**(404)**	**61,037**
Forborne			
Non-financial institutions	3,295	(1,476)	1,819
Households	186	(83)	103
Total	**3,481**	**(1,559)**	**1,922**

(c) Concentration of loans to customers by industry

in millions of CZK	2020	2019
Real estate activities	16,957	13,878
Transportation and storage	11,496	224
Financial activities	10,935	4,703
Culture, sports, entertainment and recreation activities	9,798	6,869
Wholesale and retail	9,631	8,664
Construction	7,304	5,034
Manufacturing	5,604	6,289
Accommodation and food service activities	4,819	3,345
Production and distribution of electricity, gas and heat	4,637	2,829
ICT	4,554	6,875
Administrative and support service activities	2,586	28
Professional, scientific and technological activities	1,389	943
Private households and employed persons	1,333	1,079
Mining, quarrying and agriculture	1,227	877
Water supply, services relating to water, waste management and redevelopment	617	705
Healthcare and social work	264	406
Agriculture, forestry and fishing	99	—
Other	131	211
Total	**93,381**	**62,959**

(d) Concentration of loans to customers by location

in millions of CZK	2020	2019
Luxembourg	24,121	8,498
Czech Republic	23,562	21,750
Cyprus	16,503	14,126
Slovakia	7,656	6,901
Austria	3,768	–
Switzerland	3,438	3,164
Croatia	2,942	2,125
Germany	2,704	1,070
The Netherlands	1,973	183
Great Britain	1,512	262
France	1,039	965
Guernsey, C.I.	956	–
Poland	842	904
Cayman Islands	517	520
Malta	426	470
Monaco	366	329
Maldives	355	309
Russia	229	253
Ireland	212	220
Ukraine	110	121
British Virgin Islands	–	667
Other	150	122
Total	**93,381**	**62,959**

(e) Concentration of loans to customers by location of project implementation and collateral

in millions of CZK	2020	2019
Czech Republic	38,280	32,573
Great Britain	13,487	1,108
France	7,852	3,589
Slovakia	7,507	7,078
Austria	4,860	40
China	4,801	2,688
Croatia	3,428	2,833
Luxembourg	3,308	–
Ukraine	1,824	1,921
Slovenia	1,546	1,753
Germany	1,477	3,643
Spain	1,212	1,394
USA	943	460
Poland	843	2,203
Hungary	517	520
Monaco	362	328
Maldives	356	309
Russia	227	304
Cyprus	103	–
Malta	63	–
Other	385	215
Total	**93,381**	**62,959**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with provided loans and repurchase agreements

As at 31 December 2020

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2				
Gross amount	4,207	38,051	60,792	30,917
Expected credit losses	(6)	–	(1,127)	–
Stage 3				
Gross amount	–	–	4,678	2
Expected credit losses	–	–	(1,881)	–
Total	**4,201**	**38,051**	**62,462**	**30,919**
Stage 1 and 2 – by maturity				
– to maturity date	4,201	38,051	59,665	30,917
Stage 3 – by maturity				
– to maturity date	–	–	2,374	–
– 1 to 6 months past due	–	–	332	–
– 6 to 12 months past due	–	–	17	2
– more than 12 months past due	–	–	74	–
Total	**4,201**	**38,051**	**62,462**	**30,919**

As at 31 December 2019

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2				
Gross amount	2,979	56,232	49,785	11,718
Expected credit losses	–	–	(298)	–
Stage 3				
Gross amount	–	–	3,419	–
Expected credit losses	–	–	(1,665)	–
Total	**2,979**	**56,232**	**51,241**	**11,718**
Stage 1 and 2 – by maturity				
– to maturity date	2,979	56,232	49,487	11,718
Stage 3 – by maturity				
– to maturity date	–	–	1,630	–
– 4 to 6 months past due	–	–	47	–
– more than 12 months past due	–	–	77	–
Total	**2,979**	**56,232**	**51,241**	**11,718**

Assets classified as "Neither past due nor impaired with a sign of impairment" represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no allowance has been created. All loans to banks and repurchase agreements are held to maturity.

The relevant portion of loans to customers (past due not impaired not forborne and past due not impaired forborne) that is not past due, is presented in line "to maturity". The portion of receivables that is past due is presented in the respective line, depending on the time past due.

The Bank classifies provided loans into internal rating groups while considering a number of factors. The following table summarises receivables by internal rating.

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	4	–	–	–	4
Low risk	3,580	68	–	–	3,648
Medium risk	49,861	6,230	–		56,091
High risk	928	121	–	–	1,049
Failed	–	–	4,198	481	4,679
Debits and reverse repurchase agreements – without rating	30,917	–	1	–	30,918
ECL	(832)	(295)	(1,825)	(56)	(3,008)
Total as at 31 December 2020	**84,458**	**6,124**	**2,374**	**425**	**93,381**

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,366	75	–	–	1,441
Low risk	3	–	–	–	3
Medium risk	43,469	3,938	–	–	47,407
High risk	934	–	–	–	934
Failed	–	–	2,990	429	3,419
Debits and reverse repurchase agreements – without rating	11,718	–	–	–	11,718
ECL	(194)	(104)	(1,612)	(53)	(1,963)
Total as at 31 December 2019	**57,296**	**3,909**	**1,378**	**376**	**62,959**

(g) Sensitivity analysis for expected credit losses

The sensitivity of expected credit losses is affected by the probability of default (PD) and impairment losses. The table below shows the comparison of reported expected credit losses from impaired loans to clients. The optimistic and pessimistic scenario reflects the amount of expected credit losses on a change of impairment losses by 10% (LGD) and the probability of default by 10% (PD):

in millions of CZK	Optimistic	Elementary	Pessimistic
Change in LGD			
ECL 2020	(2,710)	(3,008)	(3,276)
ECL 2019	(1,771)	(1,963)	(2,134)
Change in LGD			
ECL 2020	(2,900)	(3,008)	(3,127)
ECL 2019	(1,933)	(1,963)	(1,993)

Considering the situation on the market as a result of the COVID-19 pandemic, in 2020 the Bank also performed a sensitivity analysis on changes in expected credit losses for loans as a result of changes in GNP as the key future development indicator. In particular, the Bank analysed effects of predicted changes in GNP by +/- 1% on the value of ECL. The impact of the change in GDP on ECL 2019 was not significant.

in millions of CZK	Optimistic	Elementary	Pessimistic
ECL 2020	(2,984)	(3,008)	(3,039)

(h) Collateral and credit enhancements for provided loans and repurchase agreements

The amounts in the table on the previous page represent the maximum accounting loss that would be recognized in the statement of financial position if counterparties completely failed to fulfil their obligations and if any potential collateral had no value. These amounts are therefore considerably higher than expected losses that are included in the allowance for the loan losses. The Bank's policy is to require collateral from certain customers before loans can be drawn.

31/12/2020

in millions of CZK	Carrying amount of collateral Stage 1 and 2	Fair value of collateral Stage 1 and 2	Carrying amount of collateral Stage 3	Fair value of collateral Stage 3
To maturity date:	**92,463**	**102,426**	**1,312**	**1,551**
– Guarantees	2,874	4,673	–	–
– Promissory notes	189	966	–	–
– Real estate	12,835	15,243	1,136	1,290
– Cash deposits	3,159	3,165	–	–
– Securities	31,663	33,246	66	135
– Other	1,184	4,574	110	126
– Securities received under reverse repurchase agreements	40,559	40,559	–	–
Past due:	**195**	**322**	**175**	**257**
– Real estate	195	322	175	257

31/12/2019

in millions of CZK	Carrying amount of collateral Stage 1 and 2	Fair value of collateral Stage 1 and 2	Carrying amount of collateral Stage 3	Fair value of collateral Stage 3
To maturity date:	**87,584**	**98,900**	**915**	**1,147**
– Guarantees	1,490	4,977	–	–
– Promissory notes	909	3,363	–	–
– Real estate	12,117	13,440	670	902
– Cash deposits	2,760	2,760	–	–
– Securities	10,542	11,320	–	–
– Other	729	4,003	245	245
– Securities received under reverse repurchase agreements	59,037	59,037	–	–
Past due:	**87**	**151**	**260**	**705**
– Real estate	87	151	77	251
– Other	–	–	183	454

Other is mainly represented by movable assets and receivables.

For the purposes of reporting the collateral value of loans, the Bank only values promissory notes with a financial guarantee. The amount of collateral depends on the value of a guarantee provided by a promissory note holder.

The Bank did not receive any financial assets from indemnity claims based on loans in default.

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The fair value is adjusted by stress coefficient and it is not limited by the carrying value of a receivable. Collateral value is monitored and revised on regular basis.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(i) Credit risk processes

Evaluating the risk of failure of a counterparty is based on a credit analysis, processed by the Credit Risk Management department. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens or if the counterparty fails to comply with contractual conditions.

The results from the credit development analyses are reported to the Board of Directors or respective committee, which decides on adjustments of limits or relations with the counterparty (e.g. in the form of closing or limiting positions or adjustment of limits).

Credit risk of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, at least once a month by the Credit Risk Management department. The risk is calculated in accordance with ICAAP.

(j) Credit risk monitoring

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Bank. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Bank scoring system.

The Bank's scoring system has thirteen rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, as well as proposed conditions for effecting the transaction. The Bank also evaluates financial and non-financial indicators that may not be monitored within the scoring system.

(k) Credit risk measurement

The Bank regularly analyses and monitors credit risk of the trading book. At portfolio level, credit risk of the trading book is managed primarily based on the IRB (Internal Rating Based) methodology. Credit risk of the investment book is quantified on the Standardized approach basis. Concentration risk is calculated for both of the books (for the level of Client, ECG, sector).

In order to assess the impact of extremely unfavourable credit conditions, the Bank performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level on open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in millions of CZK	31/12/2020	31/12/2019
Decrease of the trading portfolio value due to a rating migration by one credit class*	49	67

* in the Standard & Poor's scale

(l) Risk management of customer trades

The Bank prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Bank has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Bank closes all of the customer's positions immediately.
3. The Bank accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Bank also restricts the total volume of individual instruments used as collateral.

39. Liquidity risk

Liquidity risk represents a risk that the Bank is not able to meet its commitments as they are becoming mature. The Bank is required to report a system of indicators to the Czech National Bank, which is done on a regular basis. The Bank's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Bank performs everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Bank is using as well as obligations the bank has to pay. For the purpose of sufficient liquidity reserve the Bank holds sufficient amount of highly liquid instruments (such as government bonds and similar securities), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Bank assorts all cash flows into time frames according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

Three scenarios are used in terms of liquidity risk management of the Bank:

A) Expected scenarios
B) Alternative scenarios
C) Stress scenarios

Alternative Scenarios are based on stress imposed on components that might be negatively affected when liquidity problems crisis starts to approach. The stress scenario helps identify periods when it is necessary to manage the cash flows of the Bank with caution.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When an actual or possible breach of the adopted internal / external liquidity limits is identified, Asset and Liability Management Committee (ALCO) is informed to ensure compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Bank has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors or ALCO.

The table shows the liquidity risk based on remaining contractual maturity dates 31 December 2020:

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	42,479	42,575	41,991	14	208	219	143
Securities (excl. derivatives)	20,725	21,960	214	790	11,384	171	9,401
Loans and other advances to customers	93,381	103,922	38,214	15,968	38,909	10,831	–
Total	**156,585**	**168,457**	**80,419**	**16,772**	**50,501**	**11,221**	**9,544**
Off balance:							
Bank commitments	6,562	6,562	5,657	324	581	–	–
Bank guarantees	1,711	1,711	1,711	–	–	–	–
Liabilities							
Deposits and loans from banks	1,405	1,404	907	497	–	–	–
Deposits from customers	132,428	133,947	78,998	27,753	26,795	401	–
Lease liabilities	866	1,036	10	74	355	597	–
Subordinated debt	209	227	99	38	90	–	–
Total	**134,908**	**136,614**	**80,014**	**28,362**	**27,240**	**998**	**–**

Expected maturity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that selected loans and deposits are prolonged. In addition, as outstanding balances on current accounts or deposits nearing its maturity date are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the Bank regularly monitors the period and percentage of deposits that remain available and those that are prolonged. These ratios are used for managing the liquidity risk.

For loans, in the worst-case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project.

Loans whose refinancing is already being negotiated are recognised based on the expected refinancing date. The expected maturity of other financial assets and liabilities not listed below is similar to their contractual maturity.

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	93,381	103,922	34,720	11,068	47,114	10,896	124
Liabilities							
Deposits from customers	132,428	133,953	49,138	23,149	35,694	25,972	–
Subordinated debt	209	227	99	38	90	–	–

Liquidity risk as at 31 December 2020 – derivatives – non-discounted cash flows

in millions of CZK	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
FX derivatives – inflow	937	936	776	95	65
Cross currency derivatives					
– inflow	96	5,913	–	217	5,696
– outflow	–	(5,964)	–	(260)	(5,704)
Other – inflow	3	3	1	–	2
Total	**1,036**	**888**	**777**	**52**	**59**
Derivative financial liabilities					
FX derivatives – outflow	709	709	312	177	220
Cross currency derivatives					
– inflow	–	5,636	–	247	5,389
– outflow	54	(5,541)	–	(186)	(5,355)
Other – outflow	1	1	–	–	1
Total	**764**	**805**	**312**	**238**	**255**

31/12/2019

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	59,391	59,575	58,478	25	360	228	484
Securities (excl. derivatives)	13,018	13,939	50	235	3,403	1,911	8,340
Loans and advances to customers	62,959	72,661	15,630	11,339	35,912	9,780	–
Total	**135,368**	**146,176**	**74,158**	**11,599**	**39,675**	**11,919**	**8,824**
Off balance							
Bank commitments	8,841	8,841	449	5,111	2,589	183	508
Bank guarantees	1,982	1,982	1,982	–	–	–	–
Liabilities							
Deposits and loans from banks	4,492	4,492	4,492	–	–	–	–
Deposits from customers	107,549	108,678	63,634	23,299	21,395	350	–
Lease liabilities	180	180	79	17	70	14	–
Subordinated debt	620	661	107	328	172	54	–
Total	**112,841**	**114,011**	**68,312**	**23,644**	**21,637**	**418**	**–**

Expected maturity

in millions of CZK	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	62,959	72,661	17,219	11,476	34,613	9,301	52
Liabilities							
Deposits from customers	107,549	108,530	32,348	21,205	28,672	26,306	—
Subordinated debt	620	661	107	328	172	54	—

in millions of CZK	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
FX derivatives – inflow	847	847	300	372	175
Cross currency derivatives					
– inflow	103	5,148	—	167	4,981
– outflow	—	(5,377)	—	(219)	(5,158)
Other – inflow	5	5	3	—	2
Total	**955**	**623**	**303**	**320**	**—**
Derivative financial liabilities					
FX derivatives – outflow	564	564	303	188	73
Cross currency derivatives					
– inflow	—	4,819	—	200	4,619
– outflow	50	(4,537)	—	(132)	(4,405)
Other – outflow	8	8	6	—	2
Total	**622**	**854**	**309**	**256**	**289**

40. Market risk

Market risk is the risk of loss to the Bank arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the trading portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in note 41 and 42, respectively.

The Bank uses the Value at Risk ("VaR") methodology to evaluate market risk of its trading portfolio, the foreign currency ("FX") and commodity position using a confidence level of 99% and a horizon of 10 business days.

The risks are evaluated (on an individual basis) and compared to limits set by the Risk Management Dept. on a daily basis. If the limits are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors.

The decision-making power is given by internal rules to the Board of Directors and Investment Committee.
The Bank performs back testing on a daily basis for market risk by applying a method of hypothetical back testing.

The VaR statistics as of 31 December 2020 and 31 December 2019 are as follows:

in millions of CZK	31/12/2020	31/12/2019
VaR market risk overall	46	68
VaR interest rate risk	30	42
VaR FX risk	74	43
VaR equity risk	40	10
VaR commodity risk	2	2

In order to assess the impact of extremely unfavourable market conditions, the Bank performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible. As part of the stress testing, a short-term, medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Bank as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous two, five or fifteen years. The potential change in the fair value of the portfolio is monitored and assessed.

Change in the fair value of the trading portfolio including currency and commodity positions due to historic shock scenario:

in millions of CZK	31/12/2020	31/12/2019
Short-term scenario	(105)	(90)
Medium-term scenario	(105)	(241)
Long-term scenario	(301)	(261)

The market risk of the investment portfolio consists mainly of interest rate risk.

The Bank performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve. The Bank distinguishes between internal and stress scenarios, within which various parallel and non-parallel movements are made.

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

(% Tier 1 + Tier 2)	31/12/2020	31/12/2019
Present value decrease of the investment portfolio due to a sudden change in interest rates by 200 bp	2.24	5.23

41. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2020 is as follows

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	40,254	63	–	2,162	**42,479**
Securities and positive fair value of derivatives	3,184	9,071	105	9,401	**21,761**
Ownership interests	–	–	–	4,836	**4,836**
Loans and other advances to customers	89,821	551	45	2,964	**93,381**
Current income tax receivable	–	–	–	104	**104**
Deferred tax asset	–	–	–	373	**373**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	–	–	–	3,062	**3,062**
Disposal groups held for sale	–	–	–	240	**240**
Total assets	**133,259**	**9,685**	**150**	**23,143**	**166,236**
Equity and liabilities					
Deposits and loans from banks	600	–	–	805	**1,405**
Deposits from customers	81,222	33,035	336	17,835	**132,428**
Negative fair value of derivatives	490	274	–	–	**764**
Subordinated debt	188	21	–	–	**209**
Other liabilities and equity	30	–	–	31,400	**31,430**
Total equity and liabilities	**82,530**	**33,330**	**336**	**50,040**	**166,236**
Net interest rate risk	50,729	(23,645)	(187)	(26,897)	**–**
Cumulative interest rate risk	50,729	27,084	26,897	–	**–**

Rates for which banks borrow funds from one another within an inter-bank monetary market are designated as Interbank Offered Rates (IBOR). In the past, serious cases of manipulation with certain reference rates (LIBOR, EURIBOR) occurred, undermining confidence in these rates and giving raise to doubt whether they have been set transparently. Consequently, these rates are currently being reformed and the whole process is called IBOR transition or replacement. As the economic significance of these rates is high, it is necessary to ensure the accuracy and reliability of reference values and processes of their determination (methodology, governance structure). For this reason, working groups have been created to identify new reference rates and ensure the transition to alternation, risk-free reference rates (RFRs).

The Bank has been intensively analysing and quantifying the impacts of the transition to the system of risk-free reference rates. For derivatives, the Bank only reports interest rate swaps with PRIBOR as a reference rate. PRIBOR is compatible with Regulation of the European Parliament 2016/1011, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and may remain in application. The Bank does not plan any transition to any other alternative risk-free reference rate.

Only in the case of collateral interest-bearing, the Bank will transit from EONIE to an alternative risk-free reference rate, ESTR. Where ISDA Master Agreements and their Czech equivalent - CEMA (framework agreements for trading on financial markets) are concerned, templates of contracts were amended in 2020 to allow the automatic transition of existing contracts to new risk-free reference rates.

For hedge accounting, the Bank uses only FX derivatives. The Bank does not use any interest rate swaps with variable interest rates for hedging purposes.

The Bank considers the following implications of the reform of rates as most significant:
- legal implications – adjustment of reference rates in contracts (loan contracts, contracts for deposit products, ISDA and CEMA agreements, supplier contracts, etc.), product lists, prospectuses, etc.
- valuation of financial instruments – construction and definition of yield curves, risk management, financial plans, price setting, performance calculations, etc.
- IT systems and processes – technical preparedness of systems for the transition to risk-free reference rates, data inputs in resource systems, etc.
- accounting – impact on the modification and classification of financial instruments, etc.

Interest rate risk exposure as at 31 December 2019 is as follows

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	58,492	177	–	722	**59,391**
Securities and positive fair value of derivatives	884	3,027	1,801	8,261	**13,973**
Ownership interests	–	–	–	4,116	**4,116**
Loans and other advances to customers	57,135	4,305	2	1,517	**62,959**
Deferred tax asset	–	–	–	259	**259**
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	–	–	–	1,127	**1,127**
Disposal groups held for sale	–	–	–	64	**64**
Total assets	**116,511**	**7,509**	**1,803**	**16,066**	**141,889**
Equity and liabilities					
Deposits and loans from banks	4,031	–	–	461	**4,492**
Deposits from customers	62,639	25,857	334	18,719	**107,549**
Negative fair value of derivatives	499	123	–	–	**622**
Subordinated debt	467	153	–	–	**620**
Current tax liability	–	–	–	209	**209**
Other liabilities and equity	26	–	–	28,371	**28,397**
Total equity and liabilities	**67,662**	**26,133**	**334**	**47,760**	**141,889**
Net interest rate risk	48,849	(18,624)	1,469	(31,694)	**–**
Cumulative interest rate risk	48,849	30,225	31,694	–	**–**

42. Foreign exchange risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Bank's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income. The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

Foreign exchange risk exposure as at 31 December 2020 was as follows

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	39,774	146	2,321	11	227	42,479
Securities and positive fair value	12,925	—	8,600	—	236	21,761
Ownership interests	2,269	271	—	1,966	330	4,836
Loans and other advances to customers	13,434	10,365	55,776	—	13,806*	93,381
Current income tax receivable	61	—	43	—	—	104
Deferred tax asset	291	—	82	—	—	373
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	1,208	116	1,725	—	13	3,062
Disposal groups held for sale	240	—	—	—	—	240
Total assets	**70,202**	**10,898**	**68,547**	**1,977**	**14,612**	**166,236**

*The item mainly includes a position in GBP of CZK 13,533 million and other currencies in individually insignificant amounts.

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Equity and liabilities						
Deposits and loans from banks	148	20	1,207	—	30	1,405
Deposits from customers	80,977	2,254	48,305	455	437	132,428
Negative fair value of derivatives	764	—	—	—	—	764
Subordinated debt	154	—	55	—	—	209
Other liabilities and equity	25,777	870	4,653	1	129	31,430
Total equity and liabilities	**107,820**	**3,144**	**54,220**	**456**	**596**	**166,236**
Long position of off-balance sheet instruments:						
items from derivative transactions	76,376	4,612	42,692	625	5,843	130,148
items from spot transactions with share instruments	10	—	27	—	—	37
Short position of off-balance sheet instruments:						
items from derivative transactions	45,228	12,397	50,382	1,437	20,436	129,880
items from spot transactions with share instruments	10	—	26	—	1	37
Open position asset/(liability)	**(6,470)**	**(31)**	**6,638**	**709**	**(578)**	**268**

Foreign exchange risk exposure as at 31 December 2019 was as follows

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	57,694	214	1,198	115	170	59,391
Securities and positive fair value of derivatives	6,499	—	7,258	—	216	13,973
Ownership interests	996	316	—	2,481	323	4,116
Loans and other advances to customers	15,527	3,758	42,368	2	1,304	62,959
Deferred tax asset	164	—	95	—	—	259
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	718	109	298	—	2	1,127
Disposal groups held for sale	64	—	—	—	—	64
Total assets	**81,662**	**4,397**	**51,217**	**2,598**	**2,015**	**141,889**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Equity and liabilities						
Deposits and loans from banks	2,058	10	2,388	—	36	4,492
Deposits from customers	63,658	1,715	41,597	343	236	107,549
Negative fair value of derivatives	622	—	—	—	—	622
Subordinated debt	564	—	56	—	—	620
Current tax liability	199	—	10	—	—	209
Other liabilities and equity	23,997	324	3,991	—	85	28,397
Total equity and liabilities	**91,098**	**2,049**	**48,042**	**343**	**357**	**141,889**
Long position of off-balance sheet instruments:						
items from derivative transactions	48,202	2,385	36,561	285	4,441	91,874
items from spot transactions with share instruments	16	77	—	—	—	93
Short position of off-balance sheet instruments:						
items from derivative transactions	37,249	5,033	41,002	2,051	6,137	91,472
items from spot transactions with share instruments	15	77	—	—	1	93
Open position asset/(liability)	**1,518**	**(300)**	**(1 266)**	**489**	**(39)**	**402**

43. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including information technology risk, legal and compliance risk.

The Bank's objective of managing the operational risk is to minimize the risk and securing the Bank's activities at the required level.

The primary responsibility for the implementation of controls to address operational risk is assigned to the management of the Bank or the established Operational Risk and Damage Committee. This responsibility is supported by the development of overall standards within the Bank for the management of operational risk which is done by the Risk Management Dept. and which cover the following areas (reflecting the proportionality principle):
- identification of operational risk for all processes within the Bank's control system;
- evaluation of identified risks;
- adoption of a decision to accept or reduce the identified risks (while the required level of activities is secured);
- reporting of operational risk events by entering the corresponding information into the Bank's database of operational risk events.
- this overview of the Bank's operational risk events allows the Bank to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely;
  - setting and monitoring of KRI (Key Risk Indicators) for early indication of increasing operational risk.

44. Capital management

The Bank's strategy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of the business.

As of 1 January 2014, the capital adequacy ratios are calculated in accordance with Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR").

Own funds (regulatory capital) of the Bank are analysed in two parts:
- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, other temporary adjustments CET1, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes instruments (subordinated income certificates) issued in accordance with CRR.
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank of CZK 64 million (31 December 2020: CZK 137 million).

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% and countercyclical buffer on all the levels of regulatory capital.

From 1 January 2018, the Bank decided to apply upon the adoption of IFRS 9 Article 473a of Regulation (EU) 2017/2395 of the European Parliament and of the Council, and to include an amount equal to the difference between allowances and provisions under IAS 39 as at 31 December 2017 and expected credit losses under IFRS 9 as at 1 January 2018 in Common Equity Tier 1 (CET1) capital, for the transitional period of 5 years as well as expected credit losses under IFRS 9 as at 1 January 2018. The difference is further recalculated using a stipulated coefficient. At the same time, the Bank modified the method of calculating specific adjustments for credit risk, accordingly.

The specific countercyclical capital buffer rate is calculated in accordance with Section 63 ČNB decree No. 163/2014 Coll. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Bank has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates. These have gradually been also set for other relevant states.

Minimum requirements for capital ratios for 31 December 2020 and 31 December 2019 are as follows:

in millions of CZK	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.36%	7.36%
Tier 1 capital	6%	2.5%	0.36%	8.86%
Total regulatory capital 2020	**8%**	**2.5%**	**0.36%**	**10.86%**
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.88%	7.88%
Tier 1 capital	6%	2.5%	0.88%	9.88%
Total regulatory capital 2019	**8%**	**2.5%**	**0.88%**	**11.38%**

Regulatory capital

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2020 and 31 December 2019, providing a complete reconciliation of individual items of regulatory capital to equity items.

As at 31 December 2020

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	6,314	6,393
Profit for the period	–	1,057
Accumulated other comprehensive income	39	41
Reserve funds	–	162
(-) Additional value adjustments (AVA)	(22)	–
(-) Intangible assets	(100)	–
Transitional adjustments to CET1 instruments	285	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**19,751**	**n/a**
Total Tier 2 capital	64	–
Total regulatory capital/equity	**19,815**	**20,888**

As at 31 December 2019

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,678	3,756
Profit for the period	—	2,879
Accumulated other comprehensive income	(44)	(43)
Reserve funds	—	164
(-) Additional value adjustments (AVA)	(15)	—
(-) Intangible assets	(92)	—
Transitional adjustments to CET1 instruments	346	—
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,110**	**n/a**
Total Tier 2 capital	137	—
Total regulatory capital/equity	**17,247**	**19,991**

Based on the opinion of the Czech National Bank, retained earnings are reduced by the amount of the anticipated payment from subordinated income certificates (AT1 instruments) in the next four quarters not covered by a special-purpose fund for the payment of the income from those certificates before their inclusion in regulatory capital.

Risk weighted assets (RWA) and capital ratios

in millions of CZK	31 December 2020	31 December 2019
Central governments or central banks	897	—
Institutions	1,318	926
Corporates	45,886	41,746
Retail	38	46
Secured by mortgages on immovable property	11,232	9,704
Exposures in default	4,605	2,214
Items associated with particular high risk	26,965	16,394
Covered bonds	53	51
Collective investments undertakings (CIU)	5,287	4,414
Shares	4,725	4,678
Other items	2,007	958
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**103,013**	**81,131**
Traded debt instruments	3,596	1,933
Shares	690	648
Position risk in collective investment undertakings (CIUs)	18	20
Foreign Exchange	1,444	2,202
Total risk exposure amount for position, foreign exchange and commodity risks	**5,748**	**4 803**
Operational risk	9,179	8,172
Total risk exposure amount for credit valuation adjustment	479	250
Total risk exposure amount	**118,419**	**94,356**

Capital adequacy ratios

in %	31 December 2020	31 December 2019
Common Equity Tier 1 capital (CET 1)	14.49	15.38
Tier 1 capital	16.68	18.13
Total regulatory capital	**16.73**	**18.28**

The key goal of capital management of the Bank is to ensure that the risks faced do not threaten the solvency of the Bank and capital adequacy regulatory limit compliance.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Bank capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Bank 's management.

The decision-making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

45. Fair value information

Estimation of fair values
The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates were made in the case of fixed rate loans.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

Estimates of the fair value of financial assets measured at amortized cost, analysed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

31 December 2020

in millions of CZK	Level 1	Level 2	Level 3	Total fair value estimate	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	42,478	–	42,478	42,479
Loans and other advances to customers	–	–	99,837	99,837	93,381
Financial liabilities					
Deposits and loans from banks	–	1,405	–	1,405	1,405
Deposits from customers	–	132,601	–	132,601	132,428
Subordinated debt	–	212	–	212	209

31 December 2019

in millions of CZK	Level 1	Level 2	Level 3	Total fair value estimate	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	59,498	–	59,498	59,391
Loans and other advances to customers	–	–	65,370	65,370	62,959
Financial liabilities					
Deposits and loans from banks	–	4,492	–	4,492	4,492
Deposits from customers	–	108,092	–	108,092	107,549
Subordinated debt	–	652	–	652	620

46. Material subsequent events

As at the date of preparing these financial statements, the Bank was not aware of any other events that would require an adjustment of these separate financial statements.

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This document is an unsigned English translation of the Czech independent auditor's report that we issued on 28 April 2021 on the statutory separate financial statements. Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of J&T BANKA, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying separate financial statements of J&T BANKA, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the separate statement of financial position as at 31 December 2020, and the separate statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2020, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs), which may be supplemented and amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses for loans and advances to customers at amortised cost

Expected credit losses for loans and advances amounted to CZK 3 008 million as at 31 December 2020 (31 December 2019: CZK 1 963 million).

Refer to Note 3 (Accounting policies), Note 10 (Loans and advances to customers at amortised cost) and Note 12 (Expected credit losses) in the notes to the separate financial statements.

Key audit matter

Impairment allowances represent management's best estimate of the expected credit losses ("the Expected Credit Losses", "ECLs") within loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements over the amounts of any such impairment.

In the process, the loans are allocated into one of the three stages prescribed by IFRS 9 Financial instruments in order to estimate the loss allowances. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans being those for which significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, credit-impaired loans.

Key assumptions and judgements in the calculation of the Expected Credit Losses include the following:
- application of the definition of default and significant increase in credit risk SICR;
- the probability of default (PD), loss given default (LGD) and exposure at default (EAD); and
- forward-looking information (FLI) based on several macroeconomic scenarios.

PD parameters have been determined based on annualized migration matrix resulting from the external market data adjusted for FLI with probability-weighted scenarios considered. PD parameter is assigned to the loan based on its internal rating. LGD is determined by estimating the probability-weighted discounted future cash flows for each exposure, often considering the realisable value of the related loan collateral.

Due to the above factors and complexities, coupled with the need to consider the effects of the COVID-19 pandemic on the Company's business environment and the measurement of ECLs, the area required our increased attention in the audit and as such was determined to be a key audit matter.

How the audit matter was addressed

Assisted by our own credit risk, valuation and information technology (IT) specialists, we performed, among other things, the procedures outlined below:

We assessed the Company's accounting policies and processes related to estimating ECLs. This included assessing whether the relevant methods, models, assumptions and data used therein comply with the requirements of the relevant financial reporting standards and industry practice. As part of the above, we assessed the process of identifying indicators of default, SICR, and allocating of loans to particular stages of IFRS 9. In addition, we tested IT control environment for data security and access.

We tested the design, implementation and operating effectiveness of selected IT-based and manual controls over the approval, recording and monitoring of loans and advances, matching of incoming payments, calculating days past due, and calculation of effective interest rate. We tested the controls by making inquiries of heads of risk, finance and IT department and other relevant IT and risk department personnel, in combination with the observation, inspection of underlying documentation and, where applicable, reperformance of controls.

We evaluated whether in its ECL measurement the Company appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic.

We assessed the key assumptions applied in the ECL measurement as follows:
- definition of default and of SICR – by assessing whether the financial instruments standard's definition of default and staging criteria were consistently applied;
- PD parameter – by reference to external market data and considering any required adjustments to reflect expected changes in circumstances;
- LGD and EAD parameters – by reference to the Company's historical and contractual data and considering any required adjustments to reflect expected changes in circumstances, and
- forward-looking indicators – by means of corroborating inquiries of the Management Board, applying our knowledge of the Company and inspecting publicly available data and reports.

For a sample of loans, by reference to the underlying documentation (loan files) and through inquiries of the Company's credit officers, we evaluated whether the loans were allocated to appropriate stages of IFRS 9, and whether appropriate internal rating and LGD parameter were applied to on-balance and off-balance exposures in determining the related ECLs. As part of the procedure, we specifically focused on the robustness of the Company's financial analysis of the borrower, the repayment pattern for the loan and the collateral provided.

For the selected groups of loans, we checked whether PD and EAD parameters were reasonably and consistently applied to on-balance and off-balance exposures in determining the related ECLs.

We challenged the loan collateral valuation methods (including the appropriateness of any haircuts applied) applied on a sample of loans pledged by the real estate collateral. As part of the procedure, among other things, we challenged the assumptions in the valuations used by the Company by reference to independent market sources (including market pricing data).

We critically assessed the overall reasonableness of the estimated ECLs, including the loans provision coverage, by benchmarking them against available industry data.

We examined whether the loan impairment and credit risk-related disclosures in the separate financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.
The Company has not prepared an annual report as at 31 December 2020, as it includes the respective information in the consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body 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 statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process. The Audit Committee is responsible for monitoring the Company's financial reporting 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 above 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.

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As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholder on 17 September 2020 and our uninterrupted engagement has lasted for 20 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

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Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of J&T BANKA, a.s. as at 31 December 2020, based on which this independent auditor's report has been prepared.

Prague, 28 April 2021

Signed by	Signed by
KPMG Česká republika Audit, s.r.o. Registration number 71	Jindřich Vašina Partner Registration number 2059

13

billion CZK

Volume of bond issues registered in the market

Report on relations between related parties for the accounting period of 2020

Report on relations between the controlling entities and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for the accounting period of 2020 of J&T BANKA, a.s.

prepared in compliance with Section 82 of Act No. 90/2012 Coll., on Corporations and Cooperatives (Act on Corporations)

This report has been prepared by the Board of Directors of J&T BANKA, a.s., with its registered office at Praha 8, Sokolovská 700/113a, postcode 186 00, ID# 47115378 ("the Bank").

I. Structure of relations between the controlling entities and the controlled entity and between the controlled entity and entities controlled by the same controlling entity, the role of the controlled entity in the structure, and manner and means of control

The Board of Directors of J&T BANKA, a.s. is aware that during the period from 1 January 2020 to 31 December 2020, J&T BANKA, a.s. was directly controlled by the following persons and entities:

J&T FINANCE GROUP SE
ID# 27592502, with its registered office at Praha 8, Sokolovská 700/113a, postcode 186 00, Czech Republic

The Board of Directors of J&T BANKA, a.s. is aware that during the period from 1 January 2020 to 31 December 2020, J&T BANKA, a.s. was indirectly controlled by the following persons and entities:

Ing. Ivan Jakabovič,
Birth ID# 721008/6246, residing at 98000 MONACO, 32 rue COMTE FELIX GASTALDI, Monaco, who, along with Ing. Jozef Tkáč (see below) controls J&T FINANCE GROUP SE.

In addition, Ing. Ivan Jakabovič owns shares in the following companies

J & T Securities, s.r.o.
ID# 31366431,with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by Ing. Ivan Jakabovič

KOLIBA REAL a.s.
ID# 35 725 745, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by Ing. Ivan Jakabovič

KPRHT 3, s.r.o.
ID# 36 864 781, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by KOLIBA REAL a.s.

KPRHT 14 s.r.o.
ID# 36 864 765, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by KOLIBA REAL a.s.

KPRHT 19, s.r.o.
IČ: 36 864 889, se sídlem Dvořákovo nábrežie 8, Bratislava 811 02, Slovenská republika, kterou ovládá KOLIBA REAL a.s.

Ing. Jozef Tkáč,
Birth ID# 500616/210, residing at Bratislava, Júlová 10941/32, postcode 831 01, Slovakia, who, along with Ing. Ivan Jakabovič (see above) controls J&T FINANCE GROUP SE.

The Board of Directors of J&T BANKA, a.s. is aware that during the period from 1 January 2020 to 31 December 2020, J&T BANKA, a.s. was controlled by the same entities as the following other controlled entities, through J&T FINANCE GROUP SE

Poštová banka, a.s.
ID#: 31340890, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by J&T FINANCE GROUP SE

Poštová poisťovňa, a. s.
ID# 31405410, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.
ID# 35904305, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.
ID# 31621317, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PB Servis, a. s.
ID# 47234571, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Poštová banka, a.s.

PB PARTNER, a. s. v likvidácii
ID# 36864013, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PB Finančné služby, a. s.
ID# 35817453, with its registered office at Hattalova 12, Bratislava 831 03, Slovakia, controlled by Poštová banka, a.s.

SPPS, a. s.
ID# 46552723, with its registered office at Nám. SNP 35, Bratislava 811 01, Slovakia, controlled by Poštová banka, a.s.

365.fintech, a.s.
ID# 51301547, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Amico Finance a. s.
ID# 48113671, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

J&T NOVA Hotels SICAV, a.s.
ID# 09641173, with its registered office at Sokolovská 700/113a, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE (since 1 November 2020)

DIAMOND HOTELS SLOVAKIA, s.r.o.
ID# 35 838 833, with its registered office at Hodžovo nám. 2, Bratislava 816 25, Slovakia, controlled by J&T SNOVA Hotels SICAV, a.s. (since 1 November 2020)

BHP Tatry, s. r. o.
ID# 45 948 879, with its registered office at Dvořákovo nábrežie 6, Bratislava 811 02, Slovakia, controlled by J&T NOVA Hotels SICAV, a.s. (since 1 November 2020)

Cards&Co, a. s.
ID# 51 960 761, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s. (since 10 November 2020)

DanubePay, a. s.
ID# 46 775 111, with its registered office at Miletičova 21, Bratislava 821 08, Slovakia, controlled by Cards&Co, a. s. (since 10 November 2020)

Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.
ID# 03451488, Na příkopě 393/11, Staré Město, 110 00 Praha 1, Czech Republic, controlled by Poštová banka, a.s.

FORESPO SOLISKO a. s.
IČ: 47232935, se sídlem Karloveská 34, Bratislava 841 04, Slovenská republika, ovládána společností Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HELIOS 1 a. s.
ID# 47232935, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HELIOS 2 a. s.
ID# 47234032, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HOREC A SASANKA a. s.
ID# 47232994, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO PÁLENICA a. s.
ID# 47232978, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

INVEST-GROUND a. s.
ID# 36858137, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO - RENTAL 1 a.s.
ID# 36782653, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO - RENTAL 2 a. s.
ID# 36781487, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO BDS a.s.
ID# 27209938, with its registered office at Janáčkovo nábřeží 478/39, Smíchov, 150 00 Praha 5, Czech Republic, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

Devel Passage s. r. o.
ID# 43853765, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO DUNAJ 6 a. s.
ID# 47235608, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

RDF International, spol. s r.o.
ID# 31375898, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s. (since 21 December 2020)

OSTRAVICE HOTEL a.s.
ID# 27574911, with its registered office at Praha 8, Sokolovská /113a, postcode 186 00, Czech Republic, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

J&T SERVICES ČR, a.s.
ID# 28168305, with its registered office at Praha 8, Sokolovská /113a, postcode 186 00, Czech Republic, controlled by J&T FINANCE GROUP SE

J&T SERVICES SR, s.r.o.
ID# 46293329, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T SERVICES ČR, a.s.

Hotel Kadashevskaya, LLC.
ID# 1087746708642, with its registered office at Kadashevskaya Nabereznaya 26, 115035 Moscow, Russia, controlled by J&T FINANCE LLC

J&T Bank (Schweiz) AG in Liquidation
ID# CH02030069721, with its registered office in Zürich, Talacker 50, 12th floor, P.C. 8001, Switzerland, controlled by J&T FINANCE GROUP SE

J&T Wine Holding SE
ID# 06377149, with its registered office at Sokolovská 700/113a, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

Reisten, s.r.o.
ID# 25533924, with its registered office at Zahradní 288, 692 01 Pavlov, Czech Republic, controlled by J&T Wine Holding SE

KOLBY a.s.
ID# 25512919, with its registered office at Česká č.ev. 51, 691 26 Pouzdřany, Czech Republic, controlled by J&T Wine Holding SE

SAXONWOLD LIMITED
ID# 508611, with its registered office at Cam Lodge Kilquaide, The Russian Village, Co.Wicklow, A63 FK24, Ireland, controlled by J&T Wine Holding SE

World's End LLC
ID# 200807010154, with its registered office at 5 Financial Plaza 116, Napa CA 94558, USA, controlled by SAXONWOLD LIMITED

OUTSIDER LIMITED
ID# HE 372202, with its registered office at Klimentos, 41-43; KLIMENTOS TOWER, Floor 2, Flat 21; 1061, Nicosia, Cyprus, controlled by J&T Wine Holding SE

STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER
ID# 316 809 391, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by OUTSIDER LIMITED

CT DOMAINES
ID# 507 402 386, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER

J&T INTEGRIS GROUP LIMITED
ID# HE207436, with its registered office at Klimentos, Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, Cyprus, controlled by J&T FINANCE GROUP SE

Bayshore Merchant Services Inc.
ID# 01005740, with its registered office at TMF Place, Road Town, Tortola, British Virgin Islands, controlled by J&T J&T INTEGRIS GROUP LIMITEDD

J&T Bank & Trust Inc.
ID# 00011908, with its registered office at Lauriston House, Lower Collymore Rock, St. Michael, Barbados, controlled by Bayshore Merchant Services Inc.

J&T MINORITIES PORTFOLIO LTD
ID# HE260754, with its registered office at Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, Cyprus, controlled by J&T INTEGRIS GROUP LIMITED

Equity Holding, a.s.
ID# 10005005, with its registered office at Praha 8, Sokolovská 700/113a, postcode 186 00, Czech Republic, controlled by J&T MINORITIES PORTFOLIO LTD.

J&T FINANCE LLC
ID# 1067746577326, with its registered office at Rossolimo 17, Moscow, Russia, controlled by J&T MINORITIES PORTFOLIO LTD.

J&T Global Finance VI., s.r.o. v likvidácii
ID# 50195131, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED (until 10 July 2020)

J&T Global Finance VII., s.r.o. v likvidaci
ID# 05243441, with its registered office at Sokolovská 700/113a, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED (until 17 December 2020)

J&T Global Finance VIII., s.r.o.
ID# 06062831, with its registered office at Sokolovská 700/113a, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance IX., s.r.o.
ID# 51836301, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance X., s.r.o.
ID# 07402520, with its registered office at Sokolovská 700/113a, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED

J&T Mezzanine, a.s.
ID# 06605991, with its registered office at Sokolovská 700/113a, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

JTH Vision s. r. o.
ID# 05941750, with its registered office at Krupská 33/20, 415 01 Teplice, Czech Republic, jointly controlled by J&T Mezzanine, a.s. (since 4 May 2020)

J&T BANKA, a.s. is a member of the consolidation unit of the financial holding company of Ing. Jakabovič and Ing. Tkáč in compliance with Act No. 21/1992 Coll., on Banks. The manner and means of control described in this report ensue from control effected through a share in the company's share capital and voting rights.

II. Overview of acts made in the accounting period of 2020 at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity where such acts concern assets with a value exceeding 10% of the controlled entity's equity identified from the last financial statements.

During the accounting period, no acts concerning assets the value of which exceeds 10% of the Bank's equity identified from the last financial statements were made in the interest or at the instigation of the controlling entity and entities controlled by the controlling entity.

III. Overview of contracts entered into between the controlled entity and the controlling entity or between controlled entities.

All contracts below were based on the arm's length principle, which refers to situation when contracts are agreed between two non-related parties in their best interests.

With J&T FINANCE GROUP SE:

Contracts in force entered into between related parties:
- Consignment agreement dated 15 December 2008, regarding the provision of stock brokerage services.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 concerning the fulfilment of analytical function services.
- BROKERAGE CONTRACT dated 6 November 2013 concerning opportunities to conclude a contract with potential clients.
- Cost splitting contract dated 6 October 2014 concerning sharing of costs connected with the entry of a strategic investor into the J&T financial group.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Contract for the custody of investment instruments, dated 1 January 2014, based on which J&T BANKA, a.s. provided to the related party custody of securities in 2020, in exchange for adequate consideration in the form of payment.
- Financial settlement agreement dated 3 January 2012, based on which J&T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Contract for the provision of a guarantee, dated 21 August 2006, as further amended, based on which, in 2020, J&T FINANCE GROUP SE provided a guarantee to selected clients of the Bank, in exchange for adequate consideration in the form of payment.
- General consignment agreement for the brokerage of purchase and sale of securities, dated 10 April 2008, as further amended, based on which, in 2020, J&T BANKA, a.s. provided the related party with stock brokerage services, in exchange for adequate consideration in the form of payment.
- Contract for business lease of movable assets dated 22 September 2010, as further amended, based on which, in 2020, J&T FINANCE GROUP SE leased fixtures and fittings to the Bank, in exchange for adequate consideration in the form of lease payment.
- Contract for lease of movable assets and financial settlement dated 30 May 2011, as further amended, based on which J&T FINANCE GROUP SE, organizačná zložka leased fixtures and fittings in the building at Dvořákovo nábrežie 8, Bratislava to the Bank in 2020, in exchange for adequate consideration in the form of lease payment.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 25 November 2011 based on which J&T BANKA, a.s. undertakes to provide the related party with an advantageous package of services and participation rights in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.
- Contract for lease of movable assets and financial settlement dated 1 December 2014, as further amended, based on which J&T FINANCE GROUP SE, organizačná zložka leased fixtures and fittings in the River Park building complex in Bratislava to the Bank in 2020, in exchange for adequate consideration in the form of lease payment.
- General agreement on the provision of the services for legal entities dated 25 April 2019 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
- Cost splitting agreement dated 31 December 2014, based on which the companies mutually covered 50% of the cost of the audit of group reporting packages in 2020, in exchange for adequate consideration in the form of payment.
- General agreement on trading in financial markets dated 30 November 2015 based on which J&T BANKA, a.s. concluded currency derivative transactions, in exchange for adequate consideration in the form of payment of the transaction price including commission.

- Overdraft facility agreement No. EUR 61/KTK/2016 dated 11 November 2016, as further amended, based on which J&T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party and J&T FINANCE GROUP SE undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Administrator contract dated 17 March 2016, along with a Special arrangement to this contract, based on which, in 2020, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 based on which J&T BANKA, a.s. provided audit function (internal audit and compliance) services pursuant to this agreement in 2020, and J&T FINANCE GROUP SE undertook to provide adequate consideration in the form of payment.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 based on which J&T BANKA, a.s. provided risk management services pursuant to this agreement in 2020, and J&T FINANCE GROUP SE undertook to provide adequate consideration in the form of payment.
- Bond placement agreement dated 14 September 2020, along with a Special arrangement to this agreement, based on which J&T BANKA, a.s. arranged a bond issue in 2020, in exchange for adequate consideration in the form of payment.
- Administrator contract dated 14 September 2020, along with a Special arrangement to this contract, based on which, in 2020, J&T BANKA, a.s. provided administration services as part of a Certificate issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Provision of a safety deposit box in accordance with the Bank's business terms and conditions.
- Forward currency transactions in accordance with the Bank's business terms and conditions.

With Ing. Ivan Jakabovič:

Contracts in force entered into between related parties:
- Consignment agreement No. 17726 for the brokerage of purchase and sale of securities, dated 13 March 2009.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Agreement on private banking services dated 24 November 2015 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Agreement on exercising the office of the Supervisory Board member dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Corporations and Cooperatives ("the Act on Corporations").
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of debit and charge cards in accordance with the Bank's business terms and conditions.

With J & T Securities, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- General agreement on provision of banking services dated 8 November 2018 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With KOLIBA REAL a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Agreement on provision of banking services dated 6 August 2014 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With KPRHT 3, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Credit agreement No. EUR 25/OAO_SR/2017 dated 19 December 2017, based on which J&T BANKA, a.s. undertook to provide funds (a credit) to the related party and KPRHT 3, s.r.o. undertook to repay the credit and pay the interest and other fees in accordance with the agreed terms and conditions.
- Agreement on provision of banking services dated 30 January 2015 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With KPRHT 14 s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Credit agreement No. EUR 18/OAO_SR/2017 dated 7 December 2017, based on which J&T BANKA, a.s. undertook to provide funds (a credit) to the related party and KPRHT 14 s.r.o. undertook to repay the credit, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Agreement on provision of banking services dated 15 October 2013 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With KPRHT 19, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Credit agreement No. EUR 23/OAO_SR/2017 dated 7 December 2017, based on which J&T BANKA, a.s. undertook to provide funds (a credit) to the related party and KPRHT 19, s.r.o. undertook to repay the credit, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Agreement on provision of banking services dated 11 October 2013 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Ing. Jozef Tkáč:

Contracts in force entered into between related parties:

- General agreement on custody of financial instruments having the form of share certificates dated 10 December 2009.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Agreement on private banking services dated 15 March 2012 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Maintenance of a deposit account with a period of notice in accordance with the Bank's business terms and conditions.
- Agreement on exercising the office of the Supervisory Board member dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Corporations and Cooperatives ("the Act on Corporations").
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a charge card in accordance with the Bank's business terms and conditions.

With Poštová banka, a.s.:

Contracts in force entered into between related parties:

- Agreement on lease of non-residential premises dated 5 October 2010 based on which Poštová banka, a.s. leased to the Bank non-residential premises in the River Park building complex at Dvořákovo nábřeží, Bratislava.

- Contract for cooperation in participating in the Magnus loyalty scheme dated 22 October 2013 based on which J&T BANKA, a.s. undertook to provide the related party with participation in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Consignment agreement dated 18 December 2008 based on which J&T BANKA, a.s. provided the related party with stock brokerage services in 2020, in exchange for adequate consideration in the form of payment.
- Subordinated loan agreement dated 21 September 2011, as further amended, based on which J&T BANKA, a.s undertook to provide funds (a loan), and Poštová banka, a.s. undertook to repay the loan and pay interest in accordance with the agreed terms and conditions.
- Contract for support of membership in the card company MasterCard dated 24 June 2014 based on which Poštová banka, a.s. provided payment system related services to J&T BANKA, a.s., a related party, in 2020, in exchange for adequate consideration in the form of payment.
- Contract for a loro account dated 27 May 2014 based on which Poštová banka, a.s. provided services connected with maintaining a Euro bank account used to settle transactions made with MasterCard payment cards.
- Contract for a loro account dated 27 May 2014 based on which Poštová banka, a.s. provided services connected with maintaining a CZK bank account used to settle transactions made with MasterCard payment cards.
- 2002 Master Agreement for derivative transactions between J&T BANKA, a.s. and Poštová banka, a.s. dated 10 June 2015 based on which the Bank concluded mainly currency derivative transactions, in exchange for adequate consideration in the form of payment of the transactions.
- Loan agreements, as further amended, based on which J&T BANKA, a.s. provided services of a creditor, arranger, credit agent and security agent in respect of granting a credit line to third parties, and Poštová banka, a.s. acts as a creditor, arranger, credit agent and security agent.
- Master Funded Participation Agreement dated 24 September 2018 and Funded Participation Ticket number 1-2019/POBA dated 25 November 2019.
- Uncommitted credit facility dated 1 April 2019 based on which J&T BANKA, a.s. provided a credit commitment to a related party after having met the terms and conditions.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 1 January 2019 based on which J&T BANKA, a.s. undertook to provide the related party with participation in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.
- Agreement on cooperation dated 19 March 2019 based on which the contractual parties agreed on the rules and terms and conditions of mutual cooperation.
- Agreement on billing and recharging of expenses dated 25 November 2019, by which J&T BANKA, a.s. and Poštová banka, a.s. agreed on coordinating the provision of legal services in connection with an action for damage compensation in the USA.
- Credit commitment by Poštová banka, a.s. dated 26 February 2020, based on which Poštová banka, a.s. provided a credit commitment to the related party, subject to meeting the stipulated conditions, and J&T BANKA, a.s. undertook to pay a fee.
- Credit commitment by Poštová banka, a.s. dated 13 July 2020, based on which Poštová banka, a.s. provided a credit commitment to the related party, subject to meeting the stipulated conditions, and J&T BANKA, a.s. undertook to pay a fee.
- Credit commitment by Poštová banka, a.s. dated 14 October 2020, based on which Poštová banka, a.s. provided a credit commitment to the related party, subject to meeting the stipulated conditions, and J&T BANKA, a.s. undertook to pay a fee.
- Forward currency transactions in accordance with the Bank's business terms and conditions.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Poštová poisťovňa, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:

- General agreement on the provision of the services for legal entities dated 20 November 2017 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Deposit account maintenance in accordance with the Bank's business terms and conditions.

With Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.:

Contracts in force entered into between related parties:
– Contract for provision of banking services dated 21 May 2014.

With PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.:

Contracts in force entered into between related parties:
– Consignment agreement dated 29 May 2014, regarding the provision of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2020:
– Contract for cooperation dated 13 July 2009, as further amended, based on which J&T BANKA, a.s., in 2020, provided the related party with services connected with collective investments pursuant to this contract and under the laws in force in the Czech Republic, in exchange for adequate consideration in the form of payment.
– Contract for cooperation in providing investment services dated 28 December 2018 based on which both parties agreed on cooperation in procuring purchase or sale of units issued by mutual funds managed by PPSS, in exchange for adequate consideration in the form of payment. The Contract substitutes in full the contract on providing investment services dated 13 September 2013.

With PB Servis, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
– General agreement on the provision of the services for legal entities dated 29 July 2020 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
– Current account maintenance in accordance with the Bank's business terms and conditions.

With PB Finančné služby, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
– Current account maintenance in accordance with the Bank's business terms and conditions.

With 365.fintech, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
– General agreement on the provision of the services for legal entities dated 26 January 2018 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
– Current account maintenance in accordance with the Bank's business terms and conditions.
– Issue of a debit card in accordance with the Bank's business terms and conditions.

With J&T NOVA Hotels SICAV, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
– Agreement on the provision of the banking services for legal entities and entrepreneurs (self-employed) dated 19 November 2020.
– Current account maintenance in accordance with the Bank's business terms and conditions.

With Cards&Co, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
– General agreement on the provision of the services for legal entities dated 20 September 2018 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
– Current account maintenance in accordance with the Bank's business terms and conditions.

With Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.:

Contracts in force entered into between related parties:
- General agreement on subscription, issue and redemption of investment shares dated 7 October 2014.

With RDF International, spol. s r.o.
- Agreement on provision of banking services dated 6 September 2013 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With OSTRAVICE HOTEL, a.s.:

Contracts in force entered into between related parties:
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T SERVICES ČR, a.s.:

Contracts in force entered into between related parties:
- Contract for personal data processing dated 6 August 2014 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for provision of expert support.
- Contract for personal data processing dated 1 January 2018 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for lease of non-residential premises.
- Contract for personal data processing dated 25 May 2018 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for provision of services.
- General agreement on provision of banking services for legal entities dated 1 August 2017.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Contract for provision of expert support dated 6 August 2014 based on which J&T SERVICES ČR, a.s. provided payroll and personnel services pursuant to this contract in 2020 and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Overdraft facility agreement No. EUR 95/KTK/2013 dated 11 December 2013, as further amended, based on which J&T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party and J&T FINANCE GROUP SE undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Bank guarantee agreement No. Z 09/OAO/2008 dated 21 April 2008, as further amended, based on which, in 2020, J&T BANKA, a.s. issued a bank guarantee to the related party, in exchange for adequate consideration in the form of payment.
- Contract for sublease of non-residential premises dated 1 July 2008, as further amended, based on which, in 2020, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises and fixtures and fittings at Sokolovská 394/17, Praha 8, in exchange for adequate consideration in the form of lease payment.
- Contract for sublease of business premises dated 1 October 2019 based on which, in 2020, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises in the Prosek Point building complex, in exchange for adequate consideration in the form of lease payment.
- Financial settlement agreement dated 1 January 2009, based on which J&T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Contract for provision of services (outsourcing) dated 1 September 2014, as further amended, based on which J&T SERVICES ČR, a.s. provided services consisting in preparation of prudential consolidated financial statements pursuant to this contract in 2020, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Contract for provision of services (outsourcing) dated 5 January 2015 based on which J&T SERVICES ČR, a.s. provided reporting services and central purchases pursuant to this contract in 2020, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Contract for provision of services dated 31 January 2013 based on which J&T SERVICES ČR, a.s. provided legal services pursuant to this contract in 2020, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment.

- Contract for lease of movable assets dated 1 July 2013, as further amended, based on which, in 2020, J&T SERVICES ČR, a.s. leased office furniture and equipment pursuant to this contract, in exchange for adequate consideration in the form of payment. The contract was terminated by the Agreement to terminate the Contract for lease of movable assets dated 31 December 2020.
- Contract for cooperation dated 31 August 2011 based on which, in 2020, J&T SERVICES ČR, a.s. provided services connected with the provision of concierge services for payment card holders to the related party J&T BANKA, a.s. pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Contract for cooperation in arranging social events dated 1 January 2014, as further amended, based on which J&T SERVICES ČR, a.s. undertook to ensure cultural and social events for employees under the terms and conditions of this contract, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of proportionate part of the expenses.
- Contract for sublease of a motor vehicle dated 2 January 2014, as further amended, based on which, in 2020, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration in the form of lease payment.
- Contract for sublease of a motor vehicle dated 23 January 2015, as further amended, based on which, in 2020, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of services dated 31 December 2014, as further amended, based on which J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract to the Bank in 2020, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for provision of services dated 31 December 2014 with J&T Banka, a. s. pobočka zahraničnej banky, as amended, based on which J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract in 2020, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for provision of services dated 18 December 2014 based on which, in 2020, J&T SERVICES ČR, a.s. provided IT/IS services pursuant to this contract, and J&T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for sublease of business premises dated 31 March 2015 based on which, in 2020, J&T BANKA, a.s. provided J&T SERVICES ČR, a.s. with the use of premises in the JAVOR building, in exchange for adequate consideration in the form of payment. The contract was terminated by the Agreement to terminate the Contract for sublease of business premises dated 31 December 2020.
- Contract for delegation of activities and provision of expert support dated 1 January 2015, as further amended, based on which, in 2020, J&T BANKA, a.s. provided risk management, internal audit, compliance and AML services, in exchange for adequate consideration in the form of payment for the services. Related to this contract is the Correction of a typing error dated 30 March 2020.
- Contract for provision of services dated 1 January 2016, as further amended, based on which J&T SERVICES ČR, a.s. provided concierge and related services to the Bank in 2020, in exchange for adequate consideration in the form of payment for the services.
- Contract for provision of expert tax assistance and advice dated 1 January 2018 based on which J&T SERVICES ČR, a.s. provided tax advisory services and advisory services in respect of transaction projects in 2020, and J&T BANKA, a.s. undertook to pay consideration in the form of payment for the services.
- Agreement on the issue of Mastercard international debit payment card dated 26 August 2020.
- Credit agreement No. CZK 50/OAO/2020 dated 11 November 2020, based on which J&T BANKA, a.s. undertook to provide funds (a credit) to the related party and J&T SERVICES ČR, a.s. undertook to repay the credit, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Contract for cooperation in providing employee benefit services dated 27 April 2020, based on which J&T SERVICES ČR, a.s. provided services of mediating medical consultations over the phone in 2020, in exchange for adequate consideration in the form of payment for the services.
- Contract for lease movable assets for business purposes dated 1 September 2020, based on which, in 2020, J&T SERVICES ČR, a.s. leased office furniture and equipment pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Contract for sublease of business premises dated 1 September 2020 based on which, in 2020, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises in the Rustonka building complex, in exchange for adequate consideration in the form of lease payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of a debit card in accordance with the Bank’s business terms and conditions.
- Provision of a safety deposit box in accordance with the Bank’s business terms and conditions.

With J&T SERVICES SR, s.r.o.:

Contracts in force entered into between related parties:
- Contract for cooperation in arranging sports and recreational events dated 15 March 2016.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Mandate contract for payroll and personnel services dated 26 October 2012, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration in the form of payment.
- Contract for the lease of motor vehicles dated 2 January 2013 based on which, in 2020, J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of services dated 2 January 2013, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement to this contract, in exchange for adequate consideration in the form of payment.
- Brokerage contract dated 3 April 2013 based on which, in 2020, J&T SERVICES SR, s.r.o. brokered banking products pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Contract for delegation of activities and provision of expert support dated 1 January 2015 based on which, in 2020, J&T BANKA, a.s. provided risk management and internal audit services, in exchange for adequate consideration in the form of payment.
- Overdraft facility agreement No. EUR 15/KTK_SR/2014 dated 31 December 2014, as amended, based on which J&T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party, and J&T Services SR, s.r.o. undertook to repay the loan, and pay interest and other fees in accordance with the agreed terms and conditions.
- Mandate contract for payroll and personnel services dated 31 December 2014, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration in the form of payment.
- Contract for lease of a motor vehicle dated 2 January 2013, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of services dated 2 January 2013, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement to this contract, in exchange for adequate consideration in the form of payment.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 27 December 2011 based on which J&T BANKA, a.s. undertakes to provide the related party with an advantageous package of services and participation rights in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.
- Service Legal Agreement for providing services dated 18 December 2014, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with IT and press services, in exchange for adequate consideration in the form of payment.
- Contract for provision of services dated 9 December 2015, as further amended, based on which, in 2020, J&T SERVICES SR, s.r.o. provided the Bank with concierge services and related services, in exchange for adequate consideration in the form of payment for the services.
- General agreement on provision of banking services dated 7 January 2013 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With J&T FINANCE, LLC:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Acts to refund a part of remuneration, relating to the Brokerage contract No. 01-01/14 dated 17 January 2014, as further amended, and in accordance with the provisions of the Agreement to terminate the Brokerage contract No. 01-01/2014 dated 31 December 2016.

With OUTSIDER LIMITED:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- General agreement on the provision of the services for legal entities dated 22 November 2017, based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER:

Contracts in force entered into between related parties:
- Maintenance of the Bank's internal account for the purpose of settling a contractual receivable.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Loan agreement dated 9 December 2016, as further amended, based on which J&T BANKA, a.s. undertook to provide funds/loan, and STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER undertook to repay the loan and pay interest, in accordance with the agreed terms and conditions.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Bank (Schweiz) AG in Liquidation

Contracts in force entered into between related parties:
- Consignment agreement No. 18387 for the brokerage of purchase and sale of securities, dated 9 July 2009.
- General agreement on a loan secured by transfer of securities dated 1 November 2006.

With J&T Wine Holding SE:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Reisten, s.r.o.:

Contracts in force entered into between related parties:
- Contract for subordination of receivables dated 4 February 2019.
- Agreement granting the right to fill in a blank bill of exchange dated 4 February 2019
- Agreement on the provision of the banking services for legal entities and entrepreneurs (self-employed) dated 7 January 2019.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Overdraft facility agreement No. CZK 03/KTK/2019 dated 4 February 2019, as further amended, based on which J&T BANKA, a.s. provided funds (an overdraft facility) and Reisted, s.r.o. undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With KOLBY a.s.:

Contracts in force entered into between related parties:
- Agreement on assignment of the right to performance dated 17 October 2019 based on which KOLBY a.s. assigned the right to advertising space to J&T BANKA, a.s., in exchange for adequate consideration in the form of payment.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Agreement on assignment of the right to performance dated 17 August 2020 based on which KOLBY, a.s. assigned the right to advertising space to J&T BANKA, a.s., in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With J&T INTEGRIS GROUP LIMITED:

- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Bank & Trust Inc.:

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Consignment agreement for the brokerage of purchase and sale of investment instruments dated 13 August 2012 based on which, in 2020, J&T BANKA, a.s. provided the related party with stock brokerage services, in exchange for adequate consideration in the form of payment for the services.
- Loro account maintenance in accordance with the Bank's business terms and conditions.

With J&T MINORITIES PORTFOLIO LTD:

Contracts in force entered into between related parties:

- Consignment agreement No. 19181 for the brokerage of purchase and sale of securities, dated 20 August 2010.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Agreement on provision of banking services dated 5 February 2015 based on which J&T BANKA, a.s. provided services pursuant to this agreement in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Equity Holding, a.s.:

Contracts in force entered into between related parties:

- Consignment agreement No. 17599 dated 15 December 2008, regarding the provision of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance VI., s.r.o. in liquidation:

Contracts in force entered into between related parties:

- Bond placement agreement dated 20 April 2016, along with a Special arrangement to this agreement.
- Administrator contract dated 20 April 2016, along with a Special arrangement to this contract.

Contracts in force entered into between related parties based on which performance was provided in 2020:

- General agreement on the provision of the services for legal entities dated 7 March 2016 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance VII., s.r.o. in liquidation:

Contracts in force entered into between related parties:

- Bond placement agreement dated 16 November 2016, along with a Special arrangement to this agreement.
- Administrator contract dated 16 November 2016, along with a Special arrangement to this contract.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance VIII., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 21 June 2017, along with a Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Administrator contract dated 21 June 2017, along with a Special arrangement to this contract, based on which, in 2020, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance IX., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 10 September 2018, along with a Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- General agreement on the provision of the services for legal entities dated 16 July 2018 based on which J&T BANKA, a.s. provided services pursuant to this contract in 2020, in exchange for adequate consideration in the form of payment.
- Administrator contract dated 10 September 2018, along with a Special arrangement to this contract, based on which, in 2020, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance X., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 14 November 2018, along with a Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2020:
- Administrator contract dated 14 November 2018, along with a Special arrangement to this contract, based on which, in 2020, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Mezzanine, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2020:
- General agreement on trading in financial markets dated 28 June 2018.
- Agreement on provision of services (outsourcing) dated 26 June 2018 based on which J&T BANKA, a.s. provided audit function (internal audit and compliance) services pursuant to this agreement in 2020, and J&T Mezzanine, a.s. undertook to provide adequate consideration in the form of payment.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 based on which J&T BANKA, a.s. provided risk management services pursuant to this agreement in 2020, and J&T Mezzanine, a.s undertook to provide adequate consideration in the form of payment.
- Master Funded Participation Agreement dated 26 February 2020 and Fund Participation Ticket number 1/2020/JTM dated 27 February 2020, as further amended, Fund Participation Ticket number 3/2020/JTM dated 20 March 2020.

- Facilities agreement dated 21 September 2020, as further amended, based on which J&T BANKA, a.s. provided services of a creditor, arranger, credit agent and security agent in respect of granting a credit line to third parties, and J&T Mezzanine, a.s. acts as an arranger.
- Current account maintenance in accordance with the Bank's business terms and conditions.

IV. Assessment of whether the controlled entity incurred damage, and assessment of its settlement pursuant to Sections 71 and 72 of the Act on Corporations.

The controlled entity incurred no damage as a result of the relations mentioned above pursuant to Sections 71 and 72 of the Act on Corporations.

V. Assessment of advantages and disadvantages arising from relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity, including a statement on whether advantages or disadvantages prevail and what are the risks arising from this fact for the controlled entity.

The Bank provides related parties with standard banking services, and the other relationships are entered into primarily to optimise the services used/provided and to utilise group synergies. As a result, the Bank is able to make its operations more effective and to provide its clients with comprehensive banking services and asset management, and to effect transactions in financial and capital markets also for retail clients. All transactions between the controlled entity and the Bank, or between the entities controlled by the same controlling entity and the Bank, were effected based on the arm´s length principle.

The Bank has no advantages or disadvantages from and faces no other additional risks in respect of the above relations.

VI. We declare that we have included in the Report on relations between related parties of J&T BANKA, a.s., prepared in accordance with Section 82 of the Act on Corporations for the period from 1 January 2020 to 31 December 2020, all information known as of the date of its signing.

Prague, 31 March 2021

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