

ČESKÁ spořitelna

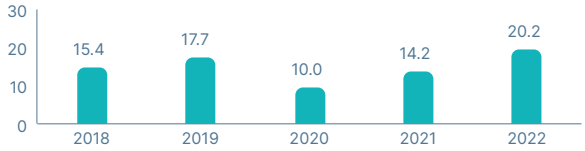
Annual Report 2022

Content

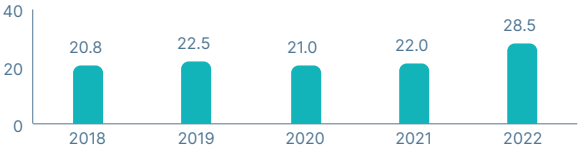
Key Figures	**4**
Profile of Česká spořitelna	**6**
The Year 2022 in Review	**9**
Foreword by the Chairman of the Board of Directors	**22**
Board of Directors of Česká spořitelna	**25**
Supervisory Board of Česká spořitelna	**29**
Macroeconomic Development of the Czech Republic	**35**
Report of the Board of Directors	**37**
Consolidated Financial Results	**38**
Business Activities	**41**
Česká spořitelna Believes in Good Causes	**53**
Non-commercial Activities	**56**
Strategic Objectives and Plans for the Future	**59**
Risk Management	**66**
Other Information for Shareholders	**72**
Declaration of Česká spořitelna, a.s.	**82**
Organizational Structure	**91**
Supervisory Board Report	**93**
Report of the Audit Committee	**95**
Financial Section	**97**
Independent Auditor's Report	**98**
The Consolidated Financial Statements	**105**
Separate Financial Statements	**252**
Report on Relations between Related Parties	**377**
Česká spořitelna Financial Group	**401**
Definitions of Alternative Performance Indicators	**407**

Key Figures

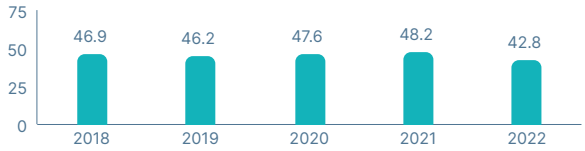
Net profit (CZK bn)



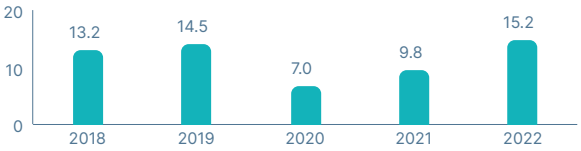
Operating result (CZK bn)



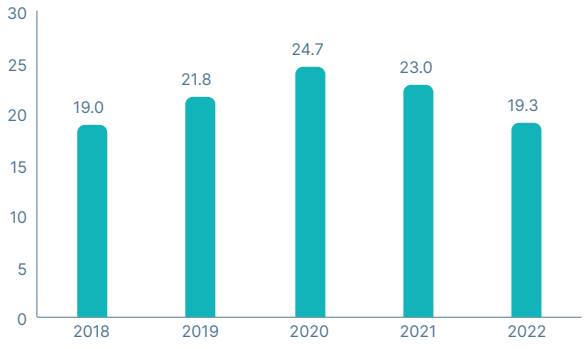
Cost/Income ratio (%)



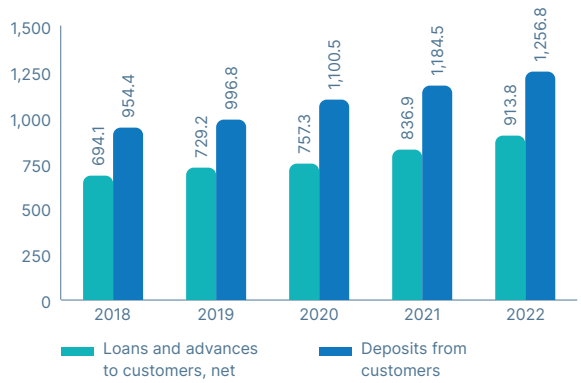
ROE (%)



Capital adequacy (unconsolidated) (%)



Loans to customers and Deposits from customers[1] (CZK bn)



1 Since 2021 includes "Deposits from customers at amortised cost" and "Deposits from customers at FV through profit or loss". Previous figures were restated.

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A	F1	stable
Moody´s	A1	Prime-1	stable
Standard & Poor´s	A	A-1	negative

Key Consolidated Figures

in accordance with International Financial Reporting Standards (IFRS)[1]

Financial Position Indicators

CZK million	2022	2021	2020	2019	2018
Total assets	1,639,938	1,641,741	1,537,780	1,458,650	1,426,465
Loans and advances to banks, net[2]	266,675	364,994	424,838	411,650	389,844
Loans and advances to customers, net	913,847	836,949	757,324	729,206	694,065
Securities[3]	378,216	358,466	277,646	242,301	246,781
Deposits from banks	113,541	49,695	91,335	292,111	318,861
Deposits from customers[4]	1,256,795	1,184,543	1,100,450	996,815	954,441
Equity attributable to owners of the parent	137,232	142,744	149,125	137,128	122,473

Income Statement Indicators

CZK million	2022	2021	2020	2019	2018
Net interest income	36,719	31,083	29,099	30,261	27,821
Net fee and commission income	9,504	9,186	8,243	8,591	8,540
Operating income	49,875	42,354	40,147	41,899	39,088
Operating expenses	(21,335)	(20,398)	(19,110)	(19,352)	(18,327)
Operating result	28,540	21,956	21,037	22,547	20,761
Net profit attributable to owners of the parent	20,161	14,181	10,006	17,743	15,362

Basic Ratios

	2022	2021	2020	2019	2018
ROE	15.2%	9.8%	7.0%	14.5%	13.2%
ROA	1.1%	0.8%	0.6%	1.2%	1.1%
ROA (Česká spořitelna, a.s. only)	1.2%	0.8%	0.6%	1.2%	1.1%
Cost/Income ratio	42.8%	48.2%	47.6%	46.2%	46.9%
Non-interest operating income/ operating income	26.4%	26.6%	27.5%	27.8%	28.8%
Net interest margin on interest-bearing assets	2.1%	2.0%	1.9%	2.1%	2.2%
Loan/Deposit ratio	72.7%	70.7%	68.8%	73.2%	72.7%
Capital adequacy (unconsolidated)	19.3%	23.0%	24.7%	21.8%	19.0%

Key Operating Indicators

Number of:	2022	2021	2020	2019	2018
staff (average headcount)	10,237	9,741	9,892	9,873	10,224
branches[5]	398	400	424	463	480
clients	4,547,686	4,492,801	4,474,198	4,597,170	4,634,337
private accounts	3,108,842	2,981,443	2,819,346	2,760,815	2,700,629
active cards	3,387,506	3,145,650	2,988,906	2,919,381	2,867,262
of which: credit cards	180,679	177,552	167,677	170,964	177,349
ATMs and payment machines	1,736	1,783	1,825	1,832	1,783

(1) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 407
(2) In 2019-2022 "Loans and advances to banks at amortised cost".
(3) Calculation equals to "Other financial assets held for trading" + "Non-trading financial assets at fair value through profit or loss (excl. Loans and advances both to banks and customers)" + "Financial assets at fair value through other comprehensive income" + "Debt securities at amortised cost".
(4) Since 2021 includes "Deposits from customers at amortised cost" and "Deposits from customers at FV through profit or loss". Previous figures were restated.
(5) Since 2022 number of physical branches. Previous figures were restated.

Profile of Česká spořitelna

Česká spořitelna is the bank with the longest tradition on the Czech market. It has been one of the fundamental pillars of the Czech banking system for 198 years. Currently, the Bank provides services to 4.5 million clients. Since 2000, Česká spořitelna has been part of Erste Group Bank, a multinational financial group.

Česká spořitelna is the bank with the longest tradition on the Czech market.

Česká spořitelna is a modern bank focused on retail clients, small and medium-sized enterprises, large corporations and also municipalities. Thanks to the largest network of branches, as well as ATMs and payment machines, Česká spořitelna is the most accessible bank on the domestic market from the retail clients' perspective. It holds a leading position in volumes of newly provided mortgage loans, consumer loans including credit cards and overdrafts, and total deposits. Česká spořitelna is also the leader in the distribution of mutual funds and life insurance mediation.

The Bank is also active in the introduction and expansion of digital services. The Bank strives to get even closer to its clients in order to offer even faster and more effective solutions corresponding to the changing conditions and situations in which clients find themselves at a given moment. Česká spořitelna puts emphasis on the most individualized advisory, digitization and the effectiveness of its own activities. With this intention, the Bank is also restructuring its branches.

The Bank's strategy is based on the Financial Health Company concept which guides individuals and companies to financial health through differentiated personalized advisory available to millions of clients. The main focus is on sustainability which is seen as a noble goal and at the same time as a significant opportunity for growth.

Česká spořitelna carried on with supporting the transformation of Czech industry and the economy. In 2021, the Bank was among the initiators of the call for the 2nd transformation of the domestic economy, which was supported by 32 personalities of Czech industry on the eve of the 32nd anniversary of the Velvet Revolution. Spořitelna is also active in the area of sustainable financing, its goal is to strengthen ecological and socially responsible business (ESG) in the Czech Republic and to support companies in their "green" transformation.

Under the "Česká spořitelna – Korporátní bankovnictví" brand, the Bank provides comprehensive solutions for entrepreneurs and companies and is the largest provider of corporate loans in the Czech Republic. It is the market leader in the area of providing financial services to municipalities and public sector. Thanks to a wide range of foreign exchange, interest rate, commodity and money market products, Česká spořitelna also holds a dominant position in treasury services and products for large, small and medium-sized businesses. The Bank also puts an emphasis on management support and financial risk analysis. Česká spořitelna participated in almost every successful equity offering on the Prague Stock Exchange, whether being primary (IPO) or secondary (SPO) offerings. Thanks to the strong backing of Erste Group Bank, Spořitelna is also able to provide services to clients on foreign markets.

Building the Prosperity of the Country

Česká spořitelna has been historically involved in building and strengthening the country's prosperity. Traditionally, the Bank ranks among the largest and most awarded employers in the domestic market. At the same time, it is one of the largest taxpayers in the Czech Republic. In 2022, the Bank received an award from the Ministry of Finance for the second largest corporate taxpayer in the Czech Republic for 2021.

The Bank's social engagement is also reflected in its services. In its offering for retail clients, Česká spořitelna takes into consideration the needs of people with different types of handicaps. More than 1,400 ATMs are adapted for the visually impaired, all branches offer a simultaneous transcription service for the hearing-impaired and three quarters of all branches are wheelchair accessible.

Traditionally, attention is also paid to the non-profit sector and, within the framework of social banking, also to businesses and non-profit organisations offering socially responsible services.

The Bank's role in education is also significant. Česká spořitelna is engaged in strengthening the population's financial literacy on a long-term basis. Česká spořitelna co-operates with universities across the country and is involved in increasing their quality and competitiveness.

Česká spořitelna is engaged in strengthening the population's financial literacy.

The Bank is also active in promoting innovation. Česká spořitelna is setting a trend in the introduction of modern technologies in the local banking market. It partners with many business talent pools focused on innovation and supports corporate and public sector co-operation in the field of innovation.



The Year 2022 in Review

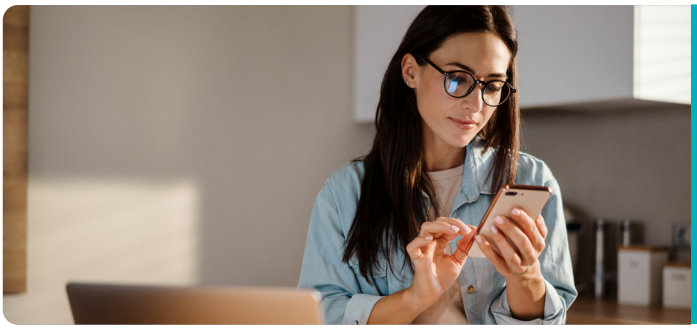
JANUARY



Česká spořitelna incorporated a new subsidiary Dostupné bydlení České spořitelny, a.s. The new company will invest in buying and building apartments in order to rent them in accordance with pre-set rules to low-income people working in selected professions in social infrastructure, e.g., nurses, teachers, firefighters, and police officers.



In the Hospodářské noviny TOP Manager of the Year survey, Česká spořitelna's Board member Daniela Pešková was voted one of the three most successful woman managers on the country's market.



All clients using a private account at Česká spořitelna were given the opportunity to arrange a free virtual payment card in their mobile or web-based George internet banking, to use for secure one-time online purchases.



Česká spořitelna, as the only financial organisation in the country to do so, set up a partnership with the Technology Agency of the Czech Republic (TACR). The partnership makes it possible for Spořitelna to efficiently link up Czech companies and scientific institutions and to support their projects with further financing.



Česká spořitelna was one of the thirteen founding members of the Climate & Sustainable Leaders Czech Republic platform. The aim of the unique platform is to pursue an ambition to reduce CO_2 generation by the largest corporations in the country, to motivate key players in the Czech economy to set up projects that contribute to sustainability and climate protection, and also to assist with their implementation.

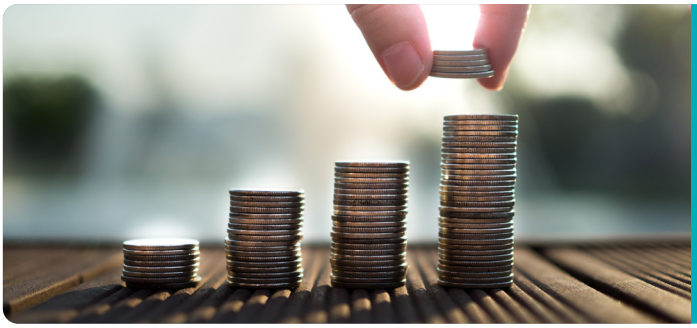
FEBRUARY



For the first time ever, Česká spořitelna had been perceived by clients as the most popular corporate bank on the country's market. The independent client satisfaction survey IMAS revealed that Spořitelna's corporate banking in the SME segment reached NPS (Net Promoter Score) of 61.



Clients from the SME segments gained the opportunity to arrange the first fully digital loan through their BUSINESS 24 internet banking. In stage one, it involves an approved guaranteed limit for boosting their existing overdraft facilities.



After more than six years, Česká spořitelna renewed its offer of term deposit accounts. Term deposit accounts for 3, 6 or 12 months offer clients not only the certainty of an insured deposit but also higher interest rate than a savings account.



In the TOP Employer survey, Česká spořitelna became the number one and the first career choice for university students in the field of Banking and Investments. Spořitelna had dominated the category for the first time in its history.

TOP ZAMĚSTNAVATELÉ 2022

MARCH



Česká spořitelna became the only bank on the domestic market to have 3 million clients with accounts.



During the first wave of the Merciful Summer campaign which helps debtors to get rid of their debts, Česká spořitelna helped 425 clients avoid execution, forgiving them nearly CZK 90 million in debt accessories.



Česká spořitelna launched its marketing campaign "Forgiving You up to 15 Instalments with Our Loan". The loan is designed for everyone, both clients and non-clients, and aims primarily at families with children.



Česká spořitelna was the first bank in the country to allow online purchases of golden bars. Clients can purchase them directly through their mobile George application.



Česká spořitelna's Computer Security Incident Response Team (CSIRT) which addresses and investigates internal cyber incidents and external client incidents, earned a certificate from the international organisation Trusted Introducer. Spořitelna thus became the first bank in the Czech Republic and the second bank worldwide with a certified team in the banking sector.

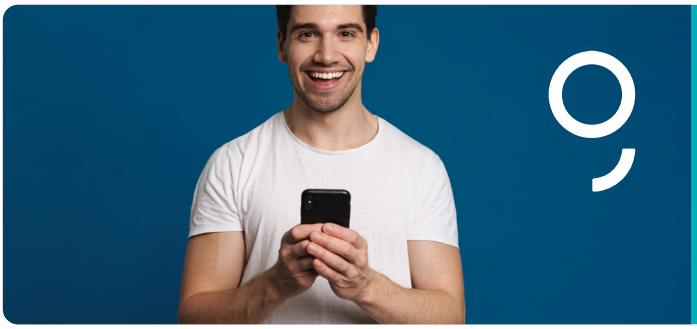


Česká spořitelna became significantly involved in helping Ukrainian refugees who fled to the Czech Republic, seeking refuge from the war. Spořitelna offered them its services on advantageous terms, including accounts maintained free of charge and a financial bonus. In co-operation with the non-profit organisation Association for Integration and Migration (SIMI), the Bank also opened a refugee centre in Prague that can accommodate up to one hundred people.

APRIL



Česká spořitelna was the first in CEE to issue sustainability-linked bonds. Spořitelna acted as the lead co-manager of a bond issue worth EUR 600 m for ČEZ.



The My Healthy Finances application, which was at the beginning of financial advisory services and was designed to provide clients with an overview of their financial situation, came to an end. Its functionalities and additional services are newly provided to clients by George internet banking.



Another stage march "Spořka through the Czech Republic" was launched, during which Spořitelna's staff help cultivate their surroundings. In 2022, they e.g., planted trees, renewed forest ponds, and cleaned forests. The stage march took about a month, during which 1,426 employees walked 1,239 kilometres and worked 1,780 volunteer hours.



Radek Perman became a new member of the Board of Directors of Buřinka with responsibility not only for managing Buřinka's Sales Division but also for external sales of Česká spořitelna and Buřinka.

MAY



Česká spořitelna won the prestigious global Customer Centricity World Series Awards 2022 in the Customer Experience Team category, competing among 122 companies from 53 countries.

CUSTOMER CENTRICITY WORLD SERIES



At the ISSS conference in Hradec Králové, Česká spořitelna presented a multifunctional machine capable of instantaneously handling a broad range of requests from the public, whether it be a submission of an online request, advisory services, printing, document scanning, payment execution, but also the issuance of public transit passes and loyalty cards.



For the first time in modern history, Česká spořitelna´s subsidiary Leasing ČS began financing railway cars.



Česká spořitelna's social banking donated CZK 250,000 to a total of seventeen selected non-profit organisations focused on helping Ukrainians fleeing the war.

JUNE



For the first time in ten years, Česká spořitelna successfully issued bonds on the local markets. Simultaneously, this was the first issue of senior non-preferred bonds (SNP) on the local market, with the involvement of European Bank for Reconstruction and Development (EBRD). The volume of entire issue amounted to CZK 6 bn.

Climate Bonds INITIATIVE
7TH CLIMATE BONDS AWARDS
Green Market Pioneer in 2021

The largest-ever issue of green bonds among financial institutions operating on the domestic market, worth EUR 500 million, which Spořitelna issued in September 2021, received the award "Green Market Pioneer in the Czech Republic in 2021" from the Climate Bonds Initiative.



In order to incentivised regular investing, Spořitelna introduced a special bonus interest rate to its clients who make regular monthly investments.



Česká spořitelna won an award from the Ministry of Finance and the General Financial Directorate for the largest corporate taxpayers in the Czech Republic. In 2021, Spořitelna had been the second largest corporate taxpayer in the Czech Republic.



Česká spořitelna earned the silver medal in the Responsible Lending Index rated by People in Need.

INDEX ODPOVĚDNÉHO ÚVĚROVÁNÍ

JULY



Česká spořitelna operatively provided additional financing to Pražská plynárenská for covering guarantees on contracts for the purchase of gas and for filling storage tanks before the heating season, after gas prices sky-rocketed due to the war in the Ukraine.



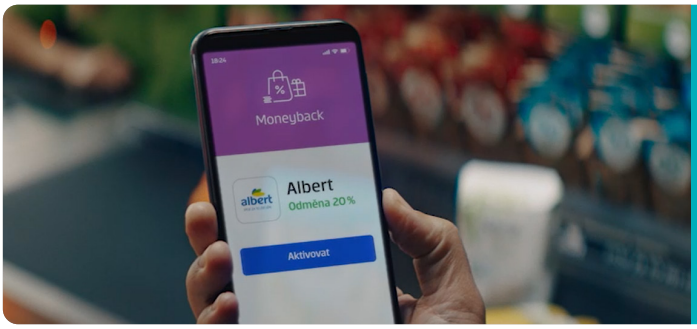
Česká spořitelna won three Golden Crowns (mortgages, George virtual payment card, Money Alphabet) and four Bronze Crowns in the Golden Crown competition. Also, Stavební spořitelna České spořitelny's (building society) – the Buřinka and Česká spořitelna - penzijní společnost were awarded.



Česká spořitelna came third in the Employer of the Year 2022 competition in the elite nationwide category of companies with more than 5,000 employees.

TOP ZAMĚSTNAVATELÉ 2022

AUGUST



A large campaign was launched in the Moneyback discount programme. During the campaign between August and October, more than 435,000 clients activated the offer of a 15% discount from the supermarkets Albert and Globus. In total, Spořitelna refunded more than CZK 180,000 to 336,000 clients.



For the fourth time, a summer campaign ran for products for children. During two months of the campaign, nearly 14,000 new child clients started to use daily banking. The Bank contributed more than CZK 350,000 for their pocket money.



Thanks to an increase in the limits on automatically approved loans, Spořitelna started to provide more money to entrepreneurs and companies in the Small Business segment in a simple and fast procedure, without clients needing to put up a real estate property as collateral on the loan.

SEPTEMBER



The number of active users of George mobile and web-based banking had reached two million for the first time. Chat communication was added to mobile George.



Česká spořitelna successfully completed the We Share by Erste Group programme through which 7,443 of Česká spořitelna's employees received Erste shares.



Česká spořitelna got involved in the new wave of the Merciful Summer campaign.



For its comprehensive approach to helping refugees as well as the people who stayed in the Ukraine, Česká spořitelna won the first place in the European Customer Centricity Awards 2022.

EUROPEAN CUSTOMER CENTRICITY AWARDS

OCTOBER



Česká spořitelna expressed interest in purchasing the loan portfolio of Sberbank CZ, which lost its banking licence due to sanctions in the aftermath of Russia's invasion of the Ukraine. The insolvency administrator and the committee of creditors found Česká spořitelna's bid to be the most advantageous.



Entrepreneurs and companies are now able to manage their standing orders through Česká spořitelna's ATMs. Newly, they can also enter and cancel direct debit consents.



A new marketing campaign was launched, aiming at strengthening confidence in Spořitelna and presenting specific cases of the Bank's ability to help clients obtain a healthier family or corporate budget.



In association with National Industry Centre 4.0, Česká spořitelna presented its corporate advisory concept leading to strengthening added value and competitiveness of Czech companies, at the International Engineering Fair in Brno.

NOVEMBER



In the Bank of the Year 2022 competition, Česká spořitelna's CEO Tomáš Salomon was awarded the Banker of the Year. Spořitelna also took the first place in the Private Bank of the Year category and the third place in the categories Corporate Banking and Customers' Bank, as well as in the main category Bank of the Year 2022.



Česká spořitelna also won an award in the Hospodářské noviny Best Bank competition, ranking third.



Česká spořitelna´s subsidiary Grantika helped clients obtain subsidies for photovoltaics worth more than CZK 300 m, thereby contributing to enhancing energy self-sufficiency in a time of a crisis caused by the war in the Ukraine.

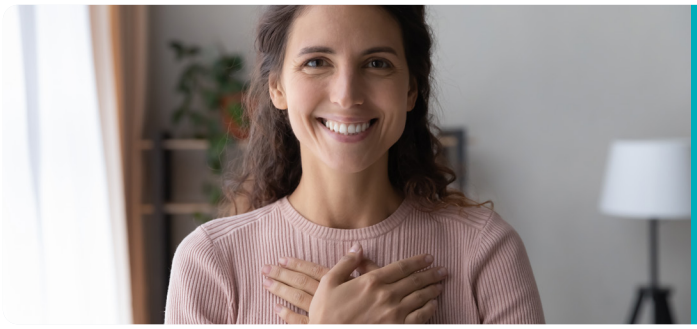


Effie award for effective advertising went to Česká spořitelna. For its "Young Lady" ("Mladá dáma") campaign, the Bank took second place, and also the third place for its campaign for the Ukrainian virtual card.

DECEMBER



Česká spořitelna signed an agreement to purchase the credit portfolio of Sberbank CZ, whose banking licence was withdrawn by the Czech National Bank in 2022. The proceeds will be used to satisfy the creditors of the bank.



The 2nd wave of the "Merciful Summer" campaign ended. During the campaign, Česká spořitelna waived a total of CZK 51 million to 210 clients.



Česká spořitelna offered its clients a concessional special purpose loan to finance their energy bills. Moreover, the Bank returned 3% of every instalment back to clients' savings accounts, to help them build financial reserves.



The number of clients registered in the Moneyback programme reached 940,000. From July 2020 when this programme that rewards card payments in outlets and over the internet was launched, clients received a total of CZK 0.5 billion in rewards.

Foreword by the Chairman of the Board of Directors



Tomáš Salomon
Chairman of the Board of Directors

Dear Ladies and Gentlemen,

2022 will be associated with the Russian army's unprecedented and inexcusable invasion of the Ukraine. This again reminded us of how fragile and precious values such as freedom, peace, and democracy are.

Good news in this difficult situation can be found in the attitude of most people in the Czech Republic and in European unity. Rapid help for the Ukraine in the form of financial collections, material aid, or by providing accommodation to refugees show that we are well anchored in our values. I am glad that Česká spořitelna's help was also rapid and very beneficial, and that it will carry on for as long as it is required.

Among other things, the war in the Ukraine has contributed to the energy and economic crises that is affecting Czech households and companies. Among the consequences are high inflation and a dramatic increase in most of our clients' costs. That is why Česká spořitelna strove to provide them with targeted assistance. We prepared the Moneyback programme that saved our clients' money on shopping at selected grocery stores, and we helped our clients to get oriented and submit applications for housing or child benefits.

2022 showed us how important and relevant it is for us to thoroughly return to our vision: to help individuals, companies, and the whole society towards prosperity. Due to the current crisis, the Czech society has been divided by profound socio-economic barriers. Our role, as it was 200 years ago, is to remove those barriers, help maintain social peace, and help everyone to improve their financial situation. We see a way how to achieve this through the healthy financial habits of our clients, in their motivation to educate themselves and create long-term as well as short-term reserves. We want to continue to help our corporate clients with their transformation

towards a sustainable and knowledge economy, thereby supporting employment across the country.

In order to fulfil our role as well as we can, we will carry on with providing personalised advisory and help the greatest possible number of clients with their financial health. We will focus primarily on digital advisory and services supplemented by advisors at our branches and corporate centres.

I believe that the facts, data, and our results stated in this Annual Report confirm excellent position of Česká spořitelna. Despite all the circumstances, 2022 was a successful year for us, thanks to our clients' trust. That makes me proud, and I would like to thank all our employees, partners, and suppliers for their extraordinary commitment. I believe the past year 2022, will help us become stronger in the future.



Tomáš Salomon
Chairman of the Board of Directors, Česká spořitelna



Board of Directors of Česká spořitelna

Board of Directors of Česká spořitelna

in 2022



Tomáš Salomon
Chairman of the Board of Directors

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Tomáš Salomon is a graduate of the Faculty of Economics of Services and Tourism of the University of Economics in Bratislava. He started banking career in 1997 at GE Capital Multiservis where he worked at the end as the Chairman of the Board of Directors and the CEO. In 2000 he was appointed as the Director of Retail Banking and the member of the Board of Directors at GE Capital Bank with responsibility for sales and marketing.

In 2004–2007 he worked as the Chairman of the Board of Directors and the CEO of Poštová Banka, a.s. in Slovakia. In the period 2008–2012 he focused on private investment projects and initiated a project for the formation of a platform for realization of mobile payments in the Czech Republic. In 2013 he began working in Slovenská sporiteľňa, where he was later appointed as the member of the Board of Directors responsible for retail. In 2015, Tomáš Salomon was the member of the Board of Directors of Česká spořitelna responsible for retail banking.

Tomáš Salomon has been the Chairman of the Board of Directors of Česká spořitelna with responsibilities for Staff Function Division since January 2016.

Membership in other entities: Kooperativa pojišťovna, a.s., Vienna Insurance Group, Nadace České spořitelny, Česká bankovní asociace, Hýlov Invest, Smetanova Litomyšl, Aspen Institute Central Europe



Karel Mourek
Vice-Chairman of the Board of Directors

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Karel Mourek is a graduate of the Czech Technical University in Prague and the Thunderbird University in the USA, where he obtained MBA. His professional career began in 1992 at Creditanstalt, later in Bank Austria Creditanstalt Czech Republic in Corporate Banking division, where he worked until 2001. In 2001–2011 he worked in Česká spořitelna in the management of Commercial Centres. From 2011 to July 2013, he worked at Erste Group Immorent as the member of the Board of Directors responsible for risk management.

Karel Mourek has been the member of the Board of Directors of Česká spořitelna responsible for the risk management since August 2013. Since August 2021, he has been the Vice-Chairman of the Board of Directors.

Membership in other companies: Erste Reinsurance S.A.



Martin Kobza
Member of the Board of Directors

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Martin Kobza studied information technology at the Faculty of Economic Informatics, the University of Economics in Bratislava. He started his career in 2003 in IT and consulting companies in Slovakia and Germany, where he eventually managed large projects and development centres. In 2008 he joined the project

of introducing a new information system in Slovenská sporiteľňa, managed several divisions in s IT Solutions, from 2012 he led Erste Group IT Slovakia and in 2014 he also held the position of the CIO in Slovenská sporiteľňa. In 2015, he joined Erste Group Bank AG, where he gradually moved to the position of the Head of Development and Roll-Out of the George Group Platform and was the member of the Board of Directors responsible for Digital Banking at Erste Group IT International. In 2021 he served as the CEO of George Labs.

Martin Kobza has been the member of the Board of Directors of Česká spořitelna responsible for IT and operations since November 2021.

Membership in other companies: none



Pavel Kráčmar
Member of the Board of Directors

Reference Address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Pavel Kráčmar graduated from the Nuclear Science and Physical Engineering in the Czech Technical University in Prague. Over further years he completed internships and training courses with major financial institutions (The World Bank, Bank of England, EBRD, J. P. Morgan, UBS, ...). He began his banking career in 1991 in the Czechoslovak State Bank, where he held several positions over 7 years, primarily in the management of foreign reserves and operations on financial markets. At that time, he simultaneously lectured professional topics in the Banking Institute in Prague. In 1998, he joined GE Capital Bank as the Treasury Director. Between 2000 and 2001 he was the CEO of Savings Investment Company. Since 2001, he has been working in Česká spořitelna, where he subsequently managed trading on financial markets, sale of financial market products to corporate and institutional clients, relationships with financial institutions, assets and liabilities of the Group and subsequently investment products for retail.

Pavel Kráčmar has been the member of the Board of Directors of Česká spořitelna responsible for financial markets and corporate banking since February 2016.

Membership in other companies: none



Daniela Pešková
Member of the Board of Directors

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Daniela Pešková is a graduate of the University of Economics in Prague, the Faculty of International Relations. She began her banking career in 1998 in GE Capital Bank as an Early Collections team leader. Over the next five years she worked at GE Capital Bank on management positions primarily in early collections and operations. In September 2003, she accepted an offer to work abroad and became the Mortgage Division director in Budapest Bank in Hungary within the GE Money Financial Group. From October 2004 she worked within the Raiffeisen International Group in the Slovak Tatrabanka as the Director of Project, Process and Organizational department. In December 2007, she began working for the Erste Group Bank in Česká spořitelna, starting as the Director of Retail Operations. From April 2012 she led the entire Operations. From January 2015 she worked as the Director of the Branch Distribution Network and External Sales. As part of her professional growth Daniela Pešková successfully completed among others Leadership program at the Katz Graduate School of Business in Pittsburgh, McKinsey Lean Academy in Santiago de Chile and Green Belt certification in project management quality based on the philosophy of Six Sigma.

Daniela Pešková has been the member of the Board of Directors of Česká spořitelna responsible for retail banking since February 2016.

Membership in other companies: Stavební spořitelna České spořitelny, a.s., Bankovní identita, a.s.



Ivan Vondra
Member of the Board of Directors

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

After graduating in finance and economics in 1989, Ivan Vondra began his banking career in 1992 by joining International Commercial Bank Prague, where he worked in the field of financial management. In 1996, he joined the Accounting and Controlling department of Erste Bank in Prague. In the years 2002–2012 he worked as the Director of Controlling and Planning in Česká spořitelna and subsequently in the period 2013–2015 he was the Director of the Accounting and Controlling department. In 2015, he was elected a member of the Board of Directors of Erste Bank Hungary, where he served until May 2021.

Ivan Vondra has been the member of the Board of Directors of Česká spořitelna responsible for Financial Division since August 2021.

Membership in other companies: none



Supervisory Board of Česká spořitelna

Supervisory Board and Audit Committee of Česká spořitelna

in 2022

Supervisory Board of Česká spořitelna



Willibald Cernko
Chairman of the Supervisory Board

Reference address:
Am Belvedere 1,
1100 Vienna, Austria

Before joining Erste, Willibald Cernko had been the CEO of UniCredit Bank Austria AG and spent more than 20 years in many different management roles at Bank Austria Creditanstalt AG, HypoVereinsbank AG and in the UniCredit Group. He was a member of the Management Board of Erste Group from 2017 to 2019 and the Chief Corporates Officer in the Management Board of Erste Bank der oesterreichischen Sparkassen AG between 2019-2022. He has expertise in corporate and retail banking. Willibald Cernko also has very broad experience in Erste Group's core markets. Since 1 July 2022, he has been the Chairman of the Board of Directors of Erste Group Bank.

Willibald Cernko has been a member of the Supervisory Board of Česká spořitelna since 1 September 2022 and was elected the Chairman of the Supervisory Board on 26 September 2022.

Membership in other entities: Erste Group Bank AG, Erste Social Financial Holding GmbH, Haftungsverbund GmbH, Erste Mitarbeiterbeteiligung Privatstiftung, Erste & Steiermärkische Bank d.d, Österreichischer Sparkassenverband, SOS-Kinderdorf, Tiroler Sparkasse Bankaktiengesellschaft Innsbruck



Štefan Máj
Vice-Chairman of the Supervisory Board

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Štefan Máj graduated from the Faculty of Management of the University of Economics in Bratislava. Between 1991 and 1995 he worked for Slovenská sporiteľňa as the Director of the Asset Management, the General Manager of the Technology Division and later as a member of the Board of Directors. From 1995 to 1998 he was the Head of the Finance Department, later a member of the Board of Directors and the Deputy CEO of Komerční banka Bratislava. In 1998 he became the Vice-Chairman of the Board of Directors of Slovenská sporiteľňa. He was a member of the Steering Group for Restructuring and Privatization of Selected Banks and for Restructuring the Financial Sector of the Ministry of Finance of the Slovak Republic. In 2015–2017 he was the Chairman of the Board of Directors of Slovenská sporiteľňa.

Štefan Máj has been a member of the Supervisory Board of Česká spořitelna since 1 November 2019 and was elected the Vice-Chairman of the Supervisory Board on 11 December 2019.

Membership in other entities: Erste Mitarbeiteiligung Privatstiftung, Nadácia Slovenskej sporiteľne, Dostupný domov, j.s.a., FinQ Centrum, n.o.



Petr Brázda
Member of the Supervisory Board

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Petr Brázda graduated from the Faculty of Mechanical Engineering at the University of Mechanical and Textile Engineering in Liberec. He joined Česká spořitelna in 1991 as an IT Specialist at the regional branch in Ústí nad Labem. Gradually he held the positions of the Chief Accountant and the Deputy Finance Director. In 1994 he took over its management and from 1999, after the district branches were merged, he managed the regional branch in Ústí nad Labem. He was also at the beginning of the Česká spořitelna segmentation, where he managed the MM segment from its inception and later the MMA Retail Banking segment of the North-West region until January 2019.

Petr Brázda has been a member of the Supervisory Board of Česká spořitelna since 15 January 2019.

Membership in other companies: none



Helena Černá
Member of the Supervisory Board

Reference address:
Tř. Svobody 401/19,
Olomouc, Czech Republic

Helena Černá graduated from the Secondary School of Economics in Olomouc. After completing her studies, she joined Česká spořitelna in 1985, where she worked in a loan department. Later she worked as an advisor for commercial, investment and private banking. Currently she works in a branch in Olomouc as a Premier banker. Helena Černá serves as the Chairwoman of the Trade Union organization for Olomouc region and holds a position of a member of the Group-wide Trade Union Committee of Česká spořitelna.

Helena Černá has been a member of the Supervisory Board of Česká spořitelna since October 2016.

Membership in other companies: none



Stefan Dörfler
Member of the Supervisory Board

Reference address:
Am Belvedere 1,
1100 Vienna, Austria

Stefan Dörfler studied Technical Mathematics at the Technical University in Vienna. When completing his studies in 1995 he worked in GiroCredit Bank AG der Sparkassen. Since the merger of GiroCredit and Erste österreichische Spar-Casse in 1997 he has been working in Erste Bank. In the period 1999–2000 he was the Head of Interest Rates and Foreign Exchange, later between 2000 and 2004 the Head of Fixed Income department. Then between 2004 and 2007 he continued as the Head of Capital Markets Trading & Sales, later till 2009 as the Head of GCM Sales & Equity Markets. Between 2009 and 2016 Stefan Dörfler was the Head of Erste Group Bank Capital Markets and from 2016 till 2019 was the Chairman of the Board of Directors in Erste Bank Öesterreich. Since June 2019 Stefan Dörfler has been the member of the Board of Directors of Erste Group Bank AG responsible for financial management.

Stefan Dörfler has been a member of the Supervisory Board of Česká spořitelna since 1 November 2019.

Membership in other companies: Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG, Wiener Börse AG, Banca Comercială Română SA, Erste Digital GmbH, Procurement Services GmbH, OM Objektmanagement GmbH, EB-Restaurantsbetriebe GmbH, Sparkassen-Haftungs GmbH, Haftungsverbung GmbH, Erste Campus Immobilien AG & Co KG



Zlata Gröningerová

Member of the Supervisory Board

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Zlata Gröningerová completed her studies at the University of Economics in Prague, where she accepted the role of academic assistant in the Department of Finance and Credit after graduating in 1982. From 1991 to 1993 she was the Deputy CEO of the company SUEZ INVESTIČNÍ, a.s., specialising in advisory and consulting in enterprise search and acquisitions. From 1995 to 2004 she held several senior positions (director of the Equity Investment Financing department, senior director of the department of Credit Transactions and Business Specialists) and was a member of the Board of Directors of the Consolidation Bank Prague and the Czech Consolidation Agency. From 2005 to 2007 she was the CEO and the Chairwoman of the Board of Directors of Technometra Radotín. During 2007–2009 she was a financial and organisational consultant and then held an office of Section Director of the Ministry of Finance. From 2011 to 2016 she worked in the International Division of ČEZ, three years in the position of CFO of ČEZ Bulgaria. Now, she provides economical and organisational consultancy services. Her professional residencies and courses include a Management Development Programme and a corporate finance and financial management residency at universities in Paris and Lyon.

Zlata Gröningerová has been a member of the Supervisory Board of Česká spořitelna since 26 April 2017.

Membership in other companies: Prisko, a.s.



Maximilian Hardegg

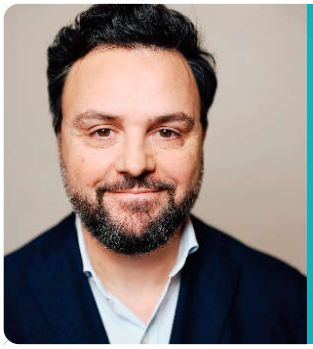
Member of the Supervisory Board

Reference address:
Budějovická 1518/13a,
Prague 4, Czech Republic

Maximilian Hardegg graduated from the Agricultural Sciences in Weinhenstephan, Germany. In 1991–1993, he worked at AWT Trade and Finance Corp., which was part of the Creditanstalt Group. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture. Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard and Leader + titles projects, which are designed to support co-operation among agricultural systems within the EU. He is also a member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land utilisation and agriculture.

Maximilian Hardegg has been a member of the Supervisory Board of Česká spořitelna since May 2002.

Membership in other entities: Erste Group Bank AG, Tiroler Sparkasse Bankaktiengesellschaft Innsbruck. HAT, s.r.o., DIE ERSTE österreichische Spar-Casse Privatstiftung, HAT s.r.o., HAT GmbH, Správa majetku HS s.r.o., Constantia industries AG, AGRIFOOD CONSULT, s r.o.



Maurizio Poletto

Member of the Supervisory Board

Reference address:
Am Belvedere 1,
1100 Vienna, Austria

Maurizio Poletto studied Design at the Istituto Superiore per le Industrie Artistiche in Urbino in Italy. He began his career in 1996 in Vienna at Nofrontiere Design, where he led a team of designers and IT developers. In 2003, he founded company Collettiva Design in Vienna, specialising in corporate design, where he worked as the Creative Director until 2020. In parallel with this position starting in 2012, he became the CEO and the Head of Design

at George Labs, where he was till 2020 responsible for managing, developing and overseeing the company's innovation programmes. In 2021, Maurizio Poletto was elected the member of the Board of Directors of Erste Group Bank AG with responsibility for all customer-oriented digital platforms in retail and corporate banking.

Maurizio Poletto has been a member of the Supervisory Board of Česká spořitelna since 14 June 2021.

Membership in other companies: Erste Group Bank AG, Erste Bank Hungary, George Labs GmbH, Erste Digital, Mobey Forum Mobile Financial Services Ltd.



Aleš Veverka
Member of the Supervisory Board

Reference address:
Národních hrdinů 3127/7,
Břeclav, Czech Republic

Aleš Veverka graduated from the Grammar School in Břeclav before doing a Business Academy qualification course in Economics. After completing his studies and his military service, he joined the Břeclav branch of Česká spořitelna in 1993 as an advisor to corporate clients. He has continued to devote his time to MSE clients. Since 2014 he has been the Chairman of the Group-wide Trade Union Committee of Česká spořitelna. He is also the Vice-President of the Financial and Insurance Sector Trade Union Organization. He served as a member of the Supervisory Board of Česká spořitelna between 2011 and 2015. In 2017 he obtained Bachelor degree in Finance, Tax and Economic Informatics at the European Polytechnic Institute.

Aleš Veverka has been a member of the Supervisory Board of Česká spořitelna since September 2016.

Membership in other companies: Celopodnikový výbor odborů České spořitelny, a.s., Odborový svaz pracovníků peněžnictví a pojišťovnictví



Bernhard Spalt
Chairman of the Supervisory Board

Reference address:
Am Belvedere 1,
1100 Vienna, Austria

Bernhard Spalt graduated from the Law Faculty of the University of Vienna. Already during his studies in 1991 he joined the Erste österreichische Spar-Casse Bank AG, where he worked in the Legal Department. From 1994 to 1997 he held various positions in the Restructuring Department. He then moved to the Secretariat of the Board of Directors and the Supervisory Board, where he was appointed the Head of the Office in June 1998. In 1999 he was sent to Erste Group Bank's subsidiary in the Czech Republic – Erste Bank Sparkassen (CR) where he was the Head of the Restructuring Department. Following the sale of Česká spořitelna to Erste Bank Sparkassen (CR), a.s., he took over responsibility for the Department of Restructuring and Debt Recovery in Česká spořitelna, a.s. After three years in the Czech Republic in June 2002 Bernhard Spalt returned to Erste Group Bank in Vienna, where he worked as the Head of the Group's Strategic Risk Management until October 2006. From 2006 to 2011, he was the member of the Board of Directors of Erste Group Bank AG with responsibility for Group risk management, and from 2012 to 2015 he held the position of the Chief Risk Officer and the member of the Board of Directors in Erste Bank Hungary. He was the Chief Risk Officer and the member of the Board of Directors of Slovenská sporiteľňa between 2015 and 2016 and subsequently held the same position in the Romanian Banca Comercială Română (BCR) for one year. From 2016 to 2018, he was also the Chairman of the ERSTE Foundation. From 2018 to June 2019, he served as the Risk Director at Erste Bank Oesterreich and was also responsible for strategic risk management at Erste Group Bank, after which he was the Deputy CEO of Erste Group Bank. Between January 2020 and June 2022, he was the Chairman of the Board of Directors of Erste Group Bank.

Bernhard Spalt became a member of the Supervisory Board of Česká spořitelna on 1 November 2019 and resigned on 30 June 2022.

Members of the Managing and Supervisory Boards declare not to be aware of any possible conflicts of business, private and other interests or duties.

Audit Committee of Česká spořitelna

Štefan Máj
Chairman of the Audit Committee

Reference address: Budějovická 1518/13a,
Prague 4, Czech Republic

More information in the chapter Supervisory Board of Česká spořitelna 2022, page 30.

Štefan Máj has been a member of Audit Committee since April 2021 and was elected the Chairman of the Audit Committee of Česká spořitelna in June 2021.

Maximilian Hardegg
Vice-Chairman of the Audit Committee

Reference address: Budějovická 1518/13a,
Prague 4, Czech Republic

More information in the chapter Supervisory Board of Česká spořitelna 2022, page 30.

Maximilian Hardegg has been a member of the Audit Committee of Česká spořitelna since 2009.

Zlata Gröningerová
Member of the Audit Committee

Reference address: Budějovická 1518/13a,
Prague 4, Czech Republic

More information in the chapter Supervisory Board of Česká spořitelna 2022, page 30.

Zlata Gröningerová has been a member of the Audit Committee of Česká spořitelna since 2009.

Pavel Závitkovský
Member of the Audit Committee

Reference address: Budějovická 1518/13a,
Prague 4, Czech Republic

Pavel Závitkovský graduated from the University of Economics in Prague. In 1990 he became Certified Auditor of the Chamber of Auditors of the Czech Republic and in 2002 Certified Internal Auditor of the Institute of Internal Auditors (CIA). Pavel Závitkovský has more than 25 years of experience in the audit of financial and industrial companies while working for KPMG. He also participated in specific engagements, such as due diligence, privatisation projects, mergers, acquisitions, and internal audits. He was one of the founders of the Czech Chamber of Auditors, holding the position of the Chairman of the Supervisory Committee of the Czech Chamber of Auditors from 1998 to 2001. In 2001–2003 he was the Vice-President of the Czech Institute of Internal Auditors.

Pavel Závitkovský has been a member of the Audit Committee of Česká spořitelna since 2016.

Mario Catasta
Member of the Audit Committee

Reference address: Am Belvedere 1,
1100 Vienna, Austria

Mario Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation work was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He worked at Erste Group Bank from 1987, at first as an internal auditor and then, from 1993 as the Head of Compliance. In 1994 he accepted the position of the Internal Audit department Head. After the merger of Erste österreichische Spar-Casse and GiroCredit he became the Head of the Corporate Client department. Between 2003 and 2018 he held the position of the Director of Internal Audit in Erste Group Bank AG.

Mario Catasta was a member of the Audit Committee of Česká spořitelna from 2009 and resigned on 31 July 2022.

Macroeconomic Development of the Czech Republic

in 2022

The development of the Czech economy was significantly influenced by a number of external factors in 2022. At the beginning of the year, the economy was undergoing a recovery, when the improvement in foreign demand was manifested mainly in the growth of investments and exports. In addition, the pandemic situation from 2021 was reflected in the y/y data. For example, household consumption fell q/q in the first quarter of 2022; however, its y/y growth arrived at 8.0%[6]. The high y/y growth in the first quarter of 2022 also affected the value for the entire year. Russia's invasion of the Ukraine in February subsequently implied a gradual deterioration of the development of foreign trade on one hand and a further increase in inflationary pressures on the other. Several central banks, including the ČNB, thus had to raise rates more to bring inflation back towards the inflation target in the medium term. The labour market worsened significantly in 2022, mainly due to the drop in real wages. On the contrary, the unemployment rate remained very low. The war in the Ukraine was also reflected in changes in market sentiment, which resulted in significant movements in the exchange rate of the koruna against the euro.

ČNB had to raise rates more to bring inflation back towards the inflation target in the medium term.

In 2022, GDP in the Czech economy increased by 2.4%[7]. Its development was negatively affected by several factors. The war in the Ukraine and its effects on the deterioration of foreign trade and inflation, as well as the impacts of the high rates of the ČNB, played a key role. On the other hand, the economic recovery from the beginning of 2022 and a high number of orders that firms still had from 2021 (due to COVID-based lockdowns and supply chain problems) acted in the opposite direction. Moreover, the y/y growth at the beginning of 2022 was positively affected by the significantly subdued GDP development at the beginning of 2021. During 2022, there was a gradual deterioration in the development of GDP, which at first mainly concerned household consumption, and then also a cooling of foreign demand. In the third quarter, the Czech economy already fell q/q and added another drop in the fourth quarter. Thus, it went through a technical recession in the second half of 2022, although it was only mild.

GDP y/y growth[8]

2022	2021	2020	2019	2018
2.4%	3.5%	-5.5%	3.0%	3.2%

Inflation strengthened during 2022, mainly due to two factors. The first was the war in the Ukraine and the related rise in energy prices. Later, in addition to its direct influence in terms of consumer inflation, it also increased costs of firms and entrepreneurs, which subsequently led to an increase in prices of goods and services. The second pro-inflationary factor was associated with an overheated labour market and strong household demand from 2021 and the beginning of 2022. These domestic factors began to weaken only in the second half of 2022, but they were not strong enough to significantly bring the headline inflation down. However, inflation slowed down significantly in October, when it arrived at 15.1%[9] y/y, from the 18.0%[10] y/y reached in September. But this was mainly due to the way in which the Czech Statistical Office incorporated the impact of the Savings Tariff to the price development. Excluding it, the y/y inflation would have been 18.6%[11] in October itself. The impact of the Savings Tariff in the data was present throughout the fourth quarter.

Price growth (CPI inflation)[12]

2022	2021	2020	2019	2018
15.1%	3.8%	3.2%	2.8%	2.1%

(6) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/hdp_ts
(7) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/ari/gdp-resources-and-uses-4-quarter-of-2022
(8) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/hdp_ts
(9) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-october-2022
(10) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-september-2022
(11) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/note-to-consumer-prices-of-energy-october-2022
(12) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/hmu_ts

The labour market worsened in 2022. Although the unemployment rate remained at favorable levels, there was a significant decline in real wages during the year. Despite the fact, that nominal wage growth remained solid, this was due to high inflation, which caused average real wages to fall by 7.5%[13] in 2022. Falling wages were then gradually reflected in a decrease in household consumption and, with a delay, in the weakening of domestic inflationary pressures.

Unemployment rate[14]

2022	2021	2020	2019	2018
2.4%	2.9%	2.6%	2.0%	2.3%

Due to intensifying inflationary pressures and concerns about a possible longer-term increase in inflation expectations, the Czech National Bank continued to gradually increase interest rates during the first half of 2022. The main rate, which was at the level of 3.75%[15] at the beginning of 2022, was thus increased to 7.0%[16] in June. From that point on, it remained at a stable level until the end of the year.

Market sentiment, which was influenced by the war in the Ukraine and its consequences for the European economy, was significantly reflected in the development of the koruna during 2022. In the first half of the year, there were two episodes when the koruna against the euro briefly weakened above the level of EUR/CZK 25.0[17]. On one hand, this was influenced by market concerns about a possible escalation of the war in the Ukraine, and on the other hand, by concerns about the Czech (and European) economy, due to uncertainty around possible gas shortages. These tendencies were mitigated by the increasing rates of the ČNB and the foreign exchange interventions that the ČNB carried out to defend the koruna. In the second half of 2022, the sentiment in the markets calmed down, and by the end of the year, the mood in the markets had improved significantly. Favorable weather and, at the same time, rapidly continuing work on European LNG terminals contributed to this development.

The development of government bond yields was also significantly affected by the negative sentiment on the markets, which contributed to the outflow of capital from Europe in the first half of 2022. The rising rates of the ČNB and ECB also acted in the direction of the upward shift of the yield curve. Finally, market expectations of a long-term significantly tightened monetary policy in the Czech economy also acted in the same direction. A correction in market expectations only occurred at the end of 2022, along with improved sentiment in the markets, which led to a decline of yields, especially at the longer end of the curve.

The war in the Ukraine and its economic effects on one hand, and a high structural deficit on the other, stood behind the further deterioration of the development of public finances. The central government budget deficit thus slightly exceeded CZK 360 bn[18] in 2022. This also affected the development of the public debt to GDP, where its development worsened further. In the third quarter of 2022, the indebtedness of the public institutions sector had already risen to 45.2%[19] of GDP.

(13) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/ari/average-wages-4-quarter-of-2022
(14) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/zam_cr
(15) Source: Czech National Bank, 7. 3. 2023, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1640188080000/
(16) Source: Czech National Bank, 7. 3. 2023, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1655909280000/
(17) Source: Czech National Bank, 7. 3. 2023, https://www.cnb.cz/en/financial-markets/foreign-exchange-market/central-bank-exchange-rate-fixing/central-bank-exchange-rate-fixing/charts_form.html
(18) Source: Ministry of Finance, 7. 3. 2023, https://www.mfcr.cz/cs/verejny-sektor/statni-rozpocet/plneni-statniho-rozpoctu/2022/mesicni-pokladni-plneni-sr-46351
(19) Source: Czech Statistical Office, 7. 3. 2023, https://www.czso.cz/csu/czso/ari/government-deficit-and-debt-3-quarter-of-2022



Report of the Board of Directors

Report of the Board of Directors on the Company's Business Activities and Financial Position

for 2022

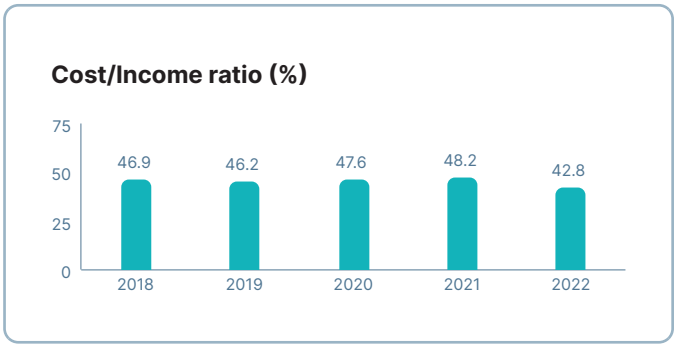
Consolidated Financial Results[20]

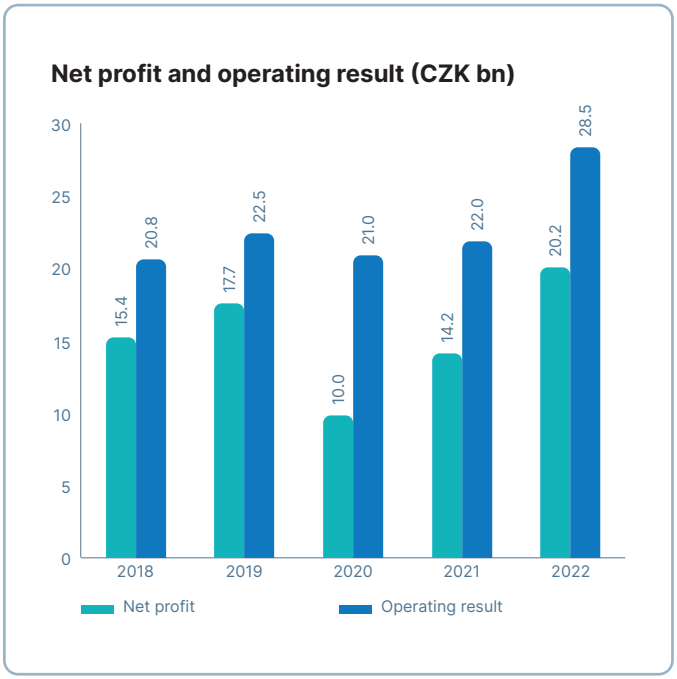
Consolidated Statement of Income

As at 31 December 2022, Česká spořitelna reported an unaudited consolidated net profit of CZK 20.2 bn, according to the International Financial Reporting Standards (IFRS), attributed to considerably higher operating result reflecting business growth and overall post-COVID development.

Significant improvement of Cost/Income ratio to 42.8%.

Operating result of Česká spořitelna increased by 30.0% y/y to CZK 28.5 bn in FY 2022, reflecting business growth and overall post-COVID development. Operating income went up by 17.8% y/y attributed to increase in net interest income, net fee and commission income and net trading result. The development in operating income and operating expenses also led to significant improvement of Cost/Income ratio to 42.8% from 48.2% in FY 2021.





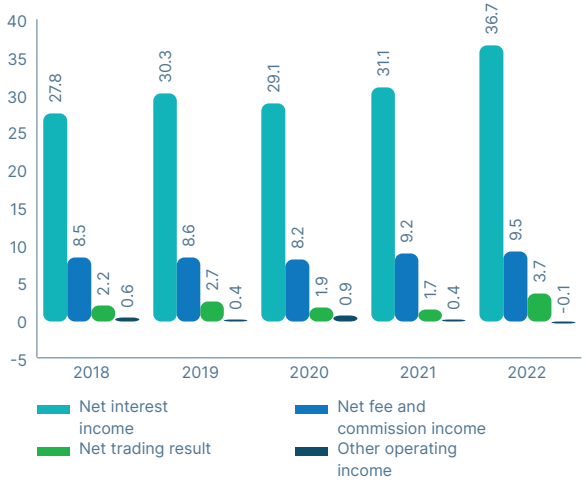
Net interest income, the most important component of operating income, therefore increased by 18.1% in comparison with FY 2021 and reached CZK 36.7 bn. The development of net interest income was affected by growth of customer loans and deposits, supported by investments into debt securities. Net interest income was further positively influenced by high interest rates environment reflected on both loan and deposit side. Net interest margin related to interest bearing assets reached 2.13% in FY 2022 and it was driven by balance sheet structure and positive impact of high interest rates environment in loan book which was partly offset by increase in interest rates on deposits.

Net fee and commission income rose by 3.5% year-on-year to CZK 9.5 bn which was caused by both retail and corporate. Furthermore, net fee and commission income was positively affected by lending fees and

(20) Definitions of the below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 407

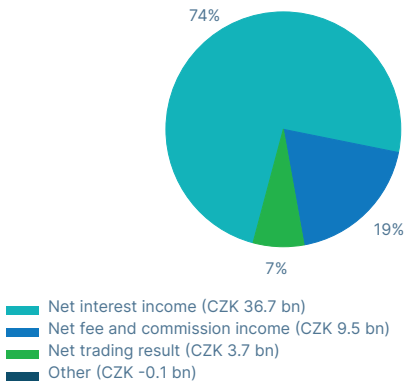
insurance products supported by business development. On the other hand, decrease in income from payment transfers reflected Moneyback programme and support for Ukrainian refugees, which was partly offset by higher interchange fees. Securities transactions slightly declined due to low market performance effect.

Composition of operating income (CZK bn)



Net trading result increased by 115.9% y/y to CZK 3.7 bn in FY 2022 which was driven by higher client business and overall post-COVID development.

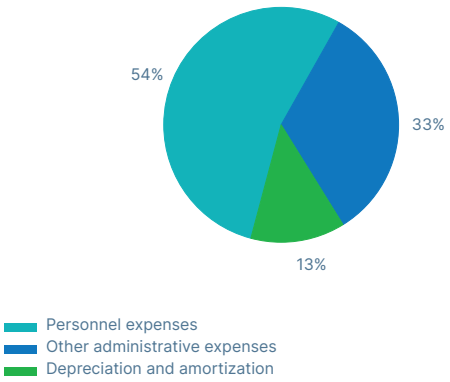
Structure of operating income



Total operating expenses stayed well below the inflation rate and rose by 4.6% y/y to CZK 21.3 bn in FY 2022, mainly influenced by growth of personnel expenses and other administrative expenses. Increase in personnel expenses (+4.1% y/y) was driven mainly by impact of salary increase and employee share programme. Higher costs of property management, marketing, business operation, consultancy and personnel related costs with higher contribution into Deposit Insurance Fund in 2022 led to rise in other administrative expenses (+7.3% y/y). Depreciation remained stable in comparison with FY 2021.

Total operating expenses stayed well below the inflation rate.

Structure of operating expenses



Loss from derecognition of financial instruments not measured at FV through profit and loss was affected by sale of bonds and reached CZK -1.9 bn.

Impairment result from financial instruments (i.e., creation/release of risk provisions and reserves for loans and advances, guarantees and commitments) recorded creation of CZK -0.6 bn in FY 2022. It meant a year-on-year creation lower by 64.3% reflecting positive development of portfolio quality while keeping prudent approach to potential impacts of current geopolitical risks.

The quality of the loan portfolio experienced slight improvement in 2022; the share of non-performing loans over total loans decreased to 1.9% compared to 2.1% in 2021 as new defaults were more than offset by recoveries, namely in retail.

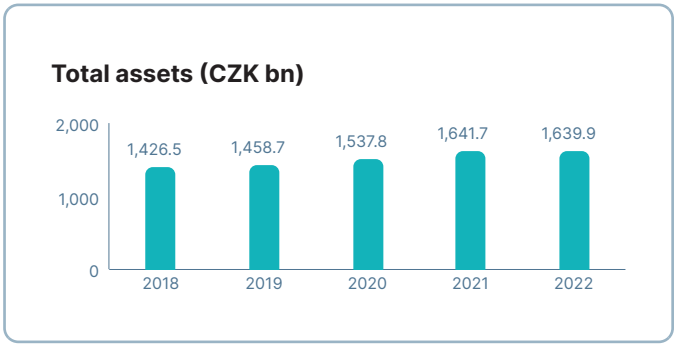
Coverage of non-performing loans by impairment provisions grew in a year-on-year comparison and

reached solid 117%; the total coverage of non-performing loans (including collaterals) increased to 148%. In 2021, these figures were 111% and 140% respectively.

Other operating result of CZK -1.7 bn, consisted mainly of other income and costs not directly related to main operating activities of the Group, slightly improved y/y.

Consolidated Balance Sheet Analysis

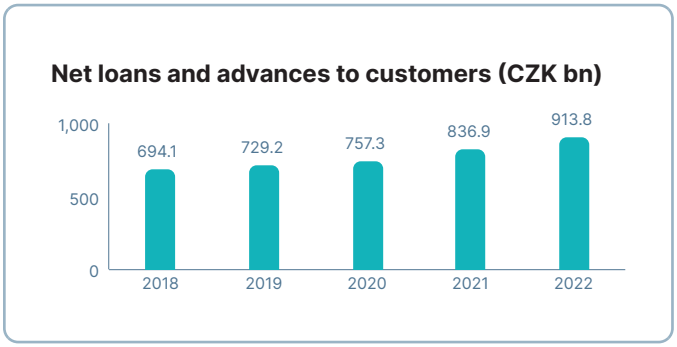
As at 31 December 2022, total consolidated ČS Group assets amounted to CZK 1,639.9 bn and remained flat compared to 31 December 2021. On the assets side, the development was driven mainly by growth of loans to customers which was more than offset by decline of loans to banks. The liability side of the balance sheet was affected by customer deposits accompanied by deposits from banks which were offset by decline of debt securities.



Assets

The loan book of Česká spořitelna developed successfully across various client segments and products reflecting improving macroeconomic development. The total net volume of loans and advances to customers grew from CZK 836.9 bn at the end of 2021 to CZK 913.8 bn at the end of 2022, which meant a 9.2% increase. The proportion of net client loans to client deposits (Loans/Deposits ratio) went up from 70.7% at the end of 2021 to 72.7% at the end of 2022.

The loan book of Česká spořitelna developed successfully across various client segments and products.

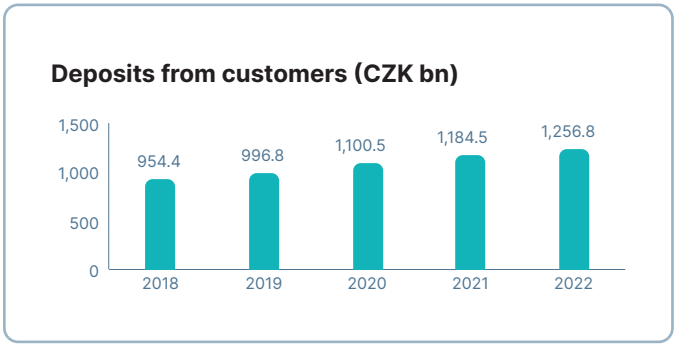


The gross volume of ČS Group customer loans increased by 9.1% y/y to CZK 934.7 bn. The portfolio of retail loans amounted to CZK 591.0 bn, representing a year-on-year increase of 7.6%, driven by private mortgages (+8.9% y/y), Building Society (+13.6% y/y) and consumer lending (+3.5% y/y). The volume of corporate loans grew by 11.1% year-on-year to CZK 339.7 bn attributed to increase in Large Corporates (+11.6%), SME (+10.7%), Real Estate (+15.9%) and corporate subsidiaries (+14.9%).[21]

Balance sheet development in 2022 also reflected slight growth of debt securities of CZK 2.3 bn (or 0.7%) to CZK 327.8 bn. Loans and advances to banks at amortised cost decreased by CZK 98.3 bn to CZK 266.7 bn driven by lower reverse repo operations with the ČNB.

Liabilities

Group deposits from customers grew by 6.1% y/y to CZK 1,256.8 bn driven by all segments. Households (retail) deposits rose by 1.4% y/y to CZK 912.8 bn. Group corporate deposits increased by 23.3% y/y to CZK 261.8 bn. Public sector deposits grew by 13.9% y/y to CZK 82.2 bn.



The development in deposits from banks reflected a growth of repo operations in 2022. For this reason, deposits from banks grew to CZK 113.5 bn more than compensated by decrease in debt securities issued to CZK 76.7 bn reflecting steering of short-term intragroup liquidity.

(21) Source: ČS 2022 results, p. 45, 28. 02. 2023, https://www.csas.cz/static_internet/en/Redakce/Ostatni/Ostatni_IE/Prilohy/cs_results_fy_2022.pdf

Equity attributable to owners of the parent declined to CZK 137.2 bn as at 31 December 2022, which was 3.9% less than at the end of the year 2021. The total capital ratio for Česká spořitelna Group reached 20.2% as at 31 December 2022, well above minimum regulatory capital requirement (15.6%).

Additionally, to strong capital and liquidity position, resilience of Česká spořitelna was supported by senior non-preferred bond issuance eligible for the regulatory MREL requirement. These bonds were issued in the amount of CZK 6 bn (in June 2022) and EUR 500 m (in November 2022). The total MREL ratio therefore stood at 25.2 % in 2022, well above regulatory requirement.

Business Activities

Retail Banking

As at the end of 2022, 4.5 million customers used retail banking services at Česká spořitelna and its subsidiaries. From those clients' point of view, Česká spořitelna is the most accessible bank on the domestic market, thanks to the most extensive network of branches (398) as well as ATMs and transactional terminals (1,736). It ranks first in the consumer loans market, including credit cards and overdraft facilities, in total deposits, and in the distribution of mutual funds. It is also a leader in the provision of new mortgages to customers and in life insurance brokerage.

Česká spořitelna is the most accessible bank on the domestic market.

Financial Health

Česká spořitelna's long-term strategy is to care for the financial health of its clients. This concept is based on the professionalism of personal bankers in combination with the digital environment. The correctness of this decision has long been confirmed by all customer experience indicators. The Net Promoter Score (NPS) has risen to 38. Also, 98% of clients even express satisfaction with their visit to a Česká spořitelna's branch.

Česká spořitelna's mission is to increase clients' financial health. 2022 was a demanding year for many clients, as they had to face high inflation and deal with a significant increase in energy payments, and uncertainty arising from the war in the Ukraine. Our standard palette of financial solutions was therefore expanded, with the addition of new forms of assistance, and Česká spořitelna was an active partner for addressing its clients' financial needs. Spořitelna also helped its clients secure additional income to their budgets, through significant discounts on card payments; it helped clients arrange government benefits; and it got actively involved in the Merciful summer campaign. The Bank prepared a special solution for its clients to help them finance energy costs while beginning to build up a reserve. It put new solutions on the market that help clients improve their financial habits, through special communication using behavioural techniques (e.g., an online pension scenario) or the presence of a financial benefit that makes a financially sound solution more advantageous (e.g., a more advantageous interest rate on regular investments). Spořitelna also continues to provide financial education to children through its successful Money Alphabet programme.

The positive impact of these activities is manifested in increased clients' satisfaction (the NPS rate was up by 9 points year-on-year) and the positive rating of Česká spořitelna's role in improving financial health (81% of clients view Česká spořitelna as an institution that helps them improve their financial health). As part of advisory and leading clients towards financial health, the banker meets with the client on a regular basis to address their current financial needs. Not only the situation related to the COVID-19 pandemic, but also the general trend have inspired Česká spořitelna to be the first bank in the Czech Republic to offer clients an alternative to meeting with a banker at a branch – instead, they can have an online meeting via a secure path, through the George online platform. Remote advisory services provided completely in the online environment were used by 13,202 clients in 2022, which constitutes a year-on-year increase of 943%.

Despite the growing influence of technology, the role of the experienced personal banker is confirmed as indispensable. Česká spořitelna is the only bank on the market to provide personal consulting services to mass market clients. The advisory tool – the Financial Health application, has become a popular aid with both bankers and clients. In 2022, 915 thous clients experienced consulting through the Financial Health application and they rate it very positively. Clients who have their own personal banker and use regularly their services show the NPS value of 49.

Česká spořitelna has launched new campaign "We Are the First to Take Care of Your Financial Health".

In January 2023, Česká spořitelna has launched new campaign "We Are the First to Take Care of Your Financial

Health," in which it focuses even more intensively on changing financial habits, increasing the financial health of its clients, and the transformation of companies. In the campaign, the Bank communicates its 4 commitments to help increase its clients' financial health:

- By 2025, ČS will help all its clients build a financial reserve for unexpected expenses;
- By 2025, ČS will help one million of its clients save up for retirement;
- By 2025, ČS will make quality financial education available to all children in the Czech Republic;
- By 2025, ČS will provide Czech companies with CZK 50 bn to increase their competitiveness and retain jobs.

Digital Banking

The Bank also continued to develop its digital environment. Clients receive personalised advices and tips on how to use Česká spořitelna's products and services more intelligently in the internet and mobile banking or, for example, news and tips on how to use internet and mobile banking conveniently. With this comprehensive care, Česká spořitelna helps clients and teaches them how to have better control of their finances. Spořitelna believes that in the long term, it will help clients to do better and better.

BankID

In 2022, Česká spořitelna carried on in its successful BankID service that makes it possible to use Česká spořitelna's Banking Identity for the verification of identity in the digital environment of e-government and of private companies. Česká spořitelna has provided the service to more than 2.4 million clients and is thus making a major contribution to the digitalisation of the Czech economy, which ranks 18th in Europe in terms of digitalisation, which is rather below the average.

Česká spořitelna is making a major contribution to the digitalisation of the Czech economy.

Since the introduction of the service in January 2021, more than 700 thousand Česká spořitelna's clients had used the BankID service for e-government logins and had made more than 5 million logins. Česká spořitelna was thus the number one provider of e-government logins. The most frequently, clients logged in to the portal of the Ministry of Labour and Social Affairs, the Czech Social Security Administration portal, and the Citizen Portal. Thanks to the Banking Identity, clients could easily apply for benefits, a new driver's licence, or have their pension calculated online. The record number of logins in a single day was registered on the portal of the Ministry of Labour and Social Affairs, when 50,000 Česká spořitelna's clients applied for a one-off child benefit.

The BankID service for private companies was launched in June 2021, and in 2022, it carried on in successful adoption, by both clients and companies. With BankID, Česká spořitelna's clients have been able to verify their identity in the digital environment of private companies on the same level as if they had come to a traditional branch with their ID document. Aside from identity verification, the BankID service also offers digital signature of electronic documents. Since June 2021, 200 thousand Česká spořitelna's clients have used the service to verify their identity. The most frequently, clients used identity verification at betting shops, utility companies, insurance companies, and financial institutions.

The Usage of George

George mobile banking was the most frequently used banking application on the market in 2022, both in terms of the number of users and in terms of transactions. An average George mobile banking client logs into the application daily (30 times a month). The number of transactions entered on mobiles (20.7 m) increased by 27% year-on-year, and the volume of payment transactions (CZK 161.7 bn) was up by 35%.

Approximately 2,564,000 unique users have already visited George at least once, and around 2,085,000 clients are active in George (either mobile or web).

The total number of instant payments sent from ČS increased again in 2022, and compared to 2021, clients sent 16% more instant payments, amounting to a total of nearly 58 million transactions.

Foreign payments were strongly influenced by the events around the world in 2022, but despite those difficulties, Česká spořitelna's clients sent 17% more transactions abroad during the year than in 2021.

In 2022, the ongoing trend of clients' increasing preference of making payments via the mobile George application was visible, more than 60% of all payments was entered through George.

A significant innovation in the George application is the function of touchless withdrawal using a QR code (QR Withdrawal). Spořitelna was the first bank in the country

to introduce it at the end of June 2022. Thanks to this innovation, clients can make effortless withdrawals by logging into their George mobile banking, choosing an amount, and then make the withdrawal within 15 minutes by scanning a QR code from a Česká spořitelna's ATM. In 2022, QR withdrawals were used more than 50 thousand times.

A significant innovation in the George application is touchless withdrawal from ATM using a QR code.

George Virtual Card

The George virtual card allows payments on the internet and at retail outlets, and withdrawals from contactless ATMs, via Apple Pay, Google Pay, Garmin Pay, or Fitbit Pay, without the need for a plastic card.

Clients can arrange a George virtual card instantly through George mobile or internet banking. In 2022, clients set up 170,000 permanent George virtual cards. Since their launch in 2021, nearly 300,000 cards were set up this way.

In 2022, several limited virtual card issues were made. The most striking design was in support of citizens of the Ukraine, in March. Česká spořitelna sent CZK 5 to the account of the ČS Foundation for each payment made with the card. The total amount donated to the People in Need collection to help the Ukraine came to CZK 2,000,000.

At Christmastime, George virtual cards were issued with a Christmas theme.

One-time Virtual Card

At the beginning of 2022, Česká spořitelna launched One-time Virtual Cards for safe payments on the internet. A client can create the card in a single process and display its details. The card will remove itself within one hour after being created or immediately after a payment is made. By using it, a client minimises the risk linked to payments over the internet. In all of 2022, clients used 200,000 one-time virtual cards.

Payments via Smart Devices

A total of 48% of the clients who use George in their mobiles have also added a card from Česká spořitelna to one of the mobile wallets – Apple Pay, Google Pay, Garmin Pay, or Fitbit Pay. In 2022, more than 160,000 unique clients added a card to their mobile device. In 2022, Česká spořitelna significantly increased the level of security of this payment technology. Clients must confirm every card added outside of the George application in the George Key security app.

The Moneyback Discount Programme

With the Moneyback discount programme in Mobile George, clients have been able to achieve significant savings since 2020 when paying with a Česká spořitelna card. As at the end of 2022, 870 thousand clients had activated Moneyback in their George mobile application, which represents 350 thousand new clients compared to 2021. The programme's success and functionality are confirmed by the volume of money returned to clients – at the end of 2022, it exceeded half a billion crowns.

In 2022, Česká spořitelna launched a product card for the clients of the Moneyback discount programme, as well as many smaller improvements in the overview of their George internet banking. In this way, clients need no longer to search for the amount they have saved and can get to new offers faster.

Many clients activated the programme in 2022 thanks to the extraordinary offers focused on helping vulnerable clients build a reserve that Česká spořitelna arranged. Between August and October, an offer of a 15% cashback was applied to purchases at selected retail chains, of up to CZK 500 per month. In December, the cashback was increased to 20% and the limit to CZK 750.

George Key

The George Key application is the main security method of Česká spořitelna's Banking Identity. It provides increased security and easier sign in and sending of payments, as well as authentication during a phone call with a banker. In 2022, the application started with 1,555 thousand users, and by the last day of the year, George Key had been used by 1,982 thousand clients. Therefore, the total annual growth of clients amounted to 427 thousand. The George Key app has thus become a main standard for internet banking and electronic payments security – the application is used by 80% of BankID users.

In 2022, the George Key became the standard for confirming card payments online, and, for the year as a whole, more than 85% of online card payments were verified by the George Key (nearly 54 million payments). Česká spořitelna was the first bank to start verifying the activation of Apple Pay and Google Pay with the George Key, thus dramatically reducing payment card abuse.

In 2023, the George Key application will be merged with the George application to make the usage easier for clients.

In addition to the George mobile application, Česká spořitelna's clients can also use other mobile applications:

- **GEORGE IN MOBILE** – state-of-the-art personalised internet banking that enables real-time management of family finances;
- **APPLE PAY** – since February 2019, Česká spořitelna's clients have been able to pay with their iPhones or Apple Watches;
- **GOOGLE PAY** – to activate Google Pay, all a client needs is to have a mobile device that supports NFC technology and Android 5.0 or higher operating system, and then add their ČS payment card to the Google Pay app;
- **BUSINESS 24 Mobile Bank** – an application for corporate clients that allows them to manage their finances through BUSINESS 24, even on the go.

Housing Financing

In 2022, the volume of newly provided loans on the mortgage market was reduced dramatically. Despite this adverse development, Spořitelna managed to maintain its position as number one on the market of newly provided mortgages. Furthermore, it also became number one in terms of the mortgage loan portfolio in Q1 2022.

Spořitelna managed to maintain its position as number one on the market of newly provided mortgages.

In 2022, Česká spořitelna provided 14,614 new mortgage loans with a total volume of CZK 45 bn. The mortgage portfolio volume exceeded CZK 386 bn, which meant an increase of CZK 32 bn compared to 2021.

Financing the Needs of Private Individuals

Uncertainty. That is how 2022 could be described from the point of view of most inhabitants of the Czech Republic. The aftermath of COVID-19, the new situation linked to the war in the Ukraine, the energy crisis, or the extraordinarily inflationary environment cutting into people's real income. Furthermore, given the growing rates of credit products due to the growth of financing costs, a mixture of influences has been created that has caused a slow-down in the market of unsecured loans. On the other hand, growing clients' interest in digital services is still evident – not only in the arrangement of loan products but also in terms of service transactions that allow for full flexibility in the set-up of products and services for clients. Česká spořitelna continues to develop its advisory concept, tools, and propositions that will fulfil its promise of "Instalments under Control" in 2023. The Bank believes that it will help its clients to manage all uncertainties in 2023.

Demand for consumer financing was lower in 2022 due to increased interest rates. It was primarily manifested in the decline of demand for the loan consolidation product. At the same time, Česká spořitelna saw changes in consumer behaviour related to the uncertainty and drop in real income, such as interest in services, changes in the set-up of already arranged products (flexibility) and growing interest in advisory care for clients – both physical and digital. In 2023, the Bank will continue to work intensively on concepts, tools, and products that fulfil its vision of "Instalments under Control" that fully fits in with Česká spořitelna's concept of "Care for Financial Health".

In 2022, Česká spořitelna launched further digital arrangement processes, this time for loan consolidation and credit cards. The very first days after its launch the importance of digital sales in George and the popularity of digital processes among both clients and non-clients were confirmed. Interest in the arrangement of loans for non-clients via verification with BankID keeps growing and motivates ČS to keep improving existing processes and to introduce new ones.

This behaviour confirms the shift of clients into digital channels, which Spořitelna massively experienced during the coronavirus crisis – the purchase and administration of products in George is already a standard in the behaviour of Česká spořitelna's clients. Clients have returned to branches for advisory services, but the share of digital transactions has again grown year-on-year. The possibilities to arrange a loan are extensive: aside from its branches, Česká spořitelna offers to arrange it via its website and its client centre.

Česká spořitelna's responsible approach to the financing its clients' needs is reflected not only in its product offer, but also in how it serves its clients, which is based on advice. Knowledge of a client's specific situation and needs is a fundamental prerequisite for providing a loan that a client will have under control. The product propositions, advisory tools in the branch network, and personalised communication have been adapted in this regard.

In 2023, Česká spořitelna will continue to develop digital solutions (available in George as well as during visits to the branch network), to improve its advisory instruments in the branch network, and to improve

personalised communication focused on its clients' "Payments under Control".

The Distribution Network

In 2022, the transformation of branches continued, in order to create the optimal environment to support the provision of financial advice and digitalisation of services. Emphasis was placed on creating discreet spaces for physical meetings with clients in branches, as well as on creating conditions for bankers to conduct online meetings with clients.

The new branch network concept includes three branch formats in terms of size – small, medium, and large (flagship) branches, as well as in terms of the provision of cash services – cash or non-cash branch formats. Branches vary in terms of the complexity of services provided, based on the demand in their respective locations. Whereas smaller non-cash branches provide regular products and services mainly for retail customers (personal accounts, overdraft facilities, loans to individuals, savings accounts), large flagship branches provide the maximum range of products and services for all segments, and their design reinforces the Bank's advisory role and its prestige on the market.

As part of the new concept, branches include a self-service zone with a range of machines (ATMs) for cash withdrawals and deposits and for entering payment orders. The self-service zones are available to clients around the clock.

In 2022, the Bank renovated another 20 branches to the new format, and by the end of the year, it thus had 9 flagship branches, 100 medium-sized branches (17 of them operating on a cashless basis), and 66 small branches (52 of them operating on a cashless basis).

The new concept branches are being built as barrier-free, to be accessible truly to all clients. All branches are equipped with the Deafcom application for serving clients with hearing impairments. Large and medium-sized branches (a total of 91 branches already) have voice navigation for blind clients installed. Clients with disabilities can make an appointment at a branch with so-called assistance.

In order to optimally cover customer demand, Česká spořitelna continued to adjust the location of its branches throughout the country in 2022, which is why branches were closed or relocated to locations with a higher concentration of demand.

In connection with the development of the business model and trends and with clients' feedback, the design of new-format branches has been adapted (colour scheme, materials, new types of work and service points,...), to ensure sustainability and the economy of branch operation.

At the end of 2022, a total of 220 branches were operating on a cashless basis. Clients can execute cash transactions through ATMs (in particular, the recycling ATM) or through the George services (a cash desk as such is no longer available). Given the current situation on the financial market, great emphasis has been placed on optimising the amount of cash at branches and on the quality of the work of cash tellers.

The change in branch format goes hand in hand with the Financial Health service and the digitalisation of services. The new attractive branch environment, the discreet meeting points, which are particularly appreciated by clients, complemented by modern technology (client tablets, advisors' iPads, biometrics, digital advertising) enhance the overall client experience. To support it, Spořitelna has strengthened the role of client care bankers and strengthened client service by personal bankers.

Remote consulting experienced development in 2022 – an Online Meeting with a Banker service has been available to clients. Newly, this means a banker from any home branch as well as bankers from the client centre Online Branch are available to clients all week long during extended working hours.

Investment Products for Retail Clients in 2022

Česká spořitelna has long focused on delivering investment solutions that will bring its clients added value and will meet their needs, requirements, and expectations, when creating investment products for retail clients. Great emphasis is then placed on the clarity, simplicity, and transparency of investment solutions, while maintaining the highest possible probability of achieving an attractive return.

Česká spořitelna has long focused on delivering investment solutions that will bring its clients added value.

The significant growth of interest rates has increased the potential yield from conservative investment products preferred by clients who prefer lower market risk to the

maximum possible return. Premium currency deposits in Czech crowns were also very popular with clients, with the volume of deposits sold reaching nearly CZK 30 bn. At the same time, premium currency deposits in foreign currencies were established in a total volume of more than USD 40 m and EUR 12 m. Clients invested nearly CZK 9.4 bn in five issues of ČS mortgage bonds and discounted bonds. They also invested nearly CZK 1.6 bn in 25 new issues of premium bonds and premium debt securities.

Volatility returned to the stock markets with full force in 2022, which brought many investment opportunities for dynamic investors. They were interested in direct investments in equities and ETFs, and investment certificates were also of interest to them. The total turnover of these transactions exceeded CZK 7.7 bn in 2022.

The sale of physical gold was significantly more popular with clients than in previous years. In 2022, clients purchased investment gold bullions through Česká spořitelna in the volume of more than 1,139 kg, worth more than CZK 2.7 billion.

Erste Asset Management GmbH Mutual Funds, the Czech Republic Branch

2022 was very difficult for investments, having brought a downturn for both equity and bonds. After several years of very low interest rates, a rapid increase in rates to nearly unseen levels appeared. Central banks were the main drivers managing the performance of investment instruments in financial markets. The acceleration of inflation and the increase in interest rates pushed the main global stock indices down for most of 2022. Furthermore, the war in the Ukraine broke out. At the end of 2022; however, the light at the end of the inflationary tunnel started to appear, and indices erased some of their losses.

In 2022, total net sales of the mutual funds of the Czech branch of Erste Asset Management reached CZK 10.38 bn, which is a worse result than in 2021. Unfortunately, 2022 was not a good year for financial markets. After a successful 2021, equity markets did not fare well. Top Stocks, the largest equity fund in the country, weakened by 7.44%. Despite this, the fund noted net sales of more than CZK 763 m in 2022. The Stock Small Caps equity fund, which targets companies with lower market capitalisation, remained popular among investors, despite the difficult investment environment, with more than CZK 1.14 bn of funds flowing into it. In 2022, its unit certificates lost 19.3%. The Sporotrend fund, which invests in stock mainly in Central and Eastern Europe, also weakened in 2022, showing an adverse impact on the balance of its sales.

Mixed funds did not do well business-wise, due to their negative performance. The greatest problem for mixed portfolios was the positive correlation between the performance of equity and bonds. Česká spořitelna's largest mixed fund, the Kozervativní mix, noted negative net sales of CZK 1.8 bn. Also, neither the Universum fund, which has alternative and real estate investments represented in its portfolio, nor the Optimum fund managed to do well.

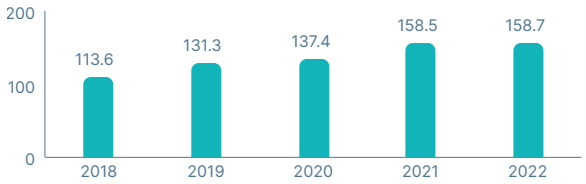
The Russian military aggression in the Ukraine significantly contributed to the growth of inflationary pressures in economies around the world. Central banks therefore continued to tighten currency conditions. Returns on bond markets grew significantly for most of 2022. Česká spořitelna successfully mitigated this adverse trend with an appropriate investment strategy, and it partially managed to benefit from the higher level of yield to maturity. Despite the high volatility of capital markets, most investors investing in mutual funds behaved very pragmatically, as documented by the strong interest among investors in Česká spořitelna's most conservative bond funds. The Sporoinvest fund noted the highest net sales, of more than CZK 11.2 bn. Its performance in 2022 reached +3.65%. Investors were also interested in the Sporobond fund, which saw an influx of CZK 1.8 bn in 2022. The growth of yield curves and fear of recession were adversely manifest in funds investing on credit markets, which dropped despite defensive investments (ČS korporátní dluhopisový -8.73% and High Yield dluhopisový -5.86%). That also caused very low interest among investors in these corporate funds.

In 2022, the inflow of funds into mutual funds was again based on the significant component of regular investments, where it can be noted that more than every third investor invests with Česká spořitelna on a regular basis. It was supported by combined products, such as higher interest rate on the deposit account in case of regular investments. It was due to the influx of new, first-time investors that the average amount of the first regular investment dropped below CZK 2,000 compared to 2021.

The total volume of assets of the funds managed by the Czech branch of Erste Asset Management as at the end of 2022 amounted to more than CZK 158.71 bn, which represents a slight year-on-year increase. Spořitelna considers this slight increase, despite the weakening of financial markets, as a success. As mentioned above, this was aided by the strong year-on-year net inflow of money, primarily into conservative bond funds. The year

2023 will not be entirely easy or unambiguous in terms of investments.

Volume of assets in funds managed by the Czech branch of Erste Asset Management (CZK bn)



Nemovitostní fondy REICO investiční společnost České spořitelny, a.s.

Česká spořitelna, in co-operation with its subsidiary REICO investiční společnost České spořitelny, offers retail clients the opportunity to invest in commercial real estate through the fund REICO ČS NEMOVITOSTNÍ (hereinafter also referred to as "RČSN") and newly also through the REICO ČS LONG LEASE fund (hereinafter also referred to as "RČSLL"). Both are open-end mutual funds, with RČSN being one of the largest Czech mutual funds, with assets under management value of CZK 28.3 bn; and with a history of almost 15 years, it is also the oldest domestic real estate fund.

REICO ČS NEMOVITOSTNÍ is one of the largest Czech mutual funds.

In 2022, the administrator focused mainly on acquisitions, active management of properties, and optimisation of income in the portfolios of both funds. In January, the RČSN purchased the multifunctional Bořislavka Centrum building in Prague. For more than CZK 5 billion, had been the Fund's most expensive acquisition to that point. The RČSLL fund made 3 new acquisitions for its portfolio: in April, the BWI research and development centre in Krakow, Poland; in August, the APS battery production centre near Gniezno, Poland; and in November, the centre for the production of plastic packaging from VYVA PLAST in Turnov in Northern Bohemia. The value of all three acquisitions exceeded CZK 1.3 bn, having significantly increased the overall investment of the Fund. The lease of the buildings newly acquired by RČSLL has been contracted for at least 10 years.

Even though real estate markets were marked by a number of adverse factors linked to the war in the Ukraine in 2022, both funds achieved above-average appreciation. The RČSN brought its investors all-time high performance, of 6.1%, driven primarily by the high share of the real-estate component in the fund's assets and the inflationary growth in rent supported by the strong rental market, especially in the logistics sector, but also in the office sector. The RČSLL fund achieved a yield of 5.9% in 2022, on the back of advantageous purchases. Thanks to the Fund's smaller size, this was visibly manifested during the course of the year. The material effect of the high interest-rate differential between the CZK and the EUR helped increase the yield of both funds, from which the funds benefited in a regular revaluation of the currency derivatives hedging the funds' positions in real estate assets denominated in EUR.

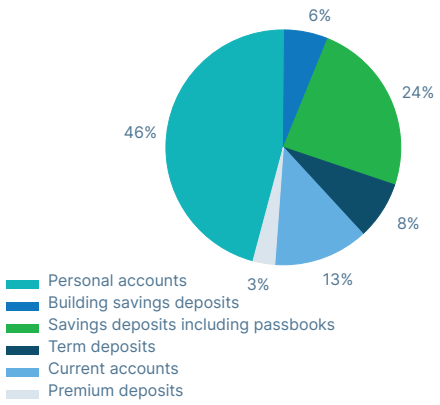
From the financial point of view, the RČSN and RČSLL portfolios are healthy, with most properties being more than 90% leased and regular rental income secured. The current values of the buildings in the portfolios of both funds are stable with significant long-term growth potential.

Savings

Another popular retail product is ČS Savings, which is designed for regular and irregular savings and thus for creating a reserve for unexpected expenses. The money in the account is available clients at all times. The total amount saved with ČS Savings and other savings products amounted to CZK 370 bn at the end of 2022. The amount does not include premium deposits and savings in current and personal accounts. Clients prefer demand deposits and save more for the future. Given the interest rates, demand for term deposits was up significantly.

In 2022, ČS offered its clients a total of 12 CZK, 12 USD, and 2 EUR issues of premium currency deposits. Clients set up premium currency deposits in CZK worth nearly CZK 30 bn, which is more than three times the 2021 record of 9 billion. The deposits in USD premium currency deposits were also a record high, having reached USD 48 m. EUR deposits returned to the Bank's offer after a five-year break forced by the low interest rates in the Eurozone. In November and December, clients deposited over EUR 12 million in them.

Household savings



Building Savings

Building savings with Stavební spořitelna České spořitelny (also known as Buřinka – the "Bowler Hat") have long been a very popular savings product on the market. The 2022 result was positively impacted by the increase in rates announced by the ČNB and the associated increase in the guaranteed interest rate on deposits, to 2.5% per annum from 1 June 2022. After cancelation of the fee for the conclusion of a building savings agreement on 1 October 2022, and recurrent campaigns to promote the conclusion of new contracts, appreciation of up to 6.8% per year was reached in building savings.

The number of new building savings agreements (including increased target amounts) was therefore up by 15% year-on-year in 2022, with 111,958 agreements concluded (including increases). The result of the volume of the target amounts negotiated in the new agreements, including increases, was even better, as it grew by 66% year-on-year and reached CZK 55 bn in 2022. This was aided by, among other things, the increase in the minimum target amount to CZK 500,000 on 1 May 2022.

In total, Buřinka manages nearly 594 thousand building savings accounts with savings of CZK 62.0 bn and target amounts of nearly CZK 203 bn.

Buřinka bet on arranging building savings agreements online. The process of online arrangement, on the SSČS website and in the George internet banking, was expanded in 2022 with the addition of the process of arranging building savings for children in the George internet banking.

Buřinka won second prize in the Golden Crown ("Zlatá koruna") competition, for building savings in George. For clients with banking identity in George, entering into a new agreement is much easier now.

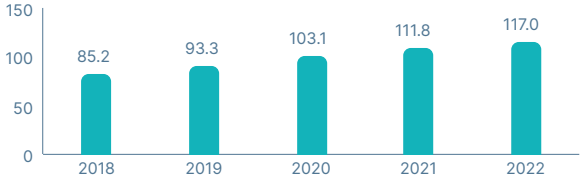
Pension Savings

Česká spořitelna – penzijní společnost is the long-standing market leader in supplementary pension savings, maintaining the largest conservative participant fund on the market, with assets of almost CZK 13.6 bn. The Ethical Participation Fund, which is the only one in the Czech Republic to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, reached almost CZK 2.7 bn. As at the end of 2022, the Pension Company had over 964,000 unique participants, with total assets of just under CZK 117 bn.

Česká spořitelna – penzijní společnost is the long-standing market leader in supplementary pension savings.

In financial markets, 2022 was influenced primarily by the war in the Ukraine and its adverse impact on global economy, which is why world stock markets dropped in the first half of the year. This was followed by drops in bond markets caused by interest rate increases by central banks. However, in the second half of 2022, all participant funds reported positive appreciation of pension savings, having significantly erased their losses from the first half of the year. Despite the high fluctuations in the performance of the participant funds in 2022, Česká spořitelna – penzijní společnost remained one of the best appreciating pension companies in the Czech market.

Volume of assets managed by ČS – penzijní společnost (CZK bn)

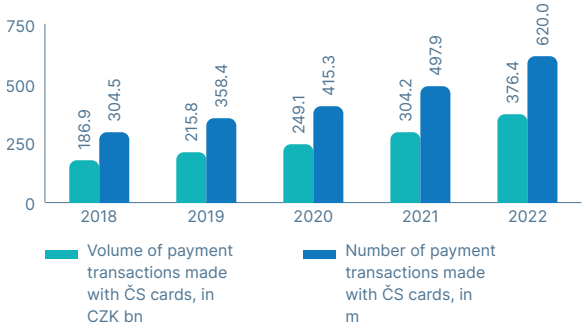


Payment Cards

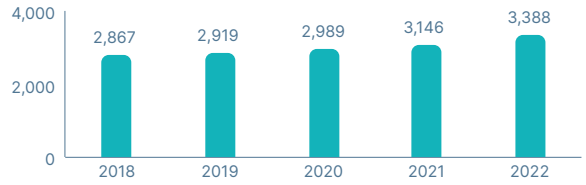
The sphere of payment cards noted turbulent development during the COVID-19 pandemic, with a significanttransition from cash to payments by card.

The trend of significant increases continued. In 2022, Česká spořitelna noted a 23.7% increase in the volume of card transactions, to CZK 376 bn, and an increase in the number of card transactions, by 24.5% to 620 million transactions.

Card transactions made with ČS cards at merchants (issuing)



Number of active cards (thousand)



For Erste Premier and Erste Private banking clients, Česká spořitelna prepared a new design of VISA Infinite and Mastercard World Elite payment cards, following up on the card redesign prepared for the MMA segment in 2021. New cards are visually lighter, with a harmonised design, and simple – without needless features.

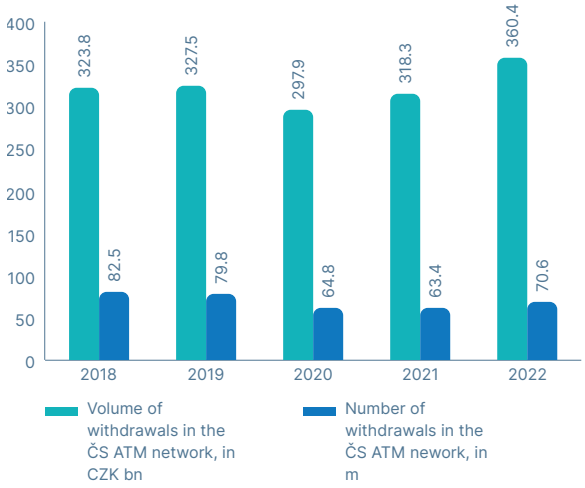
In 2022, Česká spořitelna made it possible for all of its clients using private cards to block banking transactions with DCC currency conversions in their internet banking applications. With this function, clients save money on currency conversion fees the amount of which is set by a third-party bank or an ATM intermediary abroad. 60,000 unique clients have turned the function on since its launch. An improvement was also noted in the sphere of card set-up, where thanks to quick selections in mobile George, clients have the most frequently used card functions at their fingertips, only a few clicks away.

ATMs

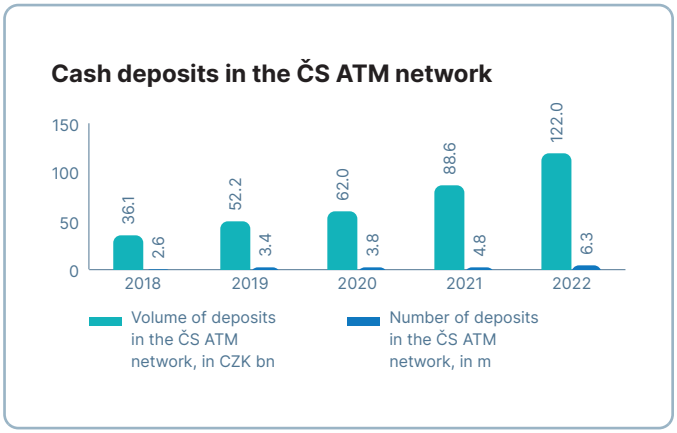
In terms of its ATM network, Česká spořitelna has long maintained a leading position on the Czech market. At the end of 2022, it operated a total of 1,736 self-service devices (ATMs, transactional terminals). During 2022, cardholders made 70.6 million cash withdrawals from Česká spořitelna ATMs, amounting to CZK 360.4 bn. The average withdrawal amount was CZK 5,107.

Česká spořitelna´s ATM network has long maintained a leading position on the Czech market.

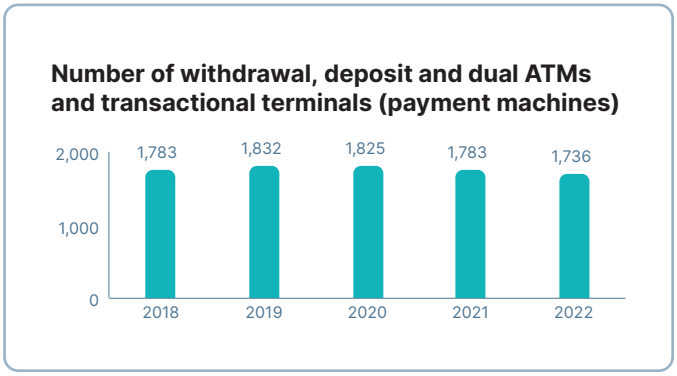
Cash withdrawals in the ČS ATM network



Česká spořitelna again expanded its network of ATMs that are equipped with the deposit function, which allow clients to deposit cash in an account or on a passbook at Česká spořitelna, but also in accounts maintained by other banks in the Czech Republic, this time by 40. A total of 425 deposit, dual, and recycling ATMs are in operation, in which clients made 6.34 million deposits in the amount of CZK 122.06 bn. The average deposit amount was CZK 19,237.



In 2022, Česká spořitelna introduced the new "QR Withdrawal" service enabling a client to make a cash withdrawal without having any physical contact with an ATM. The service is available in the George application.



Corporate Clientele

Within the framework of Česká spořitelna's corporate banking, clients are offered tailor-made solutions to their needs and wishes, from investment, acquisition, and project financing, to support for export activities, advice on mergers and acquisitions, and a wide range of cash management and treasury products, to introductions to the bond or equity capital markets.

Česká spořitelna´s clients are offered tailor-made solutions to their needs and wishes.

Česká spořitelna's strategy for the development of its corporate banking is based on the concept of advisory, focusing on increasing the competitiveness and sustainability of business, centred on three main areas: financial health, ESG, and Transformation 2.0, and on automation and digitalisation of processes and services for clients.

After the "COVID" years, clients faced further challenges in 2022, in terms of high inflation, geopolitical pressures, further disruptions to supplier-customer chains, and the search for alternative sources of energy, not only in relation to the Green Deal, but also due to the continued conflict between Russia and the Ukraine. This situation, which often put entire industries in a completely new and difficult position, both affected the activities of Česká spořitelna and supported the sensibility of its strategic direction. The pandemic and the war have shifted clients' perception and they are now ready to take the digital route.

In general, the established trend for digitalisation was confirmed, especially in the area of basic services, where the Bank significantly expanded, for example, document signing without the need for a personal meeting; use of an electronic signature; further development of a digital credit application, which allows it to be more efficient and structured and is part of the strategy to move to full digitalisation of the lending process; and an offer of guaranteed limits, as another step on the way to fully digital loans for companies and enterprises. Česká spořitelna perceives this trend and has decided to invest significant amounts in the development of the digitisation of processes and services for corporate clients in the coming years, in order to be able to fully satisfy a yet greater amount of clients' needs.

Unceasing effort to satisfy clients' needs in the best possible way to deal with unexpected situations, and not only at times of crisis, as well as to improve overall client care, which is not only rewarded by client satisfaction but also appreciated by the professional public.

In response to the growing importance of sustainability, the Responsible Finance Team has been set up to provide the best and most comprehensive advice to clients and to assist them in facing the new challenges associated with this megatrend, as well as with the identification of new opportunities opened up thereby. Česká spořitelna has become a partner of the Technology Agency of the Czech Republic, which helps to implement innovations in companies. At the same time, Česká spořitelna is the only bank to have established a partnership with the University of Chemistry and Technology (VŠCHT), a leading scientific institution in green technologies and ESG. The Bank has also helped establish a unique platform – Climate & Sustainable Leaders Czech Republic – which will map the carbon footprint of the Czech Republic.

Small and Medium-sized Enterprises

Česká spořitelna serves its small and medium-sized enterprise (SME) clients through fifteen regional corporate centres. In each sub-segment – SEs and MEs – the Bank offers individualised service and specific products. Despite the difficult market conditions in 2022, Spořitelna managed to further strengthen its position as a key financial partner for clients, thanks to a well-adjusted corporate banking development strategy and rapid adaptation to the new environment.

Aside from the use of specialised programmes, Česká spořitelna has focused on a one-on-one client approach, client advisory services, and the financing of needs related to the current situation regarding the energy crisis and increasing prices, as well as their long-term development. With an eye to the long-term horizon, the Bank relies on advisory services to improve the financial health and overall sustainability of clients' businesses.

Corporate Clientele

In terms of the corporate clientele, Česká spořitelna serves large local and multinational corporations. Česká spořitelna provides corporate clients with a wide range of top-level corporate banking products, including specialised investment banking products and services. To better understand the needs of clients and to increase its level of expertise, Česká spořitelna has invested in the development of the sectoral specialisation of its bankers in the large corporate client segment. Česká spořitelna is ready to serve those corporate clients who also operate outside of the Czech Republic and accompany them to the countries in which they operate, in co-operation with the Erste Group.

From a business point of view, the large corporate client segment was affected by the war, and the energy crisis and inflationary environment in the Czech Republic and Europe alike, in combination with increasing market interest rates in 2022. Nevertheless, it can be said that there was growth, which confirms the good condition of companies doing business in the Czech Republic. Aside from standard operating and investment financing, companies actively sought products in the area of capital markets and club and export financing, which was significantly reflected in solid lending during 2022. Furthermore, there was a clear trend or, more precisely, clients' need, for assistance with solutions concerning Green transformation and the related regulation, in particular among larger and international companies. Česká spořitelna is in a very good position to respond to these developments and to assist companies in their development plans, with debt or capital market financing, as well as to provide advisory services, including in the ESG sphere.

Structured, Trade, and Export Finance

Despite 2022 being a difficult year, when especially in certain months, the Bank experienced a slowdown in some business activities (including acquisition financing) on the market, Česká spořitelna's results and full-year balance sheet on the structured transactions market again exceeded the original expectations to some extent.

In 2022, as in previous years, the Bank was able to successfully complete a number of deals for both private and institutional clients. The Bank's stable and irreplaceable position on the domestic market, as well as its transparency, credibility, and positive references from many previously executed cases, were reflected in a further increase in the volume and number of structured transactions in 2022.

Equally pleasing is business activity related to export financing, where Spořitelna helped to implement several important projects. Other export buyer loans are in various stages of development and are likely to be successfully implemented in the coming years. Česká spořitelna supports Czech exporters in projects of significant volume, especially if the projects have a greater reach and dimension, beyond just the commercial aspect.

The complexity of today's world and the higher level of uncertainty also translated into greater demand for hedging instruments in 2022, with the Bank recording a significant year-on-year increase in both the number of units and volumes, particularly in guarantees and letters of credit. Spořitelna continued to build a comprehensive solution for financing and other financial services within the framework of supplier-customer relationships.

The Public and Non-profit Sector

Česká spořitelna provides comprehensive banking services to a significant share of public and non-profit sector clients. In this important segment, ČS has long maintained a consistently high market share and a very high level of client satisfaction (NPS).

In 2022, Česká spořitelna continued to actively support clients who were at risk of not completing planned investments, projects supported from EU subsidies or from national programmes, due to increasing costs. Thanks to operating loans, public sector clients were able to bridge critical months, and many non-profit organisations did not have to reduce their services, thanks to operating loans or overdraft facilities from Česká spořitelna.

At the same time, the Bank successfully completed a number of significant lending transactions, particularly in the areas of regional transport, housing, and regional and local infrastructure. Spořitelna made many interesting client acquisitions, including large state corporations and European institutions.

Real Estate Financing

Česká spořitelna has long been one of the leaders in senior financing of commercial properties in the Czech Republic. As in other segments, 2022 was marked by intensive communication with all existing clients. The financing of logistics and industrial parks remains very active, as their expansion benefits from, among other things, the development of e-commerce and the diversification of supply chains and logistics routes. In the residential segment, the Bank has been successful in expanding its expertise into the new sub-segment of rental housing, both in the investment and development phases of these projects.

Loans granted continue to maintain the required granularity in terms of the type of the real estate assets financed, as well as a strong dominance of income properties, which account for 80% of the loan portfolio in this segment. The concentration profile of real estate financing has been successful in targeting 20% of corporate loan exposure over the long term.

Trading in Financial Instruments for Corporate Clients

Česká spořitelna provides financial market services to international and local corporations and small and medium-sized enterprises. Česká spořitelna has a high-quality analytical and business background and infrastructure which allow it to provide clients with reliable execution of their orders, together with analysis and advice on the structuring and timing of hedging transactions. Česká spořitelna's strategic business model is focused on offering a wide range of tailor-made financial hedging instruments and trading in currency conversions via electronic trading platforms. Every year, Spořitelna's clients rate this model as one of the best on the market, which is reflected in their long-term satisfaction with the services they receive.

Trading in Debt Securities and Equity Instruments

In 2022, Česká spořitelna further strengthened its position among securities dealers for institutional clients. The traded volumes together with the high quality of its services place Česká spořitelna in a leading position among banks providing asset management on the capital market.

Asset Management for Institutional Clients

Asset management for institutional clients is one of the most important products in Česká spořitelna's offering. The basic solution consists in a diversified portfolio of investment instruments, where – with regard to the mostly conservative risk profile of clients – an important objective remains the preservation of the real value of the assets under management, while at the same time achieving a higher expected appreciation compared to deposits on the interbank market. The basis for long-term success for the client continues to be quality portfolio management, quality diversification, competitive asset appreciation, superior client approach, and superior reporting. These pillars are offered and provided by Spořitelna to all of its institutional clients.

Financial Institutions, Depositary, and Custody Services

In 2022, Česká spořitelna continued to develop and deepen its co-operation with insurance companies, pension funds, investment companies, payment institutions, banks, and other regulated and registered financial market entities.

Česká spořitelna continued to successfully sell products and services, both to existing and new clients, and confirmed its strong position in the financial institutions segment.

The strategy in providing services to the financial institutions segment is increasingly focused on innovative payment methods in the field of cash management, with added value, not only for the clients of this segment, but also for their end customers. This is closely related to the development of more new products in the area of so-called open banking, which is closely linked to the segment of financial institutions. Furthermore, financial market products and specialised services themselves, such as custody, custody services, and the brokerage of payments of yield from securities, are undergoing numerous innovations in order to meet the growing demands of clients.

Social Banking

Česká spořitelna continued to support non-profit and social enterprises on the Czech market in 2022. For these clients, the Bank offers not only advisory services and education within the framework of Social Banking, but also concessional financing, thanks to support from the European Investment Fund.

Česká spořitelna continued to support non-profit and social enterprises on the Czech market in 2022.

Relations with Supporting Financial Institutions in the Czech Republic and in the EU

Česká spořitelna is a leading bank in the financing of energy projects, including renewable sources, in export financing, and in the use of concessional financing in cooperation with the European Investment Bank (EIB), the European Investment Fund (EIF), but also with national agencies such as the National Development Bank (NRB) and the Export Guarantee and Insurance Corporation (EGAP).

In 2022, Česká spořitelna continued to develop its co-operation with domestic, foreign, and international financial institutions.

Selected Awards in 2022

Česká spořitelna and its subsidiaries received many awards in 2022, which confirms the quality of the products and services provided:

International Awards

Customer Centricity World Series Awards 2022

- Česká spořitelna won in the prestigious global competition Customer Centricity World Series Awards 2022 – in the Customer Experience Team category. 122 companies from 53 countries took part in the competition.

European Customer Centricity Awards 2022

- Česká spořitelna won first place for its comprehensive approach to helping Ukrainian refugees and those who remained in the Ukraine.

Green Market Pioneer in the Czech Republic in 2021

- In 2022, Česká spořitelna earned an award announced by the Climate Bonds Initiative, for its issue of green bonds worth EUR 500 m which it issued in September 2021. This was the largest green bond issue among the financial institutions operating on the domestic market.

Domestic Awards

Golden Crown 2022

Česká spořitelna won three Golden Crowns:

- Mortgages – the Česká spořitelna mortgage triumphed for the fifth year in a row;
- Payment cards – the Virtual payment card in George got the first place;
- Corporate social responsibility – the triumph in this category was celebrated by Česká spořitelna's "Money Alphabet" education programme.

Bank of the Year 2022

- Česká spořitelna took 3rd place in the main category;
- Česká spořitelna won in the Private Bank of the Year category;
- Česká spořitelna also took third place in the Corporate Bank category as well as in the Customer Bank category;
- The Banker of the Year award went to Česká spořitelna's CEO Tomáš Salomon.

Top Employer 2022

- Česká spořitelna became number one for the first time in history, and the first career choice for university students in the field of Banking and Investments.

Employer of the Year 2022

- Česká spořitelna took 3rd place in the elite national category of firms with more than 5 thousand employees.

Česká spořitelna Believes in Good Causes

2022 was a year that got recorded in world history as, among other things, the year when Russia invaded the Ukraine. This is unprecedented and inexcusable aggression against an independent country that runs contrary to the European values that Česká spořitelna avows. The entire Česká spořitelna Financial Group got immediately involved in humanitarian support. Furthermore, the Česká spořitelna Foundation made a special grant call. Also, the Bank's clients and, of course, its employees participated in helping. Employees contributed nearly CZK 4 million through Cafeteria alone (a programme of employee benefits), donating to the

People in Need and Post Bellum collections. Česká spořitelna also adapted its products and services to accommodate the people fleeing the war. The Bank's employees actively engaged in the work of regional assistance centres for people from the Ukraine.

In its charitable programmes, the Bank searched for efficient ways to extend its activities to integrate foreigners, to make teaching materials available in Ukrainian, and to fight against disinformation. ČS and, the Česká spořitelna Foundation in particular, supported dozens of new initiatives. The Bank also offered its premises for one year, to provide sheltered housing and other psycho-social services for an at-risk group of refugees – mothers with children. In co-operation with the Association for Integration and Migration (SIMI), the Bank already helped to 123 adults and 103 children. The project is co-financed by the Česká spořitelna Foundation and Buřinka (Building Society).

In this way, the Bank has undoubtedly lived up to its credo: "Today We Are #stronger, Today We Are Helping".

Česká spořitelna Improves Financial Health

Česká spořitelna's mission is to increase its clients' financial health. 2022 was a demanding year for many of its clients, as they had to face, among others, high inflation, deal with a significant increase in energy payments and, also with the uncertainty arising from the war in the Ukraine. Spořitelna´s standard palette of financial solutions was therefore expanded with the addition of new forms of assistance, and thus it was an active partner in addressing its clients' financial needs.

Česká spořitelna helped its clients secure additional income for their budgets through significant discounts on card payments, helped clients arrange government benefits, and got actively involved in the Merciful Summer campaign. The Bank prepared a special solution for its clients to help them finance energy bills while building up the foundation of a reserve. It put new solutions on the market that help clients improve their financial habits, through a special communication using behavioural techniques (e.g., an online pension scenario) or the presence of a financial benefit that makes a financially sound solution more advantageous (e.g., a more advantageous interest rate on regular investments). Spořitelna also continues to provide financial education to children through its Money Alphabet programme.

Spořitelna also continues to provide financial education to children through its Money Alphabet programme.

The positive impact of these activities was manifested in increased client satisfaction (the NPS was up by 9 points year-on-year) and the positive rating of Česká spořitelna's role in improving financial health (81% of clients view Česká spořitelna as an institution that helps them improve their financial health).

In January 2023, Česká spořitelna has started communicating, through its new campaign "We Are the First to Take Care of Your Financial Health", four commitments it has made to improve its clients' financial health. In the campaign, it will focus even more intensively on changing clients´ financial habits, increasing their financial health, and on transformation of companies.

Česká spořitelna Bets on Education

A society that is constantly learning is a precondition for prosperity in times of ever more rapid changes. Education is not just about schools and children, but about each, and every one of us. The pandemic and the war have cast a far sharper light on the problems in education. Spořitelna supports programmes leading to quality education, through its Česká spořitelna Foundation in particular. The Bank has nourished lasting co-operation with universities and supports interesting discussion forums and organisations. The Aspen Institute CE is one of Bank´s partners.

The Bank believes in the importance of leading people, businesses, and institutions to prosperity, and it is the first bank to take care of financial health of its customers. Spořitelna wants people to understand their financial activities in context, and to be able to make good decisions, which is why it starts with the littlest members of society. And for those who need help extricating themselves from the debt trap, the Bank has, for the past 15 years, been offering the services of the Debt Advisory Centre, among other things.

The Money Alphabet

2022 also saw a greater number of schools participating in the programme of financial education for children. Spořitelna implemented its Money Alphabet in co-operation with 752 schools when 70,000 children in primary schools took part in the programme. The programmes are regularly improved to correspond to modern trends in education. In the Enterprising Class

programme, in addition to financial education, children set up their own e-shop and have their own payment terminals. Česká spořitelna has also completed the Money Alphabet for pre-schoolers in kindergartens.

Spořitelna responds to market needs and developments in society. In March 2022, the programme – Understanding Czech Money – was set up for children from the Ukraine. Ukrainian children learned what Czech crowns look like and what is their value compared to the purchasing power of the Ukrainian hryvnia. The programme keeps on helping, and schools use it to this day, which is beneficial. The Bank has completed and tested a financial education programme for children's homes, which is tailored for children of various ages, and teaches them not only about the world of money but also about many interesting and important topics that can come in handy once they leave children home.

In response to the great demand in 2021, an adapted and more playful version of the Money Alphabet was introduced in the summer for children in summer camps. The capacity was full within a few days and, based on feedback from organisers and children, the programme was a great success, and they want to continue with it in 2023.

Within the framework of partnership with the television fairy-tale film The Old Blunderbuss Mystery II. (Tajemství staré bambitky II.), several merry songs about money were composed, which children can play and sing in schools and in other settings, thereby reinforcing healthy financial habits.

The Money Alphabet for seniors joined up with the branch network. Selected bankers were trained as lecturers, which significantly increased capacity of courses. More branches got involved, and a greater number of seniors can thus learn to operate a smartphone or learn how to use the internet safely.

The Bank also thought about its volunteers who help with the Money Alphabet. The training has been revisited, everything takes place online and it is solely up to a volunteer to schedule it. The "We Will Manage It at School" programme has been adapted to make it more manageable for volunteers, increasing the number of employees involved and thus also the impact of financial education rose. In 2022, the Money Alphabet won the Golden Crown competition in the Corporate Social Responsibility category for the third time.

Česká spořitelna Supports Stronger Neighbourhood Relations

We have become accustomed to the world being interlinked globally. But the world holds together thanks to relationships on the local level. The founders of savings banks understood that a society's resilience is influenced by the level of economic activity, the level of culture, and the form of relationships. That is why Česká spořitelna helps to form stronger neighbourhood relations.

Through its unique development programme "Stronger Movers", the Bank supports people who are able to address the problems of the place they live through participation. Furthermore, with the Programme, they are able to convert their activities into sustainable and beneficial business. In 2022, 15 movers completed the Programme successfully.

Through its community grant programme "We Can Do More", the Bank supports projects of active people who have good ideas for improving the world around them. They set up associations, improve village squares, renew benches, springs, or forgotten paths, plant trees, build gazebos for neighbourhood events, and organise such events themselves. An application for a grant of up to CZK 100,000 can be submitted any time through www.dokazemevic.cz. Spořitelna co-operates on the programme with the VIA Foundation. And the Česká spořitelna Foundation then doubles the donation appeals announced within the Programme on the darujme.cz portal. In 2022, the Bank supported 37 projects across the Czech Republic, allocating CZK 2.3 m among them. In co-operation with the VIA Foundation, the Bank also called a round of microgrants in the Programme "Together for Landscape". It distributed CZK 487,127 and supported 27 projects.

There are many people at Spořitelna who have their heart in the right place and who do not hesitate to help people in need – donating their time, their expertise and also their money. In 2022, 1,553 employees took advantage of the "Day Differently" volunteer programme. Overall, the Bank donated 15,111 hours to good causes. Another more than 200 volunteers take part in the financial literacy programme Money Alphabet, and others also have got involved in the new project of the Česká spořitelna Foundation "Day for School".

Česká spořitelna donated 15,111 hours to good causes.

The "Stronger Neighbourhood Relations" initiative is the Bank's contribution to improving the country's social capital and strengthening the resilience of communities. It encourages Czechs to be active, to take responsibility for the freedom in which they live, with the knowledge that it is not for free. This is also why the Bank supports the OSF Foundation's Journalist Award; the Nelež (Do Not Lie) association fighting against disinformation; and the Freedom Festival platform.

Česká spořitelna is developing its unique social banking programme. Not only does it offer advisory and education to clients that have a social and environmental dimension, but it is also one of a few banks in the country to provide them with discounted financing, thanks to support from the European Investment Fund.

Česká spořitelna Cares about Sustainability

Česká spořitelna understands that the greatest positive impact can be reached through the activities it finances. That is why it helps its clients reduce their energy costs and the environmental impact of their housing arrangements through its new products "Mortgage for the Future" and "Buřinka Loan for the Future", in which, in addition to financing, it also provides information about possibilities of obtaining subsidies from the "New Green Light to Savings" programme. For its corporate clients, the Bank has prepared products for the financing of energy savings, renewable sources of energy, and a circular economy. It actively informs its clients about the opportunities offered to them, in the form of documents, webinars, and in-person meetings.

Of the aggregate volume of EUR 500 m of green bonds issued in 2021, EUR 438 m had been allocated by June 2022 to finance or refinance projects focused on sustainability and the environment. For details, see the Green Bond Allocation and Impact Report H1 2022 on Česká spořitelna's website.

In providing loans, the Bank assesses the relevant environmental and social risks, governance risks, and compliance of selected types of loans with the European taxonomy of sustainable activities. It measures the carbon footprint of its loan portfolio (the emissions financed) and the results are available in the Annual Report of the Erste Group Bank AG. In line with the commitment of Erste Group arising from its membership in the Net-Zero Banking Alliance, goals have been set for reducing emissions in several fields.

Spořitelna continues to reduce the environmental impact of its activities. Information is available in the Annual Report of Erste Group Bank AG and in the Non-Financial Report which will be published on its website.

Spořitelna continues to reduce the environmental impact of its activities.

Česká spořitelna Cares about Handicapped People

Česká spořitelna is a Bank without Barriers. The Bank has the most extensive network of wheelchair-accessible branches and ATMs and it is one of the best on the market in terms of the comprehensiveness and availability of services for people with various types of disabilities. Of a total of 398 branch buildings, 320 are wheelchair accessible and 91 branches feature a voice beacon to navigate visually impaired clients. The Bank has 279 ATMs which are fully or partially wheelchair accessible, and 1,441 of its ATMs (i.e., 83%) have a connection for headphones and a voice sound system for visually impaired customers.

Bankers at all branches can offer the use of the DeafCom application or the services of the Silent Line for interpreting into sign language, or for an online transcription of spoken word for clients' meetings with their bankers. Furthermore, the Bank's information line can be contacted through these applications – there is a dedicated team at the Client Centre for serving deaf clients.

The Bank operates the dedicated website www.bankabezbarier.cz, with a new feature of an online transcription of a spoken word for people with hearing impediments.

The activities that Česká spořitelna Financial Group implements or supports are numerous, including a wide portfolio of sports projects and cultural activities. For more information, see the Non-Financial Report at www.verimedobrymvecem.cz.

Non-commercial Activities

Employees are the key to the Bank heading in the right direction and achieving success in a competitive environment. Česká spořitelna sees qualified, motivated, and fairly remunerated employees as a significant competitive advantage, and therefore continuously works to create and improve their working environment and opportunities for their training and development, both professionally and personally. To that end, it implements a number of initiatives each year to promote equal

opportunities and the integration of personal and professional life, in order to foster conditions for a lasting and happy partnership between employees and Česká spořitelna, as their employer.

Česká spořitelna cares for its employees and ensures that they feel that it is a reliable and stable employer. With that in mind, Spořitelna decided to reduce the variable part of the remuneration for all employees and transfer it to basic pay. At the same time, it introduced new elements of variable remuneration – "Share the Success", which is paid to all employees when the Bank's annual targets are met, and the "Spot Bonus", which can be paid at any time during a year for exceptional performance. Furthermore, Česká spořitelna not only provides its employees with above-standard contributions for meals and additional pension insurance, but it also strives to support them in their work-life balance. In 2020, it introduced so-called My Days, which are 12 days off per year, in addition to the five weeks of vacation.

Health, and not only in the financial sense, is one of ČS' fundamental values. Česká spořitelna offers a broad range of health-related benefits, of which the most keenly appreciated include telemedicine, medical advisory service, and Medical Concierge, which is available free of charge and on an anonymous basis to employees and their families. Similarly, psychological and legal advice is available free of charge to both employees and their families, on an anonymous basis, both online and in person. During Health Days, preventive check-ups, lectures, and workshops are available at various ČS workplaces. Every year, Spořitelna also subsidises its employees' flu vaccination and distributes vitamins free of charge. Employees can take advantage of massages provided by blind masseurs, directly at the workplace, and get a discounted offer of healthy meals with delivery of boxes anywhere in the country, including free services of a nutritional counsellor. According to an internal survey, 94% of employees agree that great emphasis is placed on health care at ČS.

In the context of the COVID-19 pandemic, ČS continued the much-used dedicated internal COVID line, which helped employees address all pandemic-related questions and situations and obtain expert information. As in the previous years, Česká spořitelna provided its own Smart Quarantine, for rapid tracing and prevention of the spread of the disease at the workplace, offered all employees personal protective equipment with direct protection for its wearer, even when they were not mandatory pursuant to government rules, ensured extensive self-testing covered by ČS at its workplaces throughout the country, using gentle sampling methods, as required, including beyond the scope of government measures.

As in the previous years, Česká spořitelna continued in 2022 to provide its employees with a comprehensive offer of development, which helps them to be more successful, not only at this point in time, but also by preparing them for future challenges in a rapidly changing society. Digital forms of training account for an increasing share of the development offer for employees. The expanding offer of digital development paths is closely linked to career paths. Česká spořitelna also paid great attention to developing those skills that will help it fulfil its strategic aim – to provide personalised advice to its clients, which will lead to prosperity and financial health. This goal was reflected in activities focused on leadership development, in long-term programmes (e.g., Data Academy, CX Academy), and in the way employee performance was rated. Česká spořitelna regularly measures its employees' satisfaction and the level of their support for its current strategy, and it sees sustained great results in these surveys.

Ensuring equal opportunities for all employees is also at the centre of Česká spořitelna's attention, regardless of age, gender, medical restrictions, etc. In its diversity strategy, it is closely focused on three areas – women in senior management (B-0, B-1); support for parents on maternity/parental leave (and their return to work); and increasing the number of disabled employees. Across those areas, Spořitelna also pursues the related topic of flexibility. The rate of return from maternity/parental leave was up by approximately 12 p.p. year-on-year to 53% in 2022 (41% in 2021); the share of part-time jobs at the Bank increased by 1 p.p. year-on-year to 9% in December 2022 (8% in December 2021); and the share of working parents at the Bank was up by 3 p.p. year-on-year to 12% in December 2022 (9% in December 2021). In connection with the monitored metrics, Česká spořitelna also initiated the establishment of a working group whose task was to establish a diversity benchmark, not only in the Česká spořitelna group but across the banking sector on the Czech market.

Ensuring equal opportunities for all employees is also at the centre of Česká spořitelna's attention, regardless of age, gender, medical restrictions, etc.

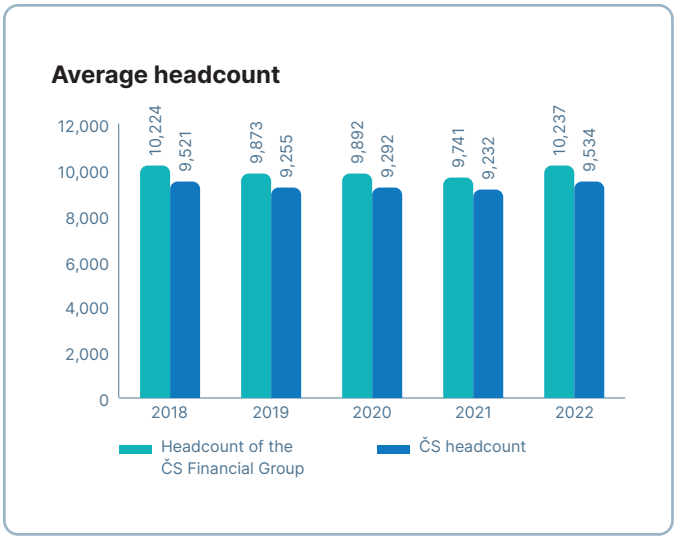
Česká spořitelna continued to strive to be an attractive employer for talented candidates also in 2022. Its main focus for 2022 was the employment positions of IT developers and personal bankers. Given the development on the employment market and the shortage of IT specialists, an initiative was launched to support and increase the visibility of IT leaders at Spořitelna. By

promoting their personal brand and increasing the profile of the teams they lead, Spořitelna has begun to form a community of experts around its IT leaders. The videos, podcasts, and all social media posts that they created recorded up to 600,000 views. The uneasy situation on the market was offset by the new and simple process of referring a friend to a position at Spořitelna. This source generates 26% of candidates. 2022 was also animated by the spirit of digitisation and new technologies. Česká spořitelna involved artificial intelligence in its recruitment process, which helped candidates identify suitable positions at the Bank. Spořitelna also worked to improve its processes and systems to make a candidate's path through the selection procedure as simple as possible. Evidence of this is the recruitment NPS rate of 73.

Česká spořitelna involved artificial intelligence in its recruitment process.

In 2022, Česká spořitelna continued to develop its employee portal, which includes improvements of the EMMA application, primarily in the recruitment, onboarding, and employee profile modules. In 2022, Česká spořitelna launched a new compensation module for employees, for distributing Spot Bonuses. Many improvements were also implemented in SAP on-prem, which focused on legislative changes and on reducing administrative tasks for HR administrators. In terms of automation, Spořitelna has successfully robotised the process of copying electronic fit notes from SAP on-prem to EMMA, in order to remove manual entry by payroll administrators, while maintaining the same data quality. Last, but not least, Česká spořitelna has successfully built a new HR Datamart database, thanks to which the first fully automated management training dashboard was launched in September 2022.

The average headcount of the consolidated entity increased by 5.1% to 10,237. For Česká spořitelna alone, the average headcount was 9,534. Women accounted for 67% of all employees. 8.7% of employees worked part-time. The Bank successfully integrated 158 employees who had returned from parental leave. The average length of employment grew to 10.2 year and the average age increased to 42 years. Employees over 50 years of age represented 25.8% of Česká spořitelna's population.





Strategic Objectives and Plans for the Future

Strategic Plans for the Future

Strategic Objectives

Česká spořitelna's predecessor was established nearly 200 years ago. The conceptual cornerstone of the newly established institution was to lead clients, and by extension the whole society at that time, to prosperity. This principle remains highly relevant today; nevertheless, the understanding of how to attain that goal is changing. In the 19th century, the main tool for helping clients to prosper was the seemingly simple passbook, which enabled the broad mass of society to save, thereby protecting themselves against adverse influences and the vicissitudes of life. Today, the fulfilment of Česká spořitelna's mission comes through participating in the creation of a stronger and more sustainable society, comprised of financially sound, educated, and confident people and companies. Česká spořitelna seeks to realise this goal through the provision of advisory, both for retail clients as well as corporate and business clients, and thanks to digitisation, this means truly accessible advisory for a broad range of clients. The conceptual thread running throughout the topic of advisory services will be the principle of sustainability, which is the fundamental rule for everything that Spořitelna does. All these strategic attributes have a common denominator – the Financial Health Company strategy. ČS will continue to remain faithful to the strategy in 2023, and it plans to focus on accelerating its delivery.

Česká spořitelna's mission comes through participating in the creation of a stronger and more sustainable society.

As in previous years, Česká spořitelna's main market in 2023 will be its home country, the Czech Republic, with a traditional outreach, especially in the corporate area, to the whole Central and Eastern Europe. In this region, Česká spořitelna will take full advantage of the synergistic potential within Erste Group Bank, of which Česká spořitelna is a member. In terms of the product portfolio, Česká spořitelna will, in particular, focus on the continuous development of its digital banking platform called George. Great emphasis will be placed on George's advisory capabilities, such that it would be able to advise clients wherever they are, thereby making advisory services more accessible to the general public. The conceptual first swallow was the "Richer in Retirement" scenario in George mobile banking, released in 2022, which not only enables clients to arrange supplementary pension insurance or an investment account, but explains mainly the importance of preparing for retirement.

Macroeconomic Assumptions

The development of the Czech economy will continue to be affected by a number of external factors in 2023. First and foremost, will be the war in the Ukraine and energy prices. Furthermore, the Czech economy will be significantly impacted by the global pandemic, continuing problems with supply of certain components for the automotive industry, and overall development of real economic activity in the Eurozone and in the US, where a cooling of demand is expected.

For 2023, Česká spořitelna counts on the following macroeconomic assumptions:

- Real GDP growth will reach 0.2%[22]. This subdued development of GDP, which will concern primarily the first half of the year, will be due to a combination of adverse factors. Continued high inflation will play a role on the domestic demand side, and within that energy prices, which will further worsen the development of household demand. Given the expected slowdown in the development of the global economy, foreign demand will also cool down. Stockpiles, which have grown significantly over the last few years, are probably going to decline during the year. On the other hand, foreign demand should revive at the end of 2023, which should be manifested in an improved development of exports and investments in the Czech economy;
- Inflation will remain very high for most of the year, but it should start decreasing as of February 2023. Growth in energy and food prices will have a pro-inflation effect. Conversely, the worsening development of consumer demand will continue to reduce domestic inflationary pressure. The average rate of inflation throughout all of 2023 is expected to stand at 10.4%[23];

(22) Česká spořitelna, a.s. forecast, 7 March 2023, https://cz.products.erstegroup.com/modules/res/FileDownload.php?hash=d84ee678ed0714baa193370b9ca1e87b1843a6fb9354df7087cf347708d1d2d9&idfile=57957&stat=ebg.cz%2FRetail%2Fcs%2FFiles%2FResearch%2F57957%2F2023-03-04%2FM__si__ni%2Bpredikce&stath=7d875d63ae8df7704&time=1678264300&tool=RSC
(23) Česká spořitelna, a.s. forecast, dated 7 March 2023, https://cz.products.erstegroup.com/modules/res/FileDownload.php?hash=d84ee678ed0714baa193370b9ca1e87b1843a6fb9354df7087cf347708d1d2d9&idfile=57957&stat=ebg.cz%2FRetail%2Fcs%2FFiles%2FResearch%2F57957%2F2023-03-04%2FM__si__ni%2Bpredikce&stath=7d875d63ae8df7704&time=1678264300&tool=RSC

- The development of the labour market will worsen for a part of the year, primarily in terms of the development of real wages. Real wages started to decline significantly in 2022 due to the high inflation rate and this development will continue. Real wages should return to growth at the end of 2023, due to a slowdown in inflation. The unemployment rate will remain very low at the beginning of 2023, but it will gradually grow, due to a cooling in the global economy. Overall, it will not be dramatic, and an average unemployment rate is expected to reach 2.9%[24], which is still a very positive figure;
- Due to the high inflation rate, the ČNB will keep interest rates unchanged in the first half of 2023. On the other hand, no significant increase is expected, although such development cannot be ruled out in general, because pro-inflationary demand pressures are weakening. The ČNB could start to gradually decrease rates in the second half of the year, as inflation slows down and, above all, is expected to be close to the target in 2024;
- For the end of 2023, ČS expects the crown to hold close to its level at the end of 2022 and beginning of 2023. The gradual improvement in foreign trade will work to strengthen it, and there could also be a revival in global development at the end of the year. However, two factors will work in the opposite direction, which will cause slowing down the crown appreciation or even being the cause of its potential (temporary) weakening. The first is the expected slight recession in the USA and in the Eurozone, the other being the declining ČNB rates. Even though the market is expecting ČNB rates to start going down in the second half of 2023, it has probably not fully reflected in its expectations the possible rapid decline in rates in 2024.

Outline of Business Policy, Expected Economic and Financial Situation in 2023, and an Outlook for Upcoming Years

Retail Banking

After the fully "COVID" year of 2020, and the partially "COVID" year of 2021, 2022 was expected to be a standard, peaceful year. That, unfortunately, due to the change in the geo-political situation (and due to the resulting economic situation in the Czech Republic) didn´t apply for Česká spořitelna's retail banking.

The branch network was heavily involved in addressing the influx of refugees from the Ukraine. Branch staff were present in centres handling refugees, opening current accounts for Ukrainians. In subsequent months, Ukrainian citizens became regular clients, which constituted a new situation for the branch network.

Furthermore, the retail banking clientele started to feel the worsened economic situation (the energy crisis and the multiple times higher electricity and gas prices, inflation approaching 20%, a drop in real income, ...). In this situation, probably more than ever before, it was necessary for Česká spořitelna to stand by its clients and to actively address their financial needs through financial advisory. For that and other purposes, Česká spořitelna's banking advisors met their clients at more than 1.4 million meetings. The number of meetings held in the online environment also grew dynamically (even though this number is still far lower than traditional in-person meetings).

In 2022, Spořitelna placed great emphasis on further development of its Financial Health concept, and the related #stronger campaign. The Bank upholds its responsibility towards society, based on its two-hundred-year tradition of wanting to lead its clients to financial prosperity. This requires clients' financial needs to be covered with quality banking products, for them to be financially educated, and for Czech society as a whole to be sufficiently self-confident. As the largest retail bank in the country, Česká spořitelna is adapting its advisory services, processes, and products to this concept. The fact that Spořitelna has set out in the right direction is confirmed by growth in its clients' satisfaction (NPS), which has been growing steadily, including in 2022.

In 2022, Spořitelna placed great emphasis on further development of its Financial Health concept, and the related #stronger campaign.

Česká spořitelna plans to develop that concept also in 2023. That means that 2023 will be a year of financial advisory, of helping clients through the offering and set-up of their banking products, and a further increase in client satisfaction and development of appropriate channels (the mobile George application, with an ever-expanding range of possibilities for addressing client needs being number one). Advisory services at branches

(24) Česká spořitelna, a.s. forecast, dated 7 March 2023, https://cz.products.erstegroup.com/modules/res/FileDownload.php?hash=d84ee678ed0714baa193370b9ca1e87b1843a6fb9354df7087cf347708d1d2d9&idfile=57957&stat=ebg.cz%2FRetail%2Fcs%2FFiles%2FResearch%2F57957%2F2023-03-04%2FM__si__ni%2Bpredikce&stath=7d875d63ae8df7704&time=1678264300&tool=RSC

should be experienced by clients, together with their advisor, in the environment of a tablet.

As mentioned above, 2022 was not an easy year. Nevertheless, it was a successful year in terms of results. Spořitelna maintained or even strengthened its market position in key product areas. The Bank continued to be the leader in mortgages. The mortgage market in the Czech Republic underwent a dynamic transformation in 2022, linked to the changing interest rate environment. After the record year of 2021 (in terms of the volume of new mortgages) the difficult year of 2022 came, when production across the market dropped, due to high interest rates and high real estate prices. Spořitelna faired well in that environment, maintaining its number one position and achieving a market share of approximately 25%. In 2023, the Bank expects a revival in the mortgage market compared to the last quarter of 2022.

Thanks to a change in the interest rate environment and the high inflation rate, the dynamics on the deposit side also transformed fundamentally. A major portion of funds moved from current accounts to interest-bearing products, whether it be savings accounts or terms deposits. Premium deposits that offer a balanced combination of a certain interest yield and further potential appreciation of a deposit have become a very popular product. The volume of money in premium deposits increased several-fold in 2022. In the highly inflationary environment of 2022, investment products also grew. Spořitelna teaches its clients to think about their future, which is why one of the innovations in the mobile George application is so called pension scenario, where clients can arrange, among other things, supplementary pension insurance.

A popular functionality in the mobile George application is Moneyback, where clients can activate discounts from a wide range of business partners. Clients receive their rewards for shopping with those partners directly in their current accounts. Especially popular were campaigns with two supermarket chains, where Česká spořitelna´s clients could get back up to 25% of their shopping, up to CZK 750 per month. In this way, Spořitelna helped clients through its products during these uneasy economic times.

2022 was also marked by continued digitisation, with mobile and internet banking George playing the dominant part. Nearly one-third of new production was realised via digital channels in 2022 (and in certain investment products, it is the dominant sales channel). Digitisation continues to dynamically penetrate the world of payments at retail outlets (POS transactions). In this sphere, payments via mobile phones using tokenised payments (in particular, through ApplePay, GooglePay, etc.) nearly doubled in 2022, accounting for more than one-fifth of the volume of all POS payments at the end of the year. Also, the volume of ATM withdrawals via tokens doubled. Česká spořitelna plans to carry on with its strategy to digitise in all areas (sales, service, payments) in 2023.

Česká spořitelna is aware of the challenges of 2023, as it will continue to face a tense economic situation and people's uncertainty, linked to the geopolitical situation around the world. However, the Bank is entering 2023 well prepared and building on its responsible approach to clients, with whom it has an ever-stronger relationship. It will retain these values in 2023. Spořitelna is therefore convinced that it will manage 2023 at least as well as it did 2022, which should be reflected in its business result, client satisfaction, and in the fulfilment of its financial advisory strategy and strategy of helping people to prosper.

Corporate Banking

Also in corporate banking, Česká spořitelna strives to profile itself as a partner for its clients' financial health and prosperity, building on nearly two hundred years of history and its original mission, which seems very relevant even at a time of uncertainty and volatility linked to the events of recent years. It retains its ambition to become the first-choice bank for small and medium-sized enterprise (SME) clients and to continue to be one of key banks for large corporates and supranational enterprises, and to carry on with solidifying long-term partnerships with clients in the public and non-profit sector.

Česká spořitelna strives to be a partner for corporate clients on their way to growth and prosperity. The related strategy includes an emphasis on advice in areas such as financial health, sustainability, and transformation to higher added value (in the sense of "Transformation 2.0"). The goal of continued transformation is to build the ability to quickly respond to client feedback. The Bank aims to optimise its service channels, which is why process digitisation and automation in an intuitive and client-oriented environment are becoming its priority areas. That will allow Spořitelna's advisors to invest yet more time in personal and highly individualised advisory services, with an emphasis on the financial health of its clients, their resilience, and competitiveness.

Česká spořitelna strives to be a partner for corporate clients on their way to growth and prosperity.

In that context, it will carry on with the continued digitisation of services and business operations. Simultaneously, Česká spořitelna, in co-operation with Erste Group Bank, is developing a group solution under a brand known to retail clients – "George Business". Following the successful development of cornerstones in 2022, preparations will be commenced in 2023 for its gradual launch.

In the SME segment, Česká spořitelna's main goal for 2023 and beyond is to become the partner of first choice in all aspects of client interaction. The principal theme in this respect is Financial Health Advisory, focused on clients' financial health and their comparison on the relevant market, ESG ("Green Transformation") advisory, and the related search for opportunities to increase clients' competitiveness, and last, but not least, the above-mentioned advisory as part of Transformation 2.0, towards a higher added value. Related to this is the deepening of the competencies of corporate bankers, in order that they are partners for the client's day-to-day operational requirements, as well as for their future development and prosperity. The digitisation of processes and the building of an online platform for both advisory and financing activities remains a priority, as well as the financial health application and the ESG application, which Česká spořitela is planning to launch in 2023. Česká spořitelna strives to improve the customer experience of its corporate clients, by continuously simplifying and streamlining its processes and communication. The goal is to find the optimal solution in all areas of client's needs and to be a stable partner during a time of growing uncertainty on markets at home and abroad.

Česká spořitelna, a key bank for large corporations operating in the Czech Republic, will carry on with its strategic efforts to be a long-term and reliable business partner for large corporations in 2023. Better understanding of client´s needs and a higher level of expertise will be facilitated by continued deepening of the sectoral specialisation of bankers. In terms of Financial Health Advisory for large corporate companies, Spořitelna wants to focus on an individualised approach to client service, on ways to improve their competitiveness and stability, and on assistance with green transformation, as well as to look for ways to support the transformation of the Czech economy towards higher added value. When serving multinational corporations, it will provide, with the support of Erste Group Bank, banking products and financial services that enable clients to manage their needs across the CEE region in which Erste Group Bank operates.

In the sphere of structured financing in 2023, Česká spořitelna will fully profile itself, as to continue to provide its clients with a comprehensive range of services and solutions tailored to their wishes and needs. In connection with the growing importance of sustainability and the associated demands and challenges, not only regulatory, but also in terms of potential opportunities, Spořitelna is prepared to offer its clients customised solutions that meet their needs. Acquisition financing, supplemented in many cases with M&A advisory services, remains one of a key product solution where, thanks to its long-term experience and unique expertise, Česká spořitelna is able to offer its partners perfect service and predictability, which are a must, especially with this type of transaction. The Bank also does not want to compromise in its ambition to be present in all major structured finance transactions on the Czech market, and to continue to play a leading role in supporting exporters through export and trade financing instruments and products. Fully in line with its mission and care for the financial health and prosperity of (not only) its clients, Česká spořitelna will continue to play a major role in the creation of support programmes, solutions, and tools that will help Czech entrepreneurs and manufacturers bridge difficult times and ensure their future prosperity and sustainable development.

Česká spořitelna has long been a key player on the market in the financing of corporate real estate projects. On the general level, it will carry on with its long-term strategy of maintaining a segmentally balanced portfolio, with an emphasis on income properties. Česká spořitelna will continue in its aim to deepen co-operation with colleagues from other segments, or from Erste Group Bank, in order to ensure synergies in serving clients across defined regional markets and segments. Qualitative concerns, pertaining to the energy efficiency of the buildings financed, are coming to the fore of ČS´s business strategy. The clear goal is to support projects for the revitalisation of existing buildings or for the construction of new properties with a minimal carbon footprint. In terms of the type of assets financed, Česká spořitelna will continue to play an active part in projects for logistics and light industry that constitute the backbone of the Czech economy and are aimed towards the fulfilment of the goal of retaining jobs and increasing the country's competitiveness in a transforming global environment. In the sphere of residential development financing, Spořitelna has successfully established itself in the sub-segment of the financing of rental housing and it expects a continued growth in assets in this sphere in the future. It significantly supports the creation of new projects in the financing of co-operative housing, which is a potentially interesting segment, not only for corporate clients but also for the municipal segment.

For clients from the public and non-profit sector, Česká spořitelna is preparing a number of product

innovations and initiatives in the upcoming period, focused primarily on the development of digitisation of state administration and municipalities. In addition to the successful implementation of the Banking Identity project and its further expansion, it will focus on supporting its clients in the sphere of the digitisation of their agendas and related financial transactions, with an emphasis on serving individuals in the digital environment. Environmental and social aspects remain a priority for Spořitelna in the development of co-operation, reflected in the financing of public projects with a positive environmental and social impact. The Bank is prepared to support projects in the sphere of renewable energy sources, public transport, waste management, and others in line with the EU taxonomy, through advice or another form of co-operation, and in the case of financing, also in the form of a concessionary interest rate. Another strategic initiative is active support for the improvement of the financial health of its public and non-profit sector clients, through a number of activities focused primarily on comprehensive advisory services in this sphere.

Česká spořitelna is also the first bank in the Czech Republic to offer a Social Banking programme that supports non-profit organisations and social enterprises through education, advisory services, and financing. The goal is to support those organisations that they would become independent and not depend on grants and subsidies, thereby ensuring their long-term existence.

Financial Markets

The objective of the Financial Markets (FM) and Financial Institutions (FI) department in 2023 will be to strengthen its market share in all key financial market areas and products. The FM&FI department will focus primarily on further development of financial services for financial institutions, development of an online trading platform for corporate clients, and reinforcing its position as the regional leader on currency, interest rate, and derivative markets.

In the sphere of comprehensive service for financial institutions, the main objective will be an expansion of the product and service offering for innovative payment methods with an added value, not only for Česká spořitelna's clients, but also for their end customers.

On capital markets, FM's objective is to remain throughout 2023 the primary bank for the subscription and distribution of new corporate bond issues, and to confirm its position among the three largest primary dealers in government bonds of the Czech Republic.

Asset management for institutional clients is an important product in Česká spořitelna's comprehensive service offering. The basic solution continues to lie in a diversified portfolio of investment instruments, where, with a view to the mostly conservative risk profile of its clients, a major goal remains the retention of the real value of assets under management with a simultaneous higher-than-expected appreciation, compared to deposits on the interbank market. The foundation of long-term success for a client remains high-quality portfolio management, quality diversification, competitive appreciation of funds, above-standard client approach, and above-standard reporting. Spořitelna offers and provides these pillars to all its institutional clients, and it will build on those pillars in the future.

The sale of financial market products in 2023 will decisively concentrate on individual client needs related to the impact of the uncertainties and volatility in markets caused by geopolitical developments and the subsiding aftermath of the COVID-19 pandemic, in particular shortfalls in companies' planned cash flows. Business-wise, Česká spořitelna will focus on selling products hedging medium and longer-term risks associated with currency rate and interest rate fluctuations.

The sale of financial market products in 2023 will decisively concentrate on individual client needs.

Expected Economic and Financial Situation

The uncertain economic development expected in 2023 will be reflected accordingly in Česká spořitelna's financial performance. Operating income will be driven primarily by stable net interest income, the effect of continued growth of volumes of loans and deposits will be partly mitigated by higher cost of funds. Operating income will be supported by net fee and commission income, in particular in the area of card fees and insurance. Growth of operating expenses is expected to be above the growth rate of 2022, reflecting inflationary pressure and the increasing rate of nominal wages in the economy. The above indicates an expected slight worsening of the Cost/Income ratio, which should, however, end up below the 45% line. Overall, Česká spořitelna's operating result in 2023 could be slightly above that of 2022.

The expected worsening of economic development in the economy in 2023 will also be manifested in a higher creation of credit risk provisions which will be slightly

higher than the long-term average. Additionally, return on equity will be adversely affected by the windfall tax.

Česká spořitelna's balance sheet will continue to be dominated by client deposits and client loans. Both these items are expected to grow by mid-single digits of percent. Nevertheless, the continuation of the war in the Ukraine constitutes the greatest threat to the expected positive development.

Risk Management

Risk management processes are key elements of the Bank's management and control system. As a local systemically important bank, Česká spořitelna pays attention to the risk management in line with the Bank's size, complexity and quantity of products, business and other activities. Česká spořitelna has developed a risk management strategy, approved by the Bank's Board of Directors, incorporating risk management principles, including risk identification, monitoring and measurement processes, and setting of limits and restrictions. By adopting these principles, the Bank has kept its risk exposure at an acceptable level, enabling it to maintain effective management processes.

The following units participate in managing risk at Česká spořitelna:

- Strategic Risk Management, primarily responsible for credit risk, market and liquidity risk, which includes consolidated risk management of the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing of the entire Česká spořitelna Financial Group;
- Non-financial Risk Management and Compliance, responsible for managing operational risk and other non-financial (non-position) risks, compliance risks and money laundering measures, operational security;
- Corporate Banking Credit Risk Management and Retail Banking Credit Risk Management, primarily responsible for the credit risk strategies for corporate and retail banking, respectively;
- Financial Group Balance Sheet Management manages net interest rate risk of the banking book (investment portfolio), operational liquidity management risk pursuant to decision of the Assets and Liabilities Management Committee and is responsible for management of capital resources for risk coverage.

The activities of these risk management units are complemented by the work of the operational units, for example in the area of IS/IT security or legal services.

The Board of Directors shares risk management decision making authority with the following committees:

- Assets and Liabilities Management Committee of the Board of Directors (ALCO);
- Credit Committee of the Board of Directors;
- Risk Management Committee as an advisory body to the Chief Risk Officer;
- ČS Financial Group Cyber Security Management Committee as an advisory body to the Chief Risk Officer;
- Risk Management Models Committee as an advisory body to the Chief Risk Officer;

and further committees at the top management level:

- Financial Markets and Wholesale Products Risk Management Committee;
- Compliance, Operational Risk and Security Board (CORB);
- Operational Liquidity Committee (OLC);
- Industry Limits Committee;
- Assets and Liabilities Modelling Committee (ALMC).

Credit Risk

Česká spořitelna is exposed to credit risk, i.e., the risk that the counterparty will not be able to pay full amounts when due. In managing credit risk, Česká spořitelna Financial Group applies a standardised methodology adopted on a group-wide basis that sets out the applicable procedures, roles and authorities.

The credit management policy includes:

- Prudent lending process guidelines, including rules to prevent money laundering and fraud;
- General client segment acceptability guidelines based on their main activities, geographical location, maximum maturity period, the product and the purpose of the loan;
- Basic framework of the rating system and the setting and review of debtors' ratings;
- Basic principles of the system of limits and the structure of approval levels;
- Loan collateral management rules;

- Structure of basic product categories;
- Methodology for calculation of provisions and risk-weighted assets.

Collection of Necessary Risk Management Information

The credit risk management of the Bank is based not only on its own portfolio information, but also on the portfolio information of other members of Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources, such as the Czech Banking Credit Bureau, the Central Credit Register or ratings provided by reputable rating agencies. The extensive database available for credit risk management purposes serves to model credit risk and supports the collection, debt valuation and loss calculation.

Internal Rating Tools

Rating is considered to be one of the key risk management tools. The Bank uses client's rating to measure the counterparty's risk profile. The debtor's assessment and internal rating determination form an inherent part of any loan approval or of any significant change of lending terms and conditions. The debtor's assessment reflects the client's financial position and non-financial characteristics. As a part of risk management, the Bank categorizes its clients into the two following groups, "non-performing" and "performing".

All information essential for the above-mentioned assessments is gathered and stored centrally. The Bank performs regular internal rating reviews (at least once a year). In accordance with regulatory requirements, a regular validation of methodology and tools for assigning internal ratings is provided by local independent validation team or independent team from the Erste Group Bank AG.

Structure of Approval Authorities

The structure of approval authorities is based on the principle of materiality of the impact of potential loss from a provided loan on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Risk Committee and the Board of Directors Credit Committee have the highest approval authorisations. Other approval authorisations are given based on credit risk management unit staff seniority.

Determination of Risk Parameters

Česká spořitelna uses its own internal models to determine risk parameters such as probability of default (PD), loss given default (LGD) and credit conversion factors (CCF, i.e., coefficients used to transfer off-balance sheet exposures to on-balance sheet ones). All models comply with Basel III principles and CRR and CRD requirements.

Impairment Provisions for Credit Risk

For provision-making, Česká spořitelna uses a methodology that complies with International Financial Reporting Standards (IFRS 9). Portfolio provisions are determined for portfolios of receivables in which no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historic experience. Receivables, for which an impairment has been identified are provided for individually. Provisions for all receivables are reassessed on daily basis. Provisions are back-tested annually with a focus on the adequacy of the created provisions by a comparison with actual loan portfolio losses.

Concentration Risk and Risk-weighted Assets

Česká spořitelna manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of an individual client or economically related group of clients with a given rating and underlying collateral. The system is set up to avoid excessive risk concentration to a small number of clients in the portfolio. Česká spořitelna fulfilled the conditions for use of the Internal Ratings-Based (IRB) approach for calculation of the credit risk capital requirement and, since July 2007, the risk-weighted assets and the capital requirement have been based on internal ratings and the Bank's own estimates of PD, LGD and CCF parameters. Risk-weighted assets are calculated monthly.

Risk Appetite Statement

The maximum tolerated exposure of the amount of Bank capital and operating profit to various types of risks is defined in the Risk Appetite Statement approved by the Bank's Board of Directors. The Risk Appetite Statement is formulated over a 5-year horizon to coincide with the Bank's planning period.

The Bank's Response to Extraordinary External Events

The risk management system includes monitoring of extraordinary external events (e.g., COVID-19, the war in the Ukraine), evaluation of their impact on the Bank's portfolio, and timely steps to mitigate potential adverse effects.

In 2020 and 2021, the impacts of the COVID-19 pandemic and related government measures were the extraordinary topics. The Bank offered its clients whose financial situation was temporarily negatively affected by the COVID-19 pandemic the option to defer payments already in March 2020. This initiative was subsequently replaced by a government moratorium, which allowed clients to defer loan repayments for up to six months. Even after the end of the government moratorium and during 2021, the Bank allowed individuals with temporary financial problems caused by the COVID-19 pandemic to defer payments after meeting certain criteria. The Bank offered individual loan restructuring to the clients who were unable to use the government moratorium, didn´t meet the Bank´s internal criteria for payment deferral or needed another type of relief.

Loans and advances to customers, for which the negative impact of the COVID-19 pandemic was expected, were reclassified to stage 2 in 2020 and 2021. Impairment loss allowances created for receivables classified in stage 1 and 2 were increased by the expected impact of economic development. In 2022, the extraordinary monitoring of loans with payment deferment due to the impact of the COVID-19 pandemic, was discontinued.

Credit risk management in 2021 was complemented by a sectoral sensitivity analysis that took into account the impact of the COVID-19 pandemic on individual economic sectors.

In 2022, macroeconomic development was influenced by growing inflation, to which the ČNB responded by increasing interest rates, and the effects of the military conflict in the Ukraine (in particular, growing prices of natural gas, oil, and electricity). Hence, industry analysis has been added to credit risk management, to take into account the impact of these phenomena on individual sectors. The Bank has introduced early warning signals focused on the geopolitical risk and has conducted a risk analysis of its portfolio focused on the sensitivity of receivables to deteriorated economic conditions. Receivables that have been assessed with a higher risk due to the international sanctions placed on Russia and Belarus, higher energy prices, or the impact of higher interest rates and inflation, have been placed into Stage 2. The extraordinary macroeconomic conditions and uncertainty of further development were also reflected in the FLI model, which the Bank uses to create portfolio credit provisions.

Market Risks

Market risk in Česká spořitelna relates mainly to financial market transactions that are performed in both trading and banking books, and interest rate risk associated with banking book assets and liabilities.

Trading book transactions on the capital, money and derivative markets can be categorised into the following areas:

- Client price quotations and transactions and the execution of client orders;
- Interbank and derivative market price quotations (market making);
- Active trading on the interbank market;
- Distribution of financial market products to retail clients.

Česká spořitelna uses a Group Capital Markets holding business model for financial market trading. Risks from executed client transactions are transferred through back-to-back transactions to portfolios of Erste Group Bank holding.

Banking book transactions on the capital, money and derivative markets may be categorised into the following areas:

- Bank investments in securities as part of its investment strategy;
- Execution of certain interbank and client deposits and loans;
- Issuance of own bonds;
- Management of interest income, hedging of banking book interest-rate risks and closing of the mismatch between foreign-currency-denominated assets and liabilities.

Market risk limits are determined separately for the trading book and the banking book. The set of market limits must comply with the maximum risk exposure level as determined in the RAS (Risk Appetite Statement) approved by the Bank's Board of Directors and further confirmed by the holding company, Erste Group Bank.

The Value at Risk (VaR) method is used to measure the aggregated trading and banking book market risk of Česká spořitelna. The VaR method is augmented with back-testing (both hypothetical and real), which is designed to verify model correctness. Based on the Czech National Bank's approval, the market VaR method is also used to calculate the capital requirement for foreign currency risk, general interest-rate risk, general and specific equity risk and risk associated with trading book option transactions. This method is additionally used

to calculate economic capital for trading book and banking book market risks. VaR calculations are also used when assessing risks associated with the asset portfolios of funds of Erste Asset Management GmbH, Czech Republic branch, ČS – penzijní společnost and when assessing market risks in the banking book of Stavební spořitelna České spořitelny using special models to represent the Bank's financial position.

The Strategic Risk Management Unit monitors banking book investments in bonds using a warning system of indicators assessing the quality of the security issuer, country of origin and performance of the respective economic sector. If these indicators significantly worsen, each investment is individually reassessed from the perspective of its future development, potential sale or continued holding.

Information on the Bank's exposure to market risks and on compliance with the established limits is reported on daily basis to the Bank's responsible managers and the summary monthly report is submitted to the Financial Markets and Wholesale Products Risk Management Committee. The information on the Bank's exposure is reported on monthly basis to the responsible members of the Board of Directors via the Asset and Liability Management Committee and the Risk Management Committee of the Chief Risk Officer.

Interest Rate Risk

The Bank's Board of Directors and Asset and Liability Management Committee are responsible for decisions concerning banking book interest rate risk exposure levels. The Strategic Risk Management Unit is responsible for monitoring banking book interest rate risk and for modelling of the non-contractual behaviour of products. The Financial Group Balance Sheet Management Unit is responsible for managing banking book interest rate risk. The models are independently verified by a validation team in the Strategic Risk Management Unit.

Interest rate risk management methods capture all relevant risks, i.e., revaluation risk, yield curve risk, basis risk and option risk.

The Bank's current interest-rate risk exposure is assessed monthly by the Asset and Liability Management Committee within the context of overall development of the financial markets, the Czech banking sector and structural changes in Česká spořitelna´s financial position.

In 2022, the credit risk level of the Bank's portfolio was influenced by rising interest rates, higher volatility, and structural changes in client deposits (deposits shifting from current accounts to savings and term deposits). In response to this development, product behaviour models were updated (e.g., the sight deposit model, the prepayment model, and others), and more frequent portfolio sensitivity analyses were run. The Bank adapted its banking book investment strategy, to ensure constant adherence to internal limits on the sensitivity of the Bank's balance to credit risk, even in the event of an adverse scenario.

Liquidity Risk

Liquidity risk is defined as a risk that the Bank loses the ability to meet its financial obligations at the time, they become due or will not be able to fund its assets. Liquidity is monitored and managed on a basis of expected cash-flows and, in this context, the structure of the financial position is adjusted.

Česká spořitelna monitors the Survival Period Analysis (SPA) indicator and further assesses two regulatory ratios for liquidity risk introduced by the Regulation of the European Parliament and of the Council No. 575/2013 (CRD IV) every month: The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Pursuant to the European Commission Regulation no. 2015/61 (The LCR Delegated Act), adjusted LCR has additionally been monitored and assessed since September 2015.

Short-term liquidity management and solvency assurance are based not only within the cash-flow perspective of several days ahead but also on basis of intraday cash-flow monitoring.

Česká spořitelna employs a buffer of highly liquid assets (an Intraday Liquidity Buffer) for operational liquidity management. The limit for the minimum volume of highly liquid assets is regularly assessed based on transactions on Česká spořitelna´s accounts at the ČNB. The buffer is designed to guarantee sufficient liquidity to ensure intraday coverage of outstanding interbank transactions in a crisis situation.

Česká spořitelna uses a system of Early Warning Indicators for the timely detection of forthcoming crises. These indicators serve for the timely detection of market and idiosyncratic liquidity crises and their combination. When a crisis is detected, the Bank proceeds in compliance with its liquidity crisis emergency plan.

Operational Risks

Česká spořitelna defines operational risks in accordance with the ČNB Regulation No. 163/2014 on the Activity of Banks, Credit Unions and Investment Firms as the risk

of loss arising from the inadequacy or failure of internal processes, human error, system failure or the risk of loss resulting from external events including legal risk. Bank's management is regularly informed of operational risk developments and its magnitude.

Česká spořitelna uses a Book of Risks developed by the Risk Management and Internal Audit units as a tool to standardise the identification of risks for the needs of the entire ČS Financial Group and to standardise risk categorisation with the aim of achieving consistency in risk monitoring and assessment.

The ČNB approved the use of advanced measurement approaches (AMA) for the management of operational risk and calculation of the capital requirement for operational risk on 1 July 2009. This concept was approved at the level of Erste Group Bank and applies for all Group entities using advanced measurement approaches for operational risk.

The Bank has been using the EMUS software application to collect data on operational risk since 2002. Data are collected for the purpose of quantifying operational risks and calculating the capital requirement, but also for qualitative management.

An important tool for mitigating losses arising from operational risks is the insurance programme that Česká spořitelna has used since 2002. The programme involves not only insurance of property damage, but also of risks arising from banking activities and liability risks. Česká spořitelna has participated in the Erste Group Bank joint insurance programme since 1 March 2004, which has greatly expanded the Bank's insurance coverage, in particular for damage that may have a material impact on Česká spořitelna's profit or loss. To manage business continuity, Česká spořitelna has introduced a methodology and procedures based on internationally recognised standards. Česká spořitelna systematically analyses key processes and threats with respect to the risk of process failure, including an evaluation of the efficiency of adopted measures and testing of existing emergency plans. Česká spořitelna also participates in the activities of the Financial Market Critical Infrastructure Committee (CIFM) that involves key banks and is overseen by the ČNB.

Careful attention is given to fraud prevention as a specific category of operational risk.

The Bank has a system in place to manage risks associated with outsourcing and has implemented a Group policy that complies with regulatory requirements (in particular, ČNB Regulation No. 163/2014). Risk analysis is regularly performed and updated for material activities; a general outsourcing activity assessment is reported to the Bank's Board of Directors on an annual basis.

Security risks are on operational level evaluated by the Security department, esp. in the area of Cyber Security, Physical Security and Business Continuity Management. Cyber Security Incident Response Team (CSIRT) has already been in operation for several years. Major security risks are regularly reported and evaluated by the Cyber Security Committee led by the Chief Risk Officer (CRO).

In 2022, a sustained trend of DDoS (Distributed Denial of Service) attacks was observed; no extraordinary incidents related to the conflict in the Ukraine were noted. The significant increase in attacks targeted the Bank's clients, using social engineering techniques (e.g., fraudulent investment, "false banker", fraudulent text messages seeking to elicit payment card details or log-in information, etc.). The Bank responded to the trend by introducing modifications in its mobile and internet banking and additional control mechanisms for fraud detection and for stopping related transactions in time. Additionally, the plan and specific activities for communication with clients and client education have been revised.

Stress Testing

Stress testing is an important component of a Risk Management system. Comprehensive Stress Testing Report (i.e., a summary of all risk exposures) is submitted to the Bank´s Board of Directors on a semi-annual basis. The report quantifies the impacts of a negative scenario for individual risks derived from the estimated effects of selected stressed situations in real economy. Stress testing is complemented by sensitivity analyses focused on specific parts of the portfolio.

Capital Management

Regarding the Internal Capital Adequacy Assessment Process (ICAAP), Česká spořitelna uses the Erste Group Bank methodology. The approach taken by Česká spořitelna reflects local differences required by local regulatory requirements or other specifics.

All significant risks are quantified and covered by internal capital within ICAAP. Economic capital is calculated for a one-year period with a confidence level of 99.92%. Market, operational and liquidity risks are quantified using the complex advanced approaches based on VaR methodology. Credit risk is calculated using the risk-weighted assets method with the IRB approach. Česká spořitelna has also developed models for other risks

(business, strategic, reputation or concentration risk). The overall risk of the Group is the sum of the individual risks, i.e., the diversification effect is not used due to the preference of a more conservative approach. Total risk is then compared to capital funds derived from the regulatory capital.

The Bank has implemented new procedures comprising the Recovery Plan in consideration of new regulatory requirements to be prepared for unexpected adverse market developments and, where the situation requires to do so, to adopt sufficient timely measures. In addition to the foregoing stress scenarios, the Recovery Plan includes indicators to initiate these procedures, a list of suitable measures to ensure a return to the pre-crisis situation, a description of general Bank governance and strategy that incorporates a list of critical functions and other regulatory requirements in this area.

The Bank manages its capital with the aim to maintain its strong capital adequacy to support business activities, comply with all applicable regulatory requirements and ensure a stable return for shareholders.

Capital Adequacy

The unconsolidated capital adequacy of Česká spořitelna continues to highly exceed the level required by the ČNB when reflecting all capital buffers in Pillar 1. Based on the ČNB calculation, Česká spořitelna was assessed as a systemically important bank and thus has to hold additional capital in the amount of 2% above the basic requirement and the other applicable regulatory capital reserves.

Capital Adequacy[25]

2022	2021	2020	2019	2018
19.31%	22.98%	24.73%	21.77%	19.03%

(25) Data per ČNB methodology

Other Information for Shareholders

Pursuant in Particular to § 118 of Act No. 256/2004 Coll. on Capital Market Undertakings, par. 4, letters b) through l) and par. 5 letters a) through k)

Česká spořitelna, a.s., with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, ID 45244782 was registered as a joint stock company in the Czech Republic on 30 December 1991 in the Commercial Register kept at the Municipal Court in Prague, Section B, Entry No. 1171. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

§ 118, par. 4, letter d) and par. 5, letters a) through e)

The structure of the consolidated and individual equity of Česká spořitelna is presented in the Consolidated and Separate Annual Financial Statements on page 105 and 252 of the Annual Report, respectively.

Shares of Česká spořitelna, a.s.

Class:	Ordinary shares
Type:	152,000,000 registered ordinary shares, i.e., 100% of share capital
Form:	Dematerialized
Number of shares:	152,000,000 pcs
Total volume of issues:	CZK 15,200,000,000
Nominal value per share:	CZK 100
Share marketability:	Shares are not traded on any public market

Company's shares are issued as dematerialized securities. One vote is attached to one share. The total number of votes in the Company is 152,000,000. The Company may only issue shares with voting rights as dematerialized securities. The Company may issue bonds with the right to exchange them for the Company's shares (convertible bonds) or the priority right for subscription of shares (preference bonds), based on the resolution of the General Meeting. The issue of such bonds is related to a contingent increase in the share capital, unless the convertible bonds are exchanged for previously issued shares of the Company. In the resolution on the issue of convertible bonds or preference bonds, the General Meeting also lays down the rules for their issue and the rights attached to them.

Additional information on shareholders' rights is stated in the Declaration of Česká spořitelna, a.s. of the Degree of Compliance of its Governance with the Corporate Governance Code of the Czech Republic 2018 Based on OECD Principles (see page 82 of the Annual Report).

Shareholder Structure of Česká spořitelna as at 31 December 2022

	Share in share capital	Share in voting rights
Erste Group Bank AG, Am Belvedere 1, Vienna, Austria	100%	100%

§ 118, par. 5, letters g) and h)

The appointment and recall of a member of the Board of Directors is the responsibility of the Supervisory Board. The Supervisory Board has achieved a quorum if an absolute majority of its members is present. The Supervisory Board decides by resolution; adopting a resolution requires a majority vote of the members of the Supervisory Board. When votes are equal, the Chairman has a casting vote. The General Meeting decides on any changes to the Company's Statutes in compliance with the relevant provisions of Act No. 90/2012 Coll., on Business Corporations.

The Board of Directors is the statutory body that manages the activities of Česká spořitelna and acts on its behalf. The standard powers and responsibilities are set out in Article 13 of the Česká spořitelna Statutes. Members of the Board of Directors have no special powers in the meaning of par. 5, letter h).

§ 118, paragraph 5, letter i)

Česká spořitelna has not concluded significant agreements subject to § 118, paragraph 5, letter i).

Information arising from § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 4, letters b), c), e), j) and l), is included in the Declaration of Česká spořitelna, a.s. of the Degree of Compliance of its Governance with the Corporate Governance Code of the Czech Republic 2018 Based on OECD Principles (see page 82 of the Annual Report).

Česká spořitelna has entered into no contracts, agreements or programmes in the meaning of § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 5, letters f), j), and k).

Controlling Entity

Erste Group Bank AG is the sole shareholder of Česká spořitelna, a.s. Measures designed to prevent the controlling entity from misusing its control primarily include:

- A ban on the misuse of a voting majority in the Company;
- A ban on the abuse of a controlling entity's influence by forcing the adoption of a measure or execution of a contract that could cause damage to the property of a controlled entity, unless such damage is compensated by the end of the fiscal period in which the damage was incurred, at the latest, or a contract is signed stipulating a reasonable period and method for the compensation to be paid by the controlling entity;
- An obligation on the part of the Company to prepare a Report on Relations between Related Parties (see page 377 of the Annual Report);
- An obligation of the controlling entity to pay damages to the controlled entity; and
- Guarantees provided by members of the statutory body of the controlling entity and controlled entity.

Česká spořitelna is a universal bank and is not dependent on other Česká spořitelna Financial Group or Erste Group Bank entities.

Information on the Acquisition of Own Shares and Erste Group Bank Shares

In 2022, Česká spořitelna neither traded nor held any own shares. Česká spořitelna acted as a market maker in respect of the shares of its controlling entity, Erste Group Bank AG, on the Prague Stock Exchange. For this purpose, under normal market conditions, Česká spořitelna purchased 2,554 thousand shares with an aggregate purchase price of CZK 1,833 million and sold 2,554 thousand shares with an aggregate selling price of CZK 1,833 million. In 2022, the minimum price for the purchase and sale of one share was CZK 523.40 and CZK 523.20 respectively, the maximum price for the purchase and sale of one share in 2022 was CZK 1,111.338 and CZK 1,111.338 respectively. Neither at the beginning nor at the end of 2022 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2022.

Information on the Guarantee Fund Contribution

Česká spořitelna, as a securities trader, contributes to the Guarantee Fund. The Guarantee Fund safeguards the guarantee system from which compensation is paid to the clients of securities traders unable to meet their client obligations. The calculation base for Česká spořitelna Guarantee Fund contribution for 2022 was CZK 2,072.7 million. The contribution itself amounted to CZK 41.45 million.

Information on Research and Development Activities

Česká spořitelna is a leading financial services provider in the Czech Republic. Its extensive portfolio of services and efforts to maintain a high quality are commensurate with the emphasis Česká spořitelna places on security when it comes to service reliability and the protection of the personal information of clients, the secure use of digital banking, payment card security and the reliability and proper functioning of information systems. Česká spořitelna conducts in-house research and development, in particular of proprietary software, i.e. architecture design, development of ancillary tools (frameworks) and their implementation and integration. Česká spořitelna also develops mathematical, statistical and other empirical models designed to model risks, i.e. creating risk management systems, the prevention and automated detection of fraud, and research and development of empirical models designed to model retail market conditions. Česká spořitelna incurred research and development costs of CZK 15 million in 2022.

Information on Obligatory Published Figures

Česká spořitelna publishes information pursuant to Regulation No. 163/2014 Coll., pursuant to Part Eight of Regulation (EU) No. 575/2013, and pursuant to Section 11b of Act No. 21/1992 Coll., as amended, in the form of downloadable open data files in xlsx format, in the Czech language, in part "Mandatory Information pursuant to ČNB Regulation" on its website at: https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB.

Supplementary Information on Debt Securities Issued

Debt securities ISIN CZ0002001415 and CZ0003707291 (senior non-preferred note) have been traded on the regulated market of the Prague Stock Exchange since their issue date. Issuances of debt securities (senior non-preferred note) ISIN AT0000A2STV4 and ISIN XS2555412001 have been traded on the Vienna Stock Exchange Wiener Börse since their issue date. Issuances of debt securities ISIN CZ0003707291, ISIN AT0000A2STV4 and ISIN XS2555412001 were assigned an issuance rating by rating agencies Standard & Poor's ("A-") and Fitch ("A"). Except for the above mentioned, other securities are not traded on any regulated market and the debt securities have not been assigned any rating. Issued debt securities are summarised in the separate financial statements.

Credit ratings are assigned to Česká spořitelna by the renowned credit rating agencies Fitch, Standard & Poor's and Moody's. All three credit rating agencies were registered in compliance with Commission Regulation (EC) No. 1060/2009 on Credit Rating Agencies, amended by Commission Regulation (EC) No. 462/2013 (The Regulation on Credit Rating Agencies). Česká spořitelna complied with the duty stipulated in Art. 8d of the above Regulation. The market share of each of the above credit rating agencies calculated in compliance with Commission Regulation (EC) No. 1060/2009 exceeds 10% of the European Union market.

Dividend Policy

Česká spořitelna's approach to profit distribution is governed by an internal policy which takes into account all applicable laws and regulations of the Czech Republic and the European Union. Česká spořitelna aims to distribute a stable dividend over time in order to satisfy shareholder's expectations. Česká spořitelna aims to continuously operate above minimum capital adequacy requirements and recognizes the need to also hold internal capital buffer for both anticipated and unforeseen economic and/or regulatory developments. Therefore, when calculating the dividend to be paid out for a given accounting period, Česká spořitelna considers all relevant internal and external restrictions with the aim to provide sustainable profit pay-outs.

Fees Invoiced by the Audit Company PricewaterhouseCoopers Audit, s.r.o. and PwC Network in 2022

§ 118, paragraph 4 letter k)

CZK million without VAT	Audit services	Other assurance services	Other services	Total
Česká spořitelna	16	8	1	25
Other consolidated companies	9	1	0	10
Total	**25**	**9**	**1**	**35**

Services in Addition to the Statutory Audit Provided by the Statutory Auditor and Its Network in 2022

PwC company	Recipient of the service	Service description	Price without VAT (CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of the half-year consolidation package of Erste Group Bank AG as per requirements of the EGB group auditor	4,372,704
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Preparation of a report on the adequacy of measures taken to protect customer's assets (MiFID)	339,500
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated annual and half-year financial statement for Czech regulatory purposes	308,510
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Agreed-upon-procedures on fee calculation for guarantee for loans received from European Investment Bank	93,196
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Comfort letter preparation for EUR SNP issue on EU market (MREL)	1,404,163

PwC company	Recipient of the service	Service description	Price without VAT (CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor's confirmations for insolvency proceedings	36,000
PricewaterhouseCoopers Audit, s.r.o.	s Autoleasing SK, a.s	Voluntary audit for the year ended 31 December 2022	448,036
PricewaterhouseCoopers Audit, s.r.o.	Procurement Services CZ, s.r.o.	Voluntary audit for the year ended 31 December 2022	205,000
PricewaterhouseCoopers Audit, s.r.o.	ČS NHQ, s.r.o.	Voluntary audit for the year ended 31 December 2022	182,688
PricewaterhouseCoopers Audit, s.r.o.	CEE Property Development Portfolio 2 a.s.	Voluntary audit for the year ended 31 December 2022	163,896
PricewaterhouseCoopers Audit, s.r.o.	Budějovická Development, s. r. o.	Voluntary audit for the year ended 31 December 2022	71,443
PricewaterhouseCoopers Audit, s.r.o.	BP Budějovická, s. r. o.	Voluntary audit for the year ended 31 December 2022	106,148
PricewaterhouseCoopers Audit, s.r.o.	BP Poláčkova, s. r. o.	Voluntary audit for the year ended 31 December 2022	106,148
PricewaterhouseCoopers Audit, s.r.o.	BP Olbrachtova, s. r. o.	Voluntary audit for the year ended 31 December 2022	106,148
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Assurance on the contribution process for the PRIBOR rates	482,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Portfolio carbon footprint approximation: research of internal transactional data and available data sources	400,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	CyberArk support & assessment for current capabilities vs. target operating model	300,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	ESG Stress testing workshop	250,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Green bond allocation reporting	185,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Attendance on open training courses	37,900
Total			**9,598,480**

During the accounting period from 1 January 2022 to 31 December 2022, PricewaterhouseCoopers Audit, s.r.o. and the PwC network did not provide any other non-audit services to the Česká spořitelna group, except as above and completing those that were contracted, started and the costs of which were already reported.

Principles of Remuneration of Managers and Members of the Supervisory Board, Section 118 (4) (f), (g), (h), (i)

Česká spořitelna's Bonus Pool

The overall Česká spořitelna bonus pool is formed on the Bank level to reflect the Bank's financial results. A bonus constitutes a non-discretionary part of wage/remuneration and is disbursed upon compliance with all the set conditions. The size of the overall bonus pool is based on Česká spořitelna's performance in the year concerned. A condition for the payment of the annual bonus is that the minimum target value of the indicators set for the relevant year is reached (net profit after tax of the Česká spořitelna consolidated unit, compliance with capital adequacy, fulfilment of liquidity indicators, and attainment of the Bank's strategy). The bonus pool is created reflecting combination of all four criteria and is adjusted considering the likelihood of attaining a profit in the next three-year period.

The initial volume of the Česká spořitelna's bonus pool is calculated as a sum of the bonus potential of individual work positions. Each work position is assigned a bonus potential ranging from 11.33[26]-100% of the fixed (annual) remuneration, based on its rank in the catalogue of positions (taking into account its significance and importance for the Bank). The aggregate volume of the bonus pool is adjusted at the year-end, provided that set

(26) May vary based on exceptions given by banking regulation

performance indicators are met, with the so-called bonus multiplier, whose percentage value is based on the level of fulfilment of strategic business and financial indicators, i.e., a comparison of their results with the planned figures. The business and financial indicators for 2022 included the operating result of the Česká spořitelna Financial Group (ČS Financial Group) reduced by risk costs, Cost/Income ratio, and client satisfaction measured according to the CXI (Customer Experience Index) indicator.

Managers

Česká spořitelna's managers include the Chairman, Vice-Chairman and other members of the Board of Directors (hereinafter referred to as the "Board"), which is a collective statutory body. By law, the Board is the statutory body responsible for the business management of a company. Board members, including the Chairman and Vice-Chairman of Česká spořitelna's Board carry out their duties with the requisite loyalty and with the necessary expertise and diligence; with due professional care and acting in good faith; and with due diligence and care and in the best interest of the Company and its shareholders. They are experts in managing large corporations, with international experience and ability to work as a team. Their position requires constant improvement, both in the industry and in corporate management and governance, an active approach to the fulfilment of obligations, an ability to contribute to the development of the Company's strategy, and, last but not least, loyalty to the Company. Board members adhere to high ethical standards and are responsible for ensuring that the Company complies with the applicable legislation. They are personally liable for any damage that they may cause by a breach of their legal obligations and they have a functional liability to the Company as represented by shareholders.

Detailed curricula vitae of Board members, attesting to their competence, professional skills, and practical experience and describing their activities are published on page 26 of the Annual Report.

Remuneration of Managers

Board members are remunerated on the basis of an "Agreement on the Performance of the Position of a Member of the Board of Directors" concluded in line with the applicable provisions of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (hereinafter referred to as the "Act on Business Corporations"). Individual agreements on the exercise of the duties of a Board member are, like the remuneration policy of all of Česká spořitelna, subject to approval by the Česká spořitelna Supervisory Board.

The aggregate income of a Board member in a particular year is comprised of basic income, variable income, and benefits/in kind performances.

On the basis of their management and professional knowledge and benefit for the Company, all Board members received a total of:[27]

- Financial remuneration for statutory body members of CZK 57.493 m;
- Bonuses for managing a division (cash part), of CZK 12.786 m;
- Bonuses for managing a division (non-financial part – certificates and phantom EGB shares), of CZK 21.202 m; and
- In-kind income for Board members of CZK 1.779 m.

All the stated income is disbursed by Česká spořitelna; Board members do not receive any income from companies controlled by Česká spořitelna.

Neither Board members nor their family members own any Česká spořitelna stock or stock options (the ESOP programme).

Variable Remuneration of Managers

The variable remuneration component is calculated as the basic income × bonus potential (100%) × bonus multiplier, where the value of the bonus multiplier is set as the

(27) - Financial remuneration for members of the Board of Directors and members of the Supervisory Board – remuneration for exercising the duties of their positions, except for executive management of departments entrusted to them (i.e., for holding the role of the Chairman/Vice-Chairman/member of the Board of Directors or Supervisory Board);
- Bonuses for managing a particular division (cash) – variable remuneration for executive management of entrusted units (divisions), cash part;
- Bonuses for managing a particular division (non-financial certificates) – variable remuneration for executive management of entrusted units (divisions), non-financial certificates maturing in cash;
- In-kind income for members of the Board of Directors and members of the Supervisory Board – for members of the Board of Directors, in-kind income is always regulated in agreements on discharge of the duties of their office (approved by the Supervisory Board). The set-up of their provision and draw-down is based on rules for benefits which may be enjoyed by the Bank's employees, in line with the Bank's applicable internal regulations. In the case of members of the Board of Directors, these include: (1.) Company car with chauffeur; Board members are entitled to use Company cars without the service of a chauffeur for private purposes, as well; (2.) mobile telephone, notebook, tablet, and other aids and tools required for the performance of the duties linked to their position; these aids and tools shall be used only for work; (3.) individual medical care in a contractual medical facility to an agreed extent; medical care may be provided to a Board member's family members, as well; (4.) supplementary pension insurance contribution, in line with an internal regulation approved by the Supervisory Board, (5.) contribution for private life insurance, in an amount agreed in an agreement concluded with the Company and approved by the Supervisory Board; (6.) contribution for cultural and sports activities, in the amount of CZK 15,000 per calendar year; (7.) insurance of liability for damage caused in connection with the exercise of the duties of a Board member (known as D&O insurance), subject to conditions approved by the Supervisory Board; and (8.) accident insurance, subject to conditions approved by the Supervisory Board. Members of the Supervisory Board are compensated only for any expenses incurred in attending Supervisory Board meetings (subject to approval by the Company's General Meeting)

result of an evaluation of the following indicators: the operating result of the Česká spořitelna Financial Group (ČS Financial Group) reduced by risk costs ("Operating Result – Risk Costs", weight 35%), Cost/Income ratio ("Cost/Income Ratio", weight 35%) and the CXI ("Customer Experience Index", weight 30%). Normally, annual variable remuneration of Board members as managers accounts for less than 4% of the aggregate volume of variable remuneration in all of Česká spořitelna.

Performance criteria for individual Board members are set for a calendar year and are subject to approval and subsequent evaluation by the Supervisory Board, including the expected/target value of the indicator and its weight in all performance criteria, and hence also in the Board Member's annual bonus, if any. In formulating objectives for the Company's Board of Directors, relevant regulatory requirements, with which the resulting target structure must be compliant, are always taken into account. In evaluating performance, financial performance criteria are adjusted of related existing and future risks and costs.

Evaluation of the performance of Board members takes place at the end of a calendar year by the Top Executive Appraisal Committee (TEAC). TEAC is a group committee comprised of members of the holding company's Management Board, which evaluates compliance with each Board Member's individual key performance indicators (KPIs). The overall evaluation is then a sum of the results achieved within the sphere of competence of each Board member, which are of a financial, non-financial, strategic, and operative nature, and of management results. The inputs for TEAC evaluation are evaluated indicators from the Controlling and Strategy departments, each Board member's self-evaluation, and a qualitative evaluation of the Chairman of the Board of Directors, both in terms of performance on KPIs in the preceding year and an evaluation of future potential. Outputs from TEAC are then judged by the Remuneration Committee. The Supervisory Board determines the bonuses of Board Members on the basis of a proposal from the Remuneration Committee. Additional information about the Remuneration Committee is provided in the part "The Supervisory Board", below in this chapter.

For 2022, the Supervisory Board set and evaluated the following key performance indicators for Board Members:

- Chairman of the Board of Directors: operational objectives – ČS operating result, return on allocated capital; strategic and business-specific objectives – Group strategic priorities including the dimension of diversity, brand, culture and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership;
- Vice-Chairman of the Board of Directors responsible for risk management: operational objectives – ratio of non-performing loans to total loans, share of risk costs in total loans, data management; strategic and business-specific objectives – digital lending, compliance and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership;
- Board member responsible for financial management: operational objectives – ČS operating result, return on allocated capital, Cost/Income ratio, data management; strategic and business-specific objectives – capital management incl. fulfillment of the regulatory MREL requirements and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership;
- Board member responsible for retail banking: operational objectives – ČS operating result and operating result of the Retail division, return on allocated capital, Customer Experience Index of retail customers; strategic and business-specific objectives – retail strategy implementation and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership;
- Board member responsible for corporate banking: operational objectives - ČS operating result and operating result of the Corporate Banking division, return on allocated capital, Customer Experience Index of SME customers; strategic and business-specific objectives – development of digital corporate banking and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership;
- Board member responsible for operations and IT: operational objectives – ČS operating result, return on allocated capital, data management; strategic and business-specific objectives – progressive modernisation of IT and IT security, digitization of E2E operations and ESG; local priorities such as development of financial health advisory, digitization, efficiency and prosperity; leadership.

Each of the indicators specified above had a target value set to be achieved in 2022 and a weight in the overall evaluation.

Deferred Variable Remuneration and Payment Method

In granting the variable component of remuneration of Board Members, 60% of the variable component of remuneration is deferred. The deferral period is five years. The variable component of remuneration is then granted as follows: 40% un-deferred part + 12% first year of deferral + 12% second year of deferral + 12% third year of deferral + 12% fourth year of deferral + 12% fifth year of deferral. Non-financial instruments must be used for at least 50% of un-deferred as well as deferred payments. The non-financial instrument used is by 50% comprised of phantom Erste Group Bank shares and by 50% ČS performance certificates. These components – both the deferred and the undeferred parts – must be retained throughout the retention period.

Phantom Erste Group Bank AG ("EGB") Shares

Phantom EGB shares are used for 50% of the non-financial variable remuneration. At the end of the reference period, the number of phantom shares that are to be allocated is calculated as follows: 25% of the gross bonus amount is divided by the average daily weighted price of Erste Group Bank AG shares stock in the reference period (year n). The outcome is the total number of phantom shares.

The average daily weighted price is calculated on the basis of official Datastream (Thomson Reuters Corp) information and is based on data published on the Vienna Stock Exchange (Wiener Börse).

At the end of the retention period, shares are transferred into cash by a multiplication of the average daily weighted price of the share in the last closed year preceding the year in which the shares are being paid out and they are paid out in cash.

ČS Performance Certificates

The valuation of the ČS Financial Group is based on an annual impairment test which is conducted as a component of financial statement activities at the level of the parent company EGB. The methodology used is described in the "Impairment Bank Model of Erste Bank Group". The test is required by IAS 36 and the results of the impairment test are also audited by the competent EGB group auditor during the statutory audit. A comparison of the outcome of the Company's value in individual years using this valuation model is used for determining the year-on-year change in the value of performance certificates. Aside from the methodology, the basis is a five-year plan prepared by ČS with the use of several modern parameters that support expected financial performance in the next 5 years. All regulatory requirements are deemed to constitute key deliverables of the five-year plan – in particular requirements concerning capital and liquidity. In the preparation of the plan, the macroeconomic outlook, present performance, expected growth, and compliance with the business strategy are considered.

The valuation model takes into account also the following parameters:

- Discount rate – use of the "cost of equity" approach (Capital Asset Pricing Model);
- Rate of growth in terminal value;
- Maintenance of profit and capital surplus.

The total variable remuneration – for the current and previous periods – is granted only if it is sustainable with a view to the overall financial situation of the Company and is based on the performance of the Company, division, and the individual. If any of these criteria does not make it possible to provide a full bonus, up to 100% of the total variable remuneration may be subject to an extra premium or the possibility of a clawback of the variable remuneration component awarded or paid out.

Provisions Concerning Extra Premium and Clawback

The Company sets specific criteria for the application of an extra premium and clawback. The criteria apply, in particular, to situations when the person:

1. Took part in or was responsible for intentional or grossly negligent misconduct or fraud resulting in material losses for the Company;
2. Failed to meet set standards of competence and conduct;
3. Provided misleading information, if such information had or could have had a proportionate impact on performance evaluation;
4. Was let go by termination without notice (immediate employment termination) in line with applicable legislation.

In particular, in cases under 1. and 4., no variable remuneration shall be granted or paid out to the person concerned, including any deferred or retained part of total variable remuneration. The clawback mechanism shall apply to the undeferred part of the total variable remuneration.

Ex-post adjustment pertaining to total variable remuneration should always be linked to performance or risk. They should respond to actual risk results or risk changes related to the Company, division, or activities of employees.

The Company may request a return of any variable remuneration paid out in the last five years.

The Company is obliged to apply at least the originally used performance and risk criteria to ensure a link to the initial performance measurement. In addition to the criteria above, the Company should employ specific criteria, including:

1. Evidence of improper conduct or serious mistake of the person (e.g., breach of code of conduct and other internal rules, in particular as concerns risks);
2. Whether the Company and/or the business unit subsequently suffers a major drop in its financial performance (e.g., specific business indicators);
3. Whether the Company and/or the business unit in which the identified person works suffers a serious risk management failure;
4. A major increase in the economic or regulatory capital base of the Company or business unit;
5. Any regulatory sanctions if their determination can be attributed to the conduct of the person concerned.

Decisions about the occurrence of such an event, use of agreements on an extra premium and clawback, and payment restrictions are made by the Remuneration Committee.

If required, the use of an extra premium and clawback should result in a reduction of variable remuneration. Ex-post risk adjustment should never result in an increase of the originally granted variable remuneration or, if an extra premium or clawback were used in the past, to an increase of a previously reduced variable remuneration.

Supervisory Board

The Supervisory Board is the Company's control body that oversees the exercise of powers of the Board of Directors in the execution of the Company's business. The Supervisory Board checks, above all, whether the Board of Directors performs its work in compliance with legal regulations and the Company's Articles of Association and whether Board Members are acting in line with the Company's interests and with due professional care. Supervisory Board members must perform their duties with due professional care. In order to duly serve in their positions, Supervisory Board members must possess professional competence, remain loyal to the Company, and keep confidential all confidential information and facts. Supervisory Board members are liable for any damage they may cause by a breach of their legal obligations. Furthermore, Supervisory Board members are functionally liable to the Company as represented by shareholders.

Supervisory Board members are remunerated in line with the applicable provisions of the Business Corporations Act. The amount of remuneration of Supervisory Board Members is approved by the General Meeting.

For their work on the Supervisory Board of Česká spořitelna in 2022, all members of the Supervisory Board received a total of:[27]

- Financial remuneration for being members of the Supervisory Board of CZK 7.755 m;
- In-kind income for being members of the Supervisory Board of CZK 28 thousand; and
- Supervisory Board members – Česká spořitelna's employees – received financial income from their employment relationships of CZK 1.485 m.

All of the stated income is paid out by Česká spořitelna; Supervisory Board Members do not receive any income from companies controlled by Česká spořitelna.

The Supervisory Board has established a Remuneration Committee (hereinafter referred to as the "Committee") comprised of Supervisory Board members (Maximilian Hardegg, Štefan Máj, Stefan Dörfler and Aleš Veverka) who do not hold any executive position in the Company. The Committee met six times in 2022. The competences of the Committee include, above all, preparing draft opinions concerning remuneration in the Company, including those that have an impact on risks and risk management at the Company, to be adopted by the Supervisory Board. In drafting such decisions, the Committee takes into account the long-term interests of shareholders, investors, and other entities with a capital interest in the Company. Among other things, the Committee presents to the Supervisory Board proposals concerning remuneration of Board members, oversees remuneration of directors of those departments that carry out internal control functions, and oversees fundamental principles of remuneration and their application. It has access to relevant information from the Supervisory Board, the Board of Directors, and internal control functions. In exercising its activities, it co-operates with HR and other relevant departments

of the Bank. It fulfils obligations entrusted to it by the Supervisory Board in the sphere of remuneration. In overseeing fundamental principles of remuneration and their application, the Committee focuses on the mechanism taking into account any and all risks, liquidity, and capital and compliance of the remuneration system with the long-term prudential management of Česká spořitelna. Committee members receive a fixed remuneration per meeting and the Committee Chairman also receives a regular monthly amount.

Agreements of Members of the Management and Supervisory Bodies

The Company has entered into an "Agreement on the Performance of the Position" with each member of its management and supervisory bodies (hereinafter referred to as "Agreements"). Agreements on the Performance of the Position of Board Members as well as Agreements on the Performance of the Position of Supervisory Board Members have been concluded pursuant to Section 59 et seq. of Act on Business Corporations and with appropriate application of Section 2430 et seq. of Act No. 89/2012 Coll., the Civil Code, and reflect Section 435 and Section 446 et seq. of the Act on Business Corporations and Act No. 21/1992 Coll., on Banks, as amended (hereinafter referred to as "Act on Banks").

An Agreement is concluded with each Board or Supervisory Board member for a term of 4 years unless otherwise specified in the Agreement. In the event of a change in conditions during the term, either a new Agreement or an amendment or an updated appendix are concluded. If a new Agreement is concluded, all stipulations made in the previous Agreement terminate with the new one.

Each Agreement includes the following fundamental particulars:

- The parties between which the Agreement is concluded;
- Object of the Agreement;
- Obligations of the member of a body;
- Obligations of the Company;
- Location of performance;
- Remuneration;
- Duration of the Agreement;
- Ways of termination of the Agreement;
- Confidentiality obligation;
- Non-competition commitment; and
- Final provisions.

In addition to the particulars specified above, Agreements of Board Members also specify the division for which the particular Board member is responsible at the Bank, and, with the exception of the remuneration, all other financial and non-financial performances are specified in an appendix to the Agreement. Detailed conditions for the provision of individual performances specified in the appendix to the Agreement and obligations of a Board member in connection with their draw-down are regulated by the Company's internal regulations. In the event of the recall of a Board member from their position, the member is entitled to contractual severance pay amounting to twelve times the fixed monthly remuneration subject to the conditions described in the Agreement.

The particulars specified in the Agreements of Supervisory Board Members are identical for Supervisory Board members elected by the sole shareholder acting in the capacity of a General Meeting and for Supervisory Board members elected by the Company's employees. Česká spořitelna declares that Supervisory Board members enjoy no advantages after the termination of the Agreement or after their membership in the Supervisory Board terminates.

Overview of the Terms of Office of Members of Management and Supervisory Bodies Specified in Agreements

Board of Directors	
Tomáš Salomon, Chairman	2. 1. 2019-1. 1. 2023 re-elected until 1. 1. 2027
Pavel Kráčmar, member	2. 2. 2020-1. 2. 2024
Karel Mourek, Vice-Chairman	1. 8. 2021-31. 7. 2025
Daniela Pešková, member	2. 2. 2020-1. 2. 2024
Ivan Vondra, member	2. 8. 2021-1. 8. 2025
Martin Kobza, member	1. 11. 2021-31. 10. 2024

Supervisory Board	
Willibald Cernko, Chairman	1. 9. 2022-31. 8. 2026
Štefan Máj, Vice-Chairman	1. 11. 2019-31. 10. 2023
Stefan Dörfler, member	1. 11. 2019-31. 10. 2023
Maurizio Poletto, member	14. 6. 2021-13. 6. 2025
Petr Brázda, member	15. 1. 2019-14. 1. 2023
Helena Černá, member	15. 1. 2019-14. 1. 2023
Zlata Gröningerová, member	27. 4. 2021-26. 4. 2025
Maximillian Hardegg, member	26. 5. 2020-25. 5. 2024
Aleš Veverka, member	15. 1. 2019-14. 1. 2023 re-elected until 14. 1. 2027
Bernhard Spalt, Chairman	1. 11. 2019-31. 10. 2023 resigned 30. 6. 2022

Affidavit

The undersigned represent that, to the best of their knowledge, the Annual Report and Consolidated Annual Report provide a true and fair view of the financial position, business activities and financial performance of Česká spořitelna and its consolidation group for the previous financial year and of the outlook for the future development of its financial position, business activities and financial performance.

In Prague, 29 March 2023



Tomáš Salomon
Chairman of the Board
of Directors



Ivan Vondra
Member of the Board
of Directors

Declaration of Česká spořitelna, a.s.

of the Degree of Compliance of its Governance with the Corporate Governance Code of the Czech Republic 2018 Based on OECD Principles ("the Code")

In compliance with the statements made by Česká spořitelna, a.s., in its previous annual reports, the members of the Bank's Board of Directors continuously strive to improve the Banks's standards of corporate governance and ensure, to the extent set out hereunder, compliance with the Code. The Bank systematically supports, develops and enhances its corporate governance practices.

No major changes adversely affecting the Bank's corporate governance standards and matters were made in 2022. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be accessed on either the Česká spořitelna's website (kodex-spravy-a-rizeni-spolecnosti-cr-2018.pdf (csas.cz)), or the Czech Ministry of Finance website (www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812). The principles of the Bank's governance standards are set out below.

Following the "Guidelines on the Assessment of the Suitability of Members of the Management Body and Key Function Holders" issued by the European Banking Authority (EBA) and accepted by the Czech National Bank, Česká spořitelna prepared guidelines and procedures for assessing the suitability of management body members and key function holders in Česká spořitelna.

Česká spořitelna also follows the Group Diversity and Inclusion Policy, which defines the basic principles and direction of applying Diversity and Inclusion policy within the entire Bank. Based on this policy, 21% of the positions in the top management of ČS (Board of Directors and B-1 Management) should be staffed by women by 2023. One of the six seats in the Board of Directors had been occupied by a woman and further nine women were members of the top management positions out of a total of 50 positions (level B-1) as at 31 December 2022. Another woman is in subsidiaries of the Česká spořitelna Financial Group . As part of its transformation into agile management, the Bank has also created new positions at lower management levels (especially B-2 and B-3) as well as in expert non-managerial positions, where many women have found employment.

In order to move closer to the Group Policy's commitment, Česká spořitelna has put in place action steps in the main areas of work with employees, which will continue in 2023.

To ensure transparency and equal recruitment opportunities for all positions, including managerial positions, all available positions are offered via internal job offers.

As part of the succession process, the Bank plans to introduce the principle of two successors per position in 2023 so that both sexes are equally represented. For Board of Directors and B-1 top management positions, a list of potential eligible candidates is prepared and regularly updated, which must always include female representatives, at least in one third of cases. In addition, for positions where the Bank generally has a shortage of women, especially IT, it says that the positions are suitable for both gender and conducts campaigns and educational activities with female employees on social networks to reach more women. Although the Bank regularly makes sure that both sexes are equally represented in the assessment centres for B-1 positions and tries to reach the same number of women and men, the B-1 level ratio is only 18%.

Unfortunately, generally women do not apply for certain positions or fields and it is very difficult to hire them. This typically applies to B-1 level positions in IT, where new B-1 positions have been created as part of the Bank's transformation, but only one woman has been cast. This is due to the lack of women in IT positions in general and also to the overall increased interest of men in these types of positions.

The selection of candidates for membership in the Supervisory Board is in line with an approved concept. Candidates for membership in the Supervisory Board of Česká spořitelna are appointed to ensure by their education, practical experience in domestic and international banking, overall economic, social, and political overview, and personal characteristics that the Supervisory Board is fully functional and capable to perform all of its tasks and competence responsibly and at high quality level. The composition of the Supervisory Board is fully in accordance with Act No. 90/2012 Coll.,

on Business Companies and Cooperatives (abbreviated to the Business Corporations Act). The aim of selection is the establishment of a Supervisory Board that is highly diversified regarding qualifications and experience so that the knowledge of its individual members covers the whole range of the Bank's activities.

In accordance with the Erste Group Bank Group Policy, one of the key pillars of the long-term concept of the performance of the Supervisory Board's activities should be the representation of women in this Supervisory Board (in 2022, there were two women out of a total nine members in the Supervisory Board) as well as employees. These two phenomena bring additional perspectives on the activities of the Bank, its strategic direction, and risks undertaken, into the activities of the Supervisory Board.

In the area of education and talent management, the Bank continues with major successful mentoring programmes and conferences for women such as Equilibrium, Satori, "Byznys ženské kruhy" ("Business Women Circles") or Femme Palette mentoring programme. About fifty women participate in these programmes throughout 2022. During 2022, Česká spořitelna started a new round of an annual mentoring programme for women with the potential to grow into senior leadership positions, with individual board members directly in the roles of mentors for these selected women. This programme will also continue in 2023.

The Bank has established a new web page "Spořka rodičům" ("Spořka to the Parents"), whose primary objective is to keep its employees on maternity and parental leave in constant contact with the Bank and help them return back to work. Managers are now also actively involved in taking responsibilities for the parents in their teams.

In addition, talent and development programmes are open to all talented employees, regardless of age, gender or history. They prepare them for further career growth or enhance their expertise.

Česká spořitelna also focuses on ensuring equal conditions and opportunities for all employees, especially in the areas of remuneration, reconciliation of personal and professional life and career development. All employees can contact the Internal Ombudsman at any time to deal with complaints about possible discrimination etc.

In the area of remuneration, Česká spořitelna regularly analyses wages and benefits for all employees, both women and men, with a view to further reducing "the pay gap". The pay gap has been at a lower level than usual in the market for a long time, but the Bank continues to eliminate it. The review of employee benefits was also carried out with an emphasis on the area of diversity and well-being of all employees. Compared to the past, for example, the childcare allowance has been extended to all female employees.

Organisation of the Bank

The Board of Directors of the Bank has 6 members. It is the Bank's statutory body, which manages the Bank and acts on its behalf while assuming responsibility for its long-term strategic direction and operational management. The scope of its powers is defined in the Bank's Articles of Association and internal rules as well as by Czech legislation. The Board of Directors exercises its powers with due care and diligence; in performing its activities, it is accountable to the extent set out in the Czech legislation. All Board of Directors members are internationally experienced professionals and team players skilled in managing large corporations. The Board of Directors members adhere to the general legal rules and ethical standards.

Pursuant to the Bank's Articles of Association, the Board of Directors must obtain the Supervisory Board's opinion or approval before performing a number of acts and, in certain cases determined by a Supervisory Board decision, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on Bank activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for establishing, maintaining, and evaluating an efficient and effective internal management and control system for the Bank.

Board of Directors Decision-making Procedures

The work of the Board of Directors is directed by an activity plan, which it outlines in advance for every calendar quarter. The Board of Directors meets on an ad-hoc basis, but no less than twice a month. Nonetheless, regular weekly sessions have become common practice. In 2022, the Board of Directors held 44 ordinary meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. A meeting is chaired by the Chairman or by the Vice-Chairman, or by a member of the Board of Directors authorized by the Chairman, or the Vice-Chairman. All Board members, the Bank´s Secretary and invited guests take part in meetings.

The Board of Directors only achieves a quorum if more than a half of all its members is present at a meeting. The Board of Directors adopts decisions in the form of a resolution requiring a majority of the votes of attending members. When votes are equal, the Chairman of the Board of Directors has a casting vote. If all Board of Directors members are in an agreement, the Board of Directors may pass a resolution by a written vote or a vote taken via remote means of communication (e.g., all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Material submitted in per rollam form is approved if a majority of the votes of all members of the Board of Directors is in an agreement. Voting on matters under discussion is conducted openly at Board of Directors meetings by acclamation, i.e., a show of hands.

All Board of Directors members have the requisite character traits and professional experience to execute the role of a Board of Directors member. Members of the Board of Directors are appointed and recalled by the Supervisory Board. In compliance with the Banking Act, nominees for Board of Directors membership of Česká spořitelna are discussed in advance with the Czech National Bank, which assesses the professional qualifications, credibility, and experience of nominees. The term of office of a Board member is maximum four years, and members may be re-elected. Detailed professional biographies of the Board of Directors members attesting to their qualifications, professional abilities and practical experience are published on page 26 of the Annual Report.

The Supervisory Board of the Bank has nine members. The details of changes in the composition of the Supervisory Board are published in the section Report of the Supervisory Board on page 93 of the Annual Report. The Bank has in place a concept adopted to address Supervisory Board composition and performance. All Supervisory Board members are professionals, who guarantee the high quality of the Supervisory Board's function and possess the requisite personal and professional qualifications to serve as Supervisory Board members. Supervisory Board members perform their duties with due care. To serve on the Supervisory Board, members shall have professional expertise, maintain their loyalty to the Bank and maintain confidentiality with respect to confidential information and facts. Two thirds of members of the Supervisory Board of which two are currently independent are elected by the Sole Shareholder's decision as a part of the exercise of the competence of the General Meetings and one third is elected by the Bank's employees.

The term of office of a Supervisory Board member is four years; re-election for another term is possible. A full list of Supervisory Board members, including their professional biographies, is published on page 30 of the Annual Report.

The Supervisory Board oversees the execution of the Board of Directors' powers and the performance of the Bank's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Bank's Articles of Association, has the right to opine in advance on certain acts impacting the Bank's assets (including, inter alia, real estate capital expenditures, plans (projects) to acquire tangible and intangible assets for the Bank in excess of a designated limit, the transfer of title to Bank assets, the Bank's equity investments, etc.). The Supervisory Board also provides an advance opinion on the strategic plan on Bank activities and development, planning tools and regular financial statements of the Bank. Additionally, the Supervisory Board furnishes its advance opinion on proposals for the appointment and recall of Directors of Internal Audit, Compliance and Strategic Risk Management and on the selection of an external auditor. The Supervisory Board may establish Supervisory Board Committees in support of its work.

In 2022, the Supervisory Board convened in six meetings.

Supervisory Board Decision-making Procedures

The work of the Supervisory Board is directed by an activity plan, which the Supervisory Board drafts annually in advance. Supervisory Board meetings are held on an ad hoc basis, usually in accordance with the activity plan, but no fewer than four times a year. Supervisory Board meetings are conducted in Czech or English, as required by the attending members. Supervisory Board meetings are chaired by the Chairman, the Vice-Chairman who had previously been authorized, if the Vice-Chairman was not authorized, then the older Vice-Chairman or an authorised member of the Supervisory Board and, in their absence, the oldest member or of the Supervisory Board in attendance.

The Supervisory Board only achieves a quorum if more than a half of all its members is present at a meeting. The Supervisory Board adopts decisions in the form of a resolution requiring a majority of votes of the present members. When votes are equal, the Chairman has a casting vote. If all Supervisory Board members are in an agreement, the Supervisory Board may pass a resolution by a written vote or a vote taken via remote means of communication (e.g., all Supervisory Board members

per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Voting on matters under discussion is conducted openly at Supervisory Board meetings by acclamation, i.e., a show of hands.

The Audit Committee is a Bank´s body that shall perform the tasks assigned to it by law or the Bank's Articles of Association within the remit of the Audit Committee. The Audit Committee is mainly responsible for monitoring procedures used to prepare the Separate and Consolidated Financial Statements, assessing the effectiveness of the Bank's internal controls, internal audit function and risk management systems in place, monitoring the process of performing the statutory audit of the separate and consolidated financial statements, assessing the independence of the statutory auditor and audit company and, most importantly, the provision of ancillary services to the audited entity and recommending an auditor. A full list of the Audit Committee members, including their professional biographies, is published on page 34 of the Annual Report.

Audit Committee Decision-making Procedures

The work of the Audit Committee is governed by its Rules of Procedure and Activity Plan. The Audit Committee met four times in 2022. Meetings of the Audit Committee are chaired by its Chairman, the Vice-Chairman or an authorised member of the Audit Committee. At Audit Committee meetings, votes on matters under discussion are taken openly by acclamation, i.e., a show of hands. The Audit Committee only achieves a quorum if more than half of its members is present. It adopts decisions in the form of a resolution requiring a majority of votes of the present Audit Committee members. When votes are equal, the Chairman has a casting vote. Where all Audit Committee members are in an agreement, the Audit Committee may vote based on a written vote or a vote undertaken via remote means of communication, in which case those voting are deemed present at such meeting.

The Bank consistently ensures that the members of the Board of Directors, the Supervisory Board and the Audit Committee are always kept up to date; the Bank has in place a well administered and highly developed system supporting the execution of corporate governance. Newly elected members of the bodies are given immediate access to all information regarding the Bank's principles and rules of corporate governance after their election.

The Bank's management bodies, i.e., the Board of Directors, the Supervisory Board, and the Audit Committee, have adopted binding Rules of Procedure. These deal in detail with administrative and procedural matters related to the activity of a given body. The Rules of Procedure of all three bodies regulate the technical process of convening and voting at meetings, the preparation of meeting minutes, the activities of a body outside of meetings and procedures to address the potential bias of a body member. Board of Directors members take part in Supervisory Board meetings. All Board of Directors members and the Bank´s Secretary take part in Board of Directors meetings, as do authors of materials to be presented to the Board of Directors and possibly other invited guests. Representatives of the internal and external auditor, members of the Board of Directors and the Supervisory Board and, on occasion, other guests, are invited to attend meetings of the Audit Committee. Members of the Board of Directors, the Supervisory Board and the Audit Committee may solicit a legal opinion on individual materials under discussion from the Bank's Legal Services Unit or may seek services of independent advisors. The Bank Office organizes long-term training in corporate governance (the system for running and controlling a company) and legislation for the members of administrative bodies so, as to develop and enhance their knowledge and skills on an ongoing basis.

The position of Bank´s **Secretary** has long existed within the Bank. The Secretary of the Bank's bodies manages administrative and organisational matters for the Board of Directors, the Supervisory Board and the Audit Committee including organization of the Sole Shareholder's decisions as a part of the exercise of the competence of the General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Bank's corporate governance process. The Bank´s Secretary ensures mutual co-operation among the Bank's bodies. The Secretary is appointed by the Bank's Board of Directors and reports directly to the Chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Bank's Board of Directors, Supervisory Board and Audit Committee. The Bank has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board, the Board of Directors, and the Audit Committee, which stipulate the basic rules for the preparation and submission of materials, procedures for making comments prior to the submission of materials and conditions for the archiving of materials. The Secretary takes minutes of all meetings of the Board of Directors, the Supervisory Board, and the Audit Committee. The Bank maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Bank's internal archiving system.

Bank's Relations with Shareholders

The Bank diligently ensures compliance with all legal rights of shareholders and with the principle of the equitable treatment of all shareholders.

In the autumn 2018 there was a change in the ownership structure. Since 6 November 2018, Erste Group Bank AG has been the sole shareholder of Česká spořitelna and since then the compensation has been paid to former minority shareholders.

The Bank's shares are held in book-entry form. A list of shareholders is maintained by the Central Securities Depository. The Bank currently has only common shares. The Bank complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout a year via the media and the Bank's website. The Bank posts information on its current financial results, shareholder structure, planned events and more on a web page designed specifically for shareholders and investors (www.csas.cz/en/about-us/for-shareholders-and-investors). Press releases covering important information about the Bank are issued on a regular basis. All material information the Bank publishes on its website is available in Czech and English.

Information Disclosure and Transparency

The Bank has established a Compliance unit that ensures compliance of Bank's activities and its internal rules with regulatory requirements applicable to the Banks' activities. The Compliance unit ensures that all employees of the Bank are informed about implemented rules of conduct and regulatory requirements by means of thematic trainings having form of either e-learnings obligatory for all employees or specific trainings (including face-to-face) focused on specified groups of employees. The Compliance unit also monitors responsibility of individual departments for compliance with regulatory requirements and informs these departments about recent developments and changes in regulatory rules related to the Bank activities on a regular basis.

Compliance with regulatory rules is not only a matter of the Compliance unit but it is the responsibility of every manager, every employee, and the Bank as a whole. Compliance with regulatory and internal rules is subject to three-line control. The first line is represented by employees and managers themselves, who must duly respect internal rules while performing their everyday duties. The second line of controls is represented in particular, by the Compliance unit which performs controls in areas that are considered as the riskiest from the perspective of consumer protection, reputation risk and conflicts of interest management. The third line of controls is represented by the Internal Audit.

Apart from already mentioned activities, the Compliance unit monitors and manages conflicts of interests of employees and managers that might arise from their employment relationship or from an access to sensitive data they come across while performing their everyday duties. The Compliance unit identifies potential as well as real conflicts of interests and advises implementation of such measures that eliminate or prevent identified conflicts of interests.

The Bank duly pays attention to management of sensitive information in compliance with regulatory requirements. That is why it implemented measures that shall prevent itself, its employees, and persons with a special relationship from using such information for their own benefit. Employees and other persons with access to sensitive information are informed on a regular basis about rules applicable to management of this information, that are based both on regulatory requirements and internal rules of the Bank.

The Compliance unit also provides the possibility to anonymously report suspicion about illegal, prohibited, or unethical conduct in the workplace by current or former employees (so-called Whistleblowing). The Bank has an **Ethics Manager** to resolve matters of unethical workplace conduct.

The Compliance unit provides regular reports on its activities, identified shortcomings (compliance incidents) and regulatory changes to the Board of Directors and the Supervisory Board.

One of the main objectives of the Compliance unit is monitoring of existing, updated, and new regulatory texts and responsibilities of individual departments of the Bank for their implementation. The Compliance unit provides support to these departments in an area of regulatory requirements implementation as well as their day-to-day business. These activities will remain a substantial part of the Compliance unit work in the following period.

The Bank must also fulfil its obligations in an area of prevention of money laundering and financing of terrorism and controls compliance of the Bank's business and activities with the applicable sanctioning regimes adopted by the Czech Republic, EU, UN and OFAC. The AML and International Sanctions unit are responsible for the

proper performance of these activities in the Bank or its compliance with legal requirements and sanction regimes.

The Bank diligently fulfils and complies with all legal regulations of the Czech Republic, principles of the Corporate Governance Code of the Czech Republic of 2018 and EU Commission recommendations regarding corporate governance and, on an ongoing basis, provides shareholder and investors with all material information on its business activities, the Bank's financial and operating results, ownership structure and other significant events. All information is prepared and disclosed in compliance with the highest standards of financial reporting and disclosure of financial and non-financial information. Moreover, the Bank discloses a great deal more information than it is required under the statutory requirements so that the shareholder and investors may make informed decisions concerning ownership of the Bank's securities. To disclose this information, the Bank uses mainly its website, where the information is published in Czech and English language.

The Bank regularly publishes annual and half-year reports. The annual report includes especially the audited financial statements, the audited consolidated financial statements and provides the true and fair view of the Bank's financial position, business activities and financial results. The annual report also provides information on the Board of Directors and the Supervisory Board member´s remuneration policy in compliance with the legislation. The Bank has no option scheme for remuneration either for members of the Board of Directors or the Supervisory Board.

In accordance with the Act on Accounting, non-financial information is available in the parent company Erste Group Bank's Consolidated Annual Report 2022 on the Erste Group Bank´s website under Investor Relations/Reports/Financial Reporting (https://www.erstegroup.com/en/investors/reports/financial-reports).

Committees of Bank Statutory Bodies

The Bank has established committees under the Board of Directors and the Supervisory Board to support the Bank's activities and to ensure the internal management and accountability of these bodies. The individual committees' Rules of Procedure define the scope of their powers and include a precise description of applicable rules, tasks, and decision-making procedures.

Committees of the Supervisory Board

Risk Committee

The Risk Committee has an advisory function in respect of the overall current and future approach to risks, risk strategy and acceptable risk levels, as well as the stating of credit policy and the credit portfolio. The Committee also oversees the implementation of risk management strategies. The Committee has the authority to review whether the valuation of assets, liabilities and off-balance sheet items reflected in the client offer fully takes account of the business model and risk strategy and authority to review whether the Bank's remuneration rules reflect the risks, capital, liquidity, likelihood, and timing of the anticipated profit. In specific credit-related cases, the Committee also has an approval function. The members of the Risk Committee are Štefan Máj, Stefan Dörfler and Zlata Gröningerová.

Remuneration Committee

The Remuneration Committee provides support to the Supervisory Board on formulating the basic principles of compensation. Its duties include submitting proposals for Board of Directors members remuneration to the Supervisory Board, overseeing the remuneration of unit directors carrying out internal controls and supervising the basic principles of compensation and their application, especially focuses on the mechanism of taking into account of all risks, liquidity, and capital, and on compliance of the remuneration system with the long-term prudent management of ČS. The Remuneration Committee members are Maximilian Hardegg, Štefan Máj, Stefan Dörfler and Aleš Veverka.

Nomination Committee

The Nomination Committee primarily assesses the suitability of nominated and appointed members of the Management Bodies (the Board of Directors and the Supervisory Board) and evaluates the activities of members of the Management Bodies and the Management Bodies as a whole, prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected, decide on a target for the representation of the underrepresented gender in the Management Bodies and prepare a policy on how to increase the number of the underrepresented gender in the Management Bodies in order to meet that target. Further periodically, and at least annually, assess the structure, size, composition, and performance of the Management Bodies. The members of the Committee are Willibald Cernko and Maximilian Hardegg.

Committees of the Board of Directors

Board of Directors Committees are advisory bodies to the Board of Directors established by resolution of the Board of Directors. The purpose of the Committees is to create and present expert recommendations to the Board of Directors; these Committees consist of Board of Directors members and selected Bank´s employees. All Committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

The Credit Committee is a body that assesses and approves credit transactions, including assessing and approving business policy principles, the credit risk measurement and management system, and Česká spořitelna's credit portfolio structure level.

Asset and Liability Management Committee

The Asset and Liability Management Committee adopts decisions serving to actively guide the balance sheet structure of the ČS Financial Group (including off-balance sheet items) with the aim of achieving planned interest income while optimising incurred risks, in particular interest rate, liquidity, and foreign exchange risks.

Products and Pricing Committee

The Committee is a body that:

1. Assesses and approves the launch, innovation or discontinuation of high-profile products and services in retail and corporate banking and financial markets;
2. Manages and implements Česká spořitelna's pricing policy and strategies and assesses and approves product and service prices in this area.

Bank's Stakeholder Policy

Information on this topic is available in the section Report of the Board of Directors (see page 38).

Principles of Internal Control and Rules for Accepting Risk in the Financial Reporting Process

Česká spořitelna processes its financial accounting via SAP system, which meets the high requirements for the security and quality of accounting processing. Inputs into SAP system are realized manually as well as automatically from other transaction systems.

Česká spořitelna complies with all statutory and other legislative requirements for accounting. Procedures pertaining to accounting documents and accounting documents' circulation have been put in place as required by the Act on Accounting and also serves the needs of the controlling and management accounting functions. The Bank has established separate internal policies for accounting documents as well as accounting documents' circulation, and these are subject to regular review. Moreover, policy on accounting documents' circulation requires application of the "four-eyes" control principle and, also eliminates the possibility of unauthorised accounting transactions by defining persons authorised to approve and perform accounting entries, i.e., who may be involved in the accounting process. Any correction of accounting entries is subject to the same controls. In the area of automatic accounting between SAP and transactional accounting systems, controls are performed in respect of correctness of input as well at the completeness of transfers of accounting information both by SAP system and manually. Accounting documents are archived automatically by the systems and manually and are designed in the way to comply with statutory requirements (the Act on Accounting and Archiving and Records Service Act).

Česká spořitelna sets its asset valuation requirements pursuant to both Czech and European legislation. Asset valuation is primarily regulated by the International Financial Reporting Standards as adopted by the European Union. The Bank has also several separate internal policies for this area that are in compliance with these statutory requirements and principally address the setting of asset input prices, i.e., their valuation under legal requirements, changes in their valuation, in particular allowance, asset depreciation and amortization, disposal, stock-taking, and related tax aspects of these transactions. Applied regulations and accounting policies are described in the individual and consolidated financial statements.

Statutory and legislative regulations do not separately address the area of management accounting, except for the definition of basic requirements, e.g., for clarity. Česká spořitelna established management accounting based on historical developments while respecting current requirements for accounting and for cost controlling within the Bank. Management accounting is primarily kept in the form of analytical accounts whose contents are subject to regular review. Accounting operations on analytical accounts are controlled for accuracy on an ongoing basis.

Česká spořitelna primarily recognises credit loss allowances pursuant to the basic principles stipulated by the statutory accounting and tax regulations. The

accounting procedures are then supported by internal policies that, in addition to the foregoing, reflect the needs of reporting and controlling units (e.g., internal audit, reporting, controlling, etc.) in relation to the functionalities of their supporting systems. The methodology and accounting for the creation and release of credit loss allowances in the Bank is concentrated into a single unit, which is advantageous, inter alia, from the perspective of conducting controls (logic, operational and reconciliation controls). These controls are performed basically daily after accounting. Given the impact of credit loss allowances on financial results, the total creation of credit loss allowances is not monitored only by separate item of profit and loss, but also in a broader context.

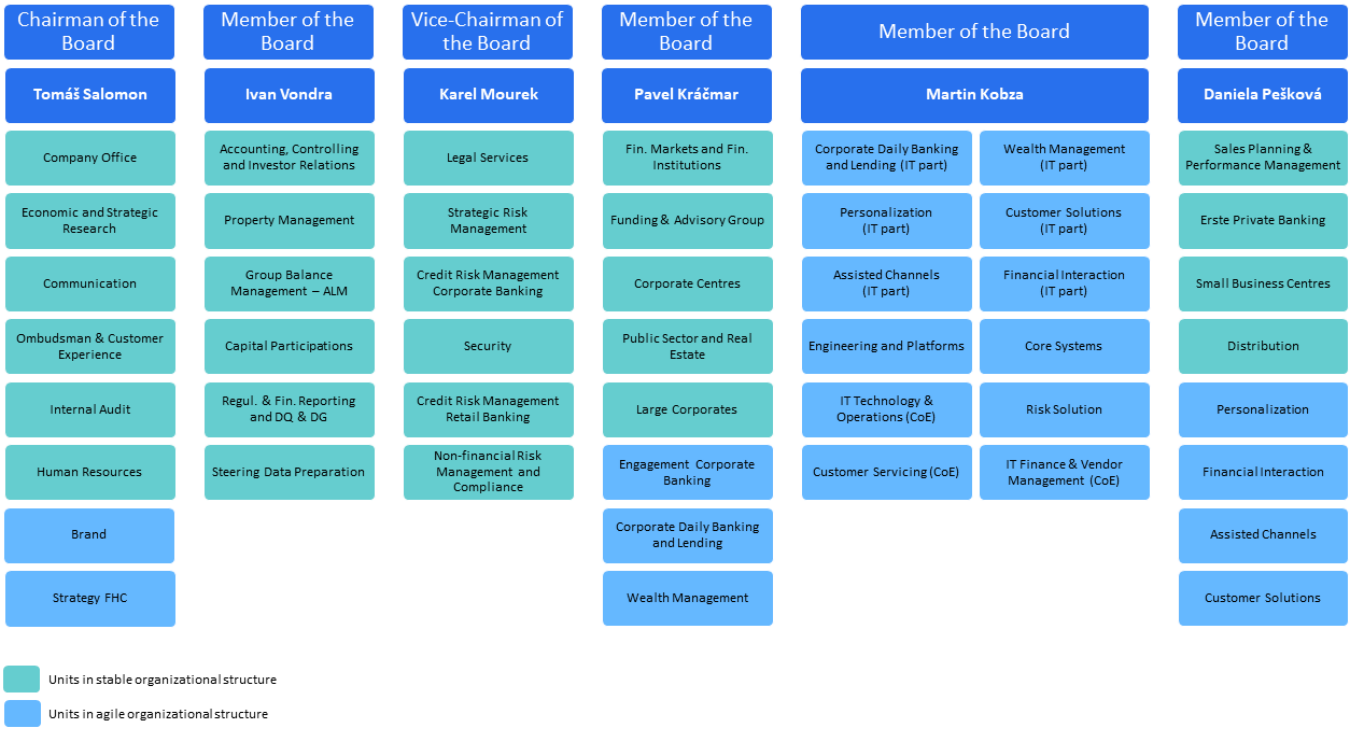
Aggregated consolidated and separate financial statements are submitted to the Bank's statutory body on a monthly basis. The Bank's Supervisory Board has the aggregated consolidated and separate financial statements presented at every meeting. The consolidated and separate financial statements of the Bank are tested by the internal audit irregularly. The procedure for the preparation of consolidated and separate financial statements is monitored by the Audit Committee, which also assesses the effectiveness of internal controls at the Bank. In addition, the Audit Committee also monitors the process of the statutory audit of the consolidated and separate financial statements, which are subject to a standard annual external audit, which comprise of the interim work, focusing on testing processes and identified controls, and final audit, verifying published balances and information within the financial statements. An audit of the consolidated and separate financial statements and review of the annual report is done by the external audit annually.



Organizational Structure

Organizational Structure

as at 31 December 2022



Supervisory Board Report

for 2022



Willibald Cernko
Chairman of the Supervisory Board

In 2022 the Supervisory Board supervised the discharge of the Board of Directors powers and the operations of Česká spořitelna, a.s. in accordance with the Articles of Association and legal provisions.

The Supervisory Board, among other matters, approved the 2022 financial statements, proposal for distribution of 2022 profit and discussed regularly the financial and business results of the Česká spořitelna Financial Group, the macroeconomic development in the Czech Republic, the development of the loan portfolio, the Group strategy, and the assets under management. Furthermore, the Supervisory Board discussed the concept of Financial Health Company, the organization of IT activities in the Bank, revised principles of remuneration and approved the 2023 budget.

In particular, the year 2022 will be remembered for the war in the Ukraine, the energy crises and the continuation of the COVID-19 pandemic. The Bank's response to the impact of these on its clients, employees and the country was both immediate and impactful. The Board of Directors provided the needed leadership to protect employees and to help the Bank's clients to cope with the economic crisis to the best of their abilities. The Supervisory Board worked closely with the Board of Directors.

The Supervisory Board continuously supervised the execution of the powers of the Board of Directors carrying out the Bank's business activity, monitored the Board's decisions and the implementation of the strategy.

The Board of Directors provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the Articles of Association and legal provisions. The Supervisory Board states that in 2022 the Board of Directors duly fulfilled its tasks defined by the law, by the Articles of Association, by the decisions of the Supervisory Board and by the decisions of the sole shareholder within the performance of scope of authority of the General Meeting.

In 2022, the Supervisory Board held four regular meetings and one extraordinary meeting. Besides these meetings, the Supervisory Board also took "per rollam" resolutions.

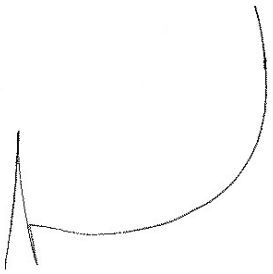
During 2022 the Supervisory Board discussed the activities of the individual committees: the Risk Committee, the Remuneration Committee and the Nomination Committee. The Supervisory Board also received information on a regular basis about the activities of the Audit Committee, which is an independent body of the Bank.

In June 2022, Mr. Bernhard Spalt resigned from his position as a member and the Chairman of the Supervisory Board. Mr. Willibald Cernko, CEO and Chief Retail Officer of Erste Group Bank AG, was elected by the decisions of the sole shareholder within the performance of scope of authority of the General Meeting as a member and the Chairman of the Supervisory Board in September 2022.

In accordance with legal provisions and based on the recommendation of the Audit Committee, the Supervisory Board reviewed the separate and consolidated financial statements as at 31. 12. 2022 and came to the conclusion

that the books and accounting records were kept in a transparent manner in accordance with the accounting standards and regulations, and that the separate and consolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a.s. and Česká spořitelna Financial Group as at 31. 12. 2022. The audit of the year-end financial statements was performed by PricewaterhouseCoopers Audit, s.r.o. who confirmed that according to their opinion the financial statements give a true and fair view of the financial position of Česká spořitelna, a.s. and its subsidiaries (together "the Group") as at 31. 12. 2022, of their financial performance and their cash flows for the year that ended 31. 12. 2022 in accordance with the International Financial Reporting Standards as adopted by the European Union (EU). The Supervisory Board took the auditor's opinion into account.

The Supervisory Board also reviewed the Report on Relations between Related Parties and, in accordance with the provision 83 paragraph 1 of the Act on Business Corporations, states that it took account of this Report without comments.



Willibald Cernko
Chairman of the Supervisory Board

Report of the Audit Committee

for 2022



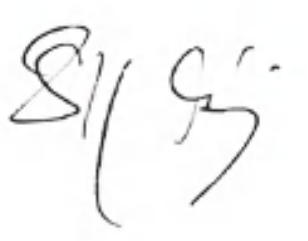
Štefan Máj
Chairman of the Audit Committee

In 2022, the Audit Committee of Česká spořitelna, a.s. operated as an independent body of the Bank.

In compliance with the Act No. 93/2009 on Coll., on Auditors and with the Articles of Association of Česká spořitelna, a.s. the Audit Committee monitored the procedure applied at the preparation of the separate and consolidated financial statements. The Audit Committee recommended PricewaterhouseCoopers Audit, s.r.o., for the performance of the audit of the annual financial statements for 2022, assessed the independence of the auditor and approved the non-audit services provided by the auditor. The Audit Committee also monitored the procedures and the focus of the statutory audit.

In accordance with the requirements of the regulation, the Audit Committee evaluated the functionality and effectiveness of the internal control system of the Bank. At its regular meetings in 2022, the Audit Committee discussed the internal audit plan and its changes, as well as the updated strategy of internal audit and its statute, which ensures the independent performance of internal audit. The Audit Committee also monitored the fulfilment of the annual internal audit objectives and the implementation of recommendations from the external assessment of compliance with international auditing standards.

The Audit Committee also discussed regular reports on the activities of internal audit, incl. fulfilment of the audit plan and information on the fulfilment of actions from audits and controls of the ČNB accepted by the Bank's management. The Audit Committee also focused on the system of the risk management, activities of the Compliance department, fraud prevention in the Bank, the issue of anti-money laundering and international sanctions, rules against conflict of interests, anti-bribery and anti-corruption rules, implementation of models for the risk management, IS/IT security strategy, business continuity management and the impact of the war in the Ukraine on the Bank.



Štefan Máj
Chairman of the Audit Committee



Financial Section

Independent Auditor's Report

To the shareholder of Česká spořitelna, a.s.

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of Česká spořitelna, a.s., with its registered office at Olbrachtova 1929/62, Praha 4 (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2022, and of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the European Union, and
- the separate financial statements give a true and fair view of the separate financial position of the Bank as at 31 December 2022, and of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2022;
- the consolidated statement of other comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of changes in equity for the year ended 31 December 2022;
- the consolidated statement of cash flows for the year ended 31 December 2022; and
- the notes to the consolidated financial statements including significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2022;
- the separate statement of other comprehensive income for the year ended 31 December 2022;
- the separate statement of financial position as at 31 December 2022;
- the separate statement of changes in equity for the year ended 31 December 2022;
- the separate statement of cash flows for the year ended 31 December 2022; and
- the notes to the separate financial statements including significant accounting policies and other explanatory information.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

Basis for opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council (the "EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together the "Audit regulations"). These standards consist of International Standards on Auditing as supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

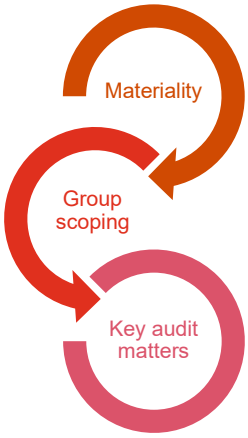
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors of the Czech Republic, with the Act on Auditors and with the EU Regulation. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, the Act on Auditors and the EU Regulation.

Our audit approach

Overview



Materiality	The overall materiality for the Group and the Bank is determined as 5% of the three-year average of the profit before tax in the separate financial statements for the years 2020 – 2022, which represents CZK 856 million.
Group scoping	Our audit covered 97.1% of the total assets and 99.5% of the net profits of the Group. We applied analytical procedures to further 2.6% of the total assets and 0.1% of the net profits of the Group at the level of smaller subsidiaries.
Key audit matters	Calculation of credit risk in loans and advances to customers taking into account geopolitical situation and macroeconomic developments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together the "financial statements"). In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit



and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate, on each set of financial statements as a whole.

Overall Group and Bank materiality	CZK 856 million
How we determined it	Materiality for the Group and the Bank was determined as 5% of the three-year average of the profit before tax in the separate financial statements for the years 2020 - 2022.
Rationale for the materiality benchmark applied	We chose the three-year average of the profit before tax in the separate financial statements, as the goal of the Group and the Bank is to achieve profits and the users of the financial statements focus on this performance measure. The COVID-19 pandemic had a significant impact on the profitability of the Group and the Bank in the previous years and therefore we have eliminated the consequential high volatility of materiality using the three-year average. The level of 5% used as a benchmark reflects the best practice for materiality for public interest entities. Considering the minimal difference between the benchmark as per consolidated and separate financial statements, we used the same level of materiality in both cases.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of each set of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Calculation of credit risk in loans and advances to customers taking into account geopolitical situation and macroeconomic developments	
In the consolidated statement of financial position as at 31 December 2022 and in Note 16 of the consolidated financial statements, the Group presents its customer loan portfolio of gross carrying amount of CZK 920,647 million, of which CZK 858,363 million (93%) is held by the Bank (Note 15 of the separate financial statements). For this customer loan portfolio, measured at amortised cost, the Group has recognised the expected credit loss allowances of CZK 20,113 million as at 31 December 2022, of which CZK 18,511 million was recognised by the Bank. The risk of loan irrecoverability is an inherent part of banking activities and the quantification of the expected credit loss allowances is the largest estimate that has a direct and significant impact on	When assessing credit risk and credit-impaired status of loans, we specifically focused on whether the updated credit risk models reflect significant uncertainties related to the present and future environment and how this impacts the valuation of the loan portfolio and the quantification of the expected credit loss allowances. Our approach was based on validation of the control system that the Group/Bank implemented in this area and on detailed testing of financial information reported by the Group and the Bank in the financial statements. Firstly, we have assessed the policies for creation of expected credit loss allowances, including the procedures for collateral valuation, for their compliance with the requirements of IFRS 9 and that the control system ensures that they are adhered to. We continued with verification of the changes to the models used for the expected credit loss calculation

profits. Management approach for determination of assumptions that have the highest impact on the appropriate estimation of valuation of the loans to customers is described in Notes 33-42 of the consolidated financial statements and in Notes 32-39 of the separate financial statements.

Key parameters for quantification of the expected credit losses, in terms of IFRS 9, Financial Instruments, are probabilities of default, loss given defaults, including assessment of collateral quality and the identification of significant increase in credit risk (SICR) since the initial recognition of loans and advances. Forward-looking information and future development scenarios derived from it also play a significant role.

The Group's/Bank's performance and credit risk was significantly influenced by a number of external factors in 2022. The beginning of the year was marked by the retreating COVID-19 pandemic and subsequently by Russia's invasion of the Ukraine in February 2022. This invasion contributed to further increase in inflationary pressures and overall uncertainty in the markets (impacts especially related to energy crisis and disruptions of the supply chains). The Czech National Bank reacted to the inflation increase by increases of interest rates.

The Group/Bank responded to the situation by updating credit risk models including implementation of a new forward-looking information (FLI) estimation model and updating the rules for loan classification into the stages relevant for measuring expected credit losses.

Similar to the last year, due to the uniqueness of the current situation the back-testing of the credit risk models had a limited impact this year.

as a result of uncertainties and markets' fluctuations (high inflation, high interest rates, energy crisis etc.). Our credit risk modelling experts were involved in assessment of the validations and sensitivity of the most significant models. They also evaluated whether the key components of the calculation of expected credit losses were correctly incorporated in the models and properly entered into the calculation engine.

In relation to new FLI estimation model, we critically assessed newly introduced macroeconomic variables, compared the underlying macro-economic forecasts with the available external sources and also assessed the individual weights attributed to scenarios taking into account the regulatory recommendations and best practices.

We also assessed the approach applied to:

- the classification of borrowers based on the applicable Group's/Bank's policies considering risk assessment of the borrower's industry;

- the credit risk rating process and the identification of significant increase in credit risk since initial recognition.

We also familiarized ourselves with the authorisation procedures over using external collateral valuators and monitoring procedures over quality of their work.

Considering the key role of the banking systems and internal control systems in the process of SICR identification and quantification of the expected credit losses, we also used our information technology specialists to verify access rights, accuracy of data inputs, data processing and automated calculations within the key systems, including the system for monitoring the number of days overdue and the expected credit loss allowances calculation.

For a selected sample of loans, we tested the rating allocation, loan classification into the three stages as defined by IFRS 9 and appropriate application of the Group's and the Bank's internal policies and procedures for specific credit loss allowances to these loans. We also assessed the identification of a significant increase in credit risk and calculation of probability of default, exposure at default and loss given default, including the identification of industries and borrowers at risk, and application of expected development scenarios and forward-looking information.

We also assessed the adequacy of disclosures that are required by IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each set of financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group and the Bank operate.

For the audit of the consolidated financial statements, we performed full scope audits of the Bank and Stavební spořitelna České spořitelny, a.s. These banks generate 99.5% of the Group net profits. Additionally, we applied analytical procedures to financial information of other Group companies, thus increasing our coverage of the Group's total assets to 99.7% and of the Group's total net profits to 99.6%. This approach allowed us to reasonably exclude significant misrepresentations of the Group results.

Other information

The board of directors is responsible for the other information. As defined in Section 2(b) of the Act on Auditors, the other information comprises the annual report but does not include both of the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Bank obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

Based on the procedures performed in the course of our audit, to the extent we are able to assess it, in our opinion:

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this regard.

Responsibilities of the board of directors, supervisory board and audit committee of the Bank for the financial statements

The board of directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Group and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

The supervisory board of the Bank is responsible for overseeing the financial reporting process.

The audit committee of the Bank is responsible for monitoring the financial statements' preparation process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors, supervisory board and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement showing that we have complied with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the supervisory board and audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Information required by the EU Regulation

In compliance with Article 10(2) of the EU Regulation, we provide the following information, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the audit opinion with the additional report to the audit committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued today in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Bank for year 2022 by the general meeting of shareholders of the Bank on 11 April 2022. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 6 years.

Provided non-audit services

We declare that the PwC Network has not provided non-audit services to the Bank and its subsidiaries that are prohibited under Article 5 (1) of the EU Regulation, as amended by the Czech law following Article 5 (3) of the EU Regulation.

The non-audit services that we have provided to the Bank and its subsidiaries in the period from 1 January 2022 to 31 December 2022 are disclosed in Section "Other Information for Shareholders" of the annual report.

The engagement partner on the audit resulting in this independent auditor's report is Eva Loulová.

29 March 2023

PricewaterhouseCoopers Audit, s.r.o.
represented by Partner



Eva Loulová
Statutory Auditor, Licence No. 1981

The Consolidated Financial Statements

The Consolidated Statement of Income

for the Year Ended 31 December 2022

in CZK million	Notes	2022	2021
Net interest income	2	36,719	31,083
Interest income		72,731	33,778
Other similar income		4,714	3,282
Interest expenses		(33,405)	(3,672)
Other similar expenses		(7,321)	(2,305)
Net fee and commission income	3	9,504	9,186
Fee and commission income		11,172	11,085
Fee and commission expense		(1,668)	(1,899)
Dividend income	4	68	167
Net trading result	5	3,739	1,732
Gains/losses from financial instruments measured at fair value through profit or loss	6	(438)	(103)
Net result from equity method investments		73	76
Rental income from investment properties & other operating leases	7	210	213
Personnel expenses	8	(11,458)	(11,010)
Other administrative expenses	8	(7,156)	(6,668)
Depreciation and amortisation	8	(2,721)	(2,720)
Gains/losses from derecognition of financial assets measured at amortised cost	9	(1,221)	(238)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	(633)	(4)
Impairment result from financial instruments	11	(636)	(1,780)
Other operating result	12	(1,669)	(1,705)
Pre-tax result from continuing operations		**24,381**	**18,229**
Taxes on income	13	(4,193)	(4,021)
Net result for the period		**20,188**	**14,208**
Net result attributable to non-controlling interests		27	27
Net result attributable to owners of the parent		**20,161**	**14,181**

The Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2022

in CZK million	Notes	2022	2021
Net result for the period		**20,188**	**14,208**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**87**	**(1)**
Own credit risk reserve	13	87	(1)
Items that may be reclassified to profit or loss		**(312)**	**(6,459)**
Fair Value reserve of debt instruments	13	(1,732)	(470)
Gain/(loss) during the period		(2,361)	(492)
Reclassification adjustments		624	-
Credit loss allowances	11	5	22
Cash flow hedge reserve		1,369	(7,664)
Gain/(loss) during the period	13, 26	2,654	(7,664)
Reclassification adjustments		(1,285)	-
Net investment hedge		-	(32)
Currency reserve		(18)	156
Gain/(loss) during the period		(18)	156
Deferred taxes relating to items that may be reclassified	13	69	1,551
Gain/(loss) during the period		(57)	1,545
Reclassification adjustments		126	6
Total other comprehensive loss	13	**(225)**	**(6,460)**
Total comprehensive income		**19,963**	**7,748**
Total comprehensive income attributable to non-controlling interests		27	27
Total comprehensive income attributable to owners of the parent		**19,936**	**7,721**

For a detailed split of income tax items within other comprehensive income please refer to Note 13 Taxes.

The Consolidated Statement of Financial Position

as at 31 December 2022

in CZK million	Notes	2022	2021
Assets			
Cash and cash balances	15	21,870	37,472
Financial assets held for trading		28,009	15,561
Derivatives	21	27,961	15,508
Other financial assets held for trading	22	48	53
Non-trading financial assets at fair value through profit or loss	23	3,331	2,511
Equity instruments		1,003	862
Debt securities		926	905
Loans and advances to banks		1,383	744
Loans and advances to customers		19	-
Financial assets at fair value through other comprehensive income	19	48,434	31,132
Debt securities		48,434	31,132
Financial assets at amortised cost	16	1,495,014	1,512,348
thereof pledged as collateral		89,423	79,881
Debt securities		327,805	325,514
Loans and advances to banks		266,675	364,994
Loans and advances to customers		900,534	821,840
Finance lease receivables	49	1,474	1,083
Hedge accounting derivatives	26	3,235	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(17)	(9)
Property, equipment and right-of-use asset	46	12,031	12,201
Investment property	46	1,803	2,221
Intangible assets	47	6,417	6,301
Investments in associates	57	1,437	1,357
Current tax assets		445	1,042
Deferred tax assets		2,918	2,732
Assets held for sale	62	9	20
Trade and other receivables	17	11,821	14,025
Other assets	48	1,707	1,137
Total assets		**1,639,938**	**1,641,741**

in CZK million	Notes	2022	2021
Liabilities and equity			
Financial liabilities held for trading	21	29,597	15,392
Derivatives		29,597	15,392
Financial liabilities at fair value through profit or loss	24	31,331	10,653
Deposits from customers		31,331	10,653
Financial liabilities at amortised cost	18	1,421,830	1,455,056
Deposits from banks		113,541	49,695
Deposits from customers		1,225,464	1,173,890
Debt securities issued		76,657	213,357
Other financial liabilities		6,168	18,114
Lease liabilities	50	3,475	3,121
Hedge accounting derivatives		5,870	4,718
Provisions	52	3,406	3,655
Current tax liabilities		144	117
Deferred tax liabilities		16	126
Other liabilities	51	6,558	5,707
Total equity	54	**137,711**	**143,196**
Equity attributable to non-controlling interests		479	452
Equity attributable to owners of the parent		137,232	142,744
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	9,040
Retained earnings and other reserves		112,980	118,492
Total liabilities and equity		**1,639,938**	**1,641,741**

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

These consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on 14 March 2023 and are subject to approval at the General Meeting.



Tomáš Salomon
Chairman of the Board of Directors



Ivan Vondra
Member of the Board of Directors,
Chief Financial Officer

The Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

in CZK million	Share capital	Additional paid-in capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2021	**15,200**	**12**	**115,319**	**17,147**	**387**	**849**	**390**	**4**	**(183)**	**149,125**	**221**	**149,346**
Dividends paid/AT1 distribution	-	-	(6,336)	-	-	-	-	-	-	(6,336)	-	(6,336)
Capital increases	-	-	-	-	-	-	-	-	-	-	104	104
Changes in scope of consolidation and ownership interest	-	-	(84)	-	-	-	-	-	-	(84)	100	16
AT1 call	-	-	484	(8,107)	-	-	-	-	-	(7,623)	-	(7,623)
Other changes	-	-	(59)	-	-	1	-	(1)	-	(59)	-	(59)
Total comprehensive income	-	-	14,181	-	-	(6,235)	(380)	(1)	156	7,721	27	7,748
Net result for the period	-	-	14,181	-	-	-	-	-	-	14,181	27	14,208
Other comprehensive income	-	-	-	-	-	(6,235)	(380)	(1)	156	(6,460)	-	(6,460)
Change in fair value reserve	-	-	-	-	-	-	(470)	-	-	(470)	-	(470)
Changes in tax	-	-	-	-	-	1,461	90	-	-	1,551	-	1,551
Change in cash flow hedge reserve	-	-	-	-	-	(7,696)	-	-	-	(7,696)	-	(7,696)
Change in currency translation reserve	-	-	-	-	-	-	-	-	156	156	-	156
Change in own credit risk reserve	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
As of 31 December 2021	**15,200**	**12**	**123,505**	**9,040**	**387**	**(5,385)**	**10**	**2**	**(27)**	**142,744**	**452**	**143,196**

in CZK million	Share capital	Additional paid-in capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2022	**15,200**	**12**	**123,505**	**9,040**	**387**	**(5,385)**	**10**	**2**	**(27)**	**142,744**	**452**	**143,196**
Dividends paid/AT1 distribution	-	-	(25,451)	-	-	-	-	-	-	(25,451)	-	(25,451)
Capital increases	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Changes in scope of consolidation and ownership interest	-	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Other changes	-	-	8	-	-	-	-	-	(2)	6	-	6
Total comprehensive income	-	-	20,161	-	-	1,109	(1,403)	87	(18)	19,936	27	19,963
Net result for the period	-	-	20,161	-	-	-	-	-	-	20,161	27	20,188
Other comprehensive income	-	-	-	-	-	1,109	(1,403)	87	(18)	(225)	-	(225)
Change in fair value reserve	-	-	-	-	-	-	(1,732)	-	-	(1,732)	-	(1,732)
Changes in tax	-	-	-	-	-	(260)	329	-	-	69	-	69
Change in cash flow hedge reserve	-	-	-	-	-	1,369	-	-	-	1,369	-	1,369
Change in currency translation reserve	-	-	-	-	-	-	-	-	(18)	(18)	-	(18)
Change in own credit risk reserve	-	-	-	-	-	-	-	87	-	87	-	87
As of 31 December 2022	**15,200**	**12**	**118,221**	**9,040**	**387**	**(4,277)**	**(1,393)**	**89**	**(47)**	**137,232**	**479**	**137,711**

The Consolidated Statement of Cash Flows

for the year ended 31 December 2022

in CZK million	Notes	2022	2021
Pre-tax result from continuing operations		**24,382**	**18,229**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		3,521	3,329
Net allocation to provisions (including risk provisions)		1,481	1,701
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		(1,543)	390
Gains/(losses) from the sale of non-financial assets		(390)	(277)
Change in fair values of derivatives		1,799	(1,724)
Interest income	2	(77,445)	(37,060)
Interest expense	2	40,726	5,977
Other adjustments		(150)	(33)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		(37)	23
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(141)	120
Debt securities		(21)	120
Loans and advances to customers		(658)	(261)
Financial assets - at fair value through other comprehensive income: debt instruments		(16,921)	(11,086)
Financial assets at amortized cost			
Debt securities		(1,865)	(71,841)
Loans and advances to banks		96,537	62,586
Loans and advances to customers		(83,762)	(78,455)
Finance lease receivables		(388)	357
Hedge accounting derivatives		(107)	(1,198)
Other assets from operating activities		1,383	(7,835)
Financial liabilities at amortised cost			
Deposits from banks		65,955	(39,057)
Deposits from customers		53,328	78,030
Financial liabilties at fair value through profit or loss		20,368	6,719
Other liabilities from operating activities		(10,192)	15,388
Other operating cash flows			
Interest paid		(39,709)	(5,816)
Interest received		74,944	33,956
Payments for taxes on income		(3,746)	(3,686)
Cash flow from operating activities		**147,349**	**(31,404)**
Proceeds of disposal			
Property, equipment and intangible assets		923	390
Acquisition of			
Property and equipment, intangible assets and investment properties		(2,474)	(2,581)
Disposal of joint ventures and associates		(80)	(376)
Cash flow from investing activities		**(1,631)**	**(2,567)**
AT1 call	54	-	(8,107)
Dividends paid/AT1 distribution	14	(25,451)	(6,336)
Other financing activities		8	20
Payments of lease liability	64	(650)	(644)
Repayments of bonds in issue	64	(136,242)	-
Proceeds from bonds issued	64	-	44,100
Changes in non-controlling interest	55	27	231
Cash flow from financing activities		**(162,308)**	**29,264**

in CZK million	Notes	2022	2021
Cash and cash equivalents at beginning of period	15	**37,472**	**38,075**
Cash flow from operating activities		147,349	(31,404)
Cash flow from investing activities		(1,631)	(2,567)
Cash flow from financing activities		(162,308)	29,264
Effect of currency translation		988	4,104
Cash and cash equivalents at end of period	15	**21,870**	**37,472**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

GENERAL INFORMATION

Česká spořitelna, a.s. ('the Bank'), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's sole shareholder is Erste Group Bank AG ('Erste Group Bank'), having its registered office address at Am Belvedere 1, 1100, Vienna, which is the ultimate parent. Information on the ultimate parent company's shareholder structure is published in the financial statements of Erste Group Bank for the year 2022 or the actual information on the Erste Group Bank homepage.

The Bank together with its subsidiaries and associated companies forms the Group. The Group is subject to the regulatory requirements of the Czech National Bank ('ČNB'), the Banking Act and EU guidelines/regulations. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions, operational and other risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to pension insurance and collective investment.

The Group offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group for the financial year ending 31 December 2022 and related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002 under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ('FVPL') and at fair value through other comprehensive income ('FVOCI'). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below or in individual Notes to which they relate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The consolidated financial statements have been prepared on a going concern basis.

In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of Income may be referred to as 'income statement'.

The Group is subject to regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU. The Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling

interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns ('CZK'). The tables in this report may contain rounding differences.

The financial statements have been prepared in Czech and English.

In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

Foreign currency translation

The consolidated financial statements are presented in Czech crowns, which is the functional currency of Česká spořitelna, a.s., the parent company of Česká spořitelna group.

The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, spot exchange rates quoted by the Czech National Bank are used. For Group entities using the Euro as functional currency, these are the European Central Bank ('ECB') reference rates.

(i) Transactions and balances in foreign currency

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

Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Group's presentation currency, the Czech crown, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statements of income and consolidated statements of comprehensive income are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities recognised on acquisition of foreign subsidiaries on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement in the line item 'Other operating result'.

Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are described in the notes of the respective assets and liabilities and relate in particular to:

- Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 34 Credit risk exposure), Provisions (Note 52 Provisions, credit part)
- SPPI assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES)
- Business model assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES)

The high level of uncertainty in the markets caused by the COVID-19 pandemic was replaced in 2022 by uncertainties and fluctuations in the markets caused by the war in Ukraine (energy crisis, high inflation, high interest rates, etc.). Therefore, the Group implemented a new forward looking information (FLI) estimation model in 2022 and deployed a new macroeconomic model taking into account the following macroeconomic variables: GDP, unemployment, real wages, retail income, PPI (Producer Price Index).

The estimate of the prospective information was updated twice during the year. Additional Stage 2 rules to address uncertainties associated with the COVID-19 pandemic were replaced in mid-2022 with Stage 2 rules (for non-default clients) reflecting uncertainties arising from the war in Ukraine and the energy crisis. Corporate and MSE client accounts active in the cyclical industry are reclassified to Stage 2 if the client's current probability of default is above a given threshold. The energy crisis is reflected by moving to Stage 2 for all clients active in energy intensive industries. For private individuals, the Group analyses the impact of inflation and rising interest rates on the ability to repay. If a client is identified as having expenses, together with repayments, in excess of household income, the client's accounts are transferred to Stage 2. The Group continues to monitor and assess current developments and reflects their impact in the financial statements.

Details about effects of these factors on the expected credit losses estimation are described in Note 38 Development of Credit Loss Allowances.

Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2022. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below. None of the standards have been adopted by the Group before the effective date.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2022 and have been endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)

Application of the above mentioned amendments in 2022 did not have a significant impact on the Group's financial statements and for details related to Interest Rate Benchmark Reform ("IBOR reform") are disclosed in Note 67 Interest Rate Benchmark Reform.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective. All of them are endorsed by the EU:

- IFRS 17: Insurance contracts;
- Amendments to IAS 1: Disclosure of Accounting Policies;
- Amendments to IAS 8: Definition of Accounting Estimates;

- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

However, revisions in the disclosures of the accounting policies may be required.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In May 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

PERFORMANCE / RETURN

1 Segment reporting

The Group's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the management board of the Bank to assess the performance of the segments and make decisions regarding the allocation of resources.

Structure of Business Segments

The segment reporting comprises four operating segments reflecting the Group's management structure.

Retail

Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly private individuals, micros business and free professionals. This business is mainly operated in cooperation with subsidiaries such as leasing and asset management companies with the focus on simple products ranged from loans, investment products, current accounts and savings products to credit cards and cross selling products such as leasing, insurance and building society products.

In addition, the retail segment contains the results of the subsidiaries Stavební spořitelna České spořitelny, a.s., Česká spořitelna penzijní společnost, a.s., CS Seed Starter, a.s., MOPET CZ a.s. (for 2021) and part of Leasing České spořitelny, a.s.

Corporates

Corporates segment comprises the business activities done with corporate customers of different turnover size (small and medium- sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

In addition, the segment Corporates contains the results of the subsidiaries Factoring České spořitelny, a.s., REICO investiční společnost České spořitelny, a.s., part of Leasing České spořitelny, a.s., s Autoleasing SK, s.r.o. and Erste Grantika Advisory, a.s, Global Payments s.r.o. and real estate funds.

Asset and Liability Management & Local Corporate Center (ALM & LCC)

Asset Liability Management (ALM) comprises the management of the Group assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

Local Corporate Center (LCC) comprises all non-core banking business activities such as non-profit servicing units (e.g. procurement, property management), intragroup eliminations within the Group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes Free Capital of the Group defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

Corporate center also includes results of the subsidiaries ČS NHQ, s.r.o., Budějovická Development, s.r.o., BP Budějovická, s.r.o., BP Poláčkova, s.r.o., BP Olbrachtova, s.r.o. and Holding Card Service s.r.o.

Group Markets

Group Markets segment comprises trading and markets services as well as business with financial institutions.

Trading and market services includes all activities related to active risk taking and managing in CRR regulatory Trading books of the Group, additional to that the execution of trades against the market using the Trading books of the Group for market making and shortterm liquidity management.

In addition, it comprises business connected with serving financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business.

Measurement

The Income statement of the segment report is based on the measures reported to the Bank's Board of Directors for the purpose of allocating resources to the segments and assessing their performance.

Management reporting as well as the segment report of the Group are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements.

Interest income is not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest income and interest expenses are neither included into the measurement of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to him. Management board relies solely on net interest income to assess the performance of the segments and makes decisions about resources to be allocated to the segments. Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the management board.

Capital consumption per segment is regularly reviewed by the management of the Group to assess the performance of the segments.

The average allocated capital is determined by the credit risk, market risk and operational risk and business strategic risk.

According to the regular internal reporting to the Group's Board of Directors, total assets and total liabilities as well as risk weighted assets and allocated capital are disclosed per segment. Total average allocated capital for the Group equals average total equity of the Group. For measuring and assessing the profitability of segments within the Group, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period in relation to the average allocated capital of the respective segment.

Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties and other operating lease).

Business Segments

	Retail		Corporates		ALM&LCC		Group Markets		Total Group	
in CZK million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Net interest income	25,111	19,907	10,568	6,462	173	4,241	866	474	36,719	31,083
Net fee and commission income	6,484	6,324	1,743	1,633	(491)	(530)	1,768	1,758	9,504	9,186
Dividend income	-	-	-	-	68	167	-	-	68	167
Net trading result	1,571	1,278	1,057	813	(540)	(1,231)	1,652	872	3,739	1,732
Gains/losses from financial instruments at FVPL	(17)	18	-	-	(421)	(121)	-	-	(438)	(103)
Net result from equity method investments	(8)	-	81	-	-	76	-	-	73	76
Rental income from investment properties & other operating leases	2	8	184	181	24	25	-	-	210	213
General administrative expenses	(16,452)	(15,739)	(3,209)	(3,087)	(1,005)	(915)	(669)	(657)	(21,335)	(20,398)
thereof: depreciation and amortization	(2,508)	(2,506)	(265)	(276)	105	115	(54)	(53)	(2,721)	(2,720)
Gains/losses from derecognition of financial assets at AC	(1)	-	-	-	(1,220)	(238)	-	-	(1,221)	(238)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	(1)	-	(632)	(4)	-	-	(633)	(4)
Impairment result from financial instruments	66	(884)	(918)	(733)	195	(79)	21	(84)	(636)	(1,780)
Other operating result	(249)	(149)	(811)	(438)	(342)	(802)	(267)	(316)	(1,669)	(1,705)
Pre-tax result from continuing operations	**16,507**	**10,762**	**8,694**	**4,829**	**(4,191)**	**590**	**3,371**	**2,048**	**24,381**	**18,229**
Taxes on income	(3,094)	(2,032)	(1,675)	(951)	1,216	(649)	(641)	(389)	(4,193)	(4,021)

	Retail		Corporates		ALM&LCC		Group Markets		Total Group	
in CZK million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Net result for the period	**13,413**	**8,729**	**7,019**	**3,879**	**(2,975)**	**(59)**	**2,731**	**1,659**	**20,188**	**14,208**
Net result attributable to non-controlling interests	-	-	(27)	-	-	(27)	-	-	(27)	(27)
Net result attributable to owners of the parent	**13,413**	**8,729**	**6,992**	**3,879**	**(2,975)**	**(86)**	**2,731**	**1,659**	**20,161**	**14,181**
Operating income	33,143	27,534	13,633	9,088	(1,187)	2,628	4,286	3,104	49,876	42,354
Operating expenses	(16,452)	(15,739)	(3,209)	(3,087)	(1,005)	(915)	(669)	(657)	(21,335)	(20,398)
Operating result	**16,690**	**11,795**	**10,424**	**6,001**	**(2,191)**	**1,713**	**3,618**	**2,448**	**28,541**	**21,957**
Risk-weighted assets (credit risk, pillar 1, eop)	160,672	158,034	328,749	292,011	33,909	18,894	7,847	8,158	531,177	477,096
Average allocated capital	24,155	25,834	30,253	28,761	79,368	94,181	2,759	2,231	136,535	151,007
Cost/income ratio	49.60%	57.20%	23.50%	34.00%	-84.70%	34.80%	15.60%	21.20%	42.80%	48.20%
Return on allocated capital	55.50%	33.80%	23.10%	13.50%	-3.80%	-0.10%	99.00%	74.40%	14.80%	9.40%
Total assets (eop)	608,572	577,025	344,065	315,176	652,052	729,159	35,249	20,380	1,639,938	1,641,741
Total liabilities excluding equity (eop)	960,529	946,382	252,283	227,086	98,921	55,955	190,494	269,122	1,502,227	1,498,545

The majority of revenue from external customers is generated in the Czech Republic and the Group has no revenues from the customer that would exceed 10% of total revenues of the Group.

2 Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR ("effective interest rate") method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relate to interest expense from financial liabilities measured at amortised cost calculated using EIR as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part '(i) Amortised cost and effective interest rate'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, negative interest on financial assets and lease liabilities.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, and on debt securities in all measurement categories of financial assets. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities.

Net interest income also includes interest on derivative financial instruments.

The unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

in CZK million	2022	2021
Interest and other similar income		
Financial assets at fair value through other comprehensive income	1,780	424
Financial assets at amortised costs	70,951	33,354
Interest income	**72,731**	**33,778**
Financial assets held for trading	6,981	2,392
Derivatives - Hedge accounting, interest rate risk	(2,388)	696
Other assets	17	29
Negative interest from financial liabilities	104	165
Other similar income	**4,714**	**3,282**
Total interest and other similar income	**77,445**	**37,060**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(33,405)	(3,672)
Interest expenses	**(33,405)**	**(3,672)**
Financial liabilities at fair value through profit or loss	(22)	(14)
Financial liabilities held for trading	(6,909)	(2,120)
Derivatives - Hedge accounting, interest rate risk	(210)	10
Other liabilities	(65)	(40)
Negative Interest from financial assets	(115)	(141)
Other similar expenses	**(7,321)**	**(2,305)**
Total interest and other similar expense	**(40,726)**	**(5,977)**
Net interest income	**36,719**	**31,083**

Interest income on impaired financial assets amounted to CZK 718 million (2021: CZK 348 million). No modification gains or losses were accounted for in the year 2022 and 2021. The amounts disclosed in the line items 'Negative interest from financial liabilities' and 'Negative interest from financial assets' relate to the interbank business, deposits and refinancing with central banks only.

3 Net fee and commission income

The Group earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, premiums received for financial guarantees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as intermediary fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

in CZK million	2022		2021	
	Income	Expenses	Income	Expenses
Securities	616	(101)	676	(111)
Clearing and settlement	-	(5)	-	(4)
Asset management	1,677	(52)	1,383	(53)
Custody	150	(55)	422	(50)
Payment services	3,820	(867)	3,746	(678)
Customer resources distributed but not managed	2,880	-	2,954	(3)
Collective investment	1,220	-	1,355	-
Insurance products	1,660	-	1,599	(3)
Servicing fees from securitization activities	-	(26)	-	(41)
Lending business	1,298	(203)	1,255	(507)
Other	732	(359)	649	(452)
Total fee and commission income and expenses	**11,172**	**(1,668)**	**11,085**	**(1,899)**
Net Fee and commission income	**9,504**		**9,186**	

The fee and commission income and expense, which are presented in this table, are not capitalized as an integral part of the effective interest rate.

Asset management, custody and fiduciary transactions fees relate to fees earned by the Group on trust and other fiduciary activities in which the Group holds or invests assets on behalf of its customers. The assets hold by the Group on behalf of its customers amount to CZK 1,885 billion as at 31 December 2022 (2021: CZK 1,958 billion).

Net fee and commission income above include income of CZK 3,346 million (2021: CZK 3,118 million) relating to financial assets and financial liabilities not measured at FVPL.

4 Dividend income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

in CZK million	2022	2021
Non-trading financial assets at fair value through profit or loss	67	166
Financial assets at cost	1	1
Dividend income	**68**	**167**

5 Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value and cash flow hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, subchapter Foreign currency translations, i. Transactions and balances in foreign currency. Detailed information relating to hedge accounting can be found in Note 26 Hedge accounting.

in CZK million	2022	2021
Securities and derivatives trading	950	84
Foreign exchange transactions	2,771	1,875
Gains or losses from hedge accounting	18	(227)
Net trading result	**3,739**	**1,732**

In 2008, the Bank transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clients), with the exception of equity risk and transactions for the Erste Group Bank's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from the Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Erste Group Bank and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets of individual asset groups.

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within 'Net trading result' is as follows:

in CZK million	2022	2021
Realised and unrealised gains on trading assets	964	500
Foreign exchange trading	420	244
Total	**1,384**	**744**

6 Gains/losses from financial instruments measured at fair value through profit or loss

Under this line item changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Further, gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are presented under this line item. However, the fair value changes resulting from own credit risk of the financial liabilities designated at FVPL are recognised in OCI.

in CZK million	2022	2021
Result from measurement/sale of financial assets designated at fair value through profit or loss	(2)	-
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(312)	(140)
Result from financial assets and liabilities designated at fair value through profit or loss	**(314)**	**(140)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	(124)	37
Gains/losses from financial instruments measured at fair value through profit or loss	**(438)**	**(103)**

7 Rental income from investment properties and other operating leases

Rental income from investment properties and other operating leases (i.e. mainly from real-estate and cars) is recognised on a straightline basis over the lease term. Operating expenses for investment properties are reported in line 'Other operating result' (within Note 12).

in CZK million	2022	2021
Investment properties	184	180
Other operating leases	26	33
Rental income from investment properties & other operating leases	**210**	**213**

8 General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment. Furthermore, restructuring provision expenses are part of personnel expenses.

According to the remuneration policy of the Group Board of Directors receive cash-settled performance-linked certificates and cash settled share-based bonuses. Total effect of these cash-settled bonuses on personnel expenses is CZK 26 million (2021: CZK 33 million). Description and further information about remuneration of Board members including performance-linked remuneration can be found in Note 59 Related party transactions and principal shareholders.

All employees with an active employment as at 31 December 2022 and at the same time at least 6 months active employment within the Group will receive shares of Erste Group Bank AG in the equivalent of EUR 350 net. This Employee Share Program is awarded when Erste Group Bank, including local Banks and subsidiaries, meets all capital and liquidity requirements and pays dividends. The Group is the grantor, who is responsible to settle this transaction, therefore, this share-based payment is cash settled and vested immediately. Therefore, based on the number of the entitled employees, personnel expenses in the amount of CZK 210 million (2021: CZK 159 million) as well as the corresponding other liabilities were recognized.

The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes, jubilee benefits and sharebased payment liability revaluation.

Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses according to Act 21/1992 Coll.

Depreciation and amortisation

This line item comprises depreciation of property and equipment and right-of-use asset, depreciation of investment property and amortisation of intangible assets.

in CZK million	2022	2021
Personnel expenses	**(11,458)**	**(11,010)**
Wages and salaries	(8,078)	(7,711)
Compulsory social security	(2,539)	(2,516)
Other personnel expenses	(841)	(783)
Other administrative expenses	**(7,156)**	**(6,668)**
Deposit insurance contribution	(329)	(278)
IT expenses	(3,096)	(3,192)
Expenses for office space	(985)	(806)
Office operating expenses	(678)	(620)
Advertising / marketing	(1,144)	(950)
Legal and consulting costs	(249)	(227)
Sundry administrative expenses	(675)	(595)
Depreciation and amortization	**(2,721)**	**(2,720)**
Software and other intangible assets	(1,087)	(1,113)
Owner occupied real estate	(548)	(538)
Investment property	(67)	(68)
Office furniture and equipment and sundry property and equipment	(435)	(421)
Right of use asset	(584)	(580)
General administrative expenses	**(21,335)**	**(20,398)**

Personnel expenses include expenses of CZK 1,583 million (2021: CZK 1,439 million) for the statutory defined contribution scheme.

The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme for health, social and pension purposes.

Board of Directors and Supervisory Board Remuneration

in CZK million	2022	2021
Remuneration	103	106

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short – term employee benefits, and part of variable remuneration as long-term benefit. The description of remuneration model is described in more detail in Note 59 Related party transactions and principal shareholders.

Average headcount of full time employees per reporting date

	2022	2021
Staff	9,846	9,738

9 Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/ losses relate to derecognition of financial assets in Stage 3, they are included in the line item 'Impairment result from financial instruments'.

in CZK million	2022	2021
Gains from sale of financial assets at amortised cost	-	5
Losses from sale of financial assets at amortised cost	(1,221)	(243)
Gains/losses from derecognition of financial assets measured at amortised cost	**(1,221)**	**(238)**

Due to sell of debt securities during 2022 the Group realized loss in amount of CZK 1,221 million (2021: CZK 243 million). Any derecognition of financial assets measured at AC does not breach the business 'Hold to collect' model.

10 Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL.

in CZK million	2022	2021
Other gains/losses from sale of financial assets at fair value through other comprehensive income	(633)	(4)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(633)**	**(4)**

Due to sell of debt securities during 2022 the Group realized loss in amount of CZK 633 million.

11 Impairment result from financial instruments

Impairment result from financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies (i.e. financial assets as well as financial loan commitments and guarantees).

The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets are also included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and direct write-offs are presented as part of the impairment result. When financial assets are written off the Group is not further enforcing any activity to recover those amount. Therefore the Group does not have any such items.

in CZK million	2022	2021
Financial assets at fair value through other comprehensive income	(5)	(23)
Financial assets at amortised cost	(725)	(1,475)
Net allocation to risk provisions	(1,188)	(1,893)
Direct write-offs	(14)	(14)
Recoveries recorded directly to the income statement	477	432
Finance lease receivables	3	29
Net allocation to credit loss allowances	3	29
Net allocation of provisions for commitments and guarantees given	92	(311)
Impairment result from financial instruments	**(636)**	**(1,780)**

Development of risk provision was driven by lower creation in 2022 (CZK 1,188 million) in comparison with 2021 (CZK 1,893 million) which reflects positive development of portfolio quality while keeping prudent approach to potential impacts of current geopolitical risks.

In the following table, the change of the credit loss allowance recognized in balance sheet is compared to the impairment result from financial instruments.

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year 2022 and 2021

in CZK million	CLA changes through P&L-NIR	CLA changes through P&L-Outside NIR	CLA changes outside P&L	CLA changes Total
Opening balance of CLA (total) as at 1 January 2021				**(21,061)**
Net impairment loss for the period	(1,747)			(1,747)
(Increase) due to passage of time (unwinding correction)		(327)		(327)
CLA decreases due to sales			494	494
CLA decreases due to write-offs			880	880
CLA changes due to changes in Group's structure			(131)	(131)
CLA changes due to foreign exchange differences		217		217
Other CLA changes		286		286
Closing balance of CLA (total) as at 31 December 2021				**(21,389)**
Impairment gain/(loss) from POCI without CLA	(451)			
Direct write-offs	(14)			
Recoveries of written-off amounts	432			
Net impairment loss for the period as at 31 December 2021	**(1,780)**			

Opening balance of CLA (total) as at 1 January 2022				**(21,389)**
Net impairment loss for the period	(1,197)			(1,197)
(Increase) due to passage of time (unwinding correction)		(337)		(337)
CLA decreases due to sales			252	252
CLA decreases due to write-offs			430	430
CLA changes due to foreign exchange differences		1		1
Other CLA changes		124		124
Closing balance of CLA (total) as at 31 December 2022				**(22,117)**
Impairment gain/(loss) from POCI without CLA	98			
Direct write-offs	(14)			
Recoveries of written-off amounts	477			
Net impairment loss for the period as at 31 December 2022	**(636)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase in amount of CZK 728 million, 2021: CZK 328 million) CZK 1,197 million (2021: CZK 1,747 million) was reported in Net impairment result in Profit and Loss

(NIR). Other movement (decrease) in amount of CZK 470 million (2021: CZK 1,419 million) represents impact of changes due to sales, write-offs or unwinding correction recognized in other items in Profit and Loss (e.g. net interest income) or outside Profit and Loss. Beside the CLA movements the NIR was decreased by another CZK 561 million (2021: increased by CZK 33 million) consisting of impairment gain from POCI in amount of CZK 98 millon (2021: loss of CZK 451 million), direct write-offs in amount of CZK 14 million (2021: CZK 14 million) and decreased by recoveries of written-offs in amount of 477 CZK million (2021: CZK 432 million).

12 Other operating result

The other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities. The other operating result includes impairment losses or any reversal of impairment losses of non-financial assets as well as results of their sale. Here are also included any impairment losses on goodwill.

In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund according to Act 374/2015 Coll.

in CZK million	2022	2021
Other operating expenses	**(1,068)**	**(1,097)**
Allocation to other provision	(104)	(265)
Other taxes	(2)	(14)
Recovery and resolution fund contributions	(962)	(818)
Other operating income	**262**	**2**
Release of other provision	262	2
Result from properties/movables/other intangible assets other than goodwill	**(760)**	**(412)**
Result from other operating expenses/income	**(103)**	**(198)**
Other operating result	**(1,669)**	**(1,705)**

In 2022 the Group accounted for the impairment and reserves of CZK 442 million related to new HQ due to uncertainties on the real estate market and realized a gain of CZK 274 million as a result of the sale of own building in Prague. In 2022 the Group released the provision for legal issues and litigation accounted for in 2021 of CZK 226 million.

Based on the EU Directive and the related binding Delegated Act and their transposition in Czech law, the Group contributes to the Single Resolution Mechanism (SRM) since 1 January 2016. In 2022 the final annual contributions paid to Resolution Fund of CZK 962 million (2021: CZK 818 million) was reported within the line "Recovery and resolution fund contributions".

13 Taxes

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of

unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2022	2021
Current tax expense / income	(4,421)	(4,223)
current period	(4,379)	(3,946)
prior period	(42)	(277)
Deferred tax expense / income (+)	227	202
current period	227	202
Total taxes on income	**(4,193)**	**(4,021)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal tax rate.

in CZK million	2022	2021
Pre-tax profit/loss	24,381	18,229
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(4,632)	(3,464)
Non-taxable income	1,505	1,128
Non-deductible expenses	(1,251)	(1,389)
Other	151	1
Prior period over/(under) accrual	34	248
Total	**(4,193)**	**(4,021)**
Effective tax rate	**17.20%**	**22.06%**

The Group has accounted for the additional tax expense related to transfer of means to Depositum Bonum Foundation of CZK 204 million in 2021.

Tax effects relating to each component of other comprehensive income:

in CZK million	2022			2021		
	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Fair value reserve on debt instrument	(1,732)	329	(1,403)	(470)	90	(380)
Own credit risk reserve	87	-	87	(1)	-	(1)
Cash flow hedge reserve	1,369	(260)	1,109	(7,696)	1,461	(6,235)
Currency translation	(18)	-	(18)	156	-	156
Other comprehensive income	**(294)**	**69**	**(225)**	**(8,011)**	**1,551**	**(6,460)**

Major components of deferred tax assets and deferred tax liabilities

in CZK million	Tax assets		Tax liabilities		Net variance 2022		
	As of Dec 2022	As of Jan 2022	As of Dec 2022	As of Jan 2022	Total	Through P/L	Through OCI
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	1	-	(116)	(115)	-	-	-
Financial assets at FVOCI	346	25	-	(7)	329	-	329
Financial assets at AC	1,409	1,409	-	(50)	51	51	-
Property and equipment (useful life in tax law different)	216	122	(11)	(98)	182	182	-
Intangible assets other than goodwill	-	-	(440)	(398)	(42)	(42)	-
Other provisions	19	-	-	-	19	13	-
Hedge accounting derivatives	1,012	1,262	(18)	(8)	(260)	-	(260)
Other assets and liabilities	483	464	-	-	19	19	-
Recognized Deferred tax position from accumulated tax loss carried forward, after recoverability considerations	-	2	-	-	(2)	(2)	-
Effect of netting according IAS 12.71	(569)	(552)	569	550	2	2	-
Total deferred taxes	**2,918**	**2,732**	**(16)**	**(126)**	**296**	**227**	**69**
Current taxes	**445**	**1,042**	**(144)**	**(117)**	**(624)**		
Total taxes	**3,363**	**3,774**	**(160)**	**(243)**	**(329)**		

in CZK million	Tax assets		Tax liabilities		Net variance 2021		
	As of Dec 2021	As of Jan 2021	As of Dec 2021	As of Jan 2021	Total	Through P/L	Through OCI
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	-	-	(115)	(95)	(20)	(20)	-
Financial assets at FVOCI	25	-	(7)	(72)	90	-	90
Financial assets at AC	1,409	1,337	(50)	(78)	100	100	-
Property and equipment (useful life in tax law different)	122	180	(98)	(111)	(45)	(45)	-
Intangible assets other than goodwill	-	-	(398)	(406)	8	8	-
Hedge accounting derivatives	1,262	165	(8)	(367)	1,456	(6)	1,462
Other assets and liabilities	464	295	-	-	169	169	-
Recognized Deferred tax position from accumulated tax loss carried forward, after recoverability considerations	2	5	-	-	(3)	(2)	(1)
Effect of netting according IAS 12.71	(552)	(962)	550	962	(2)	(2)	-
Total deferred taxes	**2,732**	**1,020**	**(126)**	**(167)**	**1,753**	**202**	**1,551**
Current taxes	**1,042**	**1,417**	**(117)**	**(60)**	**(432)**		
Total taxes	**3,774**	**2,439**	**(243)**	**(227)**	**1,319**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

Out of the total net deferred tax variance of CZK 296 million (2021: CZK 1,753 million) an amount of CZK 227 million (2021: CZK 202 million) is reflected as net deferred tax income in the Group's income statement for the year 2022, whilst an income amount of CZK 69 million (2021: income CZK 1,551 million) represents the impact in the Group's other comprehensive income for the year.

The Group's net deferred tax asset position in amount of CZK 2,902 million as of 31 December 2022 (2021: CZK 2,606 million) is expected to be recoverable in the foreseeable future. These expectations result from year-end recoverability assessments undertaken by the Group.

Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end - after offsetting with deferred tax liabilities.

As of 31 December 2022, no deferred tax assets were recognised for tax loss carry-forward and deductible temporary differences as they are not expected to be realized in the foreseeable future.

14 Appropriation of profit

In the reporting period, the Group posted a post-tax profit of CZK 20,188 million under the Czech law, which increased its distributable capital accordingly (2021: CZK 14,208 million).

The equity increased accordingly.

The sole shareholder of the Group has approved extraordinary distribution of own funds in April 2022 (distribution of 2019-20 profits retained due to COVID-related restrictions) in the total volume of CZK 25,451 million (out of which the dividend was CZK 25,030 million and the AT1 coupon CZK 421 million). Dividend per share was CZK 164.67.

A decision on the distribution of 2022 profit has thus not been taken before the date of issue of these financial statements.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

Accounting and measurement methods of financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement of financial assets and financial liabilities is subject to two primary measurement methods: at amortised cost and at fair value.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset was sold or paid, if a liability was transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 25 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement

Initial measurement of financial instruments Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant

inputs based on observable markets data, the Group immediately recognises the difference between the transaction price and the fair value as a gain or loss (also referred to as Day 1 gain or loss).

In all other cases, the difference between the fair value at initial recognition and the transaction price is recognized in the carrying amount of the instrument, but the recognition of gains / losses is deferred. After initial recognition, an entity recognizes this deferred difference as a gain / loss only if it results from a change in certain factors (including time) that market participants would consider in determining the price of the instrument. In other words, a deferred difference would only be recognized if the underlying factors are observable and can be confirmed by the market.

Classification and subsequent measurement of financial assets

Financial assets - Debt securities

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) the business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets– the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. For further details refer to part 'Significant accounting judgements, assumptions and estimates' in this chapter.

Financial assets – Equity instruments

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group.

Application of these criteria leads to classification of financial assets into three measurement categories described in the respective notes.
_Financial assets at amortised cost
_Financial assets at fair value through other comprehensive income
_Financial assets at fair value through profit or loss

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss. Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Note 18 Financial liabilities at amortised cost and Note 24 Financial liabilities at fair value through profit or loss.

Impairment of financial instruments

The Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its cash and cash balances, its finance lease receivables, its trade and other receivables, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of apply- ing the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending

exposures (see details in Note 34 Credit risk exposure). The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income is recognised in the allowance account (without impacting the impairment loss).

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by the Group which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Bank/Group has in a loan contract an option to require provision of a guarantee, it is also considered as integral. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 34 Credit risk exposure.

For financial assets measured at amortised cost the net carrying amount of the financial asset presented on balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

Information about the development of the expected credit loss of the respective financial instruments is provided in Note 38 Development of Credit Loss Allowances.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments not measured at FVPL are presented in the line item 'Impairment result from financial instruments'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic sub- stance and financial effect of such contractual modifications, the Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. As a result, the Group renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); or
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset;

- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- altering a floating interest rate into a fixed interest rate or vice versa for the entire remaining life of the financial asset.

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment result from financial instruments'. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Write-offs

The Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

The Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the Bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). For more information on Forbearance please refer to Note 40 Restructuring, renegotiation and forbearance.

In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account ´Impairment result from financial instruments´ in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Impairment result from financial instruments'.

iv. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Significant accounting judgements, assumptions and estimates

i. SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Group, significant areas of judgement are prepayment fees and project financing loans. The benchmark test for loans with interest mismatches features does not represent area of SPPI judgement since the Group does not provide such products to its customers. Assets failing the SPPI test are classified as mandatorily at FVPL. The Group has no loan failing SPPI test as of 31 December 2022 and 2021.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the Group upon the early termination. For these purposes, the Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans the Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

ii. Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Group has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows

are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Group, certain sales and other derecognition events are considered as non contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognition resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Group performs a prospective test. If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above described, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

iii. Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a col- lective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life mainly in the case of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 34 Credit risk exposure. The development of loan loss provisions is described in Chapter FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, Note 16 Financial assets at amortised cost, Note 52 Provisions, Note 49 The Group as a lessor, part Finance lease receivables and Note 17 Trade and other receivables.

FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial assets are classified as measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are solely payment of principal and interest ('SPPI') compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables', 'Finance lease receivables' and 'Cash and cash balances'.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (sub- item 'Interest income') in the income statement. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Group, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any),

interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables.

For description of financial liabilities at measured amortised cost refer to Note 18 Financial liabilities at amortised cost.

15 Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to CZK 5,561 million (2021: CZK 18,446 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

in CZK million	2022	2021
Cash on hand	14,260	16,824
Cash balances at central banks	5,627	19,069
Other deposits on demand	1,983	1,579
Cash and cash balances	**21,870**	**37,472**

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

16 Financial assets at amortised cost

The line item 'Financial Assets at amortised cost' is further broken down into 'Debt securities', 'Loans and advances to banks' and 'Loans and Advances to Customers'. For details regarding the development of credit loss allowances please refer to Note 38 Development of Credit Loss Allowances.

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/ external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the Board of Directors, initiation and fostering of client relationship, substitution of loan business or other yield generating activities). Their common attribute is that significant and/or frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the paragraph "Business model assessment" in chapter Financial instruments – Significant accounting policies.

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of the Group's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

in CZK million	GCA				CLA				Carrying
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	amount
2022									
General governments	314,282	-	-	314,282	(24)	-	-	(24)	314,257
Credit institutions	12,845	601	-	13,446	(4)	(5)	-	(9)	13,437
Other financial corporations	-	105	-	105	-	(1)	-	(1)	104
Non-financial corporations	3	3	-	6	-	-	-	-	6
Total	**327,130**	**710**	**-**	**327,840**	**(28)**	**(6)**	**-**	**(34)**	**327,805**
2021									
General governments	313,771	-	-	313,771	(14)	-	-	(14)	313,757
Credit institutions	11,755	-	-	11,755	(5)	-	-	(5)	11,750
Non-financial corporations	-	7	-	7	-	-	-	-	7
Total	**325,526**	**7**	**-**	**325,533**	**(19)**	**-**	**-**	**(19)**	**325,514**

For information about development of credit loss allowances refer to Note 38 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – debt securities'.

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2022 and 2021.

Loans and advances to banks

The analysis of the GCA and of related CLA of the Group's loans and advances at AC to banks per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA				CLA				Carrying
in CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	amount
2022									
Central banks	260,460	-	-	260,460	(3)	-	-	(3)	260,457
Credit institutions	6,220	-	-	6,220	(2)	-	-	(2)	6,219
Total	**266,680**	**-**	**-**	**266,680**	**(4)**	**-**	**-**	**(4)**	**266,675**
2021									
Central banks	360,255	-	-	360,255	(2)	-	-	(2)	360,253
Credit institutions	4,742	-	-	4,742	(1)	-	-	(1)	4,741
Total	**364,997**	**-**	**-**	**364,997**	**(3)**	**-**	**-**	**(3)**	**364,994**

For information about development of credit loss allowances refer to Note 38 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to banks'.

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022 and 2021.

Loans and advances to customers

The analysis of the GCA and of related CLA of the Group's loans and advances to customers at AC per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA					CLA					
in CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	22,633	1,330	-	-	23,963	(8)	(148)	-	-	(156)	23,807
Other financial corporations	20,798	2,755	1	-	23,553	(24)	(36)	(1)	-	(61)	23,492
Non-financial corporations	224,723	79,950	8,722	1,186	314,581	(751)	(3,266)	(5,515)	(449)	(9,981)	304,600
Households	481,202	69,934	7,299	115	558,550	(1,034)	(3,776)	(5,080)	(25)	(9,914)	548,635
Total	**749,355**	**153,968**	**16,022**	**1,301**	**920,647**	**(1,817)**	**(7,226)**	**(10,597)**	**(474)**	**(20,113)**	**900,534**
2021											
General governments	15,480	8,181	-	-	23,661	(10)	(98)	-	-	(108)	23,553
Other financial corporations	16,095	1,691	2	-	17,788	(36)	(32)	(1)	-	(68)	17,720
Non-financial corporations	218,092	54,522	7,964	1,174	281,752	(1,105)	(2,879)	(4,597)	(466)	(9,047)	272,705
Households	465,303	44,298	7,965	109	517,674	(1,189)	(3,404)	(5,195)	(25)	(9,812)	507,862
Total	**714,970**	**108,693**	**15,930**	**1,282**	**840,875**	**(2,339)**	**(6,413)**	**(9,793)**	**(490)**	**(19,035)**	**821,840**

For information about development of credit loss allowances refer to Note 38 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to customers'.

As at 31 December 2022, the total GCA of the Group's debt instruments (primarily loans and advances to customers) measured at AC, which were impacted by non-significant contractual modifications while they were assigned to Stage 2 or 3 and re-assigned to Stage 1 during the year 2022 amounted to CZK 867 million (2021: CZK 2,476 million).

17 Trade and other receivables

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA				CLA				Carrying
in CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**amount**
2022									
General governments	364	1	-	365	-	(1)	-	(1)	364
Credit institutions	40	-	-	40	-	-	-	-	40
Other financial corporations	160	1	-	161	-	(1)	-	(2)	160
Non-financial corporations	9,168	2,001	450	11,620	(90)	(62)	(299)	(451)	11,168
Households	65	124	61	250	(1)	(100)	(60)	(161)	89
Total	**9,797**	**2,127**	**512**	**12,436**	**(92)**	**(164)**	**(359)**	**(616)**	**11,821**
2021									
General governments	656	1	-	658	(1)	(1)	-	(2)	656
Credit institutions	7	12	61	81	(1)	(12)	(30)	(44)	37
Other financial corporations	103	1	-	104	-	(1)	-	(1)	103
Non-financial corporations	11,980	1,167	717	13,864	(89)	(25)	(616)	(731)	13,133
Households	74	130	34	237	(1)	(109)	(30)	(141)	96
Total	**12,821**	**1,312**	**811**	**14,944**	**(92)**	**(150)**	**(677)**	**(919)**	**14,025**

For information about development of credit loss allowances refer to Note38 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – trade and other receivables'.

18 Financial liabilities at amortised cost

The line item 'Financial liabilities at amortised cost' is further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are calculated using effective interest method and reported in the line item 'Net interest income' (sub-item 'Interest expenses') in the statement of income. Gains and losses from de-recognition are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

The year-on-year decrease in Other financial liabilities was attributable to the high demand for inflation-linked government bonds issued by the Czech state, which were available only till the year-end 2021 of CZK 13,368 million. Other items consist mainly of payables to card associations in amount of CZK 1,485 million (2021: CZK 685 million), unbilled supplies in amount of CZK 1,212 million (2021: CZK 1,219 million) and received margin for futures of CZK 639 million (2021: CZK 823 million) and other financial liabilities of CZK 483 million.

in CZK million	**2022**	**2021**
Deposits	**1,339,005**	**1,223,585**
Deposits from banks	113,541	49,695
Deposits from customers	1,225,464	1,173,890
Debt securities issued	**76,657**	**213,357**
Bonds	76,657	213,357
Other financial liabilities	**6,168**	**18,114**
Financial liabilities measured at amortised costs	**1,421,830**	**1,455,056**

Deposits from banks

in CZK million	2022	2021
Overnight deposits	13,105	2,568
Term deposits	13,873	10,671
Repurchase agreements	86,563	36,456
Deposits from banks	**113,541**	**49,695**

Deposits from customers

in CZK million	2022	2021
Current accounts/Overnight deposits	964,452	1,037,386
General governments	70,454	70,983
Other financial corporations	21,435	24,659
Non-financial corporations	131,954	149,202
Households	740,609	792,542
Term deposits	227,303	124,922
General governments	11,446	1,174
Other financial corporations	24,857	12,661
Non-financial corporations	49,998	13,798
Households	141,002	97,289
Repurchase agreements	33,709	11,582
General governments	278	20
Other financial corporations	33,431	11,562
Deposits from customers	**1,225,464**	**1,173,890**
General governments	82,179	72,177
Other financial corporations	79,722	48,882
Non financial corporations	181,952	163,000
Households	881,612	889,831

All deposits are from customers and entities realized within the Czech Republic.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	2022	2021
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	-	39
Mortgage bonds	CZ0002008261	December 2021	January 2022	floating	No	-	58,072
Mortgage bonds	CZ0002008279	December 2021	March 2022	floating	No	-	45,062
Mortgage bonds	CZ0002008006	October 2021	January 2022	floating	No	-	97,056
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	419	443
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	5,067	512
Mortgage bonds	CZ0002008790	December 2022	March 2023	floating	No	12,539	-
Mortgage bonds	CZ0002008808	December 2022	January 2023	floating	No	30,055	-
Mortgage bonds	XS2555412001	November 2022	November 2025	floating	No	12,131	-
Mortgage bonds	CZ0003707291	July 2022	July 2027	floating	No	6,209	-
Bonds-subordinated (SNP)	AT0000A2STV4	September 2021	September 2028	floating	Yes	10,237	12,173
Bonds issued						**76,657**	**213,357**

Debt securities which are traded on the official regulated market are registered in the Prague Stock Exchange ('PSE') in case of mortgage bonds and in the Vienna Stock Exchange in case of SNP bonds.

Assets in cover pools used for mortgage bond issuance amounted to CZK 298,009 million (2021: CZK 252,768 million).

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

19 Financial assets at fair value through other comprehensive income - debt instruments

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets.In the statement of financial position they are included as 'Debt securities' under the line 'Financial assets at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' (sub-item 'Interest income') in the income statement. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite entry in OCI rather than against the asset value.

The difference between the fair value at which the assets are carried in the statement of financial position and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Fair value reserve of debt instruments', which also includes the loss allowance OCI entry. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

The Group classifies investments in debt securities as measured at FVOCI, i.e. no loan business is included in this measurement category. Similarly to investments in debt securities measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

Debt instruments

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of the Group's debt securities at FVOCI per impairment buckets as of 31 December 2022 and 2021 is provided below:

	GCA				CLA				Amortized cost	Accumulated fair value changes	Fair value
in CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
2022											
Debt securities											
General governments	33,102	-	-	33,102	(2)	-	-	(2)	33,100	(267)	32,833
Credit institutions	3,191	-	-	3,191	(1)	-	-	(1)	3,191	(250)	2,941
Other financial corporations	2,412	1,629	-	4,041	(1)	(7)	-	(9)	4,033	(42)	3,990
Non-financial corporations	3,597	6,374	-	9,971	(4)	(138)	-	(142)	9,829	(1,160)	8,670
Total	**42,303**	**8,003**	**-**	**50,306**	**(8)**	**(145)**	**-**	**(153)**	**50,153**	**(1,719)**	**48,434**
2021											
Debt securities											
General governments	17,486	-	-	17,486	(1)	-	-	(1)	17,486	(32)	17,454
Credit institutions	1,614	-	-	1,614	(1)	-	-	(1)	1,613	(29)	1,584
Other financial corporations	1,161	1,975	-	3,136	-	(44)	-	(45)	3,091	105	3,196
Non-financial corporations	1,343	7,689	-	9,032	(1)	(102)	-	(103)	8,929	(31)	8,898
Total	**21,605**	**9,664**	**-**	**31,268**	**(3)**	**(146)**	**-**	**(149)**	**31,120**	**12**	**31,132**

As defined in IFRS 9, the gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. The accumulated OCI changes combine the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income, as required by IFRS9 in respect of debt instruments measured at FVOCI.

For information about development of credit loss allowances refer to Note 38 Development of Credit Loss Allowances, part 'Financial assets at fair value through other comprehensive income – debt instruments': table 'Movement in credit loss allowances – debt instrument financial assets'.

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2022 and 2021.

20 Financial assets at fair value through other comprehensive income - equity instruments

For certain investments in equity instruments which are not held for trading, the Group makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments.

The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve of equity instruments' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to debt instruments financial assets.

FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Group, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by the Group since they are managed and their performance is evaluated on a fair value basis. Another reason for the FVPL measurement are financial assets whose contractual cash flows are not considered as SPPI. At the Group, this concerns certain debt securities and loans to customers.

The Group also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities'). Non-trading financial assets at FVPL consist of two sub-categories disclosed in Note 23 Non-trading financial assets at fair value through profit or loss which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are valued mandatorily measured at fair value through profit or loss either because they are held as part of residual business models that are other than held for trading or their contractual cash flows are not SPPI.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the bank) are measured at FVPL. They are included in the statement of financial position under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the statement of financial position under 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in Note 23 Non-trading financial assets at fair value through profit or loss .

From IFRS9 perspective all derivatives which are not designated as hedging instruments are considered as held for trading. As a result, they are measured at FVPL. They are described more detail in the Note 21 Derivative financial instruments.

In the income statement, the profit or loss effects of non-derivative financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item 'Other similar income'). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. On the balance sheet, financial liabilities at FVPL are presented as 'Financial liabilities held for trading', sub-items 'Derivatives' and 'Other financial liabilities held for trading' and as 'Financial liabilities at fair value through profit or loss' which are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Accounting policy related to financial liabilities at FVPL can be found in Note 21 Derivative financial instruments and Note 24 Financial liabilities at fair value through profit or loss.

21 Derivative financial instruments

Derivatives used by the Group include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Hedge accounting derivatives are discussed in Note 26 Hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the Trading book and Banking book according to CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives

in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in fair-value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated OCI is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Embedded derivatives

The Group is involved in business with own debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host own debt instruments if:

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the definition of derivative; and
- the hybrid instrument is not a financial liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in 'Financial assets held for trading' or 'Financial liabilities held for trading'.

Derivatives that are not closely related and are separated relate to issued bonds and deposits whose payments are linked to equity prices or FX rates. From 2018, instead of separating the embedded derivatives, the Group largely uses the possibility to designate the entire financial liability as measured at FVPL.

Derivatives held for trading

	2022			2021		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the Trading book	**819,892**	**27,680**	**(26,102)**	**703,899**	**14,989**	**(14,242)**
Interest rate	370,862	17,281	(16,570)	370,501	10,784	(10,300)
Foreign exchange	449,030	10,399	(9,532)	333,398	4,205	(3,942)
Derivatives held in the Banking book	**95,349**	**281**	**(3,495)**	**42,858**	**519**	**(1,150)**
Interest rate	53,414	-	(3,070)	26,408	-	(934)
Foreign exchange	41,935	281	(425)	16,450	519	(216)
Total	**915,241**	**27,961**	**(29,597)**	**746,757**	**15,508**	**(15,392)**

All derivatives not designated as hedging instruments are classified as held for trading, including those held in the Banking book for regulatory purposes (economic hedges).

22 Other financial assets held for trading

in CZK million	**2022**	**2021**
Debt securities	48	53
General governments	9	22
Credit institutions	35	30
Other financial corporations	4	1
Other financial assets held for trading	**48**	**53**

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

	2022		2021	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	1,003	-	862
Debt securities	-	926	-	905
Other financial corporations	-	926	-	905
Loans and advances to banks	-	1,383	-	744
Loans and advances to customers	19	-	-	-
Non-financial corporations	19	-	-	-
Financial assets designated and mandatorily at fair value through profit or loss	**19**	**3,312**	**-**	**2,511**
Non-trading financial assets at fair value through profit or loss	**3,331**		**2,511**	

Financial assets classified as mandatorily at FVPL comprise of equities and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in 'Classification and subsequent measurement of financial assets' in section 'Significant accounting policies'.

24 Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

In the business of the Group non-derivative held-for-trading liabilities comprise of short sales. Such business arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item 'Deposits from customers'.

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item 'Other similar expenses').

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and the beginning of the period. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
in CZK million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Deposits	31,331	10,653	31,151	9,943	180	710
Financial liabilities at FVPL	**31,331**	**10,653**	**31,151**	**9,943**	**180**	**710**

Deposits designated as 'Financial liabilities at fair value through profit and loss' represent hybrid instruments i.e. contain one or more not closely related embedded derivatives, which are not separated from those host instruments.

Fair value changes that are attributable to changes in own credit risk

	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
in CZK million	**2022**	**2021**	**2022**	**2021**
Financial liabilities - at fair value through profit or loss				
Deposits from customers	(87)	1	(89)	(2)

The change in the fair value arising from the changes in the credit profile of the issuer (the Group) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

25 Fair value of financial instruments

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

All financial instruments at fair value are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

Description of valuation models and parameters

The Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been deter- mined independently. For financial instruments which have been converted to the new alternative refernce rates (see Note 67 Interest Rate Benchmark Reform), the new interest rates are considered for the calculation of fair values.

Loans. Not SPPI (solely payments of principal and interest) compliant loans are to be valued at fair value. The methodology to compute fair value of these assets corresponds to the basic present value technique. The credit risk is recognized by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability

of default and loss given default. These adjusted cash flows are then discounted by a yield curve which consists of a risk free rate and a funding spread for senior unsecured issues. For a limited number of profit-participating loans, the expected cash flows are discounted using a risk-adjusted discount rate. This risk-adjusted rate is determined applying the Capital Assets Pricing Model (CAPM) on the basis of comparable listed entities.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option- like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

Equity instruments. Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity.

The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium. The levered beta is derived from the industry classification which is published and maintained by Damodaran.

In rare cases, techniques for non-trading equity instruments may also include comparable company multiple methods. These are valuation techniques that use prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

Liabilities. The fair value of financial liabilities designated at fair value through profit or loss under the fair value option is determined based on quoted prices in active markets, if available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. Significant input factors for the spread adjustment of Erste Group's own credit risk for the respective seniority class are credit spreads derived from liquid benchmark bonds and additional indications from external investments banks, which are provided on a regular basis. The applied spreads are validated on a regular basis from an independent Risk Management unit. In case of issued securities with structured features, optionality is taken into account as well when calculating the fair value.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is deter- mined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also

use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

As a result of the IBOR reform it has been decided that the so far used EONIA (Euro Over NightIndex Average) will be replaced by €STR (Euro Short-Term Rate) with a transition phase until 31 December 2021. In Group all contracts with CCP's (Central Counter Parties), LCH (London Clearing House) and EUREX have been converted in 2020 and for the respective collaterals €STR is used as interest rate. More details to IBOR reform is described in Note 67 Interest Rate Benchmark Reform.

The Group values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid/ask spread to the valuation. Parameters are reviewed on a regular basis or in case of significant market moves.

Credit valuation adjustments (CVA) for counterparty risk and debt valuation adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counter- parties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a bas- ket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices.

According to the described methodology the accumulated CVA-adjustments amounted to CZK (84) million (2021: CZK (67) million) and the total DVA-adjustment amounted to CZK 135 million (2021: CZK 43 million).

Based on an analysis carried out by the Group it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent from the trading units. In addition, The Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. The evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurements include exchange traded derivatives (options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurements include OTC derivatives, less liquid shares, bonds and funds as well as own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. Typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

The volume of Level 3 financial assets can be allocated to the following categories:

- Derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares, participations and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Loans which do not comply with the contractual cash flow criteria.
- Fund units issued by investment funds fully consolidated by Erste Group as well as own issues, if price updates are not provided on a regular basis
- Collateralized mortgage obligation (CMO)

The allocation of the appropriate level of positions is determined at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

	2022				2021			
in CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets - held for trading	9	27,671	329	28,009	21	15,413	127	15,561
Derivatives	-	27,633	328	27,961	-	15,381	127	15,508
Other trading assets	9	38	1	48	21	32	-	53
Non-trading financial assets - FVPL	96	-	3,235	3,331	93	-	2,418	2,511
Equity instruments	-	-	1,003	1,003	-	-	862	862
Debt securities	96	-	830	926	93	-	812	905
Loans and advances	-	-	1,402	1,402	-	-	744	744
Financial assets - FVOCI	39,901	5,406	3,126	48,433	21,414	7,141	2,577	31,132
Debt securities	39,901	5,406	3,126	48,433	21,414	7,141	2,577	31,132
Derivatives Hedge Accounting	-	3,151	84	3,235	-	607	-	607
Total assets	**40,007**	**36,228**	**6,774**	**83,009**	**21,528**	**23,161**	**5,122**	**49,811**
LIABILITIES								
Financial liabilities held for trading	-	29,597	-	29,597	-	15,160	232	15,392
Derivatives	-	29,597	-	29,597	-	15,160	232	15,392
Financial liabilities designated at fair value through profit or loss	-	31,331	-	31,331	-	10,653	-	10,653
Deposits from customers	-	31,331	-	31,331	-	10,653	-	10,653
Derivatives Hedge Accounting	-	5,870	-	5,870	-	4,659	59	4,718
Total liabilities	**-**	**66,798**	**-**	**66,798**	**-**	**30,472**	**291**	**30,763**

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

Reclassification between Level 1 and Level 2 based on balance sheet positions and instruments

	2022		2021	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	231	-	2,135
Net transfer from Level 2	2	-	136	-
Purchases/sales/expiries	18,477	(1,960)	9,728	(2,061)
Changes in derivatives	-	14,796	-	2,152
Total year-to-date change	**18,479**	**13,067**	**9,864**	**2,226**

The relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements in Level 3

Development of fair value of financial instruments in Level 3

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million		Gains/ losses profit or loss	Gains/ losses OCI	Purchases	Sales/ Settlements	Transfer into Level 3	Transfer out of Level 3	
	Jan 2022							**Dec 2022**
Assets								
Financial assets HfT	127	212	-	-	-	1	(10)	329
Derivatives	127	212	-	-	-	-	(10)	329
Other financial assets held for trading	-	-	-	-	-	1	-	1
Non-trading financial assets at FVPL	2,418	1,266	-	542	(992)	-	-	3,235
Equity instruments	862	(201)	-	366	(24)	-	-	1,003
Debt securities	812	85	-	157	(224)	-	-	830
Loans and advances	744	1,383	-	19	(744)	-	-	1,402
Financial assets at FVOCI	2,577	14	(16)	32	(8)	2,292	(1,764)	3,126
Debt securities	2,577	14	(16)	32	(8)	2,292	(1,764)	3,126
Hedge accounting derivatives	-	84	-	-	-	-	-	84
Total assets	**5,122**	**1,576**	**(16)**	**574**	**(1,001)**	**2,293**	**(1,774)**	**6,774**

	Jan 2021							**Dec 2021**
Assets								
Financial assets HfT	100	42	-	-	(1)	-	(15)	127
Derivatives	99	42	-	-	-	-	(15)	127
Other financial assets held for trading	1	-	-	-	(1)	-	-	-
Non-trading financial assets at FVPL	2,409	743	-	70	(862)	58	-	2,418
Equity instruments	982	(180)	-	2	-	58	-	862
Debt securities	944	175	-	68	(376)	-	-	812
Loans and advances	483	747	-	-	(486)	-	-	744
Financial assets at FVOCI	2,256	(43)	40	2	-	1,764	(1,441)	2,577
Debt securities	2,256	(43)	40	2	-	1,764	(1,441)	2,577
Total assets	**4,765**	**741**	**40**	**72**	**(862)**	**1,822**	**(1,456)**	**5,122**

Transfers into and out of Level 3 are mainly due to changes in the market activity and consequently in the observability of valuation parameters.

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 because credit valuation adjustment (CVA) has a material impact on the market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact on the market value of these derivatives any more. FVOCI (equities and bonds) for which valuation models are based on non-observable inputs were transferred into Level 3.

The gains or losses of Level 3 financial instruments classified as 'Non-trading financial assets at fair value through profit or loss' and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets at fair value through other comprehensive income' is shown in the income statement line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments'. Level 3 gains or losses in other comprehensive income disclosed in the balance sheet line item 'Financial assets at fair value through other comprehensive income' are reported directly in equity under 'Change in fair value reserve'.

Level 3 movements. The reclassification of securities out of Level 3 was caused by an increase in market liquidity.

Gains or losses on Level 3 instruments held at the end of the reporting period

	2022	2021
in CZK million	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	212	42
Derivatives	212	42
Non-trading financial assets at fair value through profit or loss	1,270	757
Equity instruments	(201)	(180)
Debt securities	88	190
Loans and advances	1,383	747
Financial assets at fair value through other comprehensive income	(44)	(43)
Debt securities	(44)	(43)
Hedge accounting derivatives	84	-
Total	**1,522**	**756**

Unobservable inputs and sensitivity analysis for Level 3 measurement

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**2022**	**2021**	**2022**	**2021**
Derivatives	19	3	(24)	(7)
Income statement	19	3	(24)	(7)
Debt securities	48	34	(64)	(46)
Other comprehensive income	48	34	(64)	(46)
Equity instruments	72	82	(143)	(164)
Income statement	72	82	(143)	(164)
Total	**139**	**119**	**(231)**	**(217)**
Income statement	**91**	**85**	**(167)**	**(171)**
Other comprehensive income	**48**	**34**	**(64)**	**(46)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between +100 basis points and – 75 basis points;
- for equity related instruments the price range between -10% and +5%;
- for CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

Fair value of financial instruments not recognised at fair value

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2022 and for the year-end 2021. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

in CZK million	Carrying amount (balance sheet)	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
2022					
ASSETS					
Cash and cash balances	21,870	21,870	14,260	7,610	-
Financial assets at amortised costs	1,495,014	1,392,244	267,930	8,337	1,115,977
Loans and advances to banks	266,675	266,624	-	-	266,624
Loans and advances to customers	900,534	849,265	-	-	849,265
Debt securities	327,805	276,354	267,930	8,337	88
Finance lease receivables	1,474	1,474	-	-	1,474
Trade and other receivables	11,821	11,820	-	-	11,820
LIABILITIES					
Financial liabilities measured at amortised costs	1,421,830	1,410,237	-	76,459	1,333,778
Deposits from banks	113,541	112,929	-	-	112,929
Deposits from customers	1,225,464	1,214,681	-	-	1,214,681
Debt securities issued	76,657	76,459	-	76,459	-
Other financial liabilities	6,168	6,168	-	-	6,168
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	17	-	-	17
Loan commitments	n/a	2,480	-	-	2,480
2021					
ASSETS					
Cash and cash balances	37,472	37,472	16,824	20,648	-
Financial assets at amortised costs	1,512,348	1,506,607	269,281	34,664	1,202,663
Loans and advances to banks	364,994	372,378	-	-	372,378
Loans and advances to customers	821,840	830,280	-	-	830,280
Debt securities	325,514	303,949	269,281	34,664	5
Finance lease receivables	1,083	1,083	-	-	1,083
Trade and other receivables	14,025	14,025	-	-	14,025
LIABILITIES					
Financial liabilities measured at amortised costs	1,455,056	1,447,686	-	213,204	1,234,482
Deposits from banks	49,695	49,630	-	-	49,630
Deposits from customers	1,173,890	1,166,728	-	-	1,166,728
Debt securities issued	213,357	213,204	-	213,204	-
Other financial liabilities	18,114	18,124	-	-	18,124
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(9)	-	-	(9)
Loan commitments	n/a	640	-	-	640

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign. The calculation of fair values of financial guarantees and commitments is based on the coefficient, which is calculated by the Market risk using the Erste Group Bank algorithms.

The fair value of loans and advances to customers and credit institutions, finance lease receivables and trade and other receivables has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost – debt securities are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

26 Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Group elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

The Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, the Group makes use of the relaxation provided by the EU-carve out for so called bottom layer amount. More details are discussed in part 'Hedges of interest rate risk' below. The change in the fair value of the hedged items attributable to the hedged interest risk in portfolio fair value hedges is presented on the balance sheet under the line item 'Fair value changes of hedged items in portfolio hedge of interest rate risk'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under 'Net interest income' in the line item 'Interest income' if the hedged item was a financial asset or in the line item 'Interest expenses' if the hedged item was a financial liability.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is

recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; sub-items 'Other similar income' or 'Other similar expenses'). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

The interest rate and FX risk of the Banking book is managed by the Group's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IAS 39. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by the Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Group statement of financial position. In general, the Group policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets. By using cross currency interest rate swaps, the Group hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, income of CZK 4 million (2021: income of CZK 182 million) was taken from the cash flow hedge reserve and recognised in the income statement; while loss of CZK 5,232 million (2021: loss CZK 6,600 million) was recognised directly in other comprehensive income.

As at 31 December 2022, the loss on hedging derivatives used for fair value hedging was CZK (2,016) million (2021: loss CZK (326) million); the gain due to changes in the fair value of hedged items was CZK 2,037 million (2021: gain CZK 281 million).

Fair values of hedging instruments are disclosed in the following table:

	2022			2021		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**17,081**	**36**	**(2,254)**	**17,602**	**92**	**(312)**
Interest rate	17,081	36	(2,254)	17,602	92	(312)
Cash flow hedge	**116,435**	**3,199**	**(3,616)**	**111,754**	**515**	**(4,406)**
Interest rate	70,469	171	(3,616)	77,084	33	(3,521)
Foreign exchange	45,966	3,028	-	34,670	482	(885)
Total	**133,515**	**3,235**	**(5,870)**	**129,356**	**607**	**(4,718)**

At the end of 2022 the Group had 249 cash flow hedge structures with maturity from 2023 to 2036. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2023	7,038	357	50
2024	3,200	191	-
2025	35,100	214	-
2026	20,800	379	-
2027	3,200	374	-
2028	-	43	-
2029	-	66	-
2030	-	97	-
2031	-	15	-
2032	-	15	-
2033	-	-	-
2034	-	-	-
2035	-	6	-
2036	-	10	-
Total	**69,338**	**1,767**	**50**

At the end of 2021 the Group had 234 cash flow hedge structures with maturity from 2022 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2022	4,000	182	-
2023	29,252	357	50
2024	12,100	168	-
2025	24,100	148	-
2026	1,300	245	-
2027	3,200	148	-
2028	-	10	-
2029	-	59	-
2030	-	97	-
2031	-	5	-
Total	**73,952**	**1,419**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges as of 31 December 2022 are reported. The indicated values for fair value hedges include single hedges as well as portfolio hedges, which due to immateriality are not shown separately.

in CZK million	Carrying amount		Change in FV for the period used for calculating hedge inefficiency	Notional	Timing of the nominal amounts of the instruments			
2022	**Assets**	**Liabilities**			**≤ 3 m**	**> 3 m and ≤ 1 y**	**> 1 y and ≤ 5 y**	**> 5 y**
Fair value hedges								
Interest rate risk	36	(2,254)	-	17,081	-	-	15,675	1,406
Cash flow hedges								
Interest rate risk	171	(3,616)	1,401	70,469	-	8,169	62,300	-
Foreign exchange risk	3,028	-	1,105	45,966	5,297	4,358	29,821	6,490
Total	**3,235**	**(5,870)**	**2,506**	**133,515**	**5,297**	**12,527**	**107,796**	**7,896**
2021								
Fair value hedges								
Interest rate risk	92	(312)	-	17,602	-	-	3,729	13,873
Cash flow hedges								
Interest rate risk	33	(3,521)	(5,419)	77,084	4,534	1,500	67,850	3,200
Foreign exchange risk	482	(885)	(1,853)	34,670	1,052	943	24,341	8,334
Total	**607**	**(4,718)**	**(7,272)**	**129,356**	**5,586**	**2,443**	**95,920**	**25,407**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

in CZK million	Carrying amount	Hedge adjustments		
		included in the carrying amount of assets/ liabilities	**Thereof: for the period used for recognition of hedge ineffectiveness**	**Remaining adjustments for terminated hedges**
2022				
Financial assets at AC				
Interest rate risk	165	(35)	(13)	-
Financial liabilities at AC				
Interest rate risk	16,508	(373)	2,050	2
2021				
Financial assets at AC				
Interest rate risk	179	(21)	(31)	-
Financial liabilities at AC				
Interest rate risk	17,475	73	312	4

Hedged items in cash flow hedges

in CZK million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
2022			
Interest rate risk	1,401	(3)	4,995
Foreign exchange risk	1,105	3	237
Total	**2,506**	**-**	**5,232**
2021			
Interest rate risk	(5,419)	3,676	295
Foreign exchange risk	(1,853)	2,628	-
Total	**(7,272)**	**6,305**	**295**

Effects of hedge accounting in profit or loss and other comprehensive income

			Cash flow hedge reclassified to profit or loss because	
in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	the hedged item has affected profit or loss	the hedged future cash flows are no longer expected to occur
2022				
Fair value hedges				
Interest rate risk	22	-	(210)	-
Cash flow hedges				
Interest rate risk	(4)	1,390	(2,409)	-
Foreign exchange risk	-	1,264	1,124	-
Total	**18**	**2,654**	**(1,495)**	**-**
2021				
Fair value hedges				
Interest rate risk	(45)	-	10	-
Cash flow hedges				
Interest rate risk	(171)	(5,692)	659	-
Foreign exchange risk	(11)	(1,972)	1,775	-
Total	**(227)**	**(7,664)**	**2,434**	**-**

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

27 Offsetting of financial instruments

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

Financial assets subject to offsetting and potential offsetting agreements

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
2022						
Derivatives (Note 21 and 26)	31,196	31,196	15,307	3,124	-	12,765
Reverse repurchase agreements (Note 16)	261,445	261,445	-	-	261,445	-
Total	**292,641**	**292,641**	**15,307**	**3,124**	**261,445**	**12,765**
2021						
Derivatives (Note 21 and 26)	16,114	16,114	9,747	2,127	-	4,240
Reverse repurchase agreements (Note 16)	357,197	357,197	-	-	350,936	6,261
Total	**373,311**	**373,311**	**9,747**	**2,127**	**350,936**	**10,501**

Financial liabilities subject to offsetting and potential offsetting agreements

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
2022						
Derivatives (Note 21)	35,467	35,467	15,307	9,467	-	10,692
Repurchase agreements (Note 18)	120,272	120,272	-	-	120,272	-
Total	**155,739**	**155,739**	**15,307**	**9,467**	**120,272**	**10,692**
2021						
Derivatives (Note 21)	20,110	20,110	9,747	605	-	9,758
Repurchase agreements (Note 18)	48,039	48,039	-	-	48,039	-
Total	**68,149**	**68,149**	**9,747**	**605**	**48,039**	**9,758**

The Group uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all contracts in the event of default of any counterparty. For derivative transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from

the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

The impact of offsetting is shown in the column 'Amounts offset (gross)'.

28 Transfer of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The corresponding cash received is recognised in the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' (sub-item 'Interest expenses'). Financial assets transferred out by the Group under repurchase agreements remain on the Group's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item. Moreover, they are presented in 'thereof pledged as collateral' positions under the respective balance sheet items.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the statement of financial position under the respective line items 'Loans and advances to banks' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income' (sub-item 'Interest income').

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee deter- mined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings. The securities lent are presented in 'thereof pledged as collateral' positions under the respective balance sheet items.

Securities borrowed are not recognised in the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other financial liabilities'.

in CZK million	2022 Carrying amount of transferred assets	2022 Carrying amount of associated liabilities	2021 Carrying amount of transferred assets	2021 Carrying amount of associated liabilities
Repurchase agreements				
Financial assets at AC	68,573	50,521	38,183	32,223
Financial assets at FVOCI	785	-	-	-
Total - repurchase agreements	**69,358**	**50,521**	**38,183**	**32,223**
Securities lendings				
Financial assets at AC	20,850	-	41,698	-
Total - securities lendings	**20,850**	**-**	**41,698**	**-**
Total	**90,208**	**50,521**	**79,881**	**32,223**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 69,358 million (2021: CZK 38,183 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 50,521 million (2021: CZK 32,223 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Group, these assets and liabilities relate to repo transactions.

in CZK million	2022 Fair value of transferred assets	2022 Fair value of associated liabilities	2022 Net position	2021 Fair value of transferred assets	2021 Fair value of associated liabilities	2021 Net position
Financial assets at AC	57,757	50,775	6,982	35,486	32,201	3,285
Financial assets at FVOCI	785	1	785	-	-	-
Total	**58,542**	**50,776**	**7,767**	**35,485**	**32,201**	**3,285**

29 Financial Assets pledged as Collateral

Carrying amount of financial assets pledged as collaterals

in CZK million	2022	2021
Financial assets at AC	138,108	287,693
Financial assets at FVOCI	785	-
Total	**138,893**	**287,693**

The financial assets pledged as collateral consist of loans and advances to customers, bonds and other interest-bearing securities. Collaterals were pledged as a result of repurchase transactions, refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received which may be repledged or resold even without the collateral provider's default was CZK 185,288 million (2021: CZK 386,513 million). Collateral with fair value of CZK 69,700 million (2021: CZK 15,563 million) was resold. Collateral with fair value of CZK 42,862 million (2021: CZK 9,720 million) was repledged. The Group is obliged to return the resold and repledged collateral.

30 Securities

in CZK million	2022					2021				
	At AC	Trading assets	Financial assets		At FVOCI	At AC	Trading assets	Financial assets		At FVOCI
			Mandatorily at FVPL	Designated at FVPL				Mandatorily at FVPL	Designated at FVPL	
Bonds and other interest-bearing securities	**327,805**	**48**	**926**	**-**	**48,434**	**325,514**	**53**	**905**	**-**	**31,132**
Listed	318,724	9	96	-	39,901	288,627	21	93	-	21,414
Unlisted	9,081	39	830	-	8,533	36,887	32	812	-	9,718
Equity-related securities	**-**	**-**	**1,003**	**-**	**-**	**-**	**-**	**862**	**-**	**-**
Unlisted	-	-	1,003	-	-	-	-	862	-	-
Total	**327,805**	**48**	**1,929**	**-**	**48,434**	**325,514**	**53**	**1,767**	**-**	**31,132**

RISK AND CAPITAL MANAGEMENT

31 Financial risk management

Risk policy and strategy

The Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

In 2021, management attention has been dedicated not only to ongoing Covid-19 pandemic, but also to Environmental, Social and Governance (ESG) risks as new risk type. ESG has been assessed as material risk in 2022 Group Risk Materiality Assessment (first-time assessment), based on climate-related and environmental risks ('E' component), while the assessment of social ('S') and governance ('G') risks is planned for 2023. In order to mitigate this risk, significant resources in both business and risk area have been dedicated to set-up and implement ESG action plan, which includes the establishment of comprehensive internal framework ranging from business strategy, dedicated governance, over risk management to disclosures.

The Group uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the Bank at https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB.

Risk management organization



Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The management board and in particular the Bank's Chief Risk Officer (Group CRO) perform the oversight function within the Group's risk management structure. Risk control and risk steering within the Group are performed based on the business strategy and risk appetite approved by the management board. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within the Group.

At group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Group CRO:

- Strategic Risk Management;
- Corporate Credit Risk Management;
- Retail Credit Risk Management;
- Legal Services;
- Security;
- Non-Financial Risk Management and Compliance;
- Local Chief Risk Officers.

Local Chief Risk Officers

Each subsidiary has separate risk control and management units with responsibilities tailored to the local requirements, which are headed by the respective chief risk officer (CRO).

Group coordination of risk management activities

The management board regularly deals with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed.

Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities in the Group:

- Risk Committee;
- Risk Management Model Committee (RMMC);
- Credit Committee;
- Asset Liability Committee (ALCO);
- Product and Pricing Committee;
- Operational Liquidity Committee;
- Financial Markets Risk Management Committee (FMFMC); and
- Compliance, Operational Risk and Security Committee.

The **Risk Committee** has an escalation function for approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the Credit Committee of the management board according to the credit risk approval guidelines.

The **Risk Management Model Committee** (RMMC) is the steering and control body for IRB approach and Pillar 2 model development, validation and monitoring. All new or changed models and model related aspects (e.g. risk parameters, group-wide methodology standards) are reviewed by the RMMC and require its approval.

The **Credit Committee** is the highest approval body according to the credit risk approval guidelines. It is also responsible for approval of credit risk management strategy.

The **Asset Liability Committee** (ALCO) manages the consolidated Group balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks). In addition, it approves policies and strategies for controlling liquidity risk as well as interest rate risk (net interest income) and examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Products and Pricing Committee** is responsible for assessment and approval of new products and their innovation in area retail and corporate banking as well as in area of the financial market products. It manages the pricing policy in the Group.

The **Operational Liquidity Committee** (OLC) is responsible for the day-to-day management of the global liquidity position of the Group. It analyses the liquidity situation of the Group on a regular basis and reports directly to the ALCO.

The **Financial Markets Risk Management Committee** is the main steering body for market risk and Trading book related issues of the Group. It approves group-wide market risk limits and elaborates on the current market situation. Furthermore, it approves market risk methodologies and models, model changes, and related validation results.

The **Compliance, Operational Risk and Security Committee** is decision body in the area of operational risk, compliance and security in the Group.

Group-wide risk and capital management

Overview

Enterprise-wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the Group's management in managing the risk portfolios as well as the coverage potential to ensure that the Group and the Bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the Group's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within the Group as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk Appetite Statement (RAS), limits and risk strategy;
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC);
- planning of key risk indicators;
- recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to sup- port the Group's and Bank's management in pursuing its strategy.

Risk appetite

Risk appetite defines the maximum level of risk the Group is willing to accept in pursuing its business goals. The overall approach includes a risk appetite statement, risk limits, and the roles and responsibilities of those overseeing the implementation and monitoring of the risk appetite framework. Limit framework (i.e. risk appetite framework) of the

Group includes risk limits set in Risk Appetite Statement and Risk Strategy, industry limits, maximum lending limits and operational limits.

The Group Risk Appetite Statement (Group RAS) represents a strategic statement that expresses the maximum level of risk it is willing to accept in order to deliver its business objectives. The Group RAS acts as a binding constraint to the Group's business activities within its overall risk appetite via triggers and limits approved by the management board. It is integrated and embedded into the Group's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The Group RAS consists of a set of core risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the Group risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- ensure that the Group has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Group's risk target setting;
- support the Group's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, the Group creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Group is willing to accept. In order to ensure that the Group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting-metrics and principles are defined by material risk type in the Risk Strategy based on Group RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Group remains within its RAS.

Group RAS was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The group further developed an aggregated and consolidated risk appetite dashboard (Risk report) illustrating the Group's and Bank's risk profile developments by comparing the risk exposure and risk limits. The Risk report is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Portfolio and risk analytics

The Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across the Group. RMA is an annual process with the purpose of systematic identification of new and assessment of all risks for the Group. Senior management may require to perform RMA on ad hoc basis in addition, in order to address changing operating environment or emerging risks (e.g. interim RMA performed in H1-22 due to Russia-Ukraine conflict). As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as input for the design and definition of the group's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

The Group has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of the Group, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at the Group is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/ calibration of limit system.

Stress testing

Modelling sensitivities of the group's assets, liabilities and profit or loss provide management steering information and help to optimise the Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

The Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned. The Group has developed specific tools to translate macroeconomic variables (e.g. GDP) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2022 indicated no breach of stressed RAS triggers after the application of scenario contingent measures in the last year of adverse scenario.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the level of capital adequacy required by the ICAAP. In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view assuming continuation of the Group (as expected by ECB Guide to ICAAP) and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the management board. The aggregated capital requirements are then compared to internally available capital, as reflected by the coverage potential.

The management board, risk management committees and supervisory board are briefed quarterly on the results of the ICAAP capital adequacy through the ICAAP report. The report includes risks movements, available capital (coverage

potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation, the overall status of capital adequacy and risk profile development in relation to risk appetite.

Besides the Pillar 1 risk types (credit, market in trading book, FX in banking book and operational risks), interest rate risk in the Banking book, liquidity risk, as well as business risk are explicitly considered within the economic capital calculated over a horizon of one year and at a confidence level of 99.92%. At the end of 2022, the economic capital adequacy was at 64.0% (2021: 53.5%). The methodologies applied to the different risk types are diverse and range from value at risk approaches to the regulatory approach. Moreover, calculations for most of the portfolios under the standardised approach for credit risk are extended by risk parameters from the internal ratings-based approach in order to provide a more risk sensitive economic view.

The largest portion of economic capital requirements is coming from credit risk, which accounts for 56.0% of total economic capital requirements at the end of 2022 (2021: 54.6%). Reflecting conservative risk management policy and strategy, the group does not offset diversification effects between the risk types.

The internal capital or coverage potential required to cover Pillar 2 risks and unexpected losses is based on CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) fully loaded regulatory own funds adjusted by Pillar 2 add-ons (e.g. year-to-date profit (if not already considered in Pillar 1 capital), exclusion of Tier 2 capital instruments, IRB expected loss excess/shortfall add-on, etc.). The coverage potential must be sufficient to absorb unexpected losses resulting from the group's operations at any point in time, as reflected in the Group's Risk Appetite through the limits set for utilisation of coverage potential.

Risk planning

Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.

Methods and instruments applied

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the Group´s overall process and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

The Group's aggregate capital requirements by risk type

The following table presents the composition of the economic capital requirements according to type of risk:

Economic capital allocation in %	2022	2021
Credit risk	55.95%	54.59%
Market risk	30.87%	34.57%
Operational risk	5.14%	5.70%
Other risks	8.04%	5.13%

Other risks include business risk and liquidity risk.

Recovery and resolution plans

In compliance with the Czech Banking Recovery and Resolution Act (No. 374/2015 "Zákon o ozdravných postupech a řešení krize na finančním trhu"), the Group submits an updated Group Recovery Plan to the ČNB at least annually.

The Group Recovery Plan identifies options for restoring financial strength and viability in case the Group comes under severe stress (measured by a comprehensive set of indicators). The plan specifies potential options for the replenishment of capital and liquidity of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress. Governance/escalation procedures described in the plan ensure a timely identification of, and proper reaction to such situations. The plan also serves to demonstrate that in stress, the bank has sufficient recovery capacity, i.e. is able to restore capital adequacy and liquidity on its own. Furthermore, the assessment of the Group Recovery Plan is part of the Supervisory Review and Evaluation Process (SREP).

The Group also collaborates with the resolution authorities in the drawing up of resolution plans based on the relevant legislation. Erste Group Bank is subject to the Multiple Point of Entry (MPE) resolution strategy, meaning that the Group would be resolved separately from Erste Group Bank.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL has to be met at any time once it is a binding requirement. MREL is expressed as the ratio of own funds and eligible liabilities to the total risk exposure, or the total liabilities and own funds (TLOF) of the institution. As of December 2020, the Bank has received its binding target of 18.8 % RWA (excluding combined buffer requirement), applicable from 1 January 2024. The issuance strategy to fulfil this requirement was incorporated into the Group's long-term budgeting process.

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law (Act 374/2015 Coll. On Recovery Procedures and Resolution of the Financial Market Crisis "ZOPRK") has been done in August 2021 in amendment no. 298/2021 Coll. Beside the introduction of concept of internal MREL, further criteria for bail-in eligible liabilities and MREL eligible liabilities are set.

32 Own Funds and capital requirements

Statement of capital for the Bank's capital adequacy calculation on a stand-alone basis as reported to the regulator in accordance with applicable rules[28*] as of 31 December 2022 and 2021:

in CZK million	2022	2021
Tier 1 capital	110,790	121,736
Tier 1 + Tier 2 capital	113,691	124,382
Exposure to credit risk	538,441	483,089
Exposure to market risk	2,639	11,169
Exposure to operational risk	47,660	47,053
Total risk exposure	**588,740**	**541,311**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.8%**	**22.5%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**19.3%**	**23.0%**

The Group meets all capital adequacy requirements as requested by regulators as of 31 December 2022 and 2021. More details related to capital requirements are described in APPENDIX: OWN FUNDS AND CAPITAL REQUIREMENTS

33 Credit risk: Credit Risk Review and Monitoring

Credit risk strategy

In 2022, management attention was dedicated to the evolving Russia-Ukraine conflict, which poses serious threats to the European but also global economy. The Group and the Erste Group is not directly impacted, as it has no operating presence in geopolitical region of Russia or Ukraine and also direct exposure to these two markets is immaterial.

(28) *Reported figures are based on the methodology, where the Bank has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

Still, a number of ad hoc risk management activities was undertaken in order to evaluate, actively steer and mitigate indirect impact on the capital position and risk profile. All stress scenarios, including "no gas from Russia", would have manageable impact on the Group risk profile, keeping all capital ratios above the limits.

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2022. Focus in risk was on advancements in implementation of initiatives to achieve compliance with regulatory requirements and expectations, improvements in the Carbon Footprint Calculation, development of methodologies for setting decarbonization targets for priority sectors, enhancement of Risk Materiality Assessment and reporting system, and incorporation of climate-related and environmental risks in credit risk processes.

Internal methods of Credit Risk Management

Credit risk arises from the Group's traditional lending and investment businesses.

Operative credit decisions are made by the credit risk management units. An explanation of the role and responsibilities of Corporate and Retail Credit Risk Management is covered in the section 'Corporate and Retail Credit Risk Management units'.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

The Group also considers ESG factors in its risk management and industry strategy framework (e.g. ESG Factor Heatmap as an input in respective industry strategies). The Group has established an ESG risk framework and toolkit for assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes.

Furthermore, ESG relevant data is collected for certain types of collateral, as defined in the Group Collateral Management Policy for real estate collateral valuations, documentation and reporting purposes (e.g. greenhouse gas emissions). Further developments and enhancements of ESG Risk Framework related to credit risk have been established as part of the Group Risk Strategy.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management, and determination of risk-weighted assets and regulatory capital requirements is regularly loaded into this database. Relevant subsidiaries not yet integrated into the data pool regularly deliver reporting packages.

The Enterprisewide risk management department uses the BI-DWH in particular for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the Group as a whole. Credit risk reporting comprises regular reports on the Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

The Group has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Group assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed more frequently.

The main purpose of the internal ratings is to support the deci- sion-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within the Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 or 2.

For entities of the Group that use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The Bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behavior versus the bank and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities). For the LGD models, climate risk is indirectly reflected via the collateral value, while more in general, a respective project to define and collect relevant climate risk drivers for all rating systems has started in 2022 to ensure the explicit consideration of climate risks in future model development initiatives.

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilizes relevant data covering the respective market. In this way, the Group ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality the Group assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the Group, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short-term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. The Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of 100 EUR and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of 500 EUR and relative 1% on client level.

Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one- year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Enterprisewide Risk Management conducts periodical reviews of the loan portfolio for each entity to ensure an adequate portfolio quality and to monitor the compliance of local portfolios with the principles and parameters as stipulated by credit risk policies.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardized early warning monitoring process is implemented to proactively identify negative developments. The early warning signals are monitored by Corporate and Retail Credit Risk Management for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of the Group are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

34 Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances – demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);

- debt instruments at amortised cost (AC), other than trade and other receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- finance lease receivables;
- debt instruments held for sale in disposal groups;
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2021 and 31 December 2022, the credit risk exposure increased from CZK 1,783 billion to CZK 1,885 billion. This is an increase of 5.7% or CZK 102 billion.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

in CZK million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
2022				
Cash and cash balances - demand deposits to credit institutions	1,984	(1)	-	1,983
Debt instruments held for trading	28,009	-	-	28,009
Non-trading debt instruments at FVPL	2,328	-	-	2,328
Debt securities	926	-	-	926
Loans and advances to banks	1,383	-	-	1,383
Loans and advances to customers	19	-	-	19
Debt instruments at FVOCI	50,306	(153)	(1,719)	48,434
Debt securities	50,306	(153)	(1,719)	48,434
Debt instruments at AC	1,515,167	(20,152)	-	1,495,014
Debt securities	327,840	(34)	-	327,805
Loans and advances to banks	266,680	(4)	-	266,675
Loans and advances to customers	920,647	(20,113)	-	900,534
Trade and other receivables	12,436	(616)	-	11,821
Finance lease receivables	1,555	(81)	-	1,474
Positive fair value of hedge accounting derivatives	3,235	-	-	3,235
Off balance-sheet exposures	269,532	(1,466)	-	-
Total	**1,884,552**	**(22,469)**	**(1,719)**	**1,592,298**
2021				
Cash and cash balances - demand deposits to credit institutions	1,579	-	-	1,579
Debt instruments held for trading	15,561	-	-	15,561
Non-trading debt instruments at FVPL	1,649	-	-	1,649
Debt securities	905	-	-	905
Loans and advances to banks	744	-	-	744
Loans and advances to customers	-	-	-	-
Debt instruments at FVOCI	31,268	(149)	(136)	31,132
Debt securities	31,268	(149)	(136)	31,132
Debt instruments at AC	1,531,405	(19,057)	-	1,512,348
Debt securities	325,533	(19)	-	325,514
Loans and advances to banks	364,997	(3)	-	364,994
Loans and advances to customers	840,876	(19,036)	-	821,840
Trade and other receivables	14,944	(918)	-	14,025
Finance lease receivables	1,150	(67)	-	1,083
Positive fair value of hedge accounting derivatives	607	-	-	607
Off balance-sheet exposures	185,094	(1,564)	-	-
Total	**1,783,257**	**(21,756)**	**(136)**	**1,577,983**

Credit risk allowances comprise impairments for financial assets measured at amortized cost (including finance lease and trade and other receivables) and at fair value through other comprehensive income (FVOCI), as well as provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

Breakdown of credit risk exposure

On the following pages the credit risk exposure is presented according to different segmentation criteria.

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
2022					
I. Natural Resources & Commodities	41,906	20,249	4,934	2,529	69,618
II. Energy	44,023	14,246	1,015	192	59,477
III. Construction and building materials	35,397	22,125	2,252	1,070	60,843
IV. Automotive	26,133	6,765	2,351	940	36,189
V. Cyclical Consumer Products	24,548	12,174	2,365	1,476	40,563
VI. Non-Cyclical Consumer Products	25,836	12,479	1,502	407	40,224
VII. Machinery	12,892	8,899	1,042	1,625	24,457
VIII. Transportation	12,535	16,658	1,204	428	30,825
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	14,144	6,667	1,076	829	22,716
X. Healthcare & Services	14,807	6,148	1,647	393	22,995
XI. Hotels, Gaming & Leisure Industry	13,283	3,927	1,548	1,432	20,190
XII. Real Estate	86,354	13,431	4,075	1,029	104,889
XIII. Public Sector	645,915	1,008	852	-	647,774
XIV. Financial Institutions	89,435	4,909	911	92	95,346
XV. Private Households	577,226	17,318	7,046	6,815	608,404
XVI. Other	1	39	1	-	42
Total	**1,664,434**	**167,042**	**33,820**	**19,256**	**1,884,552**
2021					
I. Natural Resources & Commodities	35,674	16,652	3,331	2,401	58,058
II. Energy	26,589	6,329	872	225	34,015
III. Construction and building materials	32,739	8,625	1,579	1,245	44,189
IV. Automotive	17,000	4,540	1,729	1,621	24,891
V. Cyclical Consumer Products	20,638	6,145	2,144	1,286	30,213
VI. Non-Cyclical Consumer Products	23,818	8,788	2,883	472	35,961
VII. Machinery	11,038	5,627	327	850	17,841
VIII. Transportation	13,682	8,148	306	431	22,567
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	14,938	3,234	276	104	18,551
X. Healthcare & Services	12,240	3,166	1,172	560	17,138
XI. Hotels, Gaming & Leisure Industry	12,237	4,545	1,392	1,472	19,647
XII. Real Estate	68,025	21,580	3,946	977	94,527
XIII. Public Sector	727,876	1,318	853	-	730,047
XIV. Financial Institutions	44,305	2,960	911	156	48,331
XV. Private Households	551,393	19,000	8,813	7,277	586,483
XVI. Other	1	756	39	-	797
Total	**1,612,192**	**121,412**	**30,574**	**19,078**	**1,783,257**
2021					
Agriculture and forestry	14,481	8,816	1,814	838	25,949
Mining	630	14	94	6	745
Manufacturing	57,074	20,470	5,156	3,514	86,214
Energy and water supply	16,245	5,564	588	170	22,567
Construction	20,931	7,845	1,320	848	30,944
Development of building projects	10,728	4,401	433	489	16,049
Trade	46,399	14,056	3,773	2,648	66,875
Transport and communication	24,456	7,885	1,017	495	33,852
Hotels and restaurants	4,866	1,780	1,044	578	8,268
Financial and insurance services	418,738	4,489	818	65	424,110

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
Holding companies	8,757	2,111	269	-	11,137
Real estate and housing	94,319	23,975	5,220	942	124,456
Services	18,419	7,121	1,688	1,607	28,835
Public administration	367,610	1,323	853	-	369,786
Education, health and art	6,575	867	263	252	7,957
Households	521,450	16,461	6,926	7,114	551,951
Other	-	747	-	-	747
Total	**1,612,192**	**121,412**	**30,575**	**19,078**	**1,783,257**

The low risk exposure has the highest proportion in total credit risk exposure, with 88.32% (2021: 90.41%), while management attention represents 8.86% (2021: 6.81%), The substandard exposure represents 1.79% (2021: 1.71%) and the non-performing 1.02% (2021: 1.07%).

From industry and financial instrument point of view, the highest exposure is represented by public sector exposure of CZK 648 million (2021: CZK 730 million) and private households exposure of CZK 608 billion (2021: CZK 586 billion), representing 66.7% (2021: 73.8%) from total.

Credit risk exposure by business segment and risk category

The segment reporting is based on the business segments as described in Note 1.

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
2022					
Retail	612,176	29,112	15,240	8,764	665,292
Corporates	364,248	133,715	17,959	10,461	526,382
Group Markets	61,783	1,650	5	1	63,439
ALM & LCC	626,228	2,566	616	30	629,440
Total	**1,664,434**	**167,042**	**33,820**	**19,256**	**1,884,552**
2021					
Retail	589,729	29,874	16,740	9,504	645,846
Corporates	300,605	90,257	13,126	9,499	413,487
Group Markets	20,997	404	75	61	21,537
ALM & LCC	700,861	877	634	14	702,387
Total	**1,612,192**	**121,412**	**30,575**	**19,078**	**1,783,257**

35 Use of Collaterals

Recognition of credit collateral

The Collateral Management department is a staff unit within the Strategic Risk Management Department. The Group's Collateral Management Policy Part 1 defines, among other topics, uniform valuation standards for credit collateral across the Group. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the Group are contained in the Group's Collateral Catalogue. Locally permitted collateral is defined in accordance with applicable Czech legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group's Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by relevant Credit Risk Management unit after determining if the applicable regulatory requirements are met. Relevant back office unit monitor adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- movables: equipment, investment goods, machinery and motor vehicles;
- claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management unit and by authorised staff with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the Group. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis for all segment of financing.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Mechanism for regular update is described in Collateral Management Policy.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software application COLMAN. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. The Bank is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from cus- tomers. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly manner, with the proceeds used to reduce or repay the outstanding claim.

Treasury collateral

The department Financial Markets Risk Management is responsible for treasury collateral. The Group Collateral Management Policy Part 2 defines, among other things, uniform valuation standards for treasury collateral across the entire Group.

Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), Czech frame- work agreements, framework agreements for

securities lending transactions and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agree- ment in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

Credit risk exposure by financial instrument and collateral

			Collateralised by				Impairment IFRS 9		
in CZK million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Cash and cash balances - demand deposits to credit institutions	1,984	-	-	-	-	1,984	1,984	-	-
Debt instruments held for trading	28,009	-	-	-	-	28,009	-	-	-
Non-trading debt instruments at FVPL	2,328	-	-	-	-	2,328	-	-	-
Debt instruments at FVOCI	50,306	-	-	-	-	50,306	50,306	-	-
Debt instrumentsat AC	1,515,167	769,407	24,819	474,402	270,187	745,760	1,490,742	7,279	17,147
Debt securities	327,840	4,840	4,840	-	-	323,000	327,840	-	-
Loans and advances to banks	266,680	261,940	1,481	-	260,460	4,739	266,680	-	-
Loans and advances to customers	920,647	502,627	18,498	474,402	9,727	418,021	896,222	7,279	17,147
Trade and other receivables	12,436	1,028	1,026	-	2	11,408	10,942	982	512
Finance lease receivables	1,555	-	-	-	-	1,555	1,454	35	66
Positive fair value of hedge accounting derivatives	3,235	-	-	-	-	3,235	-	-	-
Off balance-sheet exposures	269,532	19,151	956	10,805	7,390	250,382	157,768	3,463	615
Total	**1,884,552**	**789,585**	**26,800**	**485,207**	**277,578**	**1,094,967**	**1,713,196**	**11,758**	**18,340**
2021									
Cash and cash balances - demand deposits to credit institutions	1,579	-	-	-	-	1,579	1,579	-	-
Debt instruments held for trading	15,561	-	-	-	-	15,561	-	-	-
Non-trading debt instruments at FVPL	1,649	-	-	-	-	1,649	-	-	-

			Collateralised by					Impairment IFRS 9	
Debt instruments at FVOCI	31,268	-	-	-	-	31,268	31,268	-	-
Debt instruments at AC	1,531,406	788,819	25,732	399,658	363,430	742,586	1,510,624	3,664	17,118
Debt securities	325,533	4,226	4,226	-	-	321,306	325,533	-	-
Loans and advances to banks	364,997	354,707	1,118	-	353,590	10,289	364,997	-	-
Loans and advances to customers	840,876	429,886	20,388	399,658	9,840	410,991	820,094	3,664	17,118
Trade and other receivables	14,944	1,482	1,478	-	4	13,462	13,304	828	811
Finance lease receivables	1,150	-	-	-	-	1,150	1,035	40	76
Positive fair value of hedge accounting derivatives	607	-	-	-	-	607	-	-	-
Off balance-sheet exposures	185,094	12,521	666	7,610	4,244	172,573	159,154	60	508
Total	**1,783,257**	**802,821**	**27,876**	**407,268**	**367,677**	**980,436**	**1,716,964**	**4,591**	**18,513**

The collateral attributable to exposures that are credit-impaired at 31 December 2022 amounts to CZK 5,757 million (2021: 5,464 million).

36 Measurement of Expected Credit Loss

The general principles and standards for credit loss allowances are governed by internal policies. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In Stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Group has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation

(EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Group generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In Stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-im- paired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition) and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favorable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria. Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The Group has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation. The relative thresholds can vary from 110% to 359% according to PD segment and rating level.

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

Qualitative criteria. Qualitative SICR indicators include forbearance-type flags (i.e. threshold is set up to level of performing regulatory forbearance), information from the early-warning system (if it is not sufficiently considered in the rating), fraud indicators and 30 days past due. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group- wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only

with a certain time lag or is observable exclusively on a portfolio level. The Group has introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic, war in Ukraine and other related macroeconomic effects. Please see related disclosures in the next chapter.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop. A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption. The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is applied only to debt security exposures (reverse repo excluded). The Group considered that low credit risk is still appropriate since potential increase of riskiness is already incorporated in 1Y PD due to FLI.

As of 31 December 2022, in the Group, the corresponding exposure amounted to CZK 372.8 billion (2021: CZK 352.2 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repo excluded) of CZK 3.8 billion (2021: CZK 9.8 billion) with 1Y PD higher than 0.5% does not qualify for low credit risk exemption.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in the Group's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule- based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band. There are credit listed groups for calculation of collective allowance: MSE by product type, Private Individual by product type, in case of PI Mortgages the group is splited according to LTV (<20%, 20-60%, 60-80%, >80%, LTV is missing). Recovery curves depends also on repayments type (cooperative versus noncooperative client).

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Group applies an expected credit loss(ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts Group expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

37 Credit Risk Exposure by IFRS 9 Stage and ECL

Credit risk exposure by business segment and IFRS 9 treatment

in CZK million	Credit risk exposure					Credit loss allowances				NPE coverage ratio		
	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
2022												
Retail	567,359	88,929	8,661	188	155	(1,244)	(5,528)	(5,609)	(42)	6.2%	64.8%	22.2%
Corporates	324,716	104,022	8,520	1,122	88,002	(836)	(2,480)	(5,620)	(433)	2.4%	66.0%	38.6%
Group Markets	9,086	7,384	1	-	46,967	(254)	(2)	(1)	-	0.0%	76.0%	60.2%
ALM & LCC	622,673	604	28	2	6,133	(44)	(5)	(19)	(1)	0.8%	67.0%	64.5%
Total	**1,523,833**	**200,940**	**17,210**	**1,311**	**141,258**	**(2,377)**	**(8,015)**	**(11,249)**	**(475)**	**4.0%**	**65.4%**	**36.3%**
2021												
Retail	577,459	58,688	9,419	163	117	(1,701)	(4,900)	(5,652)	(42)	8.3%	60.0%	25.7%
Corporates	299,568	80,487	7,831	1,131	24,470	(990)	(2,241)	(5,105)	(449)	2.8%	65.2%	39.7%
Group Markets	6,753	279	61	-	14,444	(208)	(23)	(30)	-	8.2%	50.2%	
ALM & LCC	698,203	12	14	-	4,158	(32)	(1)	(14)	-	9.1%	100.0%	
Total	**1,581,983**	**139,466**	**17,325**	**1,294**	**43,189**	**(2,932)**	**(7,165)**	**(10,802)**	**(491)**	**5.1%**	**62.3%**	**38.0%**

Stage 1 and Stage 2 comprise not impaired credit risks exposure while Stage 3 includes impaired credit risks exposure. POCI (purchased or originated credit impaired) consists of credit risks exposure already impaired when purchased or originated.

Column “Not subject to impairment” represents exposures measured at fair values.

The defaulted part of POCI amounted to CZK 1,130 million (2021: CZK 1,188 million), the non-defaulted part to CZK 181 million (2021: CZK 106 million).

38 Development of Credit Loss Allowances

The following tables give an overview over the development of credit loss allowances (CLA) per balance sheet line item.

In column 'Additions' increases of CLA due to the initial recognition of financial instruments during the current reporting period are disclosed. Releases of CLA following the derecognition of the related financial instrument are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related financial instrument from Stage 1 (at 1 January 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favorable and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

Financial instruments held at amortised cost

Movement in credit loss allowances - debt securities

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2022						**Dec 2022**
Stage 1	(19)	(11)	12	-	(9)	-	(28)
Stage 2	-	-	2	(23)	14	-	(6)
Total	**(19)**	**(11)**	**14**	**(23)**	**5**	**-**	**(34)**
	Jan 2021						**Dec 2021**
Stage 1	(18)	(3)	1	1	(1)	1	(19)
Stage 2	(1)	-	-	-	1	-	-
Total	**(19)**	**(3)**	**1**	**1**	**-**	**1**	**(19)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2022 and not sold by 31 December 2022 amounts to CZK 41,795 million (2021: CZK 107,294 million). The GCA of AC debt securities that were held at 1 January 2022 and de-recognized (matured/sold) during the year 2022 amounts to CZK 38,421 million (2021: CZK 36,480 million).

Movement in credit loss allowances - loans and advances to banks

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					Dec 2022
Stage 1	(3)	(152)	112	1	38	(4)
Stage 2	-	(1)	-	-	1	-
Total	**(3)**	**(153)**	**112**	**1**	**39**	**(4)**

	Jan 2021					Dec 2021
Stage 1	(7)	(75)	77	-	2	(3)
Total	**(7)**	**(75)**	**77**	**-**	**2**	**(3)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 264,357 million (2021: CZK 363,240 million). The GCA of AC loans and advances to banks that were held at 1 January 2022 and fully de-recognized (matured) during the year 2022 amounts to CZK 358,142 million (2021: CZK 421,344 million).

Movement in credit loss allowances - loans and advances to customers

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2022							Dec 2022
Stage 1	**(2,339)**	**(2,087)**	**627**	**2,723**	**(750)**	**-**	**8**	**(1,817)**
General governments	(10)	(4)	1	50	(45)	-	-	(8)
Other financial corporations	(36)	(54)	17	32	15	-	1	(24)
Non-financial corporations	(1,105)	(1,168)	308	736	472	1	6	(751)
Households	(1,189)	(861)	302	1,905	(1,192)	-	-	(1,034)
Stage 2	**(6,413)**	**(510)**	**852**	**(4,254)**	**3,058**	**3**	**38**	**(7,226)**
General governments	(98)	(88)	-	(40)	74	-	4	(148)
Other financial corporations	(32)	-	8	(44)	31	-	2	(36)
Non-financial corporations	(2,879)	(362)	563	(1,584)	963	-	32	(3,266)
Households	(3,404)	(60)	281	(2,585)	1,990	3	-	(3,776)
Stage 3	**(9,793)**	**(66)**	**1,063**	**(1,173)**	**(1,045)**	**363**	**55**	**(10,597)**
General governments	-	-	-	-	-	-	-	-
Other financial corporations	(1)	-	-	-	(1)	-	-	(1)
Non-financial corporations	(4,597)	(13)	530	(850)	(716)	75	54	(5,515)
Households	(5,195)	(53)	532	(324)	(328)	288	-	(5,080)
POCI	**(490)**	**-**	**78**	**-**	**(105)**	**38**	**5**	**(474)**
Non-financial corporations	(466)	-	76	-	(102)	37	5	(449)
Households	(25)	-	2	-	(3)	1	-	(25)
Total	**(19,035)**	**(2,662)**	**2,620**	**(2,704)**	**1,158**	**404**	**106**	**(20,113)**

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2021							Dec 2021
Stage 1	**(2,132)**	**(1,554)**	**590**	**2,531**	**(1,768)**	**3**	**(10)**	**(2,339)**
General governments	(15)	(5)	2	1	7	-	-	(10)
Other financial corporations	(56)	(63)	46	51	(15)	-	1	(36)
Non-financial corporations	(1,112)	(874)	259	895	(272)	3	(2)	(1,105)
Households	(949)	(613)	284	1,585	(1,487)	-	(9)	(1,189)
Stage 2	**(5,969)**	**(507)**	**865**	**(3,324)**	**2,568**	**4**	**(50)**	**(6,413)**
General governments	(10)	(8)	-	(72)	(9)	-	1	(98)
Other financial corporations	(5)	(10)	16	(38)	4	-	1	(32)
Non-financial corporations	(3,192)	(287)	527	(1,046)	1,138	-	(20)	(2,879)
Households	(2,763)	(202)	322	(2,169)	1,435	4	(32)	(3,404)
Stage 3	**(10,571)**	**(71)**	**1,259**	**(816)**	**(1,061)**	**855**	**612**	**(9,793)**
General governments	(1)	-	-	-	(1)	-	2	-
Other financial corporations	(1)	-	-	-	(2)	1	1	(1)
Non-financial corporations	(5,286)	(21)	675	(402)	(342)	164	613	(4,597)
Households	(5,284)	(50)	584	(415)	(717)	690	(3)	(5,195)
POCI	**(566)**	**-**	**106**	**-**	**(104)**	**13**	**61**	**(490)**
Non-financial corporations	(541)	-	105	-	(101)	11	61	(466)
Households	(25)	-	1	-	(4)	3	-	(25)
Total	**(19,239)**	**(2,132)**	**2,822**	**(1,609)**	**(365)**	**875**	**613**	**(19,035)**

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. CLAs recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period's movement in CLA. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitment and drawing dates of related credit facilities. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Derecognition'.

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favorable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This

adverse effect amounted to CZK 337 million cumulatively for the year 2022 (2021: CZK 327 million), which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the cumulative CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December to a different stage compared to 1 January (or to the initial recognition date, if originated during the year) are summarized below:

Transfer between stages - loans and advances to customers

in CZK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	146	9,287	-	-	-	-	-	-
Other financial corporations	2,677	1,909	-	-	-	-	-	-
Non-financial corporations	49,073	15,882	911	555	2,478	101	-	56
Households	48,333	17,585	1,151	1,126	1,281	300	2	14
Total	**100,229**	**44,664**	**2,062**	**1,681**	**3,759**	**402**	**2**	**70**
2021								
General governments	7,395	75	-	4	-	1	-	-
Other financial corporations	2,117	1,373	-	-	-	-	-	-
Non-financial corporations	15,554	20,547	2,118	115	1,403	32	-	16
Households	28,896	16,409	1,941	747	1,407	598	1	25
Total	**53,963**	**38,404**	**4,058**	**866**	**2,810**	**631**	**1**	**41**

Detailed information on stage transfers due to specific measures are described in Note 39 Scenarios used in forward looking information.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 226,781 million (2021: CZK 255,812 million). The GCA of the AC loans and advances to customers that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to CZK 114,228 million (2021: CZK 130,889 million).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2022 amounted to CZK 789 million (2021: CZK 901 million).

Movement in credit loss allowances - trade and other receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2022							**Dec 2022**
Stage 1	(92)	(104)	36	-	67	-	-	(92)
Stage 2	(150)	(12)	8	-	(29)	18	1	(164)
Stage 3	(677)	-	347	(3)	(51)	8	16	(359)
Total	**(918)**	**(117)**	**391**	**(3)**	**(12)**	**26**	**17**	**(616)**

	Jan 2021							**Dec 2021**
Stage 1	(36)	(124)	45	-	24	-	-	(92)
Stage 2	(140)	-	28	-	(67)	3	28	(150)
Stage 3	(161)	-	46	(6)	(2)	3	(556)	(677)
Total	**(338)**	**(124)**	**119**	**(6)**	**(46)**	**5**	**(529)**	**(918)**

Financial assets at fair value through other comprehensive income - debt instruments

Movement in the credit loss allowances - debt securities financial assets

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					**Dec 2022**
Stage 1	(3)	(60)	-	44	10	(8)
Stage 2	(146)	-	2	-	(2)	(145)
Total	**(149)**	**(60)**	**3**	**44**	**9**	**(153)**

	Jan 2021					**Dec 2021**
Stage 1	(7)	(1)	2	26	(23)	(3)
Stage 2	(119)	(22)	-	(29)	24	(146)
Total	**(126)**	**(23)**	**2**	**(3)**	**1**	**(149)**

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December to a different stage compared to 1 January (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfer between stages - debt instrument financial assets

in CZK million	2,022	2,021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	1,937	1,916
To Stage 1 from Stage 2	2,921	598

Finance lease receivables

Movement in credit loss allowances - finance lease receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					Dec 2022
Stage 1	(11)	(18)	-	-	(4)	(32)
Stage 2	(4)	-	-	-	(9)	(13)
Stage 3	(52)	-	1	(4)	20	(36)
Total	**(67)**	**(18)**	**1**	**(4)**	**7**	**(81)**

	Jan 2021					Dec 2021
Stage 1	(4)	(9)	1	6	(5)	(11)
Stage 2	(3)	-	-	(2)	1	(4)
Stage 3	(111)	-	41	(5)	26	(52)
Total	**(118)**	**(9)**	**42**	**(1)**	**23**	**(67)**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

Transfer between stages - finance lease receivables

in CZK million	2022	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	113	54
To Stage 1 from Stage 2	14	53
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	19	7
To Stage 2 from Stage 3	3	-
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	10	5
To Stage 1 from Stage 3	-	15

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 893 million (2021: CZK 109 million). The GCA of the finance lease receivables that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to CZK 86 million (2021: CZK 196 million).

Loan commitment and financial guarantees

Movement in credit loss allowances - loan commitment and financial guarantees

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2022						Dec 2022
Stage 1	465	398	(487)	(346)	415	(51)	395
Stage 2	452	-	(235)	356	(119)	6	460
Stage 3	279	-	(196)	41	130	3	258
POCI	1	-	(1)	-	1	-	1
Total	**1,197**	**398**	**(918)**	**52**	**427**	**(42)**	**1,114**
	Jan 2021						Dec 2021
Stage 1	431	1,151	(562)	(254)	(181)	(121)	465
Stage 2	368	-	(133)	433	(99)	(117)	452
Stage 3	412	-	(113)	24	34	(78)	279
POCI	3	-	(4)	-	2	-	1
Total	**1,214**	**1,151**	**(811)**	**203**	**(243)**	**(316)**	**1,197**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end volumes of loan commitments and financial guarantees that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

Transfer between stages - loan commitments and financial guarantees

in CZK million	2022	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	36,967	17,505
To Stage 1 from Stage 2	19,522	8,526
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	73	314
To Stage 2 from Stage 3	26	36
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	695	154
To Stage 1 from Stage 3	36	35

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 69,069 million (2021: CZK 88,400 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to CZK 45,977 million (2021: CZK 57,280 million).

39 Scenarios used in forward looking information

Overview on Scenarios used in forward-looking information

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Group's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs)

are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through- the-cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The main indication of estimated economic development is the GDP development. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. The Group adjusted macro-shift models to reflect expected effects of those into credit risk parameters. In the table below we are disclosing expected development of inflation or interest rates. Disclosures are based on the relevancy in the macro-shift model.

The Group reviewed the FLI in the second quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. The Group decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geopolitical situation – war in Ukraine. The FLI was unchanged in the third quarter, the next review occurred in the fourth quarter.

In December 2021, the specific situation of the COVID-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e. variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation (it is expected that new variants, including omicron, are more contagious, but with lower hospitalization rate), the Group decided to update FLI based on the forecasts for years 2022-2024, i.e., no lagging is applied. Moreover the Group implemented in June 2022 a forward looking information (FLI) estimation model based on a new macroeconomic model. In the previous model the input variable was only GDP, new model incorporates except of GDP also unemployment, real wages, retail revenues, PPI (Producer Price Index). In new model, GDP is used only as scenario weights. Unemployment rate is used for all rating models, real wages for MSE and WBMEG (bytová družstva) rating model, retail revenues for rating model for private individuals, PPI for corporate rating models. New FLI model is based on quarterly predictions while previous model was based on yearly predictions. Further the Group decided to override the FLI shifts produced by macroeconomic model for retail portfolio. Technically the adjustment of the beta_0 (intercept) and beta_1 (dummy variable distinguishes secured / unsecured part of PI portfolio and WBMEG - bytová družstva for MSE) coefficients for the average PD predicted for the year 2022 was done. The reasons for override are:

- Macroeconomic model for forecasting of PDs for retail does not include inflation, strongly increasing energy prices and increased interest rates and hence the produced forecasted PDs from the model were deemed as unrealistically low and do not reflect all future risks.
- Generally the Group is not able to closely monitor single clients in retail, hence due to economic uncertainty the decrease of PD was not justifiable.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth and other applied forecasts.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		3.4	6.2	5.9
Czech Republic	Baseline	40%	40%	2.3	0.9	3.7	3.4
	Downside	59%	59%		(4.9)	(0.3)	0.9
2021		**2020**	**2021-2023**	**2020**	**2021**	**2022**	**2023**
	Upside	11%	11%		4.1	5.7	6.4
Czech Republic	Baseline	40%	40%	(5.8)	2.4	4.0	4.7
	Downside	49%	49%		(2.3)	0.5	1.8

		Probability weights		Unemployment rate in %			
	Scenario	2023	2024-2025	2022	2023	2024	2025
2022							
	Upside	1%	1%		2.6	2.6	2.6
Czech Republic	Baseline	40%	40%	2.4	3.5	3.5	3.5
	Downside	59%	59%		4.3	5.3	5.2

		Probability weights		Real wages in %			
	Scenario	2023	2024-2025	2022	2023	2024	2025
2022							
	Upside	1%	1%		9.3	2.6	2.7
Czech Republic	Baseline	40%	40%	(10.7)	3.2	2.6	2.7
	Downside	59%	59%		(2.5)	2.6	2.7

		Probability weights		Retail revenues in %			
	Scenario	2023	2024-2025	2022	2023	2024	2025
2022							
	Upside	1%	1%		3.8	3.6	2.9
Czech Republic	Baseline	40%	40%	(5.8)	0.8	3.6	2.9
	Downside	59%	59%		(2.1)	3.6	2.9

		Probability weights		PPI in %			
	Scenario	2023	2024-2025	2022	2023	2024	2025
2022							
	Upside	1%	1%		(1.3)	1.8	2.0
Czech Republic	Baseline	40%	40%	23.8	2.0	1.8	2.0
	Downside	59%	59%		5.0	1.8	2.0

The table above shows used scenarios in YE 2022 and for previous year (YE 2021). While the probability of baseline remained unchanged, the probability of downside scenario was increased to 59% (in June 2022). External macroeconomic predictions were continuously worsening over the year (and YE 2022). Moreover, downside risks to the baseline forecasts were stressed due to the current geopolitical situation and tightening monetary policies. On top of that, for the Group materialization of the downside scenario brings much higher effect on the ECL allocation than materialization of the upside scenario would bring to its release.

We addressed these issues via 2 in-model adjustments of the FLI macro shift models:

- inclusion of comprehensive stress test scenario in creation of the FLI downside scenario
- assigning 59% scenario weight to the downside scenario.

The Group recognizes additional challenges caused by the ESG (environmental, social and governance) risks. The Group is in the process of analyses how these risks can be incorporated into ECL measurement. In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium and therefore classified as material, but they are expected to generate more impact on credit risk in the medium to long run. Therefore, in the short-term the Group did not include additional overlays for ESG risks into ECL calculation as of 31 December 2022.

Collective assessment

As of September 2022, in addition to standard SICR assessment, the Group applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by COVID-19 pandemic, the war in Ukraine and the energy crisis. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of the Group.

COVID-19 Effect

The COVID-19 pandemic caused high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programmes were introduced to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on business

Since March 2020, risk management and business divisions run a joint initiative aiming to reflect on changed economic environment, providing a harmonised guidance and focused industry approach within the Group. E.g. in the course of the COVID-19 crisis, industries and sub-industries were categorised into critical, high, medium or low risk according to the expected impacts from COVID-19 (so called COVID heatmap) based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

The categorizations are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. The last review of COVID heatmap was done in May 2022 and led to an improved categorization for travel and hotels. This categorization, together with information about state support measures applied, was the basis of stage overlays rules due to COVID-19. However, in the meantime, significant majority of the (governmental) support measures expired without resulting in a severe negative effect on the portfolio quality. Therefore, the Group cancelled COVID heatmap in November 2022. The COVID overlays for the private-individuals' portfolio has been released already in July 2022.

War in Ukraine

The Ukraine-Russia war, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, the Group implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination – Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022). The table below shows volumes for the cyclical industries category.

In addition to cyclical industries, from September 2022 the Group has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Energy sector and Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2. Exemptions to these migrations are allowed based on the individual review and documentation. The Group decided not to apply for these exemptions.

Increasing interest rates together with unprecedented increase of inflation may pose a threat to clients in segment private individuals. Analysis of mortgages and unsecured portfolio indicated that some clients may be at risk due to inflation affecting their expenses and increased interest rates affecting their debt payments. If a client is identified as having expenses, together with repayments, in excess of household income, the client 's accounts are transferred to Stage 2.

Credit risk exposure and credit loss allowances by industry and IFRS 9 treatment – cyclical industries

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2022								
Natural Resources & Commodities	30,554	26,613	2,421	60	59,647	9,971	69,618	(2,530)
of which cyclical	1,077	14,255	1,622	18	16,973	4,429	21,402	(1,585)
Energy	643	46,949	88	104	47,784	11,693	59,477	(770)
Construction and building materials	24,737	5,811	786	120	31,454	29,389	60,843	(1,091)
of which cyclical	21,461	5,190	672	73	27,396	25,731	53,128	(907)
Automotive	26,264	4,059	930	6	31,259	4,930	36,189	(917)
of which cyclical	23,960	3,487	840	6	28,294	4,775	33,069	(791)
Cyclical Consumer Products	26,267	7,062	1,226	299	34,854	5,709	40,563	(1,500)
Non-Cyclical Consumer Products	32,687	3,344	288	109	36,429	3,796	40,224	(412)
Machinery	13,876	2,099	1,158	103	17,235	7,221	24,457	(1,144)
of which cyclical	12,587	1,997	1,141	102	15,827	5,597	21,424	(1,111)
Transportation	23,879	1,144	296	133	25,453	5,372	30,825	(313)
of which cyclical	8,962	652	136	131	9,881	1,089	10,971	(91)
TMT and paper and packaging	17,836	1,659	671	7	20,173	2,543	22,716	(514)
of which cyclical	2,377	242	41	-	2,660	509	3,169	(31)
Healthcare & Services	18,111	3,014	390	4	21,519	1,476	22,995	(564)
of which cyclical	4,961	1,506	134	-	6,600	383	6,983	(249)
Hotels & Leisure Industry	12,749	4,640	1,142	169	18,700	1,490	20,190	(1,119)
of which cyclical	12,749	4,640	1,142	169	18,700	1,490	20,190	(1,119)
Real Estate	87,950	14,484	1,025	11	103,470	1,419	104,889	(1,700)
of which cyclical	85,580	13,912	985	11	100,488	1,406	101,894	(1,593)
Public Sector	642,719	1,732	-	-	644,451	3,324	647,774	(244)
Financial Institutions	33,974	8,358	12	80	42,423	52,923	95,346	(314)
Private Households	531,547	69,971	6,778	105	608,400	4	608,404	(9,335)
Other	41	-	-	-	42	-	42	(1)
Total	**1,523,833**	**200,940**	**17,210**	**1,311**	**1,743,294**	**141,258**	**1,884,552**	**(22,469)**
of which cyclical (including Cyclical Consumer Products)	**199,981**	**52,944**	**7,938**	**810**	**261,673**	**51,118**	**312,792**	**(8,978)**
2021								
Agriculture and forestry	21,228	3,723	817	24	25,791	158	25,949	(893)
Mining	636	101	6	-	742	1	744	(13)
of which significant risk	60,234	17,138	2,949	408	80,730	5,484	86,214	(3,272)
Manufacturing	3,079	3,381	1,132	188	7,780	94	7,874	(1,193)

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
of which significant risk	16,909	5,177	96	72	22,254	313	22,567	(325)
Energy and water supply	15,505	1,631	539	75	17,751	13,192	30,944	(803)
Construction	53,016	8,903	2,433	227	64,579	2,296	66,875	(2,665)
Trade	5,953	3,527	500	94	10,074	500	10,574	(616)
of which significant risk	22,250	10,183	336	160	32,929	924	33,853	(545)
Transport and communication	5,587	4,929	21	159	10,696	325	11,020	(171)
of which significant risk	1,577	6,042	557	21	8,197	71	8,268	(546)
Hotels and restaurants	383	5,567	536	-	6,486	71	6,557	(545)
of which significant risk	401,502	4,049	65	-	405,616	18,494	424,110	(388)
Financial and insurance services	105,776	17,529	898	42	124,246	210	124,456	(1,733)
Real estate and housing	9,744	475	-	20	10,240	45	10,285	(33)
Services	19,038	7,572	1,384	175	28,168	667	28,835	(1,444)
of which significant risk	7,035	2,846	557	68	10,506	37	10,542	(583)
Public administration	351,154	17,593	-	-	368,747	1,039	369,786	(234)
Education, health and art	5,734	1,732	152	2	7,620	338	7,957	(237)
of which significant risk	3,100	1,310	67	2	4,479	338	4,817	(118)
Private households	506,677	38,093	7,093	88	551,951	-	551,951	(8,654)
Other	747	-	-	-	747	-	747	(5)
Total	**1,581,983**	**139,466**	**17,325**	**1,294**	**1,740,068**	**43,189**	**1,783,257**	**(21,756)**
of which significant risk	**34,881**	**22,037**	**2,812**	**531**	**60,260**	**1,410**	**61,671**	**(3,259)**

Effect on Expected Credit Loss

The analysis tables below present the effects of the portfolio overlays and FLI on both exposure migration to Stage 2 and the resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated.

ECL allocated due to COVID-19 overlays decreased from CZK 446 million at year-end 2021 to CZK 0 million in December 2022 due to review of the heat-map (categorization to critical, high, medium, and low risk industries), the retraction of the information about moratoria from the overlays rules and partly due to overlapping with Ukraine war overlays. At the same time, the exposure in Stage 2 due to COVID-19 overlays decreased from CZK 17,806 million in December 2021 to CZK 0 million in December 2022.

Exposure in Stage 2 due to the application of the rules for Ukraine war overlays stood at for cyclical industries CZK 20,531 million in December 2022 and CZK 50,854 million for energy, metals and chemical overlays in December 2022, with additional ECL allocated in the amount of CZK 807 million for cyclical industries and CZK 327 million for energy, metals and chemical overlays. Moreover exposure in Stage2 increased by CZK 31,002 million as December 2022 for overlays for private individuals with additional ECL allocated in the amount of CZK 382 million.

As described above, FLI were re-assessed based on the latest macro-scenarios in the last quarter of 2022. Effects of the inflation and/or increased interest rates partially compensated for the COVID-19 crisis year lagging. Therefore, Stage 2 exposure due to FLI is higher by CZK 17,242 million with additional ECL allocated in the amount of CZK 2,109 million as of December 2022 (2021 Stage 2 Exposure: CZK 21,684 million, ECL: CZK 2,694 million).

Forward looking information (FLI) and stage overlays

Impact of FLI and stage overlays on credit risk exposure (CRE)

	Current status - parameters (FLI shifted)		Stage 2 impacted by				
in CZK million	Stage 1	Stage 2	Covid-19	UA war Cyclical industries	UA war Energy, Metals, Chemical	UA war PI individuals	Effect of FLI shifts
2022							
CRE	1,523,833	200,940	-	20,531	50,854	31,002	17,242
2021							
CRE	1,581,983	139,466	17,806	-	-	-	21,684

Impact of FLI and stage overlays on credit loss allowances (CLA)

	Current status - parameters (FLI shifted)		Out of which				
in CZK million	Stage 1	Stage 2	Covid-19	UA war Cyclical industries	UA war Energy, Metals, Chemical	UA war PI individuals	Effect of FLI shifts
2022							
CLA	(2,377)	(8,015)	-	(807)	(327)	(382)	(2,109)
2021							
CLA	(2,441)	(6,555)	(446)	-	-	-	(2,694)

Scenario analysis – Different probabilities of default (PD)

Scenario simulation presents sensitivity analyses taking into consideration only changes due to the different values of PDs, if baseline, upside or downside FLI scenarios had 100% weight. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the "Incorporation of forward-looking information" section above). Both staging and resulting ECL were simulated with the scenario PDs.

The incorporation of 100% baseline scenario instead of the currently applied probability weighted scenario, would lead to a decrease of Stage 2 exposure by CZK 6,492 million (2021: CZK 8,029 million), resulting in an ECL drop by CZK 582 million (2021: CZK 397 million).

The downside scenario would lead to additional CZK 6,293 million of exposure migration to Stage 2 in comparison with probability weighted FLI (2021: CZK 8,788 million), resulting in ECL increase of CZK 494 million (2021: CZK 480 million).

Impact of different scenarios on credit risk exposure (CRE) in Stage 2

	Current status - parameters (FLI shifted)		Simulated impact on Stage 2			
in CZK million	Stage 1	Stage 2	Point in time (before FLI shift)	Upside scenario	Baseline scenario	Downside scenario
2022						
CRE	1,523,833	200,940	(17,242)	(14,492)	(6,492)	6,293
2021						
CRE	1,581,983	139,466	(21,684)	(10,332)	(8,029)	8,788

Impact of different scenarios on credit loss allowances (CLA)

	Current status - parameters (FLI shifted)		Simulated impact on CLA			
in CZK million	Stage 1	Stage 2	Point in time (before FLI shift)	Upside scenario	Baseline scenario	Downside scenario
2022						
CLA	(2,377)	(8,015)	2,109	1,421	582	(494)
2021						
CLA	(2,441)	(6,555)	2,694	554	397	(480)

Composition of credit loss allowances

in CZK million	2,022	2,021
Credit loss allowances	(21,003)	(20,192)
Loss allowances for loan commitments and financial guarantees	(1,114)	(1,197)
Provisions for other commitments	(352)	(367)
Total	**(22,469)**	**(21,756)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for any other commitments are subject to IAS 37.

40 Restructuring, renegotiation and forbearance

Overview

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Group's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. For further definitions and details see Art 47b CRR.

The largest part of the forbearance measures is set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Group.

A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- early warning signals for this customer identified;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the Group or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:

- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- granting the forbearance has not led to classifying the exposure as non-performing/default.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- an additional forbearance measure is extended;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:

- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
- the moment of extending the restructuring measure;
- the end of the grace period included in the restructuring agreement;
- the moment when the exposure has been classified as defaulted;
- the forbearance has not led the exposure to be classified as non-performing;
- the customer is not classified as defaulted according to the definition of default;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
  - the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
  - the customer has repaid the full past due amount or the written-off amount (if there was any).
- corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typ- ically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Group.

Default definition

Default definitions complies with the EBA 'Guidelines on the application of the definition of default under Art.178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to reg- ulatory technical standards for the materiality threshold for credit obligations past due'.

The definitions of non-performing and default are aligned within the Group.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of CZK 2,500 and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of CZK 12,600 and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in CZK million	Loans and advances	Debt securities	Other positions	Loan commitments	Total
2022					
Gross exposure	**1,202,720**	**379,072**	**73,146**	**229,614**	**1,884,552**
thereof gross forborne exposure	6,243	-	-	107	6,350
Performing exposure	1,184,995	379,072	72,546	228,683	1,865,296
thereof performing forborne exposure	1,926	-	-	1	1,927
Credit loss allowances for performing exposure	(9,353)	(188)	(304)	(552)	(10,397)
thereof credit loss allowances for performing forborne exposure	(203)	-	-	-	(203)
Non-performing exposure	17,725	-	600	931	19,256
thereof non-performing forborne exposure	4,317	-	-	107	4,423
Credit loss allowances for non-performing exposure	(11,461)	-	(410)	(200)	(12,072)
thereof credit loss allowances for non-performing forborne exposure	(2,767)	-	-	(52)	(2,820)
2021					
Gross exposure	**1,222,711**	**357,706**	**51,350**	**151,491**	**1,783,257**
thereof gross forborne exposure	6,790	-	-	49	6,839
Performing exposure	1,204,705	357,706	50,718	151,051	1,764,179
thereof performing forborne exposure	1,278	-	-	1	1,279
Credit loss allowances for performing exposure	(9,016)	(168)	(272)	(646)	(10,103)
thereof credit loss allowances for performing forborne exposure	(127)	-	-	-	(127)
Non-performing exposure	18,005	-	632	441	19,078
thereof non-performing forborne exposure	5,512	-	-	48	5,560
Credit loss allowances for non-performing exposure	(11,007)	-	(398)	(247)	(11,653)
thereof credit loss allowances for non-performing forborne exposure	(3,014)	-	-	(43)	(3,057)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2022			
Loans and advances	6,243	6,240	3
Loan commitments	107	107	-
Total	**6,350**	**6,347**	**3**
2021			
Loans and advances	6,790	6,763	27
Loan commitments	49	49	-
Total	**6,839**	**6,812**	**27**

Loans and advances also include lease, trade and other receivables.

41 Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk allowances include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 120.6% (2021: 115.5%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2022. For the portion of the non-performing credit risk exposure that is not covered by allowances, the Group assumes there are sufficient levels of collateral and expected other recoveries.

During 2022, the non-performing credit risk exposure increased by CZK 178 million (2021: increase by 1,119 million), or 0.9% (2021: 6.2%). The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 727 million (2021: increased by CZK 328 million), or 3.4% (2021: 1.6%).

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2022 and 31 December 2021. The differences in the credit allowance levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and coverage by credit loss allowances and collateral

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral	NPE collateralization ratio	
in CZK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI
2022												
Retail	8,764	8,763	665,292	665,137	(12,422)	2,098	2,098	1.3%	1.3%	141.8%	23.9%	23.9%
Corporates	10,461	9,546	526,382	438,379	(9,368)	3,647	3,647	2.0%	2.2%	98.1%	34.9%	38.2%
Group Markets	1	1	63,439	16,471	(257)	-	-	0.0%	0.0%	19554.5%	0.0%	0.0%
ALM & LCC	30	30	629,440	623,307	(69)	12	12	0.0%	0.0%	231.9%	38.9%	39.2%
Total	**19,256**	**18,340**	**1,884,552**	**1,743,294**	**(22,117)**	**5,757**	**5,757**	**1.0%**	**1.1%**	**120.6%**	**29.9%**	**31.4%**
2021												
Retail	9,504	9,503	645,846	645,729	(12,294)	2,385	2,385	1.5%	1.5%	129.4%	25.1%	25.1%
Corporates	9,499	8,935	413,487	389,017	(8,786)	3,024	3,024	2.3%	2.3%	98.3%	31.8%	33.8%
Group Markets	61	61	21,537	7,093	(262)	55	55	0.3%	0.9%	431.4%	90.1%	90.1%
ALM & LCC	14	14	702,387	698,229	(47)	-	-	0.0%	0.0%	336.1%	0.0%	0.0%
Total	**19,078**	**18,513**	**1,783,257**	**1,740,068**	**(21,389)**	**5,464**	**5,464**	**1.1%**	**1.1%**	**115.5%**	**28.6%**	**29.5%**

42 Detailed analysis of loans and advances to customers

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken-down by different categories. Loans and advances to customers comprise

- loans to customers at FVPL;
- loans and advances to customers at AC;

- finance lease receivables;
- trade and other receivables.

On the next pages loans and advances to customers are presented by:

- business segment and risk category;
- business segment and coverage of non-performing loans to customers by loan loss allowances;
- business segment and coverage by loan loss allowances and IFRS 9 treatment.

The presentation is by gross carrying amount excluding loan loss allowances and collateral.

Loans and advances to customers by business segment and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
2022					
Retail	540,779	25,919	14,500	8,614	589,812
Corporates	230,118	84,212	14,151	9,081	337,562
Group Markets	3,260	27	-	-	3,287
ALM&LCC	1,875	2,092	-	30	3,996
Total	**776,031**	**112,250**	**28,652**	**17,725**	**934,657**
2021					
Retail	496,918	26,815	15,615	9,416	548,765
Corporates	215,860	68,332	11,148	8,514	303,855
Group Markets	2,680	89	19	-	2,787
ALM&LCC	901	562	6	14	1,483
Total	**716,359**	**95,799**	**26,787**	**17,945**	**856,889**

Stage 1 and Stage 2 comprise not credit impaired loans and advances while Stage 3 includes credit impaired loans and advances. POCI (purchased or originated credit impaired) consists of loans already credit impaired when purchased or originated.

The defaulted part of POCI loans amounted to CZK 1,125 million (2021: 1,188 million), the non-defaulted part to CZK 177 million (2021: 94 million).

In the following tables, the non-performing loans and advances to customers divided by reporting segment are contrasted with allowances for customer loans (all allowances for loans and advances to customers within the scope of IFRS 9) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excluding collateral), and the NPL collateralisation ratio are also included.

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
in CZK million	**Total**	**AC**	**Total**	**AC**	**AC**	**Total**	**AC**	**Total**	**AC**	**AC**	**Total**	**AC**
2022												
Retail	8,614	8,614	589,812	589,793	(12,093)	2,052	2,052	1.5%	1.5%	140.4%	23.8%	23.8%
Corporates	9,081	9,081	337,562	337,562	(8,684)	3,430	3,430	2.7%	2.7%	95.6%	37.8%	37.8%
Group Markets	-	-	3,287	3,287	(3)	-	-	0.0%	0.0%	1075.4%	0.0%	0.0%
ALM&LCC	30	30	3,996	3,996	(30)	12	12	0.7%	0.7%	100.9%	39.2%	39.2%
Total	**17,725**	**17,725**	**934,657**	**934,638**	**(20,810)**	**5,493**	**5,493**	**1.9%**	**1.9%**	**117.4%**	**31.0%**	**31.0%**
2021												
Retail	9,416	9,416	548,765	548,765	(11,874)	2,379	2,379	1.7%	1.7%	126.1%	25.3%	25.3%
Corporates	8,514	8,514	303,855	303,855	(8,074)	2,911	2,911	2.8%	2.8%	94.8%	34.2%	34.2%
Group Markets	-	-	2,787	2,787	(5)	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
ALM&LCC	14	14	1,483	1,483	(25)	-	-	0.9%	0.9%	177.8%	0.0%	0.0%
Total	**17,945**	**17,945**	**856,889**	**856,889**	**(19,978)**	**5,290**	**5,290**	**2.1%**	**2.1%**	**111.3%**	**29.5%**	**29.5%**

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'.

The NPL coverage ratio is calculated by dividing total loss allowances by the gross carrying amount of the non-performing loans and advances to customers. Collateral is not taken into account.

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

	Loans to customers					Loan loss allowances						
in CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Not IFRS 9 impairment relevant**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 2 coverage ratio**	**Stage 3 coverage ratio**	**POCI coverage ratio**
2022												
Retail	497,605	83,493	8,517	178	19	1,150	5,327	5,575	41	6.4%	65.5%	22.8%
Corporates	255,660	72,725	8,055	1,122	-	779	2,075	5,397	433	2.9%	67.0%	38.6%
Group Markets	3,286	1	-	-	-	2	1	-	-	93.2%	98.2%	60.2%
ALM&LCC	3,967	-	28	2	-	10	-	19	1	0.0%	67.0%	64.5%
Total	**760,517**	**156,219**	**16,600**	**1,301**	**19**	**1,941**	**7,403**	**10,992**	**474**	**4.7%**	**66.2%**	**36.4%**
2021												
Retail	485,550	53,730	9,333	151	-	1,530	4,676	5,627	41	8.7%	60.3%	27.0%
Corporates	239,257	56,057	7,410	1,131	-	898	1,876	4,851	449	3.3%	65.5%	39.7%
Group Markets	2,521	267	-	-	-	3	2	-	-	0.7%	0.0%	0.0%
ALM&LCC	1,463	6	14	-	-	10	1	14	-	18.3%	100.0%	0.0%
Total	**728,791**	**110,060**	**16,757**	**1,282**	**-**	**2,441**	**6,555**	**10,492**	**490**	**6.0%**	**62.6%**	**38.2%**

43 Market Risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them. These market value changes might appear mainly in the profit and loss or statement of comprehensive income. In the Group, market risks may arise from open positions in interest rates, credit spread, currency, equity, and volatility of financial instruments.

Market risk measures

Potential losses that may arise from market movements are assessed using the Value-at-Risk (VaR). The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

In addition, the Group uses stress testing and analysis of impacts of adverse developments in market risk factors on the market value of the Trading book and on the parts of the Banking book revalued to market values. Scenarios are based on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to Financial Markets Risk Management Committee. In the Comprehensive Stress testing the complex scenario impact on the Group is analyzed on a half-year basis and results are reported to management board.

The majority of open positions arising from client transactions in the Group's Trading book are transferred to the Erste Group Bank through back-to-back transactions. As such, the market risk arising from the Group's OTC transactions is managed within the Erste Group Bank portfolio.

Methods and instruments of risk mitigation

At Group, market risks are controlled by setting several layers of limits. The overall limit on the basis of risk-weighted assets (RWAs) is allocated by the management board in the Risk Appetite Statement. The acceptable level of risk is based on the assessment of the risk appetite and capital available to cover the risks.

For the Trading book, The RWA limit is broken down into dedicated VaR limits and assigned in a top-down procedure to the individual trading units. Additionally, VaR sub-limits for individual trading desks are established. Trading book VaR values are calculated in a Group Market Risk System (MRS) on a confidence level of 99% and one-day holding period using historical simulation based on two years history. Additionally, sensitivity values of the trading portfolios to individual risk factors are limited to facilitate the maintenance of the overall market risk profile. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant risk factor within the predefined period to maturity.

All Trading book limits are approved by and reported on a monthly basis to Financial Markets Risk Management Committee.

For the Banking book, VaR limit is established based on the ICAAP methodology where 250 000 historical scenarios are calculated with a theoretical holding period of 1 year and a confidence level of 99.92%. The overall Banking book VaR is subsequently allocated to individual sub-portfolios, taking into account both the perspective of strategic portfolio management and the accounting treatment of portfolios. These portfolios are limited and monitored on a daily basis using confidence level of 99% and 1-month holding period using historical simulation based on two years history.

All Banking book limits are approved by and reported on a monthly basis to the Asset Liability Committee.

Analysis of market risk

The following table summarizes the VaR values as of 31 December 2022 and 31 December 2021 assuming 1 day holding period and confidence level of 99%.

in CZK million	Market risk total	Interest rate risk	Credit spread risk	Currency risk	Equity risk	Commodity risk	Volatility risk
2022							
ČS Total	**1,492**	**1,484**	**154**	**-**	**-**	**-**	**-**
Banking book	1,486	1,478	154	-	-	-	-
Trading book	6	6	-	-	-	-	-
2021							
ČS Total	**1,104**	**1,097**	**123**	**-**	**-**	**-**	**-**
Banking book	1,100	1,093	123	-	-	-	-
Trading book	4	4	-	-	-	-	-

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

The Group manages the interest rate risk of the Banking book by monitoring the repricing dates of the Group's assets and liabilities and implements models which show the potential impact that changes in interest rates may have on the Group's economic value of equity and net interest income.

In order to identify interest rate risk, all financial instruments, including off-balance instruments are taken into account to calculate the impact of certain interest rate scenarios on economic value and earnings. Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value as well as the change in net interest income. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly. For positions where the customer has the right to prepay his debt prepayment models are applied.

The Banking book interest rate exposures are regularly analyzed in the context of the overall development in financial markets and structural changes in the Group's balance sheet and reported on a monthly basis to the Asset Liability Committee.

In order to measure the interest rate risk exposure within the trading portfolio, the Group uses the present value of a basis point (PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e., the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account.

	2023		2022	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	238	(161)	1,562	(1,522)
Other comprehensive income	(3,093)	3,234	(2,689)	2,823
EUR				
Income statement	(100)	120	(706)	988
Other comprehensive income	832	(882)	961	(1,022)

The table shows the impact on the income statement and other comprehensive income of the Group if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

The Bank's FX open position is managed by Trading book's FX Desk. Total Banking book portfolio's FX open position is closed with TB FX Desk on daily basis as well as TB desk portfolios which are not allowed to keep FX open position. TB FX Desk then manages FX open position based on approved sensitivity limits set for single currencies and FX VaR limits. In addition, 'greeks' sensitivity limits are set for TB desks which are not FX closed with FX desk on daily basis and are allowed to enter into option contracts.

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market.

The Group is exposed to credit spread risk with respect to its securities portfolio, both in the trading as well as in the banking book.

Hedging

The market risk management consists of optimizing Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment and outlook, competitive landscape, fair value of risk, effect on net interest income and appropriate interest and liquidity position.

44 Liquidity Risk

The liquidity risk is defined in the Group in line with the principles set out by the Basel Committee on Banking Supervision and the Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Liquidity risk measures

Regulatory indicators Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored as a part of comprehensive liquidity risk limit system. In addition, various internal metrics and stress tests are implemented to ensure sufficient levels of liquidity which are calulated at both total currency level and for significant currencies. Regulatory and internal liquidity indicators are monitored and limited for relevant members of the Group on individual levels.

The LCR is part of the internal Risk Appetite Statement (RAS) and monitored daily. The LCR limits are defined in the RAS and targeted to be well above the regulatory minimum. The LCR is reported on a monthly basis to the regulatory authority.

Same as the LCR, the NSFR is part of the internal RAS and limits are defined in the RAS sufficiently above the regulatory minimum. The NSFR is monitored monthly and reported on a quarterly basis to the regulatory authority.

Short-term insolvency risk is internally monitored by internal stress measure the Survival Period Analysis (SPA). The SPA determines the maximum period during which the entity can survive a set of defined scenarios lasting up to 12 months, including a severe market and idiosyncratic crisis while relying on its pool of liquidity enhancing actions, mainly the liquidity buffer. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. The simulation also assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralized derivative transactions estimating the effect of collateral outflows in the case of adverse market movements.

Long-term structural liquidity is internally monitored by the Structural Liquidity Ratio (STRL). The STRL is measuring the structural funding gap ensuring an appropriate balance between assets and liabilities in the medium- and long-term time horizons avoiding excessive maturities transformation and consequently avoiding increased pressure on the short-term liquidity position.

The Group also reports Additional Liquidity Monitoring Metrics (ALMM) to its regulator, which complement regulatory liquidity risk ratios in the form of several detailed liquidity risk reports.

Methods and instruments of risk mitigation

General standards of liquidity risk management have been thoroughly defined and are continuously reviewed and improved within internal liquidity adequacy assessment process (ILAAP).

All liquidity indicators and liquidity situation are regularly reported to and monitored by the Operational Liquidity Committee (OLC). On a monthly basis the management board is informed during the Asset Liability Committee (ALCO).

The Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

At the end as well throughout whole year, both LCR and NSFR for the Bank were significantly above the regulatory and internal limits and confirm a sound liquidity situation of the bank. A comfortable liquidity situation was also confirmed by other short-term and long-term internal liquidity measures.

Counterbalancing capacity

The Group regularly monitors its liquid assets, which consists of cash, excess minimum reserve at the central banks, and unencumbered central bank eligible assets. These assets can be mobilized in short term to offset potential cash outflows in a crisis situation.

The structure of the Group's counterbalancing capacity as of year-end 2022 and 2021 are shown in the tables below:

	< 1 week	
in CZK million	**2022**	**2021**
Cash, excess reserve	14,495	17,434
Liquid assets	418,147	614,054
Counterbalancing capacity	**432,642**	**631,489**

The figures above show the total amount of potential liquidity available for the Group in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2022 and 2021 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
2022						
Non-derivative liabilities	**1,453,161**	**1,457,384**	**1,245,708**	**132,827**	**56,608**	**22,242**
Deposits by banks	113,541	114,162	64,010	40,305	4,421	5,426
Customer deposits	1,256,795	1,258,260	1,145,475	74,039	32,168	6,579
Debt securities in issue	76,657	78,794	30,055	18,483	20,019	10,237
Other financial liabilities	6,168	6,168	6,168	-	-	-
Derivative liabilities	**29,597**	**29,597**	**1,790**	**7,983**	**10,820**	**9,003**
Contingent liabilities	**269,532**	**269,532**	**269,532**	**-**	**-**	**-**
Financial guarantees	9,871	9,871	9,871	-	-	-
Irrevocable commitments	259,661	259,661	259,661	-	-	-
Total	**1,752,290**	**1,756,513**	**1,517,030**	**140,810**	**67,428**	**31,245**
2021						
Non-derivative liabilities	**1,465,708**	**1,467,086**	**1,290,875**	**117,184**	**37,593**	**21,434**
Deposits by banks	49,695	49,572	13,714	27,986	4,558	3,315
Customer deposits	1,184,543	1,185,977	1,103,918	44,073	32,039	5,947
Debt securities in issue	213,357	213,423	155,128	45,125	996	12,173
Other financial liabilities	18,114	18,114	18,114	-	-	-
Derivative liabilities	**15,392**	**15,402**	**767**	**3,060**	**5,572**	**6,003**
Contingent liabilities	**185,094**	**185,094**	**185,094**	**-**	**-**	**-**
Financial guarantees	8,230	8,230	8,230	-	-	-
Irrevocable commitments	176,864	176,864	176,864	-	-	-
Total	**1,666,195**	**1,667,582**	**1,476,736**	**120,244**	**43,165**	**27,437**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

45 Operational Risk

In accordance with regulatory requirements, the Group defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Group put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of Česká spořitelna', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Group has cooperated with an external supplier in developing a specialised software application EMUS to collect data about operational risk which conforms to the data collection requirements. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. The system is also used as a case management tool for all fraud investigations (i.e. final investigation report, list measures and monitoring of its fulfilment, communication exchange with law enforcement authorities). In addition to monitoring actual occurrence of operational risk, the Group also pays attention to how the operational risk is perceived by management. In this respect, the Group has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Group also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.

The Group successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Group's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Group has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Special focus is put on assessment of non-financial risk based on a methodology called Risk Return Decisions (i.e. assessment of reputational, legal and financial impacts put in relation with its expected return). The analysis must be developed for each decision taken by Board of Directors or any Advisory Committee, all material outsourcing projects and all PAP relevant topics. The significant Risk Return Decisions are also evaluated by ROCC (Regional Operational Conduct Committee) Office in Erste Group Bank which provides its recommendation in order to support local decision process.

Top management of the Bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Head of Non-financial Risk and Compliance section, who further presents selected topics at the Risk Committee (chairman - Chief Risk Officer).

Information Disclosure and Transparency

The Group rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Group to enjoy unauthorised gains in dealing with the Group's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Group or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Group's Board of Directors as well as designated employees are obliged to inform the Group's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Group has established a Compliance Department whose principal activities include ensuring compliance of the Group's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Group activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Group's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain whistleblowing channels for ensuring protection of whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as an integral part of Compliance department ensures meeting Group´s obligations in the area of anti money laundering and terrorist financing and also secures the compliance of the Group's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

46 Property, equipment, right-of use of assets and investment properties

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Right-of use of assets

For accounting policy for leases including right-of use of assets see Note 49 The Group as a lessor.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item 'Investment properties'.

Rental income is recognised in the line 'Rental income from investment properties & other operating leases'. Depreciation is presented in the income statement in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item 'Other operating result'.

Impairment

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Own property, equipment and investment properties – at cost

in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Total property and equipment	Investment properties
Balance as of 1 Jan 2021	**18,353**	**3,696**	**2,504**	**24,553**	**3,830**
Additions in current year (+)	714	180	311	1,205	60
Disposals (-)	(295)	(234)	(473)	(1,002)	-
Reclassification (+/-)	27	(1,037)	1,010	-	-
Assets held for sale (-)	(297)	-	-	(297)	-
Balance as of 31 Dec 2021	**18,502**	**2,605**	**3,352**	**24,459**	**3,890**
Additions in current year (+)	705	179	331	1,215	38
Disposals (-)	(646)	(240)	(707)	(1,593)	-
Reclassification (+/-)	-	(38)	40	2	-
Assets held for sale (-)	(142)	-	-	(142)	-
Balance as of 31 Dec 2022	**18,419**	**2,507**	**3,016**	**23,941**	**3,928**

Right of use property and equipment - at cost

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Balance as of 1 Jan 2021	**4,002**	**51**	**18**	**4,071**
Additions	331	24	3	358
Disposals	(68)	(10)	-	(78)
Balance as of 31 Dec 2021	**4,265**	**65**	**21**	**4,351**
Additions	951	44	-	994
Disposals	(123)	(8)	(21)	(152)
Balance as of 31 Dec 2022	**5,090**	**100**	**-**	**5,190**

Own property, equipment and investment properties – accumulated depreciation

in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Total property and equipment	Investment properties
Balance as of 1 Jan 2021	**(10,780)**	**(2,393)**	**(1,698)**	**(14,871)**	**(1,548)**
Depreciation (-)	(538)	(111)	(310)	(959)	(68)
Disposals (+)	249	218	468	935	-
Impairment (-)	(407)	-	-	(407)	(53)
Reversal of impairment (+)	34	-	-	34	-
Reclassification	(24)	438	(415)	-	-
Assets held for sale (+)	266	-	-	266	-
Currency translation	(5)	(2)	(29)	(37)	-
Balance as of 31 Dec 2021	**(11,205)**	**(1,850)**	**(1,984)**	**(15,039)**	**(1,669)**
Depreciation (-)	(548)	(107)	(328)	(983)	(67)
Disposals (+)	293	230	683	1,207	-
Impairment (-)	(342)	-	-	(342)	(389)
Assets held for sale (+)	133	-	-	133	-
Currency translation	-	-	-	-	-
Balance as of 31 Dec 2022	**(11,669)**	**(1,726)**	**(1,629)**	**(15,024)**	**(2,125)**

Right-of-use property and equipment – accumulated depreciation

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Balance as of 1 Jan 2021	**(980)**	**(24)**	**(14)**	**(1,018)**
Amortisation and depreciation	(555)	(20)	(5)	(580)
Disposals	29	10	-	38
Impairment	(10)	-	-	(10)
Balance as of 31 Dec 2021	**(1,516)**	**(34)**	**(19)**	**(1,569)**
Amortisation and depreciation	(566)	(22)	(2)	(590)
Disposals	55	7	21	84
Balance as of 31 Dec 2022	**(2,027)**	**(49)**	**-**	**(2,076)**

Carrying amounts

Own property, equipment and investment properties

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Dec 2021	**7,296**	**755**	**1,368**	**9,419**	**2,221**
Dec 2022	**6,749**	**780**	**1,388**	**8,917**	**1,803**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 316 million (2021: CZK 416 million).

Rights-of-use – property, equipment and investment properties

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Dec 2021	**2,750**	**31**	**2**	**2,783**	**-**
Dec 2022	**3,064**	**53**	**-**	**3,114**	**-**

Own property, equipment and investment properties – Carrying amounts

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2021	**10,595**	**1,330**	**810**	**12,735**	**2,282**
Balance as of 31 Dec 2021	**10,046**	**786**	**1,370**	**12,201**	**2,221**
Balance as of 31 Dec 2022	**9,813**	**833**	**1,388**	**12,031**	**1,803**

Fair values of non-financial assets

in CZK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
2022					
Assets whose fair value is disclosed in the notes					
Investment property	1,803	1,818	-	-	1,818
2021					
Assets whose fair value is disclosed in the notes					
Investment property	2,282	2,282	-	-	2,282

In 2022, rental income arising from investment property amounted to CZK 184 million (2021: CZK 180 million), see Note 7. Operating expenses related to investment property amounted to CZK 68 million (2021: CZK 68 million).

As at 31 December 2022, the fair value of investment property amounted to CZK 1,818 million (2021: CZK 2,282 million).

The balances as at 31 December 2022 shown above include CZK 812 million (2021: CZK 785 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,379 million as at 31 December 2022 (2021: CZK 3,489 million). As at 31 December 2022, land and buildings were impaired in the amount of CZK 982 million (2021: CZK 1,272 million).

For details related to right of use assets capitalized in balance sheet arising from leases where the Group is lessee, please see Note 50 Leases where the Group is a lessee .

As of 31 December 2022 the fair value of investment properties with a carrying amount of CZK 1,803 million (2021: 1,344 million) amounts to 1,818 million (2021: CZK 2,282 million) and is classified as level 3 of the fair value hierarchy.

Investment Property

The valuations of investment property is based on the valuation of accredited independent valuer with a recognised and relevant professional qualification. The valuation of investment property is carried out using the comparative and investment methods. The assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the property, taking into account size, location, terms, covenant and other material factors.

47 Intangible assets

Goodwill

Goodwill arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. For more details on measurement of goodwill at the acquisition date refer to Scope of consolidation, part Subsidiaries.

Other intangible assets

The Group's intangible assets other than goodwill include computer software, licences and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated soft- ware are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the acquisition date. In the case of the Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4-8
Other (licences, patents, etc.)	6

Brands have been impaired to nil carrying amount. As a result, they are not being amortised.

Acquisition and production costs

in CZK million	**Goodwill**	**Software acquired**	**Other (licenses, patents, etc.)**	**Total intangible assets**
Balance as of 1 Jan 2021	**34**	**17,870**	**1,883**	**19,787**
Additions in current year (+)	-	1,823	93	1,916
Disposals (-)	-	(689)	(449)	(1,138)
Disposal of group	-	(5)	-	(5)
Currency translation	-	(2)	-	(2)
Balance as of 31 Dec 2021	**34**	**18,997**	**1,527**	**20,558**
Additions in current year (+)	-	1,223	44	1,267
Disposals (-)	-	(1,692)	(172)	(1,864)
Disposal of group	-	(15)	-	(15)
Reclassification	-	(2)	-	(2)
Currency translation	-	(1)	-	(1)
Balance as of 31 Dec 2022	**34**	**18,509**	**1,398**	**19,941**

Accumulated depreciation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2021	**-**	**(12,060)**	**(1,644)**	**(13,704)**
Amortisation charge (-)	-	(985)	(128)	(1,113)
Disposals (+)	-	207	508	715
Disposal of group	-	5	-	5
Impairment (-)	-	(161)	-	(161)
Balance as of 31 Dec 2021	**-**	**(12,993)**	**(1,264)**	**(14,257)**
Amortisation charge (-)	-	(1,019)	(68)	(1,087)
Disposals (+)	-	1,696	172	1,868
Disposal of group	-	14	-	14
Impairment (-)	-	(64)	-	(64)
Balance as of 31 Dec 2022	**-**	**(12,366)**	**(1,158)**	**(13,524)**

Carrying amounts

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2021	**34**	**5,810**	**239**	**6,083**
Balance as of 31 Dec 2021	**34**	**6,004**	**263**	**6,301**
Balance as of 31 Dec 2022	**34**	**6,144**	**240**	**6,417**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,215 million as at 31 December 2022 (2021: CZK 1,614 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 3,013 million as at 31 December 2022 (2021: CZK 3,482 million).

The Group has not identified any contractual commitments for the purchase of intangible assets.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the cal- culation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item 'Other operating result'.

Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in the fourth quarter, or whenever there is an indication of possible impairment during the year, with any impairment recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, mar- ket quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of any respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

For applicable CGU (e.g. financial institutions), the cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements. Cash-flow for other CGU is not adjusted.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets, right-of-use assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assess- ments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

48 Other assets

in CZK million	2022	2021
Prepayments	647	399
Assets under construction/unfinished goods/inventory	42	58
Sundry assets	1,018	680
Other assets	**1,707**	**1,137**

'Sundry assets' consist mainly of long-term advances of CZK 278 million (2021: CZK 258 million) and deposit into the transformed fund of Česká spořitelna - penzijní společnost, a.s. od CZK 437 million.

LEASES

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

49 The Group as a lessor

Accounting and measurement methods

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property, equipment and right-of-use assets' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties and other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

The vast majority of lease agreements in which the Group operates as a lessor are finance leases.

Quantitative disclosures

Finance leases

Finance lease receivables are included under the statement of financial position item ´Finance lease receivables'.

The principal assets held under lease arrangements include vehicles and other technical equipment. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in CZK million	2022	2021
Outstanding minimum lease payments	1,687	1,255
Gross investment	**1,687**	**1,255**
Unrealised financial income	(133)	(95)
Net investment	**1,555**	**1,160**
Present value of minimum lease payments	**1,555**	**1,160**

Maturity analysis by residual maturities

	2022		2021	
in CZK million	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	421	387	339	313
1-2 years	334	307	310	287
2-3 years	238	218	253	234
3-4 years	154	140	140	129
4-5 years	106	96	75	68
> 5 years	434	407	139	129
Total	**1,687**	**1,555**	**1,255**	**1,160**

During 2022, the Group recognised interest income on finance lease receivables in the amount of CZK 12 million (2021: CZK 28 million).

Finance lease receivables

The analysis of the GCA and of related CLA of the Group's finance lease receivables per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA				CLA				Carrying
in CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**amount**
2022									
General governments	64	-	-	64	(3)	-	-	(3)	61
Other financial corporations	6	-	-	6	-	-	-	-	6
Non-financial corporations	1,265	123	65	1,453	(22)	(13)	(35)	(70)	1,383
Households	29	1	1	31	(8)	-	(1)	(8)	23
Total	**1,365**	**124**	**66**	**1,555**	**(32)**	**(13)**	**(36)**	**(81)**	**1,474**
2021									
General governments	77	-	-	77	(5)	-	-	(5)	72
Other financial corporations	2	-	-	2	-	-	-	-	2
Non-financial corporations	832	65	71	968	(5)	(4)	(48)	(57)	911
Households	97	2	4	104	(1)	-	(4)	(5)	99
Total	**1,007**	**67**	**76**	**1,150**	**(11)**	**(4)**	**(52)**	**(67)**	**1,083**

For a development of the Expected Credit Loss related to Finance Lease Receivables please refer to the Risk Report in Note 38 Development of Credit Loss Allowances.

Operating leases

Under operating leases, the Group leases real estate and movable property to other parties.

Maturity analysis of lease payments from operating leases and investment properties

in CZK million	**2022**	**2021**
< 1 year	220	228
1-2 years	220	218
2-3 years	220	217
3-4 years	215	217
4-5 years	216	214
> 5 years	970	786
Total	**2,061**	**1,879**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

50 Leases where the Group is a lessee

Accounting and measurement methods

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low- value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property,

equipment and right-of-use assets' or, if they are subleased to third parties, for operating leases as part of 'Investment properties' and for finance leases as a 'Finance lease receivable'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease pay- ments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Pribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Pribor. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

Maturity analysis of lease liabilities on the basis of undiscounted cash flows

in CZK million	2022		2021	
	Nominal values	Present values	Nominal values	Present values
< 1 year	648	567	621	589
1-5 years	2,006	1,815	1,653	1,565
> 5 years	1,170	1,093	1,023	967
Total	**3,824**	**3,475**	**3,297**	**3,121**

During 2022, interest expenses on lease liabilities were recognised in the amount of CZK 57 million (2021: CZK 36 million). In 2022, expenses in the amount of CZK 66 million (2021: CZK 64 million) relating to short term leases, for which the recognition exemption of IFRS 16 applies, were recognised. In addition, expenses amounting to CZK 60 million (2021: CZK 52 million) relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, arose.

Gains arising from sale and leaseback transactions in the amount of CZK 0 million (2021: CZK 143 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 29 million (2021: CZK 55 million). Total cash outflow for leases in 2022 was CZK 774 million (2021: CZK 759 million). The Group does not have commitments for future cash outflows which are not reflected in the measurement of lease liabilities as of 31 December 2022.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

51 Other liabilities

in CZK million	2022	2021
Deferred income	523	439
Sundry liabilities	6,035	5,268
Other liabilities	**6,558**	**5,707**

Sundry liabilities consist mainly of suspense account of CZK 2,174 million (2021: CZK 874 million) and costs of staff bonuses for 2022 amounting to CZK 1,509 million (2021: CZK 1,728 million) of which CZK 44 million (2021: CZK 34 million) is liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2022 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 488 million (2021: CZK 453 million). Revenue recognised in the reporting year 2022 that was included in the contract liability balance at the beginning of the period amounts to CZK 506 million (2021: CZK 198 million).

52 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. In the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'. However restructuring expenses relating to employees are presented under line item "Personnel expenses".

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Group.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item "Fee and commission income" under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan commitments.

If the Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk are guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Group has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. They are ignored in measuring the ECL and are measured separately and in the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Significant accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether the Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 34 Credit risk exposure. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 53 Contingent liabilities.

in CZK million	2022	2021
Restructuring	67	59
Pending legal issues	1,706	2,025
Loan commitments and financial guarantees given	1,114	1,197
CLA for loan commitments and financial guarantees in Stage 1	395	465
CLA for loan commitments and financial guarantees in Stage 2	460	452
CLA for loan commitments and financial guarantees in Stage 3	258	279
CLA for loan commitments and financial guarantees POCI	1	1
Provision for onerous contracts	101	-
Other provisions	418	374
Provisions	**3,406**	**3,655**

The restructuring provision was created at the end of 2019 for the next phase reorganization of the Group's redundant activities performed by the HQ departments of the Group and their employees. The reorganization is expected to be completed in 2023.

Under position 'Pending legal issues and tax litigation' provisions related to litigations from lending business, asset management or litigations with customer protection associations, which normally occur in banking business, are disclosed (refer to Note 53 part Legal disputes).

Remaining classes of provisions

Following table provides the information about the development of the remaining classes of provisions:

in CZK million		Allocations	Use	Releases	Exchange rate and other changes (+/-)	
	Jan 2022					**Dec 2022**
Provision for restructuring	59	67	(59)	-	-	67
Pending legal issues and tax litigation	1,966	2	-	(262)	-	1,706
Other provisions	433	101	-	-	(15)	520
Provisions	**2,458**	**170**	**(59)**	**(262)**	**(15)**	**2,292**

	Jan 2021					**Dec 2021**
Provision for restructuring	93	59	(63)	(30)	-	59
Pending legal issues and tax litigation	1,739	227	-	-	-	1,966
Other provisions	74	46	(11)	(2)	326	433
Provisions	**1,906**	**332**	**(74)**	**(32)**	**326**	**2,458**

The level of sundry provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate.

53 Contingent liabilities

In the ordinary course of business, the Group becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The table at the end of the note represent the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date, the Group was involved in various claims and legal proceedings of a nature considered normal to its business. Legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Group also acts as a defendant in a number of legal disputes filed with the arbitration court. The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests. Based upon historical experience and expert opinion, the Group assesses the developments in these cases, and the probability and the amount of potential financial outcome which are appropriately provided for.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Group recognises a provision for legal disputes (refer to Note 52 Provisions).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

The Group recorded impairment credit loss for off-balance sheet risks to cover expected credit losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2022, the aggregate balance of these allowances was CZK 1,114 million (2021: CZK 1,197 million). Refer to Note 38 Development of Credit Loss Allowances.

in CZK million	2022	2021
Amounts owed under guarantees and letters of credit	9,871	8,230
Undrawn loan and other commitments	259,661	176,864
out of which loan commitments	229,614	151,491
Total	**269,532**	**185,094**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

54 Total equity

Details on equity are provided in Section IV, Consolidated Statement of Changes in Equity

in CZK million	2022	2021
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	9,040
Retained earnings and other reserves	112,980	118,492
Owners of the parent	**137,232**	**142,744**
Non-controlling interests	479	452
Total equity	**137,711**	**143,196**

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register. In addition, the Bank issued Additional Tier 1 capital ("AT1"). AT1 bonds are unsecured and subordinated bonds. AT1 bonds are perpetual and can be cancelled only by the issuer at predetermined dates. The bonds include discretionary non-cumulative coupon payments. Due to this features they are classified as equity under IFRS.

As of 31 December 2022, share capital consists of 152,000,000 voting ordinary shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

	2022		2021	
	Number of shares	CZK million	Number of shares	CZK million
Ordinary shares of CZK 100 each	152,000,000	15,200	152,000,000	15,200
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

55 Non-controlling interest

in CZK million	2022	2021
At 1 January	**452**	**221**
Capital increases	-	104
Changes in scope of consolidation and ownership interest	-	100
Profit for the year	27	27
At 31 December	**479**	**452**

The increase in non-controlling interest and retained earnings in 2021 was affected by the entrance of Erste Group Bank in the subsidiary Holding Card Service, s.r.o.

SCOPE OF CONSOLIDATION

Basis of consolidation

As at 31 December 2022, the Group includes in its IFRS scope of consolidation a total of 23 subsidiaries (31 December 2021: 23)

56 Subsidiaries

A subsidiary is an entity controlled by another entity. All subsidiaries directly or indirectly controlled by the Bank are consolidated in the consolidated financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2022, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Group 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 to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Group's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies.

All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owner of the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

Additions in 2022

On 16 February 2022, the company Dostupné bydlení České spořitelny, a.s. was entered into the Commercial Register and became fully consolidated in March 2022.

Disposals in 2022

On 1 January 2022 the MOPET CZ a.s. entered into liquidation and the company was deleted from the Commercial Register on 14 September 2022.

CS Property Investment Limited was deleted from the Commercial Register on 26 August 2022.

Additions in 2021

No additions in 2021.

Disposals in 2021

During the year, the Group completed planned liquidation of the companies Czech TOP Venture Fund B.V. v likvidaci and brokerjet České spořitelny, a.s. v likvidaci which ceased to be consolidated from April and October 2021.

CS Property Investment Limited went into liquidation on 20 December 2021 and was deconsolidated and reclassified to FVPL in December 2021.

Other changes in 2021

Effectively since 1 April 2021, the company s Autoleasing, a.s. was renamed to Leasing České spořitelny, a.s. and subsequently merged with Erste Leasing, a.s., while Leasing České spořitelny, a.s. to be the successor company. The Company Erste Leasing, a.s. ceased to exist as at 1 December 2021.

As at 15 December 2021 a new partner, Erste Group Bank AG acquired the 11.52% share in the company Holding Card Service, s.r.o., as a result of this transaction the Bank's share was reduced to 66.7%.

57 Investment in associates and joint ventures

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's result is recognised in the income statement and other comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2022 and for the year then ended.

Associates are entities over which Group exercises significant influence. Significant influence is the power to participate in the financial and operating business decisions of the investee but is not control or joint control of those decisions. As a general rule, significant influence is presumed to mean a share on voting rights between 20% and 50%.

Additions in 2022

As of 31 May 2022 the Group acquired the 26% in Investown Technologies s.r.o., the company started to be consolidated at equity since June 2022.

Disposals in 2021

In the company Bankovní identita, a.s. the Bank's share decreased to 17 % as a result of accession of other banks as of 19 April 2021, the company was deconsolidated and transfered to FVPL portfolio in May 2021.

Additions in 2021

No additions in 2021.

in CZK million	2022	2021
Financial institutions	1,437	1,357
Total	**1,437**	**1,357**

The table below shows the aggregated financial information of companies accounted for using the equity method:

in CZK million	2022	2021
Total assets	6,691	5,046
Total liabilities	3,761	2,278
Income	1,847	1,177
Profit (Loss)	135	167

None of the Group's investments accounted for using the equity method published price quotations.

Significant equity method investments where the Group has strategic interest

in CZK million	2022 Global Payments s.r.o.	2022 Investown Technologies s.r.o.	2021 Global Payments s.r.o.
Country of Incorporation / Place of business	Czech Republic	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services	Payment services
Ownership% held	49.00%	26.00%	49.00%
Voting rights held%	49.00%	26.00%	49.00%
IFRS Classification (JV/A)	Associate	Associate	Associate
Reporting currency	CZK	CZK	CZK
Cash and cash balances	518	71	703
Other current assets	2,944	1	1,764
Non-current assets	2,729	427	2,579
Current liabilities	36	-	46
Non-current liabilities	3,221	504	2,232
Operating income	224	12	170
Post-tax result from continuing operations	166	(31)	167
Depreciation and amortization	(177)	-	(160)
Interest expense	(55)	(23)	(22)
Tax expense/income	(37)	-	(30)
Net assets attributable to the Group	669	(1)	335
Carrying goodwill included in the cost of investment	769	-	1,022
Carrying amount	1,439	(1)	1,357

The classification of current and non-current financial assets and liabilities are based on the expected remaining maturities of assets and liabilities.

58 Unconsolidated structured entities

in CZK million	2022	2021
Carrying amount of assets	1,075	609
Fair value of liquidity support drawn	657	480
Total	**1,732**	**1,090**

The Group is involved as an investor in a number of unconsolidated public or private investment funds registered in the Czech Republic or foreign jurisdictions. Some of these funds are managed by asset management subsidiaries of the Group, but the Group is not a significant investor in these funds. The interests of the Group in these funds mostly take the form of redeemable fund unit investments measuredat fairvalue on the Group's statement of financial position and are classified based on their characteristics as debt or equity securities mandatorily at FVPL (Note 23 Non-trading financial assets at fair value through profit or loss).

OTHER DISCLOSURE MATTERS

59 Related party transactions and principal shareholders

Related parties involve connected entities or parties that have a special relationship to the Group.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank AG.

The parties that have a special relationship to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the ČNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at standard commercial rates. Outstanding balances at the year-end are unsecured except for loans to finance investment property and property under construction.

There was no impairment related to the outstanding balances with related parties reported by the Group.

Loans and advances to and amounts owed to related parties

	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board
	2022			2021		
Assets						
Cash and cash balances	1,236	40	-	998	82	-
Financial assets - held for trading	19,994	-	-	8,590	-	-
Financial assets - FVPL	1,383	-	-	8,590	-	-
Financial assets – amortised costs	1,377	277	40	2,020	288	33
Derivatives Hedge Accounting	3,000	-	-	504	-	-
Other assets	-	1	-	-	1	-
Liabilities						
Financial liabilities held for trading	10,557	-	-	6,796	-	-
Financial liabilities measured at amortised costs	88,173	506	128	34,716	261	107
Debt securities in issue	42,703	17	-	200,195	-	-
Derivatives Hedge Accounting	2,839	-	-	1,634	-	-
Other Liabilities	-	1	-	-	1	-
Profit&Loss statement		01-12 2022			01-12 2021	
Net interest income	(10,366)	(11)	3	(1,306)	3	1
Net fee and commision income	33	1,442	-	101	1,142	-
Dividend income	-	233	-	-	61	-
Net trading result and fair value result	14,343	16	-	6,983	11	-
Other administrative expenses	(140)	(941)	-	(287)	(875)	(106)
Other operating result	120	93	-	26	27	-
Loans commitments, financial guarantees and other commitments given	12,517	490	-	6,179	370	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	-	-

Financial liabilities measured at amortized costs as at 31 December 2022 include primarily repurchase agreements in CZK 78,102 million (2021: CZK 34,238 million) and cash collaterals taken of CZK 10,034 million (2021: CZK 0 million).

The repurchase agreements are mainly denominated in CZK (CZK 36,050 million as at 31 December 2022; 2021: CZK 4,230 million) and EUR (CZK 41,167 million as at 31 December 2022; 2021: CZK 30,008 million), the interest rates on repurchase agreements are in the range of -0.1% to 2.75% and maturity of these transactions is up to 12 months.

As at 31 December 2022 financial assets and financial liabilities held for trading includes mainly derivative instruments (currency and interest rate derivatives). In 2022 and 2021, the net trading and fair value result consists primarily of

foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Financial assets at amortized cost to Erste Group Bank AG include primarily standard money-market deposits of CZK 1,348 million as at 31 December 2022 (2021: CZK 1,270 million).

Terms of the debt securities issued are described in Note 18.

60 Share-based payments

Remuneration of the Board of Directors and Supervisory Board members

Board of Directors are remunerated on the basis of an „Agreement on the Performance of the Position of a Member of the Board of Directors". The overall income of a Member of the Board of Directors (herein after a Board member) for any given year is comprised of Board member's fixed pay, variable income, and benefits/ in-kind performances.

in CZK million	Short-term benefits		Long-term benefits			
			Variable performance linked remuneration			
Board total	Fixed salaries	Other remuneration (in kind)	Previous years (cash)	Previous years (non-cash)	Previous years (phantom/ shares)	Total
2022	65	2	13	14	9	103
2021	61	2	16	21	6	106

The item Other remuneration comprises income from providing pool cars for personal use to Board of Directors members.

Mr. Bravek received CZK 6.9 million as termination benefit in 2021. No termination benefit was paid out in 2022 to the Board of Directors members.

All of the above mentioned income is paid-out by the Bank. Board of Directors members do not have any income from any of the companies controlled by the Bank.

Variable performance linked remuneration of the Board of Directors members

The variable remuneration component of the Board of Directors members includes both:

- Cash payment;
- Non-cash payments in the form of ČS performance certificates and share-equivalents in the form of Erste Group Bank shares ("phantom shares")

None of them are exchange-traded but they are paid out in cash after vesting period based on defined criteria. The Bank recognizes liability to pay for services delivered by the Board of Directors members (see also Note 51 Other liabilities).

The variable performance linked component of remuneration relates to the services rendered by the Board of Directors members in the current year ("performance period'). The payments are conditional on the Bank's performance in the current and following five years. The actual variable performance linked remuneration payment (cash and non-cash payments part) is divided into an upfront (40 %) and deferred remuneration tranches (60 %). A maximum of 20% of total variable remuneration consists of a cash payment payable in the first subsequent year after the performance period and at least 20% is awarded in non-financial instruments. The 30% of deferred remuneration payments are awarded in cash and 30% in non-financial instruments.

The non-financial instruments for upfront and deferred remuneration tranches comprised of phantom shares (50%) and ČS performance certificates (50%). Both instruments will be paid out in cash when due. These components – both the upfront and deferred parts – must be retained throughout the retention period.

The variable performance linked remuneration component is calculated as the fixed income multiplied by the bonus potential (100% for the Board of Directors members) and by bonus multiplier, where the value of the bonus multiplier is set as the outcome of the evaluation of the Strategy and Business part (evaluation of set performance indicators; overall weight 75%) and the Leadership part (overall weight 25%). The annual variable remuneration of the Board of Directors members as managers normally amounts to less than 4% of the aggregate annual volume of variable remuneration at the Bank as a whole.

Evaluation of the performance of Board of Directors members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The outputs from the TEAC are then assessed by the Remuneration Committee of the Supervisory Board. The Supervisory Board decides about the setting of bonuses for members of the management board on the basis of a proposal from the Remuneration Committee.

The total variable performance linked remuneration – taking into account both current remuneration based on performance period and possible reductions in pay-outs of amounts previously earned – is awarded only if the participant remains employed and it is sustainable considering the overall financial situation of the Bank and justified on the basis of the performance of the Bank. Should any of these criteria not allow for the full bonus to be awarded, up to 100 % of the total variable remuneration shall be subject to malus or clawback arrangements.

Variable performance linked remuneration for the Board of Directors members for reporting period 2022 was estimated at CZK 51 million (2021: CZK 47 million).

At year-end 2022 the outstanding amount of liability from cash part of the bonus programme for the Board of Directors members consisting of current and also previous years (deferral parts) is CZK 45 million (2021: CZK 38 million) and for non-cash part is CZK 76 million (2021: CZK 80 million) of which CZK 36 million are phantom shares (2021: CZK 34 million).

Non-cash remuneration instruments

Phantom EGB shares

Share-based payments (phantom shares) are variable remuneration components, which – according to the remuneration policy of the Bank – are deferred over a period of five years and are awarded only if it is sustainable considering the overall financial situation of the Bank and justified on the basis of the performance of the Bank.

Amount paid depends on the average share price of Erste Group Bank AG in the year of payment. As services are received by the Bank in the performance year, the total estimated amount of bonus payments is accrued via profit or loss and recognized as liability in balance sheet. The share-based component of the bonus payment is measured with the respective average share price calculated in the current financial year. Subsequent adjustments due to the changes in the share price are recognized in the profit or loss. As of 31 December 2022, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2022 in the amount of EUR 29.50 (2021: EUR 32.95) per share. Pay-outs of share-based bonus payments are made one-year after the final amount is determined.

Phantom shares are settled in cash and therefore treated as cash-settled share-based payment transactions. The average daily weighted price of a phantom share is calculated on the basis of the official DataStream (Thomson Reuters Corp) information of Erste Group Bank shares and is based on data published on the Vienna Stock Exchange (Wiener Börse).

The allocated number of phantom shares to the Board of Directors members iscalculated by division of respectivegross bonusamount by the average daily weighted price of Erste Group Bank shares stock in the performance period. For performance period 2022 the Board of Directors members receive equivalent of 14,810 pcs of phantom shares with average price 29.50 EUR.

At the end of the vesting period when phantom shares are due, shares are transferred into cash by a multiplication of the average daily weighted price of the share in the last closed year preceding the year in which the shares are being paid out.

Performance certificates

As a non-cash performance linked instruments, the Bank uses also ČS performance certificates, the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014.

The valuation of the Group is based on an annual impairment test conducted at the level of the parent company Erste Group Bank. The comparison of the result of the Group's value in individual years using this valuation model is used to determine the year-on-year change in the value of the certificates. The fundament based for the valuation is a 5 year plan which is prepared by the Bank using several states of the art parameters to justify the financial performance over the following 5 consecutive years. In the preparation of the plan, the macroeconomic outlook, present performance, expected growth, and compliance with the business strategy are considered. All regulatory requirements are deemed to constitute key deliverables of the five-year plan – in particular requirements concerning capital and liquidity. "Old" performance certificates used until 2018 are not awarded, only deferred parts are still paid out (last part will be paid out in 2024).

WeShare program

The WeShare program is an equity-settled share-based payment transaction and consists of two parts: WeShare-Investment Plus and WeShare-Participation. Both parts are offered to employees of the Group provided that the specific requirements are met.

Under the WeShare-Investment Plus part program all employees, who had been employed by an entity of the Group, from March/April 2022 until September 2022 (service condition) could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus part was settled in September 2022. The number of free shares, which were granted under this program for the period, is 296,753. Personnel expenses in the amount of CZK 210 million were recorded.

In the WeShare-Participation part all employees, who have been employed by an entity of the Group for at least six months in 2022 and are still employed until the transfer of the shares to the employees in 2023 (service condition) are entitled to receive shares in an equivalent amount of EUR 350. The number of shares granted is calculated using the on-grant date expected EGB share price on settlement date. The expected number of free shares, which are granted under this program for the period, is 125,833. Based on the number of entitled employees, personnel expenses in the amount of CZK 50 million were recorded and a corresponding reserve in retained earnings was created.

61 Fees of the Auditors

The following table contains audit fees and other fees charged by the auditors (excluding VAT) - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.

in CZK million	2022	2021
Audit fees	25	26
Other assurance services	9	9
Other services	1	1
Total	**35**	**36**

62 Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented in the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Group recognises this difference as a provision under the statement of financial position line item 'Provisions'.

in CZK million	2022	2021
Assets held for sale	9	20

The assets held for sale are represented by buildings for sale as a result of ongoing optimisation of the branch network.

63 Analysis of remaining maturities

The breakdown of the Group's assets and liabilities based on expected residual maturities as at 31 December 2022 and 2021 was as follows:

	2022		2021	
in CZK million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and cash balances	21,870	-	37,472	-
Financial assets - held for trading	28,009	-	15,561	-
Derivatives	27,961	-	15,508	-
Other financial assets held for trading	48	-	53	-
Non-trading financial assets at fair value through profit or loss	2,328	1,003	1,649	862
Equity instruments	-	1,003	-	862
Debt securities	926	-	905	-
Loans and advances to banks	1,383	-	744	-
Loans and advances to customers	19	-	-	-
Financial assets at FVOCI	9,204	39,230	2,066	29,066
Debt securities	9,204	39,230	2,066	29,066
Financial assets at AC	366,276	1,128,739	466,401	1,045,947
Loans and receivables to credit institutions	265,728	947	363,280	1,714
Loans and receivables to customers	85,940	814,594	75,281	746,559
Debt securities	14,608	313,197	27,840	297,674
Finance lease receivables	119	1,355	276	807
Hedge accounting derivatives	3,235	-	607	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(17)	-	(10)	1
Property and equipment	-	12,031	-	12,201
Investment properties	-	1,803	-	2,221
Intangible assets	-	6,417	-	6,301
Investments in associates and joint ventures	-	1,437	-	1,357
Current tax assets	445	-	1,042	-
Deferred tax assets	-	2,918	-	2,732
Assets held for sale	9	-	20	-
Trade and other receivables	11,470	351	14,004	21
Other assets	1,798	(92)	1,224	(87)
Total Assets	**444,745**	**1,195,192**	**540,312**	**1,101,429**
Financial liabilities - held for trading	29,597	-	15,392	-
Financial liabilities designated at FVPL	31,331	-	10,653	-
Financial liabilities measured at AC	765,455	656,375	635,442	819,614
Deposits from banks	100,178	13,363	41,067	8,628
Deposits from customers	611,029	614,435	376,111	797,779
Debt securities issued	48,080	28,577	200,229	13,128
Other financial liabilities	6,168	-	18,035	79
Finance lease liabilities	3	3,472	(3)	3,124
Derivatives - hedge accounting	5,870	-	4,718	-
Provisions	111	3,295	9	3,646
Current tax liabilities	144	-	117	-
Deferred tax liabilities	-	16	-	126
Other liabilities	6,631	(73)	5,372	335
Total Liabilities	**839,141**	**663,085**	**671,700**	**826,845**

64 Net debt reconciliation

The table below sets out an analysis of debt of the Group (i.e. debt securities issued and lease liabilities) and the movements in the Group's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from debt securities issued

in CZK million	2022	2021
Opening balance of debt securities issued as of 1 January	213,357	169,498
Cash-flows reported within the cash-flow from financing activities	(136,242)	44,100
Non-cash adjustment	(458)	(241)
Closing balance of debt securities issued as of 31 December	**76,657**	**213,357**

Non-cash adjustments consist mainly of FX impact.

Cash-flows from lease liabilities

in CZK million	2022	2021
Opening balance of lease liabilities as of 1 January	3,121	3,361
Cash-flows reported within the cash-flow from financing activities	(650)	(644)
Non-cash adjustments	1,004	404
Closing balance of lease liabilities as of 31 December	**3,475**	**3,121**

Non-cash adjustments includes the interest expense and the lease liability from the newly concluded and modified contracts in 2022 and 2021.

65 Events after the balance sheet date

On 16 December 2022, the Group signed an agreement on the purchase and sale of the enterprise of Sberbank CZ consisting, among others, of loan portfolio in the nominal value of CZK 47.1 billion. The purchase price, ceteris paribus, amounts to CZK 41.053 billion. The settlement date of the transaction is expected in Q2/2023 and is subject to several conditions. As there has not been any fulfillment of the rights and obligation arising from the concluded agreement, it does not have a material impact on the 2022 financial statements.

66 Details of companies wholly or partly owned by Česká spořitelna, a.s

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments including direct and indirect ownership.

		2022	2021
Company name, registered office		**Interest in %**	**Interest in %**
Fully consolidated subsidiaries			
Credit institutions			
Stavební spořitelna České spořitelny, a.s.	Prague	100.00%	100.00%
Other financial institutions			
CEE Property Development Portfolio 2 a.s. ('CPDP 2 a.s.')	Prague	100.00%	100.00%
CEE Property Development Portfolio B.V. ('CPDP B.V.')	The Netherlands	20.00%	20.00%
Czech and Slovak Property Fund B.V. ('CSPF B.V.')	The Netherlands	100.00%	100.00%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.00%	100.00%
Leasing České spořitelny, a.s.	Prague	100.00%	100.00%
Factoring České spořitelny, a.s.	Prague	100.00%	100.00%
MOPET CZ a.s.	Prague	-	100.00%
REICO investiční společnost České spořitelny, a.s.	Prague	100.00%	100.00%
s Autoleasing SK, s.r.o.	Slovakia	100.00%	100.00%
Other			
CP Praha s.r.o., v likvidaci	Prague	20.00%	20.00%
CPDP 2003 s.r.o.	Prague	100.00%	100.00%
CPP Lux S.A.R.L.	Luxemburg	20.00%	20.00%
ČS Seed Starter, a.s.	Prague	100.00%	100.00%
Erste Grantika Advisory, a.s.	Brno	100.00%	100.00%
Holding Card Service, s.r.o.	Prague	66.70%	66.70%
ČS NHQ s.r.o.	Prague	100.00%	100.00%
REICO nemovitostní fond SICAV a.s. / REICO nemovitostní, a.s.	Prague	-	100.00%
Budějovická Development, s.r.o.	Prague	100.00%	100.00%
BP Budějovická, s.r.o.	Prague	100.00%	100.00%
BP Olbrachtova, s.r.o.	Prague	100.00%	100.00%
BP Poláčkova, s.r.o.	Prague	100.00%	100.00%
Dostupné bydlení České spořitelny, a.s.	Prague	100.00%	0.00%
Other investments			
Other financial institutions			
DINESIA a.s.	Prague	100.00%	100.00%
Other			
CBCB - Czech Banking Credit Bureau, a.s.	Prague	20.00%	20.00%
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	40.00%	40.00%
Procurement Services CZ, s.r.o.	Prague	40.00%	40.00%
První certifikační autorita, a.s.	Prague	23.30%	23.30%
S SERVIS, s.r.o.	Znojmo	100.00%	100.00%
Global Payments, s.r.o.	Prague	49.00%	49.00%
Investown Technologies s.r.o.	Prague	26.00%	0.00%
Bankovní identita, a.s.	Prague	17.00%	17.00%

The Group fully consolidates the investments in the real estate fund CPDP B.V. in its consolidated financial statements. While the Group holds 20% of the issued share capital of CPDP B.V., and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the fund for investment purposes which results in the Group receiving substantially all of the rewards and bearing substantially all of the risks of the investment.

During the year ended 31 December 2022, the portfolio of subsidiary and associate undertakings underwent the following changes:

- On 1 January 2022 the company MOPET CZ, a.s. entered into the liquidation.

- On 4 January 2022 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 100 million.
- On 14 January 2022 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 10 million.
- On 14 January 2022 REICO nemovitostní fond SICAV, a.s. changed its name to REICO nemovitostní, a.s.
- On 24 January 2022 the Bank increased its investment in Factoring České spořitelny, a.s. by CZK 400 million.
- New subsidiary Dostupné bydlení České spořitelny, a.s. was established on 16 November 2022 (the Bank has 70% share, 30% share held by Stavební spořitelna České spořitelny, a.s.).
- On 9 February 2022 the Bank increased its investment in Bankovní identita, a.s. by CZK 8.5 million.
- On 1 March 2022 the company REICO nemovitostní, a.s. entered into liquidation.
- On 28 April 2022 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 9 million.
- On 22 June 2022 the Bank received the share premium from Czech and Slovak Property Fund B.V. of CZK 326.6 million.
- On 1 August 2022 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 20 million.
- On 12 August 2022 the Bank increased its investment in CEE Property Development Portfolio B.V. by EUR 100 thousand.
- On 17 August 2022 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 23 million and on 18 August 2022 by CZK 6 million.
- On 26 August 2022 the company CS Property Investment Limited was deleted from the Commercial Register.
- On 14 September 2022 the company MOPET CZ, a.s. v likvidaci was deleted from the Commercial Register.
- On 12 October 2022 the Bank became the sole shareholder of Dostupné bydlení České spořitelny, a.s. after the purchase of a 30% share from Stavební spořitelna Česká spořitelna for a nominal price of CZK 600 thousand.
- On 24 October 2022 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 100 million.
- On 4 November 2022 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 4.7 million.
- On 10 November 2022 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 315.2 million.
- On 15 November 2022 the company REICO nemovitostní, a.s. v likvidaci was deleted from the Commerical register.
- On 16 December 2022 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 15 million.
- On 19 December 2022 the Bank increased its investment in Stavební spořitelna České spořitelny, a.s. by CZK 2.3 billion.

During the year ended 31 December 2021, the portfolio of subsidiary and associate undertakings underwent the following changes:

- On 20 January 2021 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 100 million.
- Czech TOP Venture Fund B.V. v likvidaci was deleted from the Commercial Register on 26 February 2021. The Company paid the liquidation balance of EUR 614,213.04 to the Bank.
- On 15 March 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 23 million.
- On 22 March 2021 the Bank increased its investment in Bankovní identita, a.s. by CZK 16 million.
- In the company Bankovní identita, a.s. the Bank's share decreased to 17 % as a result of accession of other banks as at 19 April 2021, the company was deconsolidated and transfered to FVPL portfolio in May 2021.
- Effectively since 1 April 2021 the company sAutoleasing, a.s. was renamed to Leasing České spořitelny.

- On 18 June 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 2 million.
- On 30 July 2021 the Bank increased the share premium in CEE Property Development Portfolio B.V. by EUR 50 thousand.
- On 20 August 2021 the company brokerjet České spořitelny, a.s. v likvidaci paid the liquidation balance of CZK 64,253 thousand to the Bank. The company was deleted from the Commercial Register on 30 September 2021.
- On 3 September 2021 the Bank increased the share premium in CEE Property Development Portfolio B.V. by EUR 100 thousand.
- On 1 December 2021 the company Erste Leasing, a.s. ceased to exist as a result of the merger with Leasing České spořitelny, a.s.
- On 15 December 2021 the share capital of Holding Card Service, s.r.o. increased to CZK 873 million, Erste Group Bank AG became a new shareholder with 11.52% share. The Bank's share in the company decreased to 66.7%.
- On 20 December 2021 the company CS Property Investment Limited entered into liquidation, the company was deconsolidated and reclassified into FVPL portfolio.
- On 21 December 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 11 million.

67 Interest Rate Benchmark Reform

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Group closely monitors, assesses, and applies changes of IBOR reform and follow the EUR Benchmark regulation.

Based on the EU Benchmark Regulation 2016/1011 ('BMR') effective from 1 January 2018, BMR prohibits EU-supervised users from using a benchmark unless its administrator is approved by a national regulator in one of the EU Member States and appears on the benchmarks register maintained by the European Securities and Markets authority ('ESMA'), an EU supranational supervisory authority.

The Group's main currency is CZK where PRIBORs benchmarks are authorized by ČNB (authorization provided in 2018 to the Czech Financial Benchmark Facility ('CFBF')) for further usage in contracts, so there is no impact in CZK currency as PRIBOR continues. This is also valid for WIBOR (authorization by the Polish Financial Supervision Authority to GPW Benchmark as administrator) and EURIBOR, that was authorized by the The Financial Services and Markets Authority ('FSMA') of Belgium, on 2 July 2019.

The Group has majority floating exposure in EUR currency with reference to EURIBORs. So there is no major impact of BMR also in EUR currency. Contracts (over 3,200) on EONIA were already transposed into €STR during 2021 (see table below).

There is no impact on the exposures of CZEONIA, BUBOR and ROBOR as the national banks are responsible for the administration and production of those rates.

The Group had negligible exposure (approx. 0.003% of total assets) with reference to LIBOR authorized till 31 December 2021. All opened contracts (mostly commercial loans, overdrafts, current accounts) as at 31 December 2021 were already switched to Official ON fallback rate or official term rates based on negotiations with the clients or automatically.

Process of alignment to the new official fallback rates was mixture of decision: to stop offering the ending benchmark rates, followed by focus to change the contracts based on prioritization (active contracts first) under bilateral negotiation and communication to clients in case of automatic switch. Currently also no new business is executed with reference to USD LIBOR.

There were no contracts with EUR LIBOR reference as at 31 December 2021. There were 2 accounts in total amount of CHF 313 thousand with CHF LIBOR reference that were switched to SARON. There were 16 accounts with GBP

LIBOR reference from which one account was closed and the rest in amount of GBP 329 thousand was switched to SONIA.There was1 account with JPYLIBOR reference of JPY30 million which was switched to TONA.

There were no opened derivative contracts and also no hedging contracts with EUR LIBOR reference as at 31 December 2022 and 2021. There were opened hedging instruments with nominal amount of USD 3.6 million (equivalent of CZK 79 million) with USD LIBOR reference as at 31 December 2022 (2021: USD 50 million). Their hedging period reaches beyond the cessation date of the respective LIBOR rates (30 June 2023 for USD LIBOR 1M, 3M, 6M and 12M tenors). The Group is using USD SOFR with the equivalent of CZK 206 milion as of 31 December 2022. For details see also Note 26 Hedge accounting.

Table below shows the Group's exposures with LIBOR reference subject to cessation as at 31 December 2021 and 2022 in comparison with balances as at 31 December 2020:

in CZK million						
Ending Benchmarks	**Exposure to Ending Benchmarks in Dec 2020**	**Ccy**	**Authorized by**	**Official Fall Back rate**	**Exposure to Official fall back rates Dec 2021**	**Exposure to Official fall back rates Dec 2022**
EONIA	266	EUR	No	€STR	2,551	1,445
EUR LIBOR	-	EUR	FCA till 12/2021			
GBP LIBOR	22	GBP	FCA till 12/2021	SONIA/TSRR	6	474
CHF LIBOR	8	CHF	FCA till 12/2021	SARON	8	22
JPY LIBOR	3	JPY	FCA till 12/2021	TONA/TORF	9	5

APPENDIX: OWN FUNDS AND CAPITAL REQUIREMENTS

Regulatory Scope of Application

Among others, the Group fulfils hereinafter the disclosure require- ments according to the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR for short), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU) . Both the CRD IV and CRD V were transposed into national law in the Banking Act and the ČNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, the Banking Act and in technical standards issued by European Banking Authority (EBA) are applied by the Group for regulatory purposes and for the dis- closure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS regulatory capital components. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation Further details are explained in the sec- tion 'Regulatory scope of consolidation and institutional protection scheme'. The uniform closing date of the consolidated regulatory figures of the Group is the 31 December of the respective year.

Consolidated own funds

Own funds according to CRR consist of CET1, additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respec- tive capital component – after application of all regulatory deduc- tions and filters – is considered in relation to the total risk amount.

The items of own fundsas disclosed are also used for internal capital management purpose, except T2 capital instruments the Group fulfilled the capital requirements. The regulatory minimum capital ratios including the capital buffers as of 31 December 2022 amount to

- 10.42% for CET1 (4.5% CET1, +2.5% capital conservation buffer, +2.0% systemic risk buffer and +1.42% countercyclical capital buffer),
- 11.92% for tier 1 capital (sum of CET1 and AT1) and
- 13.92% for total own funds.

The capital buffer requirements are set out in the section 12 of the Banking Act and specified in Title II of ČNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms.

According to section 12n of the Banking Act the Group has to establish a capital conservation buffer in the amount of 2.5%.

According to section 12i of the Banking Act and ČNB´s decision the Group has to establish a systemic risk buffer in the amount of 2.0%.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements deter- mined in the Supervisory Review and Evaluation Process (SREP).

The ECB Banking Supervision adjusted the SREP approach for 2020 in light of the COVID-19 crisis. Therefore the ECB has not issued a SREP decision 2020, but rather chose a pragmatic SREP 2020 approach which keeps the SREP 2019 decision in place and confirms a Pillar 2 requirement (P2R) of 1.70%.

The regulatory minimum capital ratios including the capital buffers and SREP requirements as of 31 December 2022 amount to

- a CET1 requirement of 11.38% (Pillar 1 requirement of 4.5%, combined capital buffers of 5.92% and 0.96% Pillar 2 requirement),
- a T1 requirement of 13.20% (Pillar 1 requirement of 6%, combined capital buffers of 5.92% and 1.28% Pillar 2 requirement) and
- a total own funds requirement of 15.62% (Pillar 1 requirement of 8%, combined capital buffers of 5.92% and 1.7% Pillar 2 requirement).

Overview of capital requirements and buffers

	2022	2021
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement (CBR)	**5.92%**	**4.98%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	1.42%	0.48%
Systemic risk buffer	2.00%	2.00%
O-SII capital buffer	0.00%	0.00%
Minimum CET 1 requirement (incl.CBR)	10.42%	9.48%
Minimum Tier 1 requirement (incl.CBR)	11.92%	10.98%
Minimum Own Funds requirement (incl.CBR)	13.92%	12.98%
Pillar 2	**1.70%**	**1.40%**
Minimum CET1 requirement	0.96%	1.05%
Minimum T1 requirement	1.28%	1.40%
Minimum Own Funds requirement	1.70%	1.40%
Total CET 1 requirement for Pillar 1 and Pillar 2	**11.38%**	**10.53%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.20%**	**12.38%**
Total Capital requirement for Pillar 1 and Pillar 2	**15.62%**	**14.38%**

The combined buffer requirement consists of the capital conservation buffer, the countercyclical capital buffer, the systemic risk buffer and the O-SII capital buffer. Previously the combined buffer requirement was calculated as the sum of the capital conservation buffer, the countercyclical capital buffer and the maximum of the O-SII capital buffer or the systemic risk buffer.

Capital structure according to EU regulation 575/2013 (CRR)

in CZK million	2022	2021
Common equity tier 1 capital (CET1)		
Capital instruments eligible as CET1	15,202	15,202
Retained earnings	98,026	109,216
Interim profit	2,867	3,423
Accumulated other comprehensive income	(5,618)	(5,396)
Other reserve funds	351	418
Common equity tier 1 capital (CET1) before regulatory adjustments	**110,828**	**122,445**
Prudential filter: cash flow hedge reserve	4,238	5,346
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(89)	(2)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(135)	(43)
Value adjustments due to the requirements for prudent valuation	(152)	(83)
Securitizations with a risk weight of 1,250%	(427)	(494)
Other intangible assets	(3,819)	(5,930)
CET1 capital elements or deductions – other	(400)	(436)
Common equity tier 1 capital (CET1)	**110,044**	**121,221**
Additional tier 1 capital (AT1)		
Capital instruments eligible as AT1	9,040	9,040
Additional tier 1 capital (AT1) before regulatory adjustments	9,040	9,040
Additional tier 1 capital (AT1)	9,040	9,040
Tier 1 capital = CET1 + AT1	**119,084**	**130,261**
Tier 2 capital (T2)		
IRB excess of provisions over expected losses eligible	2,973	2,693
Tier 2 capital (T2) before regulatory adjustments	**2,973**	**2,693**
Tier 2 capital (T2)	2,973	2,693
Total own funds	**122,057**	**132,954**
Capital requirement	**48,379**	**44,670**
CET1 capital ratio	**18.20%**	**21.70%**
Tier 1 capital ratio	**19.70%**	**23.30%**
Total capital ratio	**20.20%**	**23.80%**

With the approval granted by the ČNB on February 8, 2023, the Group considers the annual profit of CZK 20,161 million reduced by the expected payment of dividends of CZK 17,293 million within its own funds in accordance with Art. 26 (2) CRR.

The position CET1 elements or deduction – Others include development of unaudited risk provisions during the year (EU No 183/2014) and insufficient coverage for non-performing exposures (NPE Backstop) covering the requirements from both Art. 36 para 1 (m) CRR in connection with Art. 47(c) CRR and the Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards with regard to disclosure of own funds requirements. Positions, which are not relevant for the Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

Likewise financial statements of single entities within the Group have not been noticed by the supervisory board yet. In addition, no res- olution on the appropriation of the profit has yet been made by the general meeting of the single entity.

Risk structure according to EU directive 575/2013 (CRR)

	2022		2021	
in CZK million	**Total risk**	**Capital requirement**	**Total risk**	**Capital requirement**
Total Risk Exposure Amount	604,735	48,379	558,370	44,670
Risk weighted assets (credit risk)	544,929	43,594	491,492	39,319
Standardised approach	49,366	3,949	42,628	3,410
IRB approach	495,563	39,645	448,864	35,909
Contribution to the default fund of a CCP	-	-	-	-
Settlement Risk	-	-	-	-
Trading book, foreign FX risk and commodity risk	2,639	211	11,169	894
Operational Risk	52,910	4,233	52,156	4,172
Exposure for CVA	4,257	341	3,553	284
Other exposure amounts (incl. Basel 1 floor)	-	-	-	-

Separate Financial Statements

The Separate Statement of Income

for the Year Ended 31 December 2022

in CZK million	Notes	2022	2021
Net interest income	1	34,082	28,984
Interest income		69,783	31,207
Other similar income		4,704	3,256
Interest expenses		(33,060)	(3,171)
Other similar expenses		(7,345)	(2,308)
Net fee and commission income	2	8,226	7,968
Fee and commission income		9,696	9,667
Fee and commission expense		(1,470)	(1,699)
Dividend income	3	2,588	216
Net trading result	4	3,731	1,869
Gains/losses from financial instruments measured at fair value through profit or loss	5	(421)	(121)
Rental income from operating leases	6	39	36
Personnel expenses	7	(10,761)	(10,383)
Other administrative expenses	7	(6,704)	(6,332)
Depreciation and amortisation	7	(2,666)	(2,659)
Gains/losses from derecognition of financial assets measured at amortised cost	8	(1,221)	(238)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	(633)	(4)
Impairment result from financial instruments	10	(500)	(1,613)
Other operating result	11	(1,543)	(1,482)
Pre-tax result from continuing operations		**24,217**	**16,241**
Taxes on income	12	(3,872)	(3,585)
Net result for the period		**20,345**	**12,656**

The Separate Statement of Other Comprehensive Income

for the Year Ended 31 December 2022

in CZK million	Notes	2022	2021
Net result for the period		**20,345**	**12,656**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**87**	**(1)**
Own credit risk reserve	12	87	(1)
Items that may be reclassified to profit or loss		**(215)**	**(6,468)**
Fair Value reserve of debt instruments	12	(1,635)	(321)
Gain/(loss) during the period		(2,264)	(343)
Reclassification adjustments		624	-
Credit loss allowances	10	5	22
Cash flow hedge reserve		1,369	(7,664)
Gain/(loss) during the period	12,15	2,654	(7,664)
Reclassification adjustments		(1,285)	-
Deferred taxes relating to items that may be reclassified	12	51	1,517
Gain/(loss) during the period		(75)	1,517
Reclassification adjustments		126	-
Total other comprehensive loss	12	**(128)**	**(6,469)**
Total comprehensive income		**20,217**	**6,187**

For a detailed split of income tax items within other comprehensive income please refer to Note 12 Taxes.

The Separate Statement of Financial Position

as at 31 December 2022

in CZK million	Notes	2022	2021
Assets			
Cash and cash balances	14	20,974	36,663
Financial assets held for trading		28,009	15,561
Derivatives	20	27,961	15,508
Other financial assets held for trading	21	48	53
Non-trading financial assets at fair value through profit or loss	22	2,841	2,392
Equity instruments		628	836
Debt securities		830	812
Loans and advances to banks		1,383	744
Financial assets at fair value through other comprehensive income	18	47,234	29,831
Debt securities		47,234	29,831
Financial assets at amortised cost	15	1,427,925	1,450,356
thereof pledged as collateral		89,423	79,881
Debt securities		321,912	319,331
Loans and advances to banks		266,161	360,941
Loans and advances to customers		839,852	770,084
Finance lease receivables	46	194	206
Hedge accounting derivatives	25	3,235	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(17)	(10)
Property, equipment and right-of-use asset	43	11,362	10,998
Intangible assets	44	6,204	6,079
Investments in subsidiaries and associates	48	11,426	9,253
Current tax assets	12	437	992
Deferred tax assets	12	2,369	2,333
Assets held for sale	56	9	20
Trade and other receivables	16	2,231	5,469
Other assets	45	1,028	907
Total assets		**1,565,461**	**1,571,657**

in CZK million	Notes	2022	2021
Liabilities and equity			
Financial liabilities held for trading	20	29,597	15,392
Derivatives		29,597	15,392
Financial liabilities at fair value through profit or loss	23	31,331	10,653
Deposits from customers		31,331	10,653
Financial liabilities at amortised cost	17	1,356,725	1,394,924
Deposits from banks		110,233	47,757
Deposits from customers		1,164,355	1,110,008
Debt securities issued		77,262	219,986
Other financial liabilities		4,875	17,173
Lease liabilities	47	4,129	3,817
Hedge accounting derivatives		5,870	4,718
Provisions	50	3,277	3,588
Other liabilities	49	5,821	4,623
Total equity	52	**128,711**	**133,942**
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	9,040
Retained earnings and other reserves		104,459	109,690
Total liabilities and equity		**1,565,461**	**1,571,657**

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

These separate financial statements were prepared by the Bank and authorized for issue by the Board of Directors on 14 March 2023 and are subject to approval at the General Meeting of shareholders.



Tomáš Salomon
Chairman of the Board of Directors



Ivan Vondra
Member of the Board of Directors,
Chief Financial Officer

The Separate Statement of Changes in Equity

for the year ended 31 December 2022

in CZK million	Share capital	Additional paid-in capital	Retained earnings	Additional equity instruments	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Total equity
As of 1 January 2021	**15,200**	**12**	**108,383**	**17,146**	**861**	**372**	**4**	**141,978**
Dividends paid/AT1 distribution	-	-	(6,336)	-	-	-	-	(6,336)
AT1 call	-	-	484	(8,107)	-	-	-	(7,623)
Other changes	-	-	(265)	-	1	-	-	(264)
Total comprehensive income	-	-	12,656	-	(6,208)	(260)	(1)	6,187
Net result for the period	-	-	12,656	-	-	-	-	12,656
Other comprehensive income	-	-	-	-	(6,208)	(260)	(1)	(6,469)
Change in fair value reserve	-	-	-	-	-	(321)	-	(321)
Changes in tax	-	-	-	-	1,456	61	-	1,517
Change in cash flow hedge reserve	-	-	-	-	(7,664)	-	-	(7,664)
Change in own credit risk reserve	-	-	-	-	-	-	(1)	(1)
As of 31 December 2021	**15,200**	**12**	**114,922**	**9,039**	**(5,346)**	**112**	**3**	**133,942**
As of 1 January 2022	**15,200**	**12**	**114,922**	**9,039**	**(5,346)**	**112**	**3**	**133,942**
Dividends paid/AT1 distribution	-	-	(25,451)	-	-	-	-	(25,451)
Other changes	-	-	3	-	-	-	-	3
Total comprehensive income	-	-	20,345	-	1,109	(1,324)	87	20,217
Net result for the period	-	-	20,345	-	-	-	-	20,345
Other comprehensive income	-	-	-	-	1,109	(1,324)	87	(128)
Change in fair value reserve	-	-	-	-	-	(1,635)	-	(1,635)
Changes in tax	-	-	-	-	(260)	311	-	51
Change in cash flow hedge reserve	-	-	-	-	1,369	-	-	1,369
Change in own credit risk reserve	-	-	-	-	-	-	87	87
As of 31 December 2022	**15,200**	**12**	**109,819**	**9,040**	**(4,237)**	**(1,212)**	**89**	**128,711**

The Separate Statement of Cash Flows

for the Year Ended 31 December 2022

in CZK million	Notes	2022	2021
Pre-tax result from continuing operations		**24,217**	**16,241**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		2,735	3,245
Net allocation to provisions (including risk provisions)		705	1,803
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		(1,543)	492
Gains/(losses) from the sale of non-financial assets		(114)	(276)
Change in fair values of derivatives		1,799	(1,721)
Interest income	1	(74,487)	(34,463)
Interest expense	1	40,405	5,479
Dividend income	3	(2,588)	(216)
Other adjustments		(92)	(103)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		(37)	19
Non-trading financial assets at fair value through profit or loss			
Equity instruments		208	170
Debt securities		(18)	133
Loans and advances to customers		(639)	(261)
Financial assets - at fair value through other comprehensive income: debt instruments		(17,022)	(10,986)
Financial assets at amortized cost			
Debt securities		(2,155)	(73,048)
Loans and advances to banks		94,076	59,635
Loans and advances to customers		(75,200)	(75,352)
Finance lease receivables		15	2
Hedge accounting derivatives		(108)	(1,166)
Other assets from operating activities		3,065	(4,949)
Financial liabilities at amortised cost			
Deposits from banks		64,585	(38,570)
Deposits from customers		56,101	78,954
Financial liabilties at fair value through profit or loss		20,368	6,731
Other liabilities from operating activities		(10,197)	14,547
Other operating cash flows			
Interest paid		(39,093)	(5,283)
Interest received		71,828	31,502
Payments for taxes on income		(3,302)	(3,362)
Cash flow from operating activities		**153,512**	**(30,803)**
Investment securities		-	(30)
Proceeds of disposal			
Property, equipment and intangible assets		208	294
Acquisition of			
Property, equipment and intangible assets		(2,306)	(2,365)
Acquisition of joint ventures and associates	48	(2,173)	(5)
Cash flow from investing activities		**(4,271)**	**(2,106)**
AT1 call	52	-	(8,107)
Dividends paid/AT1 distribution	13	(25,451)	(6,336)
Dividend received	3	2,588	216
Other financing activities		7	-
Payments of lease liability	58	(796)	(861)
Repayments of bonds in issue	58	(142,266)	-

in CZK million	Notes	2022	2021
Proceeds from bonds issued	58	-	44,098
Cash flow from financing activities		**(165,918)**	**29,010**
Cash and cash equivalents at beginning of period	14	**36,663**	**36,459**
Cash flow from operating activities		153,512	(30,803)
Cash flow from investing activities		(4,271)	(2,106)
Cash flow from financing activities		(165,918)	29,010
Effect of currency translation		988	4,103
Cash and cash equivalents at end of period	14	**20,974**	**36,663**

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

Notes to the Separate Financial Statements

for the year ended 31 December 2022

GENERAL INFORMATION

Česká spořitelna, a.s. ('the Bank'), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's sole shareholder is Erste Group Bank AG ('Erste Group Bank'), having its registered office address at Am Belvedere 1, 1100, Vienna and which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group. The ultimate parent is Erste Group Bank and information on its shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2022 or the actual information on the Erste Group Bank homepage.

The Bank is subject to the regulatory requirements of the Czech National Bank ('ČNB'), the Banking Act and EU guidelines/regulations. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk, foreign currency positions, operational and other risk.

The Bank offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Bank for the financial year ending 31 December 2022 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002 under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of the separate financial statements are set out below or in individual Notes to which they relate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The separate financial statements have been prepared on a going concern basis.

In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of Income may be referred to as 'income statement'.

The Bank has not prepared the separate annual report and intends to include the required information in the annual report together with consolidated financial statements. The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'Group'). Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2022 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The Bank is subject to regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU. The Bank does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Bank.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns ('CZK'). The tables in this report may contain rounding differences.

The financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

Foreign currency translation

The financial statements are presented in Czech crowns, which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which the Bank operates.

For foreign currency translation, spot exchange rates quoted by the Czech National Bank are used.

(i) Transactions and balances in foreign currency

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

Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Significant accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are described in the notes of the respective assets and liabilities and relate in particular to:

- Impairment of financial instruments (Chapter Financial instruments - Significant accounting policies, Note 33 Credit risk exposure , Provisions (Note 50 Provisions, credit part)
- SPPI assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES)
- Business model assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES)

The high level of uncertainty in the markets caused by the COVID-19 pandemic was replaced in 2022 by uncertainties and fluctuations in the markets caused by the was in Ukraine (energy crisis, high inflation, high interest rates, etc.). Therefore, the Bank implemented a new forward looking information (FLI) estimation model in 2022 and deployed a new macroeconomic model taking into account the following macroeconomic variables: GDP, unemployment, real wages, retail income, PPI (Producer Price Index).

The estimate of the prospective information was updated twice during the year. Addition Stage 2 rules to address uncertainties associated with the COVID-19 pandemic were replaced in mid-2022 with Stage-2 rules (for non-default

clients) reflecting uncertainties arising from the war in Ukraine and the energy crisis. Corporate and MSE client accounts active in the cyclical industry are reclassified to Stage 2 in the client's current probability of default is above a given threshold. The energy crisis is reflected by moving to Stage 2 for all clients active in energy intensive industries. For private individuals, the Bank analyses the impact of inflaction and rising interest rates on the ability to repay. If a client is identified as having expenses, together with repayments, in excess of household income, the client's accounts are transferred to Stage 2. The Bank continues to monitor and assess current developments and reflects their impact in the financial statements.

Details about effects of these factors on the expected credit losses estimation are described in Note 36 Development of Credit Loss Allowances.

Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2022. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below. None of the standards have been adopted by the Bank before the effective date.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2022 and have been endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)

Application of the above mentioned amendments in 2022 did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective. All of them are endorsed by the EU.

- IFRS 17: Insurance contracts
- Amendments to IAS 1: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on the Bank's financial statements. However, revisions in the disclosures of the accounting policies may be required.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In May 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

PERFORMANCE / RETURN

1 Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR ("effective interest rate") method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using EIR as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, negative interest on financial assets, lease liabilities.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, and on debt securities in all measurement categories of financial assets. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities.

Net interest income also includes interest on derivative financial instruments.

The unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

in CZK million	2022	2021
Interest and other similar income		
Financial assets at fair value through other comprehensive income	1,754	406
Financial assets at amortised costs	68,029	30,801
Interest income	**69,783**	**31,207**
Financial assets held for trading	6,981	2,392
Derivatives - Hedge accounting, interest rate risk	(2,388)	696
Other assets	7	2
Negative interest from financial liabilities	104	166
Other similar income	**4,704**	**3,256**
Total interest and other similar income	**74,487**	**34,463**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(33,060)	(3,171)
Interest expenses	**(33,060)**	**(3,171)**
Financial liabilities at fair value through profit or loss	(22)	(14)
Financial liabilities held for trading	(6,909)	(2,120)
Derivatives - Hedge accounting, interest rate risk	(210)	10
Other liabilities	(89)	(44)
Negative Interest from financial assets	(115)	(140)
Other similar expenses	**(7,345)**	**(2,308)**
Total interest and other similar expense	**(40,405)**	**(5,479)**
Net interest income	**34,082**	**28,984**

Interest income on impaired financial assets amounted to CZK 660 million (2021: CZK 280 million). No modification gains or losses were accounted for in the year 2022 and 2021. The amounts disclosed in the line items 'Negative interest from financial liabilities' and 'Negative interest from financial assets' relate to the interbank business, deposits and refinancing with central banks only.

2 Net fee and commission income

The Bank earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, premiums received fopr financial guarantees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as intermediary fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

in CZK million	2022		2021	
	Income	Expenses	Income	Expenses
Securities	624	(101)	685	(111)
Clearing and settlement	-	(4)	-	(4)
Asset management	208	(52)	228	(53)
Custody	151	(25)	134	(23)
Payment services	3,825	(857)	3,752	(670)
Customer resources distributed but not managed	3,470	-	3,557	-
Collective investment	1,540	-	1,651	-
Insurance products	1,659	-	1,594	-
Building society brokerage	186	-	189	-
Other	85	-	123	-
Servicing fees from securitization activities	-	(26)	-	(41)
Lending business	1,032	(167)	986	(418)
Other	386	(238)	325	(379)
Total fee and commission income and expenses	**9,696**	**(1,470)**	**9,667**	**(1,699)**
Net Fee and commission income	**8,226**		**7,968**	

The fee and commission income and expense, which are presented in this table, are not capitalised as an integral part of the effective interest rate.

Asset management, custody and fiduciary transactions fees relate to fees earned by the Bank on trust and other fiduciary activities in which the Bank holds or invests assets on behalf of its customers. The assets hold by the Bank on behalf of its customers amount to CZK 1,727 billion (2021: CZK 1,819 billion).

Net fee and commission income above include income of CZK 3,345 million (2021: CZK 3,098 million) relating to other financial instruments not measured at FVPL.

3 Dividend income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

in CZK million	2022	2021
Non-trading financial assets at fair value through profit or loss	67	166
Financial assets at cost	2,521	50
Dividend income	**2,588**	**216**

In 2022 the Bank has received the dividend from its subsidiaries Stavební spořitelna České spořitelny, a.s. of CZK 2,300 million and REICO investiční společnost České spořitelny, a.s. of CZK 220 million.

4 Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value and cash flow hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, subchapter Foreign currency translations, i. Transactions and balances in foreign currency. Detailed information relating to hedge accounting can be found in Note 25 Hedge accounting.

in CZK million	2022	2021
Securities and derivatives trading	948	84
Foreign exchange transactions	2,765	2,012
Gains or losses from hedge accounting	18	(227)
Net trading result	**3,731**	**1,869**

In 2008, the Bank transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clients), with the exception of equity risk and transactions for the Erste Group Bank's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from the Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Erste Group Bank and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets of individual asset groups.

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within Net trading result is as follows:

in CZK million	2022	2021
Realised and unrealised gains on trading assets	964	500
Foreign exchange trading	420	244
Total	**1,384**	**744**

5 Gains/losses from financial instruments measured at fair value through profit or loss

Under this line item changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Further, gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are presented under this line item. However, the fair value changes resulting from own credit risk of financial liabilities designated at FVPL are recognised in OCI.

in CZK million	2022	2021
Result from measurement/sale of financial assets designated at fair value through profit or loss	-	-
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(312)	(140)
Result from financial assets and liabilities designated at fair value through profit or loss	**(312)**	**(140)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	(109)	19
Gains/losses from financial instruments measured at fair value through profit or loss	**(421)**	**(121)**

6 Rental income from other operating leases

Rental income from other operating leases (i.e. mainly from real-estate and cars) is recognised on a straight-line basis over the lease term. Operating expenses for investment properties are reported in line 'Other operating result' (within Note 11)

in CZK million	2022	2021
Other operating leases	39	36
Rental income from other operating leases	**39**	**36**

7 General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment. Furthermore, restructuring provisions expenses are part of personnel expenses.

According to the remuneration policy of the Bank Board of Directors receive cash-settled performance-linked certificates and cash settled share-based bonuses. Total effect of these cash-settled bonuses on personnel expenses is CZK 26 million (2021: CZK 33 million). Description and further information about remuneration of Board members including performance-linked remuneration can be found in Note 53 Related party transactions.

All employees with an active employment as at 31 December 2022 and at the same time at least 6 months active employment within the Group will receive shares of Erste Group Bank AG in the equivalent of EUR 350 net. This Employee Share Program is awarded when Erste Group Bank, including local Banks and subsidiaries, meets all capital and liquidity requirements and pays dividends. The Group is the grantor, who is responsible to settle this transaction, therefore, this share-based payment is cash settled and vested immediately. Therefore, based on the number of the entitled employees, personnel expenses in the amount of CZK 199 million (2021: CZK 150 million) as well as the corresponding other liabilities were recognized.

The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes, jubilee benefits and sharebased payment liability revaluation.

Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses according to Act 21/1992 Coll.

Depreciation and amortisation

This line item comprises depreciation of property and equipment and right-of-use assets, and amortisation of intangible assets.

in CZK million	2022	2021
Personnel expenses	**(10,761)**	**(10,383)**
Wages and salaries	(7,586)	(7,269)
Compulsory social security	(2,382)	(2,372)
Other personnel expenses	(794)	(742)
Other administrative expenses	**(6,704)**	**(6,332)**
Deposit insurance contribution	(306)	(253)
IT expenses	(2,960)	(3,072)
Expenses for office space	(908)	(780)
Office operating expenses	(632)	(582)
Advertising / marketing	(1,059)	(887)
Legal and consulting costs	(212)	(196)
Sundry administrative expenses	(628)	(562)
Depreciation and amortization	**(2,666)**	**(2,659)**
Software and other intangible assets	(1,036)	(1,051)
Owner occupied real estate	(525)	(509)
Office furniture and equipment and sundry property and equipment	(418)	(403)
Right of use asset	(688)	(696)
General administrative expenses	**(20,131)**	**(19,374)**

Personnel expenses include expenses of CZK 1,539 million (2021: CZK 1,399 million) for the statutory defined contribution scheme.

The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme for health, social and pension purposes.

Board of Directors and Supervisory Board Remuneration

in CZK million	2022	2021
Remuneration	103	106

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short – term employee benefits and part of variable remuneration as long - term benefit. The description of remuneration model is described in more detail in Note 53 Related party transactions.

Headcount of full time employees per reporting date

	2022	2021
Staff	9,332	9,209

8 Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/ losses relate to derecognition of financial assets in Stage 3, they are included in the line item 'Impairment result from financial instruments'

in CZK million	2022	2021
Gains from sale of financial assets at amortised cost	-	5
Losses from sale of financial assets at amortised cost	(1,221)	(243)
Gains/losses from derecognition of financial assets measured at amortised cost	**(1,221)**	**(238)**

Due to sell of debt securities during 2022 the Bank realized loss in amount of CZK 1,221 million (2021: CZK 243 million). Any derecognition of financial assets measured at AC does not breach the business 'Hold to collect' model.

9 Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL.

in CZK million	2022	2021
Other gains/losses from sale of financial assets at fair value through other comprehensive income	(633)	(4)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(633)**	**(4)**

Due to sell of debt securities during 2022 the Bank realized loss in amount of CZK 633 million.

10 Impairment result from financial instruments

Impairment result from financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies (i.e. financial assets as well as financial loan commitments and guarantees).

The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets are also included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result. When financial assets are written off the Bank is not further enforcing any activity to recover those amount. Therefor the Bank does not have any such items.

in CZK million	2022	2021
Financial assets at fair value through other comprehensive income	(5)	(22)
Financial assets at amortised cost	(585)	(1,284)
Net allocation to risk provisions	(971)	(1,644)
Direct write-offs	(8)	(11)
Recoveries recorded directly to the income statement	393	371
Finance lease receivables	3	(8)
Net allocation to credit loss allowances	3	(8)
Net allocation of provisions for commitments and guarantees given	87	(299)
Impairment result from financial instruments	**(500)**	**(1,613)**

Development of risk provision was driven by lower creation in 2022 (CZK 971 million) in comparison with 2021 (CZK 1,644 million) which reflects positive development of portfolio quality while keeping prudent approach to potential impacts of current geopolitical risks.

In the following table, the change of the credit loss allowance recognized in balance sheet is compared to the impairment result from financial instruments.

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year 2022 a 2021

in CZK million	CLA changes through P&L-NIR	CLA changes through P&L-Outside NIR	CLA changes outside P&L	CLA changes Total
Opening balance of CLA (total) as at 1 January 2021				**(19,320)**
Net impairment loss for the period	(1,522)			(1,522)
(Increase) due to passage of time (unwinding correction)		(313)		(313)
CLA decreases due to sales			303	303
CLA decreases due to write-offs			871	871
CLA changes due to changes in Group's structure			(131)	(131)
CLA changes due to foreign exchange differences		207		207
Other CLA changes		286		286
Closing balance of CLA (total) as at 31 December 2021				**(19,619)**
Impairment gain/(loss) from POCI without CLA	(451)			
Direct write-offs	(11)			
Recoveries of written-off amounts	371			
Net impairment loss for the period as at 31 December 2021	**(1,613)**			
Opening balance of CLA (total) as at 1 January 2022				**(19,619)**
Net impairment loss for the period	(984)			(984)
(Increase) due to passage of time (unwinding correction)		(324)		(324)
CLA decreases due to sales			164	164
CLA decreases due to write-offs			403	403
Other CLA changes		123		123
Closing balance of CLA (total) as at 31 December 2022				**(20,238)**
Impairment gain/(loss) from POCI without CLA	98			
Direct write-offs	(8)			
Recoveries of written-off amounts	393			
Net impairment loss for the period as at 31 December 2022	**(500)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase in amount of CZK 619 million, 2021: CZK 299 million) CZK 984 million (2021: CZK 1,522 million) was reported in Net impairment result in Profit and Loss (NIR). Other movement (decrease) in amount of CZK 366 million (2021: CZK 1,223 million) represents impact of changes due to sales, write-offs or unwinded corrections recognized in other items in Profit and Loss (e.g. net interest income) or outside Profit and Loss. Beside the CLA movements the NIR was decreased by another CZK 484 million (2021: increased by 90 million) consisting of impairment gain from POCI in amount of CZK 98 million (2021: loss of CZK 451 million), direct write-offs in amount of CZK 8 million (2021: CZK 11 million) and decreased by recoveries of written-offs in amount of CZK 393 million (2021: 371 CZK million).

11 Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities. The other operating result includes impairment losses or any reversal of impairment losses on non-financial assets as well as results on their sale.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund according to Act 374/2015 Coll.

in CZK million	2022	2021
Other operating expenses	**(965)**	**(1,098)**
Allocation to other provision	(1)	(268)
Other taxes	(2)	(12)
Recovery and resolution fund contributions	(962)	(818)
Other operating income	**227**	**2**
Release of other provision	227	2
Result from properties/movables/other intangible assets other than goodwill	**32**	**(382)**
Result from other operating expenses/income	**(838)**	**(4)**
Other operating result	**(1,543)**	**(1,482)**

The Bank created the impairment on its investments in the subsidiaries ČS NHQ, s.r.o. of CZK 510 million and CEE Property Development Portfolio 2, a.s. of CZK 296 million due to uncertainties on the real estate market.

In 2022 the Bank released the provision for legal issues and litigation accounted for in 2021 of CZK 226 million.

Based on the EU Directive and the related binding Delegated Act and their transposition in Czech law, the Bank contributes to the Single Resolution Mechanism (SRM) since 1 January 2016. In 2022 the final annual contribution paid to resolution fund of CZK 962 million (2021: CZK 818 million) was reported within the line "Recovery and resolution fund".

12 Taxes

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Taxes on income are made up of current taxes on income based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2022	2021
Current tax expense / income	(3,857)	(3,772)
current period	(3,816)	(3,497)
prior period	(41)	(275)
Deferred tax expense / income (+)	(15)	187
current period	(15)	187
Total taxes on income	**(3,872)**	**(3,585)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Czech tax rate.

in CZK million	2022	2021
Pre-tax profit/loss	24,217	16,241
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(4,601)	(3,086)
Non-taxable income	1,816	1,001
Non-deductible expenses	(1,110)	(1,254)
Other	-	(246)
Prior period over/(under) accrual	24	-
Total	**(3,872)**	**(3,585)**
Effective tax rate	**15.99%**	**22.07%**

In 2021 The Bank has accounted for the additional tax expense related to transfer of means to Depositum Bonum Foundation of CZK 204 million.

Tax effects relating to each component of other comprehensive income:

in CZK million	2022			2021		
	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Fair value reserve on debt instrument	(1,635)	311	(1,324)	(321)	61	(260)
Own credit risk reserve	87	-	87	(1)	-	(1)
Cash flow hedge reserve	1,369	(260)	1,109	(7,664)	1,456	(6,208)
Other comprehensive income	**(179)**	**51**	**(128)**	**(7,986)**	**1,517**	**(6,469)**

In the following tables the major components of deferred tax assets and deferred tax liabilities are shown.

in CZK million	Tax assets		Tax liabilities		Net variance 2022		
	As of Dec 2022	As of Jan 2022	As of Dec 2022	As of Jan 2022	Total	Through P/L	Through OCI
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	-	-	(114)	(31)	(83)	-	(83)
Financial assets at FVOCI	304	-	-	(90)	394	-	394
Financial assets at AC	1,120	1,073	-	-	47	47	-
Property and equipment (useful life in tax law different)	151	103	-	-	48	48	-
Intangible assets other than goodwill	-	-	(422)	(379)	(44)	(44)	-
Hedge accounting derivatives	1,012	1,254	(18)	-	(260)	-	(260)
Other assets and liabilities	337	403	-	-	(66)	(66)	-
Total deferred taxes	**2,924**	**2,833**	**(554)**	**(500)**	**36**	**(15)**	**51**
Current taxes	**437**	**992**	**-**	**-**	**(555)**		
Total taxes	**3,361**	**3,825**	**(554)**	**(500)**	**(519)**		

in CZK million	Tax assets		Tax liabilities		Net variance 2021		
	As of Dec 2021	As of Jan 2021	As of Dec 2021	As of Jan 2021	Total	Through P/L	Through OCI
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	-	-	(31)	(91)	60	(20)	80
Financial assets at FVOCI	-	-	(90)	(70)	(20)	-	(20)
Financial assets at AC	1,073	1,051	-	-	22	22	-
Property and equipment (useful life in tax law different)	103	93	-	-	10	10	-
Intangible assets other than goodwill	-	-	(379)	(382)	3	3	-
Hedge accounting derivatives	1,254	-	-	(203)	1,457	-	1,457
Other assets and liabilities	403	231	-	-	172	172	-
Total deferred taxes	**2,833**	**1,375**	**(500)**	**(746)**	**1,704**	**187**	**1,517**
Current taxes	**992**	**1,403**	**-**	**-**	**(411)**		
Total taxes	**3,833**	**2,778**	**(500)**	**(746)**	**1,293**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

Out of the total net deferred tax variance of CZK 36 million (2021: CZK 1,704 million) an amount of CZK -15 million (2021: income CZK 187 million) is reflected as net deferred tax expense in the Bank's income statement for the year 2022, whilst an income amount of CZK 51 million (2021: income CZK 1,520 million) represents the impact in the Bank's other comprehensive income for the year.

The Bank's deferred tax asset position in amount of CZK 2,370 million as of 31 December 2022 (2021: CZK 2,333 million) is expected to be recoverable in the foreseeable future. These expectations result from year-end recoverability assessments undertaken by the Bank. Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end - after offsetting with deferred tax liabilities - with fiscal profit forecasts for a time horizon of a maximum 5 years.

13 Appropriation of profit

In the reporting period, the Bank posted a post-tax profit of CZK 20,345 million under the Czech law, which increased its distributable capital accordingly (2021: CZK 12,656 million).

The equity increased accordingly.

The sole shareholder of the Bank has approved extraordinary distributions of own funds in April 2022 (distribution of 2019-20 profits retained due to COVID-related restrictions) in the total volume of CZK 25,451 million (out of which the dividend was CZK 25,030 million and the AT1 coupon CZK 421 million). Dividend per share was CZK 164.67.

A decision on the distribution of 2022 profit has thus not been taken before the date of issue of these financial statements.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

Accounting and measurement methods for financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement of financial assets and financial liabilities is subject to two primary measurement methods: : at amortised cost and fair value.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset was sold or paid, if a liability was transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value

measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 24 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement

Initial measurement of financial instruments Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant inputs based on observable markets data, the Bank immediately recognises the difference between the transaction price and the fair value as a gain or loss (also referred to as Day 1 gain or loss).

In all other cases, the difference between the fair value at initial recognition and the transaction price is recognized in the carrying amount of the instrument, but the recognition of gains / losses is deferred. After initial recognition, an entity recognizes this deferred difference as a gain / loss only if it results from a change in certain factors (including time) that market participants would consider in determining the price of the instrument. In other words, a deferred difference would only be recognized if the underlying factors are observable and can be confirmed by the market.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) the business model for managing the financial assets - the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. For further details refer to part 'Significant accounting judgements, assumptions and estimates' in this chapter.

Application of these criteria leads to classification of financial assets into three measurement categories described in the respective notes.

_Financial assets at amortised cost
_Financial assets at fair value through other comprehensive income
_Financial assets at fair value through profit or loss

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss. Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Note 17 Financial liabilities measured at amortised costs and Note 23 Financial liabilities at fair value through profit or loss.

Impairment of financial instruments

The Bank recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its cash and cash and cash balances, its finance lease receivables, its trade and other receivables, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Bank distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending exposures (see details in Note 33 Credit risk exposure). The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is recognised in the allowance account (without impacting the impairment loss).

For financial assets which are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by the Bank which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 33 Credit risk exposure.

For financial assets measured at amortised cost the net carrying amount of the financial asset presented on balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI the loss allowance is recognised in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

Information about the development of the expected credit loss of the respective financial instruments is provided in Note 36 Development of Credit Loss Allowances.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments not measured at FVPL are presented in the line item 'Impairment result from financial instruments'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Bank may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Bank

has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/ early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. . As a result, the Bank renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); or
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- altering a floating interest rate into a fixed interest rate or vice versa for the entire remaining life of the financial asset.

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment result from financial instruments'. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Write-offs

The Bank writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

The Bank has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the Bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). For more information on Forbearance please refer to Note 38 Restructuring, renegotiation and forbearance.

In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account 'Impairment result from financial instruments' in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Impairment result from financial instruments'.

iv. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Significant accounting judgements, assumptions and estimates

i. SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees and project financing loans. The benchmark test for loans with interest mismatches features does not represent area of SPPI judgement since the Bank does not provide such products to its customers. Assets failing the SPPI test are classified as mandatorily at FVPL. The Bank has no loan failing SPPI test as of 31 December 2022 and 2021.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the Bank upon the early termination. For these purposes, the Bank uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans the Bank assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

ii. Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Bank has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Bank, certain sales and other derecognition events are considered as non contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognition resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Bank performs a prospective test. If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above

described, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

iii. Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Bank has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life mainly in the case of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 33 Credit risk exposure. The development of loan loss provisions is described in Chapter FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, Note 15 Financial assets at amortized cost, Note 50 Provisions, Note 46 The Bank as a lessor, part Finance lease receivables and Note16 Trade and other receivables.

FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are solely payment of principal and interest ('SPPI') compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables', 'Finance lease receivables' and 'Cash and cash balances'.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (sub-item "Interest income") in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Bank, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any), interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables.

For description of financial liabilities at measured amortised cost refer to Note 17 Financial liabilities measured at amortised costs.

14 Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to CZK 4,984 million (2021: CZK 18,446 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

in CZK million	2022	2021
Cash on hand	14,260	16,824
Cash balances at central banks	4,984	18,446
Other deposits on demand	1,730	1,393
Cash and cash balances	**20,974**	**36,663**

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

15 Financial assets at amortized cost

The line item 'Financial Assets at amortised cost' is further broken down into 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to Customers'. For details regarding the development of credit loss allowances please refer to Note 36 Development of Credit Loss Allowances.

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/ external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the Board of Directors, initiation and fostering of client relationship, substitution of loan business or other yield generating activities). Their common attribute is that significant and/or frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the paragraph "Business model assessment" in chapter Financial instruments - Significant accounting policies.

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of Bank's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

in CZK million	GCA				CLA				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
2022									
General governments	308,388	-	-	308,388	(24)	-	-	(24)	308,364
Credit institutions	12,845	601	-	13,446	(4)	(5)	-	(9)	13,437
Other financial corporations	-	105	-	105	-	(1)	-	(1)	104
Non-financial corporations	3	3	-	6	-	-	-	-	6
Total	**321,236**	**710**	**-**	**321,946**	**(28)**	**(6)**	**-**	**(34)**	**321,912**
2021									
General governments	307,589	-	-	307,589	(14)	-	-	(14)	307,575
Credit institutions	11,754	-	-	11,754	(5)	-	-	(5)	11,749
Non-financial corporations	-	7	-	7	-	-	-	-	7
Total	**319,343**	**7**	**-**	**319,350**	**(19)**	**-**	**-**	**(19)**	**319,331**

For information about development of credit loss allowances refer to Note 36 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – debt securities'.

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2022 and 2021.

Loans and advances to banks

The analysis of the GCA and of related CLA of the Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA				CLA				Carrying
in CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	amount
2022									
Central banks	260,460	-	-	260,460	(3)	-	-	(3)	260,457
Credit institutions	5,706	-	-	5,706	(1)	-	-	(1)	5,704
Total	**266,165**	**-**	**-**	**266,165**	**(4)**	**-**	**-**	**(4)**	**266,161**
2021									
Central banks	356,252	-	-	356,252	(2)	-	-	(2)	356,250
Credit institutions	4,691	-	-	4,691	-	-	-	-	4,691
Total	**360,943**	**-**	**-**	**360,943**	**(2)**	**-**	**-**	**(2)**	**360,941**

For information about development of credit loss allowances refer to Note 36 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to banks'.

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022 and 2021.

Loans and advances to customers

The analysis of the GCA and of related CLA of the Bank's loans and advances to customers at AC per impairment buckets as of 31 December 2022 and 2021 is provided in the table below:

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

	GCA					CLA					Carrying
in CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	amount
2022											
General governments	22,627	1,316	-	-	23,943	(8)	(147)	-	-	(156)	23,787
Other financial corporations	46,892	2,737	1	-	49,631	(24)	(36)	(1)	-	(61)	49,570
Non-financial corporations	209,819	76,254	8,179	1,186	295,438	(628)	(3,091)	(5,159)	(449)	(9,326)	286,112
Households	421,979	60,889	6,368	115	489,351	(900)	(3,502)	(4,542)	(25)	(8,967)	480,383
Total	**701,317**	**141,196**	**14,548**	**1,301**	**858,363**	**(1,559)**	**(6,776)**	**(9,702)**	**(474)**	**(18,511)**	**839,852**
2021											
General governments	15,477	8,181	-	-	23,658	(10)	(98)	-	-	(108)	23,550
Other financial corporations	33,732	8,348	2	-	42,082	(35)	(35)	(1)	-	(71)	42,011
Non-financial corporations	205,205	52,511	7,457	1,174	266,347	(968)	(2,730)	(4,266)	(466)	(8,430)	257,917
Households	410,328	38,118	6,950	108	455,504	(1,053)	(3,181)	(4,640)	(24)	(8,898)	446,606
Total	**664,742**	**107,158**	**14,409**	**1,282**	**787,591**	**(2,066)**	**(6,044)**	**(8,907)**	**(490)**	**(17,507)**	**770,084**

For information about development of credit loss allowances refer to Note 36 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to customers'.

As at 31 December 2022, the total GCA of the Bank's debt instruments (primarily loans and advances to customers) measured at AC, which were impacted by non-significant contractual modifications while they were assigned to Stage 2 or 3 and re-assigned to Stage 1 during the year 2022 amounted to CZK 850 million (2021: CZK 2,337 million).

16 Trade and other receivables

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

in CZK million	GCA				CLA				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
General governments	364	1	-	365	-	(1)	-	(1)	364
Credit institutions	79	-	-	79	-	-	-	-	79
Other financial corporations	256	1	-	257	-	(1)	-	(1)	256
Non-financial corporations	1,259	215	326	1,800	(1)	(19)	(255)	(276)	1,524
Households	2	105	58	164	-	(99)	(57)	(156)	8
Total	**1,959**	**322**	**385**	**2,666**	**(1)**	**(120)**	**(313)**	**(434)**	**2,231**
2021									
General governments	653	1	-	654	(1)	(1)	-	(2)	652
Credit institutions	96	12	61	169	(1)	(13)	(30)	(44)	125
Other financial corporations	237	1	-	238	-	(2)	-	(2)	236
Non-financial corporations	4,434	46	540	5,020	(35)	(4)	(537)	(576)	4,444
Households	1	116	30	147	-	(107)	(28)	(135)	12
Total	**5,421**	**176**	**631**	**6,228**	**(37)**	**(127)**	**(595)**	**(759)**	**5,469**

For information about development of credit loss allowances refer to Note 36 Development of Credit Loss Allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – trade and other receivables'.

17 Financial liabilities measured at amortised costs

The line item 'Financial liabilities at amortised cost' is further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are calculated using effective interest rate method and reported in the line item 'Net interest income' (sub-item 'Interest expenses') in the statement of income. Gains and losses from de-recognition are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

The year-on-year decrease in Other financial liabilities was attributable to the high demand for inflation-linked government bonds issued by the Czech state, which were available only till the year-end 2021 of CZK 13,368 million. Other items consist mainly of payables to card associations in amount of CZK 1,485 million (2021: CZK 685 million), unbilled supplies in amount of CZK 1,212 million (2021: CZK 1,219 million) and received margin for futures of CZK 639 million (2021: CZK 823 million) and other financial liabilities of CZK 483 million.

in CZK million	2022	2021
Deposits	**1,274,588**	**1,157,765**
Deposits from banks	110,233	47,757
Deposits from customers	1,164,355	1,110,008
Debt securities issued	**77,262**	**219,986**
Bonds	77,262	219,986
Other financial liabilities	**4,875**	**17,173**
Financial liabilities measured at amortised costs	**1,356,725**	**1,394,924**

Deposits from banks

in CZK million	2022	2021
Overnight deposits	13,703	2,609
Term deposits	9,967	8,692
Repurchase agreements	86,563	36,456
Deposits from banks	**110,233**	**47,757**

Deposits from customers

in CZK million	2022	2021
Current accounts/Overnight deposits	964,490	1,037,477
General governments	70,454	70,983
Other financial corporations	21,611	24,774
Non-financial corporations	132,117	149,465
Households	740,309	792,255
Term deposits	166,156	60,949
General governments	11,446	1,174
Other financial corporations	25,433	12,452
Non-financial corporations	50,328	14,309
Households	78,950	33,014
Repurchase agreements	33,709	11,582
General governments	278	20
Other financial corporations	33,431	11,562
Deposits from customers	**1,164,355**	**1,110,008**
General governments	82,178	72,177
Other financial corporations	80,474	48,788
Non financial corporations	182,445	163,774
Households	819,258	825,269

All deposits are from customers and entities within the Czech Republic.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	2022	2021
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	-	4 007
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	Yes	-	2 006
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	-	39
Mortgage bonds	CZ0002008261	December 2021	January 2022	floating	No	-	58 072
Mortgage bonds	CZ0002008279	December 2021	March 2022	floating	No	-	45 062
Mortgage bonds	CZ0002008006	October 2021	January 2022	floating	No	-	97 056
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	1 024	1 045
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	5 067	526
Mortgage bonds	CZ0002008790	December 2022	March 2023	floating	No	12 539	-
Mortgage bonds	CZ0002008808	December 2022	January 2023	floating	No	30 055	-
Mortgage bonds	XS2555412001	November 2022	November 2025	floating	No	12 131	-
Mortgage bonds	CZ0003707291	July 2022	July 2027	floating	No	6 209	-
Bonds-subordinated (SNP)	AT0000A2STV4	September 2021	September 2028	floating	Ano	10 237	12 173
Bonds issued						**77 262**	**219 986**

Debt securities which are traded on the official regulated market are registred in the Prague Stock Exchange ('PSE') in case of mortgage bonds and in the Vienna Stock Exchange in case of SNP bonds.

Assets in cover pools used for mortgage bonds issuance amounted to CZK 298,009 million (2021: CZK 252,768 million). The main holders of debt securities are companies belonging into Ceska sporitelna group.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

18 Financial assets at fair value through other comprehensive income - debt instruments

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. In the statement of financial position they are included as 'Debt securities' under the line 'Financial assets at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' (subitem "Interest income") in the income statement. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite entry in OCI rather than against the asset value.

The difference between the fair value at which the assets are carried in the statement of financial position and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income

in the line 'Fair value reserve of debt instruments'. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

The Bank classifies investments in debt securities as measured at FVOCI, i.e. no loan business is included in this measurement category. Similarly to investments in debt securities measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

Debt instruments

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of Bank's debt securities at FVOCI per impairment buckets as of 31 December 2022 and 2021 is provided below:

	GCA				CLA						
in CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Amortized cost**	**Accumulated fair value changes**	**Fair value**
2022											
Debt securities											
General governments	31,678	-	-	31,678	(2)	-	-	(2)	31,676	(43)	31,633
Credit institutions	3,191	-	-	3,191	(1)	-	-	(1)	3,191	(250)	2,941
Other financial corporations	2,412	1,629	-	4,041	(1)	(7)	-	(9)	4,033	(42)	3,990
Non-financial corporations	3,597	6,374	-	9,971	(4)	(138)	-	(142)	9,829	(1,160)	8,670
Total	**40,879**	**8,003**	**-**	**48,882**	**(8)**	**(145)**	**-**	**(153)**	**48,729**	**(1,495)**	**47,234**
2021											
Debt securities											
General governments	16,059	-	-	16,059	(1)	-	-	(1)	16,058	95	16,153
Credit institutions	1,614	-	-	1,614	(1)	-	-	(1)	1,613	(29)	1,584
Other financial corporations	1,161	1,974	-	3,135	-	(44)	-	(44)	3,091	105	3,196
Non-financial corporations	1,343	7,688	-	9,031	-	(102)	-	(102)	8,929	(31)	8,898
Total	**20,177**	**9,662**	**-**	**29,839**	**(2)**	**(146)**	**-**	**(148)**	**29,691**	**140**	**29,831**

As defined in IFRS 9, the gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. The accumulated OCI changes combine the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income, as required by IFRS9 in respect of debt instruments measured at FVOCI.

For information about development of credit loss allowances refer to Note 36 Development of Credit Loss Allowances, part 'Financial assets at fair value through other comprehensive income – debt instruments': table 'Movement in credit loss allowances – debt instrument financial assets'.

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2022 and 2021.

19 Financial assets at fair value through other comprehensive income - equity instruments

For certain investments in equity instruments which are not held for trading, the Bank makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve of equity instruments at FVOCI' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However,

upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to debt instruments financial assets.

FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Bank, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by the Bank since they are managed and their performance is evaluated on a fair value basis. Another reason for the FVPL measurement are financial assets whose contractual cash flows are not considered as SPPI. At the Bank, this concerns certain debt securities and loans to customers.

The Bank also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities'). Non-trading financial assets consist of two sub-categories disclosed in Note 22 Non-trading financial assets at fair value through profit or loss which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are valued mandatorily measured at fair value through profit or loss either because they are held as part of residual business models that are other than held for trading or their contractual cash flows are not SPPI.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the Bank) are measured at FVPL. They are included in the statement of financial position under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the statement of financial position under "Non-trading financial assets at fair value through profit or loss", sub-item "Equity instruments", sub-category "mandatorily at fair value through profit or loss" in Note 22 Non-trading financial assets at fair value through profit or loss.

From IFRS 9 perspective all derivatives which are not designated as hedging instruments are considered as held for trading. As a result, they are measured at FVPL. They are described more detail in the Note 20 Derivative financial instruments.

In the income statement, the profit or loss effects of non-derivative financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item 'Other similar income'). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. On the balance sheet, financial liabilities at FVPL are presented as 'Financial liabilities held for trading', sub-items

'Derivatives' and 'Other financial liabilities held for trading' and as 'Financial liabilities at fair value through profit or loss' which are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Accounting policy related to financial liabilities at FVPL can be found in Note 20 Derivative financial instruments and Note 23 Financial liabilities at fair value through profit or loss.

20 Derivative financial instruments

Derivatives used by the Bank include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Hedge accounting derivatives are discussed in Note 25 Hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the Trading book and Banking book according to CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated OCI is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Embedded derivatives

The Bank is involved in business with own debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instrument. Embedded derivatives are separated from the host own debt instruments if

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the definition of derivative; and
- the hybrid instrument is not a financial liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading.

Derivatives that are not closely related and are separated relate to issued bonds and deposits whose payments are linked to equity prices or FX rates. Instead of separating the embedded derivatives, the Bank largely uses the possibility to designate the entire financial liability as measured at FVPL.

Derivatives held for trading

	2022			2021		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the Trading book	**819,892**	**27,680**	**(26,102)**	**703,758**	**14,988**	**(14,242)**
Interest rate	370,862	17,281	(16,570)	370,360	10,784	(10,300)
Foreign exchange	449,030	10,399	(9,532)	333,398	4,204	(3,942)
Derivatives held in the Banking book	**95,349**	**281**	**(3,495)**	**42,859**	**520**	**(1,150)**
Interest rate	53,414	-	(3,070)	26,409	-	(935)
Foreign exchange	41,935	281	(425)	16,450	520	(215)
Total	**915,241**	**27,961**	**(29,597)**	**746,617**	**15,508**	**(15,392)**

All derivatives not designated as hedging instruments are classified as held for trading, including those held in the Banking book for regulatory purposes (economic hedges).

21 Other financial assets held for trading

in CZK million	**2022**	**2021**
Debt securities	48	53
General governments	9	23
Credit institutions	35	30
Other financial corporations	4	-
Other financial assets held for trading	**48**	**53**

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

	2022		2021	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	628	-	836
Debt securities	-	830	-	812
Other financial corporations	-	830	-	812
Loans and advances to banks	-	1,383	-	744
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**2,841**	**-**	**2,392**
Non-trading financial assets at fair value through profit or loss	**2,841**		**2,392**	

Financial assets classified as mandatorily at FVPL comprise of equities and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in 'Classification and subsequent measurement of financial assets' in section 'Significant accounting policies'.

23 Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

In the business of the Bank non-derivative held-for-trading liabilities comprise of short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Bank makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item "Deposits from customers".

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item "Other similar expenses").

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and the beginning of the period. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
in CZK million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Deposits	31,331	10,653	31,151	9,943	180	710
Financial liabilities at FVPL	**31,331**	**10,653**	**31,151**	**9,943**	**180**	**710**

Deposits designated as 'Financial liabilities at fair value through profit and loss' represent hybrid instruments i.e. contain one or more not closely related embedded derivatives, which are not separated from those host instruments.

Fair value changes that are attributable to changes in own credit risk

	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
in CZK million	**2022**	**2021**	**2022**	**2021**
Financial liabilities - at fair value through profit or loss				
Deposits from customers	(87)	1	(89)	(2)

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

24 Fair value of financial instruments

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

All financial instruments at fair value are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

Description of valuation models and parameters

The Bank uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. For financial instruments which have been converted to the new alternative refernce rates (see Note 60 Interest Rate Benchmark Reform), the new interest rates are considered for the calculation of fair values.

Loans. Not SPPI (solely payments of principal and interest) compliant loans are to be valued at fair value. The methodology to compute fair value of these assets corresponds to the basic present value technique. The credit risk is recognized by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability

of default and loss given default. These adjusted cash flows are then discounted by a yield curve which consists of a risk free rate and a funding spread for senior unsecured issues. For a limited number of profit-participating loans, the expected cash flows are discounted using a risk-adjusted discount rate. This risk-adjusted rate is determined applying the Capital Assets Pricing Model (CAPM) on the basis of comparable listed entities.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including optionlike features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

Equity instruments. Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method. The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity. The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium. The levered beta is derived from the industry classification which is published and maintained by Damodaran. In rare cases, techniques for non-trading equity instruments may also include comparable company multiple methods. These are valuation techniques that use prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

Liabilities. The fair value of financial liabilities designated at fair value through profit or loss under the fair value option is determined based on quoted prices in active markets, if available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. Significant input factors for the spread adjustment of Erste Group's own credit risk for the respective seniority class are credit spreads derived from liquid benchmark bonds and additional indications from external investments banks, which are provided on a regular basis. The applied spreads are validated on a regular basis from an independent Risk Management unit. In case of issued securities with structured features, optionality is taken into account as well when calculating the fair value.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

As a result of the IBOR reform it has been decided that the so far used EONIA (Euro Over Night Index Average) will be replaced by €STR (Euro Short-Term Rate) with a transition phase until 31 December 2021. In the Bank all contracts with

CCP's (Central Counter Parties), LCH (London Clearing House) and EUREX have been converted in 2020 and for the respective collaterals €STR is used as interest rate. More details to IBOR reform is described in Note 60 Interest Rate Benchmark Reform.

The Bank values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid/ask spread to the valuation. Parameters are reviewed on a regular basis or in case of significant market moves.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty.

DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices.

According to the described methodology the accumulated CVAadjustments amounted to CZK (84) million (2021: CZK (67) million) and the total DVA-adjustment amounted to CZK 135 million (2021: CZK 43 million).

Based on an analysis carried out by the Bank it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent from the trading units. In addition, The Bank has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurements include exchange traded derivatives (options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs

in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurements include OTC derivatives, less liquid shares, bonds and funds as well as own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. Typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

The volume of Level 3 financial assets can be allocated to the following categories:

- Derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares, participations and funds not quoted in an active market where either valuation models with nonobservable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Loans which do not comply with the contractual cash flow criteria.
- Fund units issued by investment funds fully consolidated by Erste Group as well as own issues, if price updates are not provided on a regular basis.
- Collateralized mortgage obligation (CMO).

The allocation of the appropriate level of positions is determined at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

	2022				2021			
in CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets - held for trading	9	27,671	329	28,009	21	15,413	127	15,561
Derivatives	-	27,633	328	27,961	-	15,381	127	15,508
Other trading assets	9	38	1	48	21	32	-	53
Non-trading financial assets - FVPL	-	-	2,841	2,841	-	-	2,392	2,392
Equity instruments	-	-	628	628	-	-	836	836
Debt securities	-	-	830	830	-	-	812	812
Loans and advances	-	-	1,383	1,383	-	-	744	744
Financial assets - FVOCI	38,701	5,406	3,126	47,233	21,081	6,173	2,577	29,831
Debt securities	38,701	5,406	3,126	47,233	21,081	6,173	2,577	29,831
Derivatives Hedge Accounting	-	3,151	84	3,235	-	607	-	607
Total assets	**38,710**	**36,228**	**6,380**	**81,319**	**21,102**	**22,193**	**5,096**	**48,391**
LIABILITIES								
Financial liabilities held for trading	-	29,597	-	29,597	-	15,160	232	15,392
Derivatives	-	29,597	-	29,597	-	15,160	232	15,392
Financial liabilities designated at fair value through profit or loss	-	31,331	-	31,331	-	10,653	-	10,653
Deposits from customers	-	31,331	-	31,331	-	10,653	-	10,653
Derivatives Hedge Accounting	-	5,870	-	5,870	-	4,659	59	4,718
Total liabilities	**-**	**66,798**	**-**	**66,798**	**-**	**30,472**	**291**	**30,763**

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

Reclassification between Level 1 and Level 2 based on balance sheet positions and instruments

	2022		2021	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	231	-	2,135
Net transfer from Level 2	2	-	136	-
Purchases/sales/expiries	17,606	(992)	7,291	383
Changes in derivatives	-	14,796	-	2,153
Total year-to-date change	**17,608**	**14,035**	**7,427**	**4,671**

The relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements in Level 3

Development of fair value of financial instruments in Level 3

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million		Gains/ losses profit or loss	Gains/ losses OCI	Purchases	Sales/ Settlements	Transfer into Level 3	Transfer out of Level 3	
	Jan 2022							**Dec 2022**
Assets								
Financial assets HfT	127	212	-	-	-	1	(10)	329
Derivatives	127	212	-	-	-	-	(10)	329
Other financial assets held for trading	-	-	-	-	-	1	-	1
Non-trading financial assets at FVPL	2,392	1,266	-	173	(990)	-	-	2,841
Equity instruments	836	(201)	-	15	(22)	-	-	628
Debt securities	812	85	-	157	(224)	-	-	830
Loans and advances	744	1,383	-	-	(744)	-	-	1,383
Financial assets at FVOCI	2,577	14	(16)	32	(8)	2,292	(1,764)	3,126
Debt securities	2,577	14	(16)	32	(8)	2,292	(1,764)	3,126
Hedge accounting derivatives	-	84	-	-	-	-	-	84
Total assets	**5,096**	**1,576**	**(16)**	**204**	**(999)**	**2,293**	**(1,774)**	**6,380**

	Jan 2021							**Dec 2021**
Assets								
Financial assets HfT	100	42	-	-	-	-	(15)	127
Derivatives	100	42	-	-	-	-	(15)	127
Non-trading financial assets at FVPL	2,403	742	-	69	(862)	40	-	2,392
Equity instruments	976	(180)	-	-	-	40	-	836
Debt securities	944	175	-	69	(376)	-	-	812
Loans and advances	483	747	-	-	(486)	-	-	744
Financial assets at FVOCI	2,256	(43)	40	2	-	1,764	(1,442)	2,577
Debt securities	2,256	(43)	40	2	-	1,764	(1,442)	2,577
Total assets	**4,759**	**741**	**40**	**71**	**(862)**	**1,804**	**(1,457)**	**5,096**

Transfers into and out of Level 3 are mainly due to changes in the market activity and consequently in the observability of valuation parameters.

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 as Level 3 because credit valuation adjustment (CVA) has a material impact on the market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact on the market value of these derivatives any more. FVOCI financial assets (bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

The gains or losses of Level 3 financial instruments classified as 'Non-trading financial assets at fair value through profit or loss' and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets at fair value through other comprehensive income' is shown in the income statement line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through

profit or loss'. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments'. Level 3 gains or losses in other comprehensive income disclosed in the balance sheet line item 'Financial assets at fair value through other comprehensive income' are reported directly in equity under 'Change in fair value reserve'.

Level 3 movements. The reclassification of securities out of Level 3 was caused by an increase in market liquidity.

Gains or losses on Level 3 instruments held at the reporting period

	2022	2021
in CZK million	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	212	42
Derivatives	212	42
Non-trading financial assets at fair value through profit or loss	1,270	742
Equity instruments	(201)	(180)
Debt securities	88	175
Loans and advances	1,383	747
Financial assets at fair value through other comprehensive income	(44)	(43)
Debt securities	(44)	(43)
Hedge accounting derivatives	84	-
Total	**1,522**	**741**

Unobservable inputs and sensitivity analysis for Level 3 measurement

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**2022**	**2021**	**2022**	**2021**
Derivatives	19	3	(24)	(7)
Income statement	19	3	(24)	(7)
Debt securities	48	34	(64)	(46)
Other comprehensive income	48	34	(64)	(46)
Equity instruments	72	82	(143)	(164)
Income statement	72	82	(143)	(164)
Total	**139**	**119**	**(231)**	**(217)**
Income statement	**91**	**85**	**(167)**	**(171)**
Other comprehensive income	**48**	**34**	**(64)**	**(46)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between +100 basis points and – 75 basis points,
- for equity related instruments the price range between -10% and +5%,

- for CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

Fair values of financial instruments not recognised at fair value

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2022 and for the year-end 2021. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

in CZK million	Carrying amount (balance sheet)	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
2022					
ASSETS					
Cash and cash balances	20,974	20,974	14,260	6,714	-
Financial assets at amortised costs	1,427,925	1,323,281	262,667	8,337	1,052,277
Loans and advances to banks	266,161	266,111	-	-	266,111
Loans and advances to customers	839,852	786,079	-	-	786,079
Debt securities	321,912	271,092	262,667	8,337	88
Finance lease receivables	195	195	-	-	195
Trade and other receivables	2,231	2,231	-	-	2,231
LIABILITIES					
Financial liabilities measured at amortised costs	1,356,725	1,355,068	-	77,060	1,278,008
Deposits from banks	110,233	109,620	-	-	109,620
Deposits from customers	1,164,355	1,163,513	-	-	1,163,513
Debt securities issued	77,262	77,060	-	77,060	-
Other financial liabilities	4,875	4,875	-	-	4,875
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	12	-	-	12
Loan commitments	n/a	2,291	-	-	2,291
2021					
ASSETS					
Cash and cash balances	36,663	36,663	16,824	19,839	-
Financial assets at amortised costs	1,450,356	1,442,130	264,030	34,083	1,144,017
Loans and advances to banks	360,941	368,324	-	-	368,324
Loans and advances to customers	770,084	775,688	-	-	775,688
Debt securities	319,331	298,118	264,030	34,083	5
Finance lease receivables	206	206	-	-	206
Trade and other receivables	5,469	5,469	-	-	5,469
LIABILITIES					
Financial liabilities measured at amortised costs	1,394,924	1,394,699	-	219,925	1,174,774
Deposits from banks	47,757	47,691	-	-	47,691
Deposits from customers	1,110,008	1,109,910	-	-	1,109,909
Debt securities issued	219,986	219,925	-	219,925	-
Other financial liabilities	17,173	17,172	-	-	17,172
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(6)	-	-	(6)
Loan commitments	n/a	288	-	-	288

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign. The calculation of fair values of financial guarantees and commitments is based on the coefficient, which is calculated by the Market risk using the Erste Group Bank algorithms.

The fair value of loans and advances to customers and credit institutions, trade and other receivables and finance lease receivables has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost – debt securities are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

25 Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Bank elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items 'Other similar income or 'Other similar expenses'). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

The Bank also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, the Bank makes use of the relaxation provided by the EU-carve out for so called bottom layer amount. More details are discussed in part 'Hedges of interest rate risk' below. The change in the fair value of the hedged items attributable to the hedged interest risk in portfolio fair value hedges is presented on the balance sheet under the line item 'Fair value changes of hedged items in portfolio hedge of interest rate risk'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under 'Net interest income' in the line item 'Interest income' if the hedged item was a financial asset or in the line item 'Interest expenses' if the hedged item was a financial liability.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is

recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; subitems "Other similar income or "Other similar expenses"). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

The interest rate and FX risk of the Banking book is managed by the Bank's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IAS 39. The main guideline for interest rate risk positioning is the Bank Interest Rate Risk Strategy that is approved by the Bank ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Bank statement of financial position. In general, the Bank policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets. By using cross currency interest rate swaps, the Bank hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, income of amount CZK 4 million (2021: income of amount CZK 182 million) was taken from the cash flow hedge reserve and recognised in the income statement; while loss CZK 5,232 million (2021: gain CZK 6,600 million) was recognised directly in other comprehensive income.

As at 31 December 2022, the loss on hedging derivatives used for fair value hedging was CZK 2,016 million (2021: loss CZK 326 million); the gain due to changes in the fair value of hedged items was CZK 2,037 million (2021: gain CZK 281 million).

Fair values of hedging instruments are disclosed in the following table:

	2022			2021		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**17,081**	**36**	**(2,254)**	**17,602**	**92**	**(312)**
Interest rate	17,081	36	(2,254)	17,602	92	(312)
Cash flow hedge	**116,435**	**3,199**	**(3,616)**	**111,754**	**515**	**(4,406)**
Interest rate	70,469	171	(3,616)	77,084	33	(3,521)
Foreign exchange	45,966	3,028	-	34,670	482	(885)
Total	**133,515**	**3,235**	**(5,870)**	**129,356**	**607**	**(4,718)**

At the end of 2022 the Bank had 249 cash flow hedge structures with maturity from 2023 to 2036. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in cash flow hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2023	7,038	357	50
2024	3,200	191	-
2025	35,100	214	-
2026	20,800	379	-
2027	3,200	374	-
2028	-	43	-
2029	-	66	-
2030	-	97	-
2031	-	15	-
2032	-	15	-
2033	-	-	-
2034	-	-	-
2035	-	6	-
2036	-	10	-
Total	**69,338**	**1,767**	**50**

At the end of 2021 the Bank had 234 cash flow hedge structures with maturity from 2022 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2022	4,000	182	
2023	29,252	357	50
2024	12,100	168	-
2025	24,100	148	-
2026	1,300	245	-
2027	3,200	148	-
2028	-	10	-
2029	-	59	-
2030	-	97	-
2031	-	5	-
Total	**73,952**	**1,419**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges as of 31 December 2022 are reported. The indicated values for fair value hedges include single hedges as well as portfolio hedges, which due to immateriality are not shown separately.

in CZK million	Carrying amount		Change in FV for the period used for calculating hedge inefficiency	Notional	Timing of the nominal amounts of the instruments			
2022	**Assets**	**Liabilities**			**≤ 3 m**	**> 3 m and ≤ 1 y**	**> 1 y and ≤ 5 y**	**> 5 y**
Fair value hedges								
Interest rate risk	36	(2,254)	-	17,081	-	-	15,675	1,406
Cash flow hedges								
Interest rate risk	171	(3,616)	1,401	70,469	-	8,169	62,300	-
Foreign exchange risk	3,028	-	1,105	45,966	5,297	4,358	29,821	6,490
Total	**3,235**	**(5,870)**	**2,506**	**133,515**	**5,298**	**12,527**	**107,796**	**7,896**
2021								
Fair value hedges								
Interest rate risk	92	(312)	-	17,602	-	-	3,729	13,873
Cash flow hedges								
Interest rate risk	33	(3,521)	(5,419)	77,084	4,534	1,500	67,850	3,200
Foreign exchange risk	482	(885)	(1,853)	34,670	1,052	943	24,341	8,334
Total	**607**	**(4,718)**	**(7,272)**	**129,356**	**5,586**	**2,443**	**95,920**	**25,407**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

in CZK million	Carrying amount	Hedge adjustments		Remaining adjustments for terminated hedges
		included in the carrying amount of assets/liabilities	Thereof: for the period used for recognition of hedge ineffectiveness	
2022				
Financial assets at AC				
Interest rate risk	165	(35)	(13)	-
Financial liabilities at AC				
Interest rate risk	16,508	(373)	2,050	2
2021				
Financial assets at AC				
Interest rate risk	89	(11)	(15)	-
Financial liabilities at AC				
Interest rate risk	17,475	(73)	316	4

Hedged items in cash flow hedges

in CZK million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
2022			
Interest rate risk	1,401	(3)	4,995
Foreign exchange risk	1,105	3	237
Total	**2,506**	**-**	**5,232**
2021			
Interest rate risk	(5,419)	3,676	295
Foreign exchange risk	(1,853)	2,628	-
Total	**(7,272)**	**6,305**	**295**

Effects of hedge accounting in profit or loss and other comprehensive income

			Cash flow hedge reclassified to profit or loss because	
in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	the hedged item has affected profit or loss	the hedged future cash flows are no longer expected to occur
2022				
Fair value hedges				
Interest rate risk	22	-	(210)	-
Cash flow hedges				
Interest rate risk	(4)	1,390	(2,409)	-
Foreign exchange risk	-	1,264	1,124	-
Total	**18**	**2,654**	**(1,495)**	**-**
2021				
Fair value hedges				
Interest rate risk	(45)	-	10	-
Cash flow hedges				
Interest rate risk	(171)	(5,692)	659	-
Foreign exchange risk	(11)	(1,972)	1,775	-
Total	**(227)**	**(7,664)**	**2,434**	**-**

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

26 Offsetting of financial instruments

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

Financial assets subject to offsetting and potential offsetting agreements

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
2022						
Derivatives (Note 20 and 25)	31,196	31,196	15,307	3,124	-	12,765
Reverse repurchase agreements (Note 15)	262,154	262,154	-	-	262,154	-
Total	**293,350**	**293,350**	**15,307**	**3,124**	**262,154**	**12,765**
2021						
Derivatives (Note 20 and 25)	16,115	16,115	9,747	2,127	-	4,241
Reverse repurchase agreements (Note 15)	357,197	357,197	-	-	350,934	6,263
Total	**373,311**	**373,311**	**9,747**	**2,127**	**350,934**	**10,503**

Financial liabilities subject to offsetting and potential offsetting agreements

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
2022						
Derivatives (Note 20)	35,467	35,467	15,307	9,467	-	10,692
Repurchase agreements (Note 17)	120,272	120,272	-	-	120,272	-
Total	**155,739**	**155,739**	**15,307**	**9,467**	**120,272**	**10,692**
2021						
Derivatives (Note 20)	20,110	20,110	9,747	605	-	9,758
Repurchase agreements (Note 17)	48,039	48,039	-	-	48,039	-
Total	**68,149**	**68,149**	**9,747**	**605**	**48,039**	**9,758**

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all contracts in the event of default of any counterparty. For derivative transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from

the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

The impact of offsetting is shown in the column 'Amounts offset (gross)'.

27 Transfer of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the statement of financial position, as the Bank retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Bank or are reflected in the repurchase price.

The corresponding cash received is recognised in the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' (sub-item "Interest expenses"). Financial assets transferred out by the Bank under repurchase agreements remain on the Bank's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item. Moreover, they are presented in 'thereof pledged as collateral' positions under the respective balance sheet items.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the statement of financial position under the respective line items 'Loans and advances to banks' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income' (sub-item 'Interest income').

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings. The securities lent are presented in "thereof pledged as collateral" positions under the respective balance sheet items.

Securities borrowed are not recognised in the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other financial liabilities'.

in CZK million	2022 Carrying amount of transferred assets	2022 Carrying amount of associated liabilities	2021 Carrying amount of transferred assets	2021 Carrying amount of associated liabilities
Repurchase agreements				
Financial assets at AC	68,573	50,521	38,183	32,223
Total - repurchase agreements	**68,573**	**50,521**	**38,183**	**32,223**
Securities lendings				
Financial assets at AC	20,850	-	41,698	-
Total - securities lendings	**20,850**	**-**	**41,698**	**-**
Total	**89,423**	**50,521**	**79,881**	**32,223**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 68,573 million (2021: CZK 38,183 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 50,521 million (2021: CZK 32,223 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Bank, these assets and liabilities relate to repo transactions.

in CZK million	2022 Fair value of transferred assets	2022 Fair value of associated liabilities	2022 Net position	2021 Fair value of transferred assets	2021 Fair value of associated liabilities	2021 Net position
Financial assets at AC	57,757	50,775	6,982	35,485	32,201	3,285
Total	**57,757**	**50,775**	**6,982**	**35,485**	**32,201**	**3,285**

28 Financial assets pledged as collateral

in CZK million	2022	2021
Financial assets at AC	138,108	287,694
Total	**138,108**	**287,694**

The financial assets pledged as collateral consist of loans and advances to customers, bonds and other interest-bearing securities. Collaterals were pledged as a result of repurchase transactions, refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received which may be repledged or resold even without the collateral provider's default was CZK 183,301 million (2021: CZK 386,513 million). Collateral with fair value of CZK 69,700 million (2021: CZK 15,563 million) was resold. Collateral with fair value of CZK 42,862 million (2020: CZK 9,720 million) was repledged. The Bank is obliged to return the resold and repledged collateral.

29 Securities

in CZK million	2022					2021				
	At AC	Trading assets	Financial assets			At AC	Trading assets	Financial assets		
			Mandatorily at FVPL	Designated at FVPL	At FVOCI			Mandatorily at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**321,912**	**48**	**830**	**-**	**47,234**	**319,331**	**53**	**812**	**-**	**29,831**
Listed	312,831	9	-	-	38,701	283,081	21	-	-	21,081
Unlisted	9,081	39	830	-	8,533	36,250	32	812	-	8,750
Equity-related securities	**-**	**-**	**628**	**-**	**-**	**-**	**-**	**836**	**-**	**-**
Unlisted	-	-	628	-	-	-	-	836	-	-
Total	**321,912**	**48**	**1,458**	**-**	**47,234**	**319,331**	**53**	**1,648**	**-**	**29,831**

RISK AND CAPITAL MANAGEMENT

30 Financial risk management

Risk policy and strategy

The Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

In 2021, management attention has been dedicated not only to ongoing Covid-19 pandemic, but also to Environmental, Social and Governance (ESG) risks as new risk type. ESG has been assessed as material risk in 2022 Group Risk Materiality Assessment (first-time assessment), based on climate-related and environmental risks ('E' component), while the assessment of social ('S') and governance ('G') risks is planned for 2023. In order to mitigate this risk, significant resources in both business and risk area have been dedicated to set-up and implement ESG action plan, which includes the establishment of comprehensive internal framework ranging from business strategy, dedicated governance, over risk management to disclosures.

The Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the Bank at www. https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The management board and in particular the Bank's Chief Risk Officer (Bank CRO) perform the oversight function within the Bank's risk management structure. Risk control and risk steering within the Bank are performed based on the business strategy and risk appetite approved by the management board. The Bank CRO, working together with the

chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Bank CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within the Bank.

At Bank level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Bank CRO:

- Strategic Risk Management;
- Corporate Credit Risk Management;
- Retail Credit Risk Management;
- Legal Services;
- Security;
- Non-Financial Risk Management and Compliance;
- Local Chief Risk Officers.

Local Chief Risk Officers

Each subsidiary has separate risk control and management units with responsibilities tailored to the local requirements, which are headed by the respective chief risk officer (CRO).

Bank coordination of risk management activities

The management board regularly deals with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed.

Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities in the Bank:

- Risk Committee;
- Risk Management Model Committee (RMMC);
- Credit Committee;
- Asset Liability Committee (ALCO);
- Product and Pricing Committee;
- Operational Liquidity Committee;
- Financial Markets Risk Management Committee (FMFMC) and;
- Compliance, Operational Risk and Security Committee.

The **Risk Committee** has an escalation function for approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the Credit Committee of the management board according to the credit risk approval guidelines.

The **Risk Management Model Committee** (RMMC) is the steering and control body for IRB approach and Pillar 2 model development, validation and monitoring. All new or changed models and model related aspects (e.g. risk parameters, group-wide methodology standards) are reviewed by the RMMC and require its approval.

The **Credit Committee** is the highest approval body according to the credit risk approval guidelines. It is also responsible for approval of credit risk management strategy.

The **Asset Liability Committee** (ALCO) manages the separate Bank balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks). In addition, it approves policies and strategies for controlling liquidity risk as well as interest rate risk (net interest income) and examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Products and Pricing Committee** is responsible for assessment and approval of new products and their innovation in area retail and corporate banking as well as in area of the financial market products. It manages the pricing policy in CS.

The **Operational Liquidity Committee** (OLC) is responsible for the day-to-day management of the global liquidity position of the Bank. It analyses the liquidity situation of the Bank on a regular basis and reports directly to the ALCO.

The **Financial Markets Risk Management Committee** is the main steering body for market risk and Trading book related issues of the Bank. It approves group-wide market risk limits and elaborates on the current market situation. Furthermore, it approves market risk methodologies and models, model changes, and related validation results.

The **Compliance, Operational Risk and Security Committee** is decision body in the area of operational risk, compliance and security in the Bank.

Group-wide risk and capital management

Overview

Enterprisewide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the Bank's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within the Bank as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk Appetite Statement (RAS), limits and risk strategy;
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC);
- planning of key risk indicators;
- recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite

Risk appetite defines the maximum level of risk the Bank is willing to accept in pursuing its business goals. The overall approach includes a risk appetite statement, risk limits, and the roles and responsibilities of those overseeing the

implementation and monitoring of the risk appetite framework. Limit framework (i.e. risk appetite framework) of the Group includes risk limits set in Risk Appetite Statement and Risk Strategy, industry limits, maximum lending limits and operational limits.

The Group Risk Appetite Statement (Group RAS) represents a strategic statement that expresses the maximum level of risk it is willing to accept in order to deliver its business objectives. The Group RAS acts as a binding constraint to the Bank's business activities within its overall risk appetite via triggers and limits approved by the management board. It is integrated and embedded into the Group's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The Group RAS consists of a set of core risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the Bank risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- ensure that the Bank has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Bank's risk target setting;
- support the Bank's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, the Bank creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Bank is willing to accept. In order to ensure that the group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a predefined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a predefined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the Risk Strategy based on Bank RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the group remains within its RAS.

Bank RAS was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The Bank further developed an aggregated and consolidated risk appetite dashboard (Risk report) illustrating the Group's and Bank's risk profile developments by comparing the risk exposure and risk limits. The Risk report is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Portfolio and risk analytics

The Bank uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across the Group. RMA is an annual process with the purpose of systematic identification of new and assessment of all risks for the Group. Senior management may require to perform RMA on ad hoc basis in addition, in order to address changing operating environment or emerging risks (e.g. interim RMA performed in H1-22 due to Russia-Ukraine conflict). As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Bank. The assessment also serves as input for the design and definition of the Bank's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

The Bank has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of the Bank, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at the Bank is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/ calibration of limit system.

Stress testing

Modelling sensitivities of the Bank's assets, liabilities and profit or loss provide management steering information and help to optimise the Bank's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the Bank's planning process.

The Bank's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned. The Bank has developed specific tools to translate macroeconomic variables (e.g. GDP) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2022 indicated no breach of stressed RAS triggers after the application of scenario contingent measures in the last year of adverse scenario.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the level of capital adequacy required by the ICAAP. In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view assuming continuation of the Bank (as expected by ECB Guide to ICAAP) and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the management board. The aggregated capital requirements are then compared to internally available capital, as reflected by the coverage potential.

The management board, risk management committees and supervisory board are briefed quarterly on the results of the ICAAP capital adequacy through the ICAAP report. The report includes risks movements, available capital (coverage

potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation, the overall status of capital adequacy and risk profile development in relation to risk appetite.

Besides the Pillar 1 risk types (credit, market and operational risks), interest rate risk in the Banking book, liquidity risk, as well as business risk are explicitly considered within the economic capital requirements calculated over a horizon of one year and at a confidence level of 99.92%. At the end of 2022, the economic capital adequacy was at 62.8% (2021: 49.2%). The methodologies applied to the different risk types are diverse and range from value at risk approaches to the regulatory approach. Moreover, calculations for most of the portfolios under the standardised approach for credit risk are extended by risk parameters from the internal ratings-based approach in order to provide a more risk sensitive economic view.

The largest portion of economic capital requirements is coming from credit risk, which accounts for 57.0% of total economic capital requirements at the end of 2022 (2021: 70.5%). Reflecting conservative risk management policy and strategy, the Bank does not offset diversification effects between the risk types.

The internal capital or coverage potential required to cover Pillar 2 risks and unexpected losses is based on CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) fully loaded regulatory own funds adjusted by Pillar 2 add-ons (e.g. year-to-date profit (if not already considered in Pillar 1 capital), exclusion of Tier 2 capital instruments, IRB expected loss excess/shortfall add-on, etc.). The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank's operations at any point in time, as reflected in the Bank's Risk Appetite through the limits set for utilisation of coverage potential.

Risk planning

Bank Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the Bank.

Methods and instruments applied

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the Bank´s overall process and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

The Bank's aggregate capital requirements by risk type

The following diagrams present the composition of the economic capital requirements according to type of risk:

Economic capital allocation in %	2022	2021
Credit risk	57.03%	59.12%
Market risk	33.05%	28.95%
Operational risk	5.04%	5.97%
Other risks	4.88%	5.96%

Other risks include business risk and liquidity risk.

Recovery and resolution plans

In compliance with the Czech Banking Recovery and Resolution Act (No. 374/2015 "Zákon o ozdravných postupech a řešení krize na finančním trhu"), the Bank submits an updated Group Recovery Plan to the ČNB at least annually.

The Group Recovery Plan identifies options for restoring financial strength and viability in case the Group comes under severe stress (measured by a comprehensive set of indicators). The plan specifies potential options for the replenishment of capital and liquidity of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress. Governance/escalation procedures described in the plan ensure a timely identification of, and proper reaction to such situations. The plan also serves to demonstrate that in stress, the bank has sufficient recovery capacity, i.e. is able to restore capital adequacy and liquidity on its own. Furthermore, the assessment of the Group Recovery Plan is part of the Supervisory Review and Evaluation Process (SREP).

The Bank also collaborates with the resolution authorities in the drawing up of resolution plans based on the relevant legislation. Erste Group Bank is subject to the Multiple Point of Entry (MPE) resolution strategy, meaning that the Group would be resolved separately from Erste Group Bank.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL).

MREL has to be met at any time once it is a binding requirement. MREL is expressed as the ratio of own funds and eligible liabilities to the total risk exposure, or the total liabilities and own funds (TLOF) of the institution. As of December 2020, the Bank has received its binding target of 18.8 % RWA (excluding combined buffer requirement), applicable from 1. 1. 2024. The issuance strategy to fulfil this requirement was incorporated into the Bank's the long-term budgeting process.

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law (Act 374/2015 Coll. On Recovery Procedures and Resolution of the Financial Market Crisis "ZOPRK") has been done in August 2021 in amendment No. 298/2021 Coll.. Beside the introduction of concept of internal MREL, further criteria for bail-in eligible liabilities and MREL eligible liabilities are set.

31 Own funds and capital requirements

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules[29]* as of 31 December 2022 and 2021:

in CZK million	2022	2021
Tier 1 capital	110,790	121,736
Tier 1 + Tier 2 capital	113,691	124,382
Exposure to credit risk	538,441	483,089
Exposure to market risk	2,639	11,169
Exposure to operational risk	47,660	47,053
Total risk exposure	**588,740**	**541,311**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.8%**	**22.5%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**19.3%**	**23.0%**

The Bank meets all capital adequacy requirements as requested by regulators as of 31 December 2022 and 2021.

32 Credit risk: Credit Risk Review and Monitoring

Credit risk strategy

In 2022, management attention was dedicated to the evolving Russia-Ukraine conflict, which poses serious threats to the European but also global economy. The Bank is not directly impacted, as it has no operating presence in geopolitical

(29) *Reported figures are based on the methodology, where the Bank has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

region of Russia or Ukraine and also direct exposure to these two markets is immaterial. Still, a number of ad hoc risk management activities was undertaken in order to evaluate, actively steer and mitigate indirect impact on the capital position and risk profile. All stress scenarios, including ”no gas from Russia”, would have manageable impact on the Bank risk profile, keeping all capital ratios above the limits.

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2022. Focus in risk was on advancements in implementation of initiatives to achieve compliance with regulatory requirements and expectations, improvements in the Carbon Footprint Calculation, development of methodologies for setting decarbonization targets for priority sectors, enhancement of Risk Materiality Assessment and reporting system, and incorporation of climate-related and environmental risks in credit risk processes.

Internal methods of Credit Risk Management

Credit risk arises in the Bank’s traditional lending and investment businesses.

Operative credit decisions are made by the credit risk management units. An explanation of the role and responsibilities of Corporate and Retail Credit Risk Management is covered in the section ‘Corporate and Retail Credit Risk Management units’.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

The Bank also considers ESG factors in its risk management and industry strategy framework (e.g. ESG Factor Heatmap as an input in respective industry strategies). The Bank has established an ESG risk framework and toolkit for assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes.

Furthermore, ESG relevant data is collected for certain types of collateral, as defined in the Group Collateral Management Policy for real estate collateral valuations, documentation and reporting purposes (e.g. greenhouse gas emissions). Further developments and enhancements of ESG Risk Framework related to credit risk have been established as part of the Group Risk Strategy.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management, and determination of risk-weighted assets and regulatory capital requirements is regularly loaded into this database. Relevant subsidiaries not yet integrated into the data pool regularly deliver reporting packages.

The Enterprisewide risk management department uses the BI-DWH in particular for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the Bank as a whole. Credit risk reporting comprises regular reports on the Bank’s credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

The Bank has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Bank is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed more frequently.

The main purpose of the internal ratings is to support the decision- making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 or 2.

For entities of the Group that use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The Bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behavior versus the bank and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities). For the LGD models, climate risk is indirectly reflected via the collateral value, while more in general, a respective project to define and collect relevant climate risk drivers for all rating systems has started in 2022 to ensure the explicit consideration of climate risks in future model development initiatives.

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, the Bank ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Bank applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality the Bank assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with the Bank or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short-term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. The Bank applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of 100 EUR and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of 500 EUR and relative 1% on client level.

Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Enterprisewide Risk Management conducts periodical reviews of the loan portfolio for each entity to ensure an adequate portfolio quality and to monitor the compliance of local portfolios with the principles and parameters as stipulated by credit risk policies.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning signals are monitored by Corporate and Retail Credit Risk Management for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures.

Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of the Bank are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

33 Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);

- debt instruments at fair value through other comprehensive income (FVOCI);
- debt instruments at amortised cost (AC), other than trade and other receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- finance lease receivables;
- debt instruments held for sale in disposal groups;
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2021 and 31 December 2022, the credit risk exposure increased from CZK 1,707 billion to CZK 1,814 billion. This is an increase of 6.3% or CZK 107 billion.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

in CZK million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
2022				
Cash and cash balances - demand deposits to credit institutions	1,731	(1)	-	1,730
Debt instruments held for trading	28,009	-	-	28,009
Non-trading debt instruments at FVPL	2,213	-	-	2,213
Debt securities	830	-	-	830
Loans and advances to banks	1,383	-	-	1,383
Loans and advances to customers	-	-	-	-
Debt instruments at FVOCI	48,882	(153)	(1,495)	47,234
Debt securities	48,882	(153)	(1,495)	47,234
Debt instruments at AC	1,446,474	(18,549)	-	1,427,925
Debt securities	321,946	(34)	-	321,912
Loans and advances to banks	266,165	(4)	-	266,161
Loans and advances to customers	858,363	(18,511)	-	839,852
Trade and other receivables	2,666	(434)	-	2,231
Finance lease receivables	200	(5)	-	194
Positive fair value of hedge accounting derivatives	3,235	-	-	3,235
Off balance-sheet exposures	280,842	(1,448)	-	-
Total	**1,814,251**	**(20,590)**	**(1,495)**	**1,512,772**
2021				
Cash and cash balances - demand deposits to credit institutions	1,393	-	-	1,393
Debt instruments held for trading	15,561	-	-	15,561
Non-trading debt instruments at FVPL	1,556	-	-	1,556
Debt securities	812	-	-	812
Loans and advances to banks	744	-	-	744
Debt instruments at FVOCI	29,840	(148)	(9)	29,831
Debt securities	29,840	(148)	(9)	29,831
Debt instruments at AC	1,467,884	(17,528)	-	1,450,356
Debt securities	319,350	(19)	-	319,331
Loans and advances to banks	360,943	(2)	-	360,941
Loans and advances to customers	787,591	(17,507)	-	770,084
Trade and other receivables	6,228	(759)	-	5,469
Finance lease receivables	214	(8)	-	206
Positive fair value of hedge accounting derivatives	607	-	-	607
Off balance-sheet exposures	184,067	(1,541)	-	-
Total	**1,707,350**	**(19,984)**	**(9)**	**1,504,979**

Credit risk allowances comprise impairments for financial assets measured at amortised cost (including finance lease and trade and other receivables) and at fair value through other comprehensive income (FVOCI), as well as provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

Breakdown of credit risk exposure

On the following pages the credit risk exposure is presented according to different segmentation criteria.

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
2022					
I. Natural Resources & Commodities	36,812	15,720	3,464	2,156	58,153
II. Energy	43,636	13,939	1,001	188	58,764
III. Construction and building materials	33,431	20,967	1,966	987	57,351
IV. Automotive	23,687	5,545	1,444	839	31,515
V. Cyclical Consumer Products	22,441	11,186	2,115	1,367	37,109
VI. Non-Cyclical Consumer Products	23,667	11,403	1,379	374	36,823
VII. Machinery	11,943	8,207	961	1,568	22,680
VIII. Transportation	11,382	14,914	966	390	27,651
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	13,724	6,431	1,044	793	21,992
X. Healthcare & Services	13,910	5,511	1,528	319	21,268
XI. Hotels, Gaming & Leisure Industry	12,907	3,981	1,480	1,385	19,753
XII. Real Estate	89,095	13,123	3,964	1,009	107,192
XIII. Public Sector	637,377	1,008	851	-	639,235
XIV. Financial Institutions	132,893	4,847	908	89	138,737
XV. Private Households	509,273	14,156	6,439	6,118	535,987
XVI. Other	1	39	1	-	42
Total	**1,616,179**	**150,976**	**29,511**	**17,584**	**1,814,251**
2021					
I. Natural Resources & Commodities	29,819	13,168	1,537	2,043	46,567
II. Energy	26,242	6,153	853	220	33,467
III. Construction and building materials	30,834	7,849	1,358	1,113	41,154
IV. Automotive	15,282	3,164	1,411	1,534	21,391
V. Cyclical Consumer Products	18,905	5,183	1,866	1,174	27,128
VI. Non-Cyclical Consumer Products	21,659	8,007	2,801	425	32,893
VII. Machinery	10,273	5,446	249	822	16,791
VIII. Transportation	12,842	7,695	226	386	21,150
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	14,424	3,112	233	99	17,868
X. Healthcare & Services	11,462	2,389	1,036	479	15,366
XI. Hotels, Gaming & Leisure Industry	11,798	4,330	1,319	1,363	18,810
XII. Real Estate	70,445	21,187	3,853	948	96,432
XIII. Public Sector	716,254	1,317	851	0	718,422
XIV. Financial Institutions	74,505	2,950	905	152	78,512
XV. Private Households	489,846	16,029	8,185	6,544	520,603
XVI. Other	1	756	39	-	797
Total	**1,554,592**	**108,736**	**26,723**	**17,301**	**1,707,352**
2021					
Agriculture and forestry	11,689	5,990	919	559	19,157
Mining	535	1	90	5	631
Manufacturing	53,047	19,134	4,481	3,320	79,981
Energy and water supply	15,915	5,474	573	164	22,125
Construction	19,753	7,445	1,135	795	29,128
Trade	40,356	11,136	2,731	2,365	56,588
Transport and communication	23,206	7,360	904	448	31,917
Hotels and restaurants	4,585	1,678	1,007	540	7,810
Financial and insurance services	444,930	4,474	814	64	450,283
Real estate and housing	86,011	22,863	5,026	897	114,785

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
Services	17,408	6,108	1,520	1,508	26,546
Public administration	359,991	1,322	851	-	362,166
Education, health and art	6,373	798	242	245	7,657
Households	470,791	14,216	6,430	6,391	497,829
Other	-	747	-	-	747
Total	**1,554,590**	**108,736**	**26,723**	**17,301**	**1,707,350**

The low risk exposure has the highest proportion in total credit risk exposure, with 89.08% (2021: 91.05%), while management attention represents 8.32% (2021: 6.37%), The substandard exposure represents 1.63% (2021: 1.57%) and the non-performing 0.97% (2021: 1.01%).

From industry and financial instrument point of view, the highest exposure is represented by public sector exposure of CZK 639 million (2021: CZK 718 million] and private households exposure of CZK 536 billion (2021: CZK 521 billion), representing 68.8% (2021: 72.6%) from total.

34 Use of collaterals

Recognition of credit collateral

The Collateral Management department is a staff unit within the Strategic Risk Management Department. The CS Collateral Management Policy Part 1 defines, among other things, uniform valuation standards for credit collateral across the Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the Group are contained in the Bank's Collateral Catalogue. Locally permitted collateral is defined in accordance with applicable Czech legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Bank's Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by relevant Credit Risk Management unit after determining if the applicable regulatory requirements are met. Relevant back office unit monitor adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- movables: equipment, investment goods, machinery and motor vehicles;
- claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management unit and by authorised staff with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the Bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis for all segment of financing.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Mechanism for regular update is described in Collateral Management Policy.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software application COLMAN. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. CS is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from customers. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly manner, with the proceeds used to reduce or repay the outstanding claim.

Treasury collateral

The department Financial Markets Risk Management is responsible for treasury collateral. The Bank Collateral Management Policy Part 2 defines, among other things, uniform valuation standards for treasury collateral across the entire group.

Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), Czech framework agreements, framework agreements for securities lending transactions and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

Credit risk exposure by financial instrument and collateral

			Collateralised by				Impairment IFRS 9		
in CZK million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Cash and cash balances - demand deposits to credit institutions	1,731	-	-	-	-	1,731	1,731	-	-

			Collateralised by				Impairment IFRS 9		
Debt instruments held for trading	28,009	-	-	-	-	28,009	-	-	-
Non-trading debt instruments at FVPL	2,213	-	-	-	-	2,213	-	-	-
Debt instruments at FVOCI	48,882	-	-	-	-	48,882	48,882	-	-
Debt instrumentsat AC	1,446,474	752,426	24,819	457,490	270,118	694,050	1,425,275	5,527	15,672
Debt securities	321,946	4,840	4,840	-	-	317,107	321,946	-	-
Loans and advances to banks	266,165	262,649	1,481	-	261,168	3,517	266,165	-	-
Loans and advances to customers	858,363	484,937	18,498	457,490	8,950	373,426	837,164	5,527	15,672
Trade and other receivables	2,666	1,028	1,026	-	2	1,638	2,176	104	385
Finance lease receivables	200	-	-	-	-	200	200	-	-
Positive fair value of hedge accounting derivatives	3,235	-	-	-	-	3,235	-	-	-
Off balance-sheet exposures	280,842	18,983	956	10,638	7,388	261,859	161,304	3,461	608
Total	**1,814,251**	**772,437**	**26,800**	**468,128**	**277,508**	**1,041,815**	**1,639,568**	**9,092**	**16,666**
2021									
Cash and cash balances - demand deposits to credit institutions	1,393	-	-	-	-	1,393	1,393	-	-
Debt instruments held for trading	15,561	-	-	-	-	15,561	-	-	-
Non-trading debt instruments at FVPL	1,556	-	-	-	-	1,556	-	-	-
Debt instruments at FVOCI	29,840	-	-	-	-	29,840	29,840	-	-
Debt instruments at AC	1,467,884	769,931	25,732	385,768	358,435	697,953	1,449,959	2,328	15,597
Debt securities	319,350	4,226	4,226	-	-	315,124	319,350	-	-
Loans and advances to banks	360,943	350,717	1,118	-	349,600	10,226	360,943	-	-
Loans and advances to customers	787,591	414,988	20,388	385,768	8,835	372,603	769,666	2,328	15,597
Trade and other receivables	6,228	1,482	1,478	-	4	4,746	5,473	124	631
Finance lease receivables	214	-	-	-	-	214	214	-	-

			Collateralised by				Impairment IFRS 9		
Positive fair value of hedge accounting derivatives	607	-	-	-	-	607	-	-	-
Off balance-sheet exposures	184,067	12,301	666	7,391	4,244	171,766	157,907	59	508
Total	**1,707,350**	**783,714**	**27,876**	**393,159**	**362,679**	**923,636**	**1,644,786**	**2,511**	**16,736**

The collateral attributable to exposures that are credit-impaired at 31 December 2022 amounts to CZK 5,713 million (2021: 5,406 million).

35 Measurement of Expected Credit Loss

The general principles and standards for credit loss allowances are governed by internal policies in the Bank. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. Also, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Bank has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition), and are reflected in the credit-adjusted effective

interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria. Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation. The relative thresholds can vary from 110% to 359% according to PD segment and rating level.

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement, therefore if the quantitative and qualitative criteria for SICR are not met the instrument is moved back to stage 1).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

Qualitative criteria. Qualitative SICR indicators include forbearance- type flags (i.e. threshold is set up to level of performing regulatory forbearance), information from the early-warning system (threshold is set up to level of EW2 - client is on watch list), fraud indicators and 30 days past due. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. The Bank has introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic, war in Ukraine and other related macroeconomic effects. Please see related disclosures in the next chapter.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop. A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption. The "low credit risk exemption" allowed by IFRS 9 for "investment grade" assets or other assets deemed "low risk" (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Bank. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient "low risk" evidence. On this basis, the 'low risk exemption' is applied only to securities exposures (reverse repos excluded). The Bank considered that low credit risk is still appropriate since potential increase of riskiness is already incorporated in 1Y PD due to FLI.

As of 31 December 2022, in the Bank, the corresponding exposure amounted to CZK 365.3 billion (2021: CZK 339.8 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repos excluded) in the amount CZK 3.8 billion (2021: CZK 9.5 billion) with 1Y PD higher than 0.5% does not qualify for low credit risk exemption.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit- adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in the Bank's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rulebased approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band. There are credit listed groups for calculation of collective allowance: MSE by product type, Private Individual by product type, in case of PI Mortgages the group is splited according to LTV (<20%, 20-60%, 60-80%, >80%, LTV is missing). Recovery curves depends also on repayments type (cooperative versus noncooperative client).

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL.

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Group applies an expected credit loss(ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.

- EAD is based on the amounts Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

36 Development of Credit Loss Allowances

The following tables give an overview over the development of credit loss allowances (CLA) per balance sheet line item.

In column 'Additions' increases of CLA due to the initial recognition of financial instruments during the current reporting period are disclosed. Releases of CLA following the derecognition of the related financial instrument are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related financial instrument from Stage 1 (at 1 January 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favorable and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

Financial instruments held at amortised cost

Movement in credit loss allowances - debt securities

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2022						**Dec 2022**
Stage 1	(19)	(11)	12	-	(9)	-	(28)
Stage 2	-	-	2	(23)	14	-	(6)
Total	**(19)**	**(11)**	**14**	**(23)**	**5**	**-**	**(34)**
	Jan 2021						**Dec 2021**
Stage 1	(18)	(3)	1	1	(1)	1	(19)
Stage 2	(1)	-	-	-	1	-	-
Total	**(19)**	**(3)**	**1**	**1**	**-**	**1**	**(19)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2022 and not sold by 31 December 2022 amounts to CZK 41,795 million (2021: CZK 106,656 million). The GCA of AC debt securities that were held at 1 January 2022 and de-recognized (matured/sold) during the year 2022 amounts to CZK 31,952 million (2021: CZK 34,859 million).

Movement in credit loss allowances - loans and advances to banks

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					**Dec 2022**
Stage 1	(3)	(151)	112	-	38	(4)
Stage 2	-	(1)	-	-	1	-
Total	**(3)**	**(152)**	**112**	**-**	**39**	**(4)**
	Jan 2021					**Dec 2021**
Stage 1	(7)	(73)	76	-	1	(3)
Stage 2	-	(1)	-	-	1	-
Total	**(7)**	**(74)**	**76**	**-**	**2**	**(3)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 264,357 million (2021: CZK 359,227 million). The GCA of AC loans and advances to banks that were held at 1 January 2022 and fully de-recognized (matured) during the year 2022 amounts to CZK 358,142 million (2021: CZK 415,816 million).

Movement in credit loss allowances - loans and advances to customers

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2022							Dec 2022
Stage 1	**(2,066)**	**(1,255)**	**497**	**2,494**	**(1,237)**	**-**	**8**	**(1,559)**
General governments	(10)	(4)	1	50	(45)	-	-	(8)
Other financial corporations	(35)	(53)	16	32	15	-	1	(24)
Non-financial corporations	(967)	(623)	205	681	71	1	6	(628)
Households	(1,054)	(574)	275	1,731	(1,277)	-	-	(900)
Stage 2	**(6,044)**	**(498)**	**719**	**(3,971)**	**2,979**	**-**	**38**	**(6,776)**
General governments	(98)	(88)	-	(40)	74	-	4	(147)
Other financial corporations	(35)	-	9	(44)	33	-	2	(36)
Non-financial corporations	(2,731)	(362)	469	(1,500)	999	-	32	(3,091)
Households	(3,180)	(49)	241	(2,387)	1,872	-	-	(3,502)
Stage 3	**(8,907)**	**(53)**	**873**	**(1,099)**	**(908)**	**339**	**54**	**(9,702)**
General governments	-	-	-	-	-	-	-	-
Other financial corporations	(1)	-	-	-	(1)	-	-	(1)
Non-financial corporations	(4,266)	(13)	403	(817)	(596)	75	54	(5,159)
Households	(4,640)	(41)	470	(283)	(311)	263	-	(4,542)
POCI	**(490)**	**-**	**78**	**-**	**(105)**	**38**	**5**	**(474)**
Non-financial corporations	(465)	-	76	-	(102)	37	5	(449)
Households	(25)	-	2	-	(3)	1	-	(25)
Total	**(17,507)**	**(1,806)**	**2,167**	**(2,576)**	**730**	**377**	**105**	**(18,511)**

	Jan 2021							Dec 2021
Stage 1	**(1,908)**	**(977)**	**472**	**2,360**	**(2,005)**	**3**	**(11)**	**(2,066)**
General governments	(15)	(5)	2	1	7	-	-	(10)
Other financial corporations	(56)	(63)	46	51	(13)	-	-	(35)
Non-financial corporations	(986)	(390)	166	864	(622)	3	(2)	(967)
Households	(851)	(519)	258	1,444	(1,377)	-	(9)	(1,054)
Stage 2	**(5,707)**	**(457)**	**529**	**(3,061)**	**2,702**	**-**	**(50)**	**(6,044)**
General governments	(10)	(8)	-	(72)	(9)	-	1	(98)
Other financial corporations	(5)	(10)	16	(38)	2	-	-	(35)
Non-financial corporations	(3,104)	(287)	235	(967)	1,411	-	(19)	(2,731)
Households	(2,588)	(152)	278	(1,984)	1,298	-	(32)	(3,180)
Stage 3	**(9,620)**	**(71)**	**1,037**	**(682)**	**(1,021)**	**849**	**601**	**(8,907)**

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
General governments	-	-	-	-	(2)	-	2	-
Other financial corporations	(1)	-	-	-	(2)	1	1	(1)
Non-financial corporations	(4,901)	(21)	534	(333)	(307)	164	598	(4,266)
Households	(4,718)	(50)	503	(349)	(710)	684	-	(4,640)
POCI	**(566)**	**-**	**106**	**-**	**(105)**	**14**	**61**	**(490)**
Non-financial corporations	(541)	-	105	-	(101)	11	61	(465)
Households	(25)	-	1	-	(4)	3	-	(25)
Total	**(17,801)**	**(1,505)**	**2,144**	**(1,383)**	**(429)**	**866**	**601**	**(17,507)**

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. CLAs recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period's movement in CLA. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitment and drawing dates of related credit facilities. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Derecognitions'.

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favorable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to CZK 324 million cumulatively for the year 2022 (2021: CZK 313 million), which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the cumulative CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December to a different stage compared to 1 January (or to the initial recognition date, if originated during the year) are summarized below:

Transfer between stages - loans and advances to customers

in CZK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	146	9,285	-	-	-	-	-	-
Other financial corporations	2,677	1,908	-	-	-	-	-	-
Non-financial corporations	46,511	15,377	821	547	2,367	60	-	56
Households	42,816	15,022	1,050	1,046	1,078	238	2	14
Total	**92,149**	**41,593**	**1,871**	**1,593**	**3,445**	**298**	**2**	**70**
2021								
General governments	7,395	75	-	4	-	1	-	-
Other financial corporations	2,117	1,373	-	-	-	-	-	-
Non-financial corporations	15,554	20,547	2,118	115	1,403	32	-	16
Households	28,896	16,409	1,941	747	1,407	598	1	25
Total	**53,963**	**38,404**	**4,058**	**866**	**2,810**	**631**	**1**	**41**

Detailed information on stage transfers due to specific measures are described in Note 37 Scenarios used in forward looking information.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2022 and not fully de-recognized by 31 December 2022 amounts to CZK 196,098 million (2021: CZK 231,160 million). The GCA of the AC loans and advances to customers that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to CZK 100,609 million (2021: CZK 116,946 million).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2022 amounted to CZK 789 million (2021: CZK 901 million).

Movement in credit loss allowances - trade and other receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2022							**Dec 2022**
Stage 1	(37)	(66)	29	-	71	-	-	(1)
Stage 2	(127)	-	4	-	(16)	18	1	(120)
Stage 3	(596)	-	294	-	(36)	8	16	(313)
Total	**(760)**	**(66)**	**328**	**-**	**20**	**26**	**17**	**(434)**

	Jan 2021							**Dec 2021**
Stage 1	-	(47)	15	-	(5)	-	-	(37)
Stage 2	(126)	-	7	-	(38)	3	27	(127)
Stage 3	(37)	-	2	(3)	(1)	3	(560)	(596)
Total	**(163)**	**(47)**	**24**	**(3)**	**(44)**	**6**	**(533)**	**(760)**

Financial assets at fair value through other comprehensive income - debt instruments

Movement in the credit loss allowances - debt securities financial assets

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					**Dec 2022**
Stage 1	(3)	(24)	-	44	(25)	(8)
Stage 2	(145)	-	2	(36)	34	(145)
Total	**(148)**	**(24)**	**3**	**8**	**9**	**(153)**

	Jan 2021					**Dec 2021**
Stage 1	(6)	(2)	2	25	(22)	(3)
Stage 2	(120)	(21)	-	(28)	24	(145)
Total	**(126)**	**(23)**	**2**	**(3)**	**2**	**(148)**

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December to a different stage compared to 1 January (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfer between stages - debt instrument financial assets

in CZK million	2022	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	1,937	1,916
To Stage 1 from Stage 2	2,921	-

Finance lease receivables

Movement in credit loss allowances - finance lease receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2022					Dec 2022
Stage 1	(8)	-	-	-	3	(5)
Total	**(8)**	**-**	**-**	**-**	**3**	**(5)**
	Jan 2021					Dec 2021
Stage 1	-	(8)	-	-	-	(8)
Total	-	**(8)**	**-**	**-**	**-**	**(8)**

Loan commitments and financial guarantees

Movement in credit loss allowances - loan commitments and financial guarantees

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2022						Dec 2022
Stage 1	453	364	(475)	(334)	386	(10)	385
Stage 2	441	-	(230)	352	(115)	6	454
Stage 3	280	-	(195)	40	129	3	257
POCI	-	-	(1)	-	1	-	-
Total	**1,174**	**364**	**(902)**	**59**	**401**	**(1)**	**1,096**
	Jan 2021						Dec 2021
Stage 1	427	1,126	(544)	(202)	(242)	(112)	453
Stage 2	362	-	(125)	408	(96)	(108)	441
Stage 3	415	-	(118)	24	32	(73)	280
Total	**1,204**	**1,126**	**(787)**	**230**	**(306)**	**(293)**	**1,174**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end volumes of loan commitments and financial guarantees that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below.

Transfer between stages - loan commitments and financial guarantees

in CZK million	2022	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	36,891	17,064
To Stage 1 from Stage 2	19,330	7,812
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	73	314
To Stage 2 from Stage 3	23	36
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	688	154
To Stage 1 from Stage 3	36	35

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2021 and not fully de-recognized by 31 December 2022 amounts to CZK 64,943 million (2021: CZK 81,963 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to CZK 43,623 million (2021: CZK 56,049 million).

37 Scenarios used in forward looking information

Overview on Scenarios used in forward-looking information

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Bank's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to throughthe- cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The main indication of estimated economic development is the GDP development. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. The Bank adjusted macro-shift models to reflect expected effects of those into credit risk parameters. In the table below we are disclosing expected development of inflation or interest rates. Disclosures are based on the relevancy in the macro-shift model.

The Bank reviewed the FLI in the second quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. The Bank decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geopolitical situation – war in Ukraine. The FLI was unchanged in the third quarter, the next review occurred in the fourth quarter.

In December 2021, the specific situation of the COVID-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e. variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation (it is expected that new variants, including omicron, are more contagious, but with lower hospitalization rate), the Bank decided to update FLI based on the forecasts for years 2022-2024, i.e., no lagging is applied. Moreover the Bank implemented in June 2022 a forward looking information (FLI) estimation model based on a new macroeconomic model. In the previous model the input variable was only GDP, new model incorporates except of GDP also unemployment, real wages, retail revenues, PPI (Producer Price Index). In new model, GDP is used only as scenario weights. Unemployment rate is used for all rating models, real wages for MSE and WBMEG (bytová družstva) rating model, retail revenues for rating model for private individuals, PPI for corporate rating models. New FLI model is based on quarterly predictions while previous model was based on yearly predictions. Further the Bank decided to override the FLI shifts produced by macroeconomic model for retail portfolio. Technically the adjustment of the beta_0 (intercept) and beta_1 (dummy variable distinguishes secured / unsecured part of PI portfolio and WBMEG - bytová družstva for MSE) coefficients for the average PD predicted for the year 2022 was done. The reasons for override are:

- Macroeconomic model for forecasting of PDs for retail does not include inflation, strongly increasing energy prices and increased interest rates and hence the produced forecasted PDs from the model were deemed as unrealistically low and do not reflect all future risks.

- Generally the Bank is not able to closely monitor single clients in retail, hence due to economic uncertainty the decrease of PD was not justifiable.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth and other applied forecasts.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		3.4	6.2	5.9
Czech Republic	Baseline	40%	40%	2.3	0.9	3.7	3.4
	Downside	59%	59%		(4.9)	(0.3)	0.9

2021		**2020**	**2021-2023**	**2020**	**2021**	**2022**	**2023**
	Upside	11%	11%		4.1	5.7	6.4
Czech Republic	Baseline	40%	40%	(5.8)	2.4	4.0	4.7
	Downside	49%	49%		(2.3)	0.5	1.8

		Probability weights		Unemployment rate in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		2.6	2.6	2.6
Czech Republic	Baseline	40%	40%	2.4	3.5	3.5	3.5
	Downside	59%	59%		4.3	5.3	5.2

		Probability weights		Real wages in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		9.3	2.6	2.7
Czech Republic	Baseline	40%	40%	(10.7)	3.2	2.6	2.7
	Downside	59%	59%		(2.5)	2.6	2.7

		Probability weights		Retail revenues in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		3.8	3.6	2.9
Czech Republic	Baseline	40%	40%	(5.8)	0.8	3.6	2.9
	Downside	59%	59%		(2.1)	3.6	2.9

		Probability weights		PPI in %			
	Scenario	**2023**	**2024-2025**	**2022**	**2023**	**2024**	**2025**
2022							
	Upside	1%	1%		(1.3)	1.8	2.0
Czech Republic	Baseline	40%	40%	23.8	2.0	1.8	2.0
	Downside	59%	59%		5.0	1.8	2.0

The table above shows used scenarios in YE 2022 and for previous year (YE 2021). While the probability of baseline remained unchanged, the probability of downside scenario was increased to 59% (in June 2022). External macroeconomic predictions were continuously worsening over the year (and YE 2022). Moreover, downside risks to the baseline forecasts were stressed due to the current geopolitical situation and tightening monetary policies. On top of that, for the Bank materialization of the downside scenario brings much higher effect on the ECL allocation than materialization of the upside scenario would bring to its release.

We addressed these issues via 2 in-model adjustments of the FLI macro shift models:

- inclusion of comprehensive stress test scenario in creation of the FLI downside scenario
- assigning 59% scenario weight to the downside scenario.

The Bank recognizes additional challenges caused by the ESG (environmental, social and governance) risks. The Bank is in the process of analyses how these risks can be incorporated into ECL measurement. In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium and therefore classified as material, but they are expected to generate more impact on credit risk in the medium to long run. Therefore, in the short-term the Bank did not include additional overlays for ESG risks into ECL calculation as of 31 December 2022.

Collective assessment

As of September 2022, in addition to standard SICR assessment, the Bank applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by COVID-19 pandemic, the war in Ukraine and the energy crisis. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of the Bank.

COVID-19 Effect

The COVID-19 pandemic caused high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, , the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programs were introduced to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on business

Since March 2020, risk management and business divisions run a joint initiative aiming to reflect on changed economic environment, providing a harmonised guidance and focused industry approach within the Bank. E.g. in the course of the COVID-19 crisis, industries and sub-industries were categorised into critical, high, medium or low risk according to the expected impacts from COVID-19 (so called COVID heatmap) based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

The categorizations are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. The last review of COVID heatmap was done in May 2022 and led to an improved categorization for travel and hotels. This categorization, together with information about state support measures applied, was the basis of stage overlays rules due to COVID-19. However, in the meantime, significant majority of the (governmental) support measures expired without resulting in a severe negative effect on the portfolio quality. Therefore, the Bank cancelled COVID heatmap in November 2022. The COVID overlays for the private-individuals' portfolio has been released already in July 2022.

War in Ukraine

The Ukraine-Russia war, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, the Bank implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination –

Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022). The table below shows volumes for the cyclical industries category.

In addition to cyclical industries, from September 2022 Erste Group has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Energy sector and Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2. Exemptions to these migrations are allowed based on the individual review and documentation. The Bank decided not to apply for these exemptions.

Increasing interest rates together with unprecedented increase of inflation may pose a threat to clients in segment private individuals. Analysis of mortgages and unsecured portfolio indicated that some clients may be at risk due to inflation affecting their expenses and increased interest rates affecting their debt payments. If a client is identified as having expenses, together with repayments, in excess of household income, the client 's accounts are transferred to Stage 2.

Credit risk exposure and credit loss allowances by industry and IFRS 9 treatment – cyclical industries

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2022								
Natural Resources & Commodities	21,583	24,491	2,048	60	48,182	9,971	58,153	(2,066)
of which cyclical	572	13,187	1,593	18	15,370	4,429	19,799	(1,552)
Energy	475	46,408	84	104	47,072	11,693	58,764	(757)
Construction and building materials	21,876	5,263	704	120	27,962	29,389	57,351	(980)
of which cyclical	19,297	4,707	616	73	24,693	25,731	50,425	(818)
Automotive	22,214	3,536	829	6	26,585	4,930	31,515	(770)
of which cyclical	20,794	3,200	798	6	24,799	4,775	29,574	(716)
Cyclical Consumer Products	23,275	6,709	1,117	299	31,400	5,709	37,109	(1,389)
Non-Cyclical Consumer Products	30,142	2,520	256	109	33,027	3,796	36,823	(359)
Machinery	12,404	1,850	1,101	103	15,458	7,221	22,680	(1,121)
of which cyclical	11,307	1,753	1,090	102	14,252	5,597	19,849	(1,094)
Transportation	20,963	925	258	133	22,279	5,372	27,651	(254)
of which cyclical	8,743	534	135	131	9,544	1,089	10,633	(90)
TMT and paper and packaging	17,182	1,625	635	7	19,449	2,543	21,992	(497)
of which cyclical	2,272	231	38	-	2,541	509	3,050	(28)
Healthcare & Services	16,333	2,906	316	4	19,560	1,708	21,268	(472)
of which cyclical	4,259	1,436	90	-	5,785	615	6,400	(199)
Hotels & Leisure Industry	11,674	4,535	1,095	169	17,472	2,281	19,753	(1,069)
of which cyclical	11,674	4,535	1,095	169	17,472	2,281	19,753	(1,069)
Real Estate	90,202	14,304	1,003	11	105,520	1,672	107,192	(1,664)
of which cyclical	87,295	13,755	965	11	102,026	1,658	103,684	(1,565)

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
Public Sector	634,180	1,732	-	-	635,912	3,324	639,235	(244)
Financial Institutions	70,977	8,356	9	80	79,422	59,315	138,737	(310)
Private Households	469,019	60,778	6,081	105	535,983	4	535,987	(8,637)
Other	41	-	-	-	42	-	42	(1)
Total	**1,462,540**	**185,938**	**15,536**	**1,311**	**1,665,326**	**148,925**	**1,814,251**	**(20,590)**
of which cyclical (including Cyclical Consumer Products)	**189,489**	**50,047**	**7,536**	**810**	**247,883**	**52,393**	**300,276**	**(8,519)**
2021								
Agriculture and forestry	15,223	3,214	538	24	18,999	158	19,157	(611)
Mining	535	90	5	-	630	2	632	(11)
Manufacturing	54,790	16,545	2,754	408	74,497	5,484	79,981	(3,123)
of which significant risk	2,754	3,363	1,102	188	7,407	94	7,501	(1,191)
Energy and water supply	16,486	5,164	91	72	21,813	313	22,126	(315)
Construction	13,870	1,504	487	75	15,936	13,193	29,129	(743)
Trade	44,582	7,332	2,149	227	54,290	2,298	56,588	(2,349)
of which significant risk	4,259	2,977	430	94	7,760	501	8,261	(515)
Transport and communication	20,442	10,103	289	160	30,994	924	31,918	(487)
of which significant risk	5,341	4,912	18	159	10,430	324	10,754	(167)
Hotels and restaurants	1,173	6,025	520	21	7,739	71	7,810	(512)
of which significant risk	14	5,551	512	-	6,077	71	6,148	(511)
Financial and insurance services	420,409	11,412	62	-	431,883	18,398	450,281	(390)
Real estate and housing	100,791	12,699	853	42	114,385	401	114,786	(1,587)
of which significant risk	9,743	475	-	20	10,238	46	10,284	(33)
Services	16,920	7,467	1,284	175	25,846	699	26,545	(1,330)
of which significant risk	6,566	2,843	539	68	10,016	37	10,053	(571)
Public administration	343,535	17,590	-	-	361,125	1,040	362,165	(233)
Education, health and art	5,448	1,726	145	2	7,321	337	7,658	(229)
of which significant risk	3,031	1,307	65	2	4,405	339	4,742	(116)
Private households	455,478	35,892	6,371	88	497,829	-	497,829	(8,061)
Other	747	-	-	-	747	-	747	(5)
Total	**1,510,429**	**136,763**	**15,548**	**1,294**	**1,664,034**	**43,318**	**1,707,352**	**(19,986)**
of which significant risk	**31,708**	**21,428**	**2,666**	**531**	**56,333**	**1,412**	**57,743**	**(3,104)**

Effect on Expected Credit Loss

The analysis tables below present the effects of the portfolio overlays and FLI on both exposure migration to Stage 2 and the resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated.

ECL allocated due to COVID-19 overlays decreased from CZK 446 million at year-end 2021 to CZK 0 million in December 2022 due to review of the heat-map (categorization to critical, high, medium, and low risk industries), the retraction of the information about moratoria from the overlays rules and partly due to overlapping with Ukraine war overlays. At the same time, the exposure in Stage 2 due to COVID-19 overlays decreased from CZK 17,806 million in December 2021 to CZK 0 million in December 2022.

Exposure in Stage 2 due to the application of the rules for Ukraine war overlays stood at for cyclical industries CZK 20,531 million in December 2022 and CZK 50,854 million for energy, metals and chemical overlays in December 2022, with additional ECL allocated in the amount of CZK 807 million for cyclical industries and CZK 327 million for energy, metals and chemical overlays. Moreover exposure in Stage2 increased by CZK 27,114 million as December 2022 for overlays for private individuals with additional ECL allocated in the amount of CZK 332 million.

As described above, FLI were re-assessed based on the latest macro-scenarios in the last quarter of 2022. Effects of the inflation and/or increased interest rates partially compensated for the COVID-19 crisis year lagging. Therefore, Stage 2 exposure due to FLI is higher by CZK 15,133 million with additional ECL allocated in the amount of CZK 1,985 million as of December 2022 (2021 Stage 2 Exposure: CZK 21,684 million, ECL: CZK 2,694 million).

Forward looking information (FLI) and stage overlays

Impact of FLI and stage overlays on credit risk exposure (CRE)

	Current status - parameters (FLI shifted)		Stage 2 impacted by				
in CZK million	Stage 1	Stage 2	Covid-19	UA war Cyclical industries	UA war Energy, Metals, Chemical	UA war PI individuals	Effect of FLI shifts
2022							
CRE	1,462,540	185,938	-	20,531	50,854	27,114	15,133
2021							
CRE	1,510,429	136,763	17,806	-	-	-	21,684

Impact of FLI and stage overlays on credit loss allowances (CLA)

	Current status - parameters (FLI shifted)		Out of which				
in CZK million	Stage 1	Stage 2	Covid-19	UA war Cyclical industries	UA war Energy, Metals, Chemical	UA war PI individuals	Effect of FLI shifts
2022							
CLA	(1,990)	(7,501)	-	(807)	(327)	(332)	(1,985)
2021							
CLA	(2,110)	(6,158)	(446)	-	-	-	(2,694)

Scenario analysis – Different probabilities of default (PD)

Scenario simulation presents sensitivity analyses taking into consideration only changes due to the different values of PDs, if baseline, upside or downside FLI scenarios had 100% weight. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the "Incorporation of forward-looking information" section above). Both staging and resulting ECL were simulated with the scenario PDs.

The incorporation of 100% baseline scenario instead of the currently applied probability weighted scenario, would lead to a decrease of Stage 2 exposure by CZK 6,492 million (2021: CZK 8,029 million), resulting in an ECL drop by CZK 582 million (2021: CZK 397 million).

The downside scenario would lead to additional CZK 6,293 million of exposure migration to Stage 2 in comparison with probability weighted FLI (2021: CZK 8,788 million), resulting in ECL increase of CZK 494 million (2021: CZK 480 million)

Impact of different scenarios on credit risk exposure (CRE) in Stage 2

	Current status - parameters (FLI shifted)		Simulated impact on Stage 2			
in CZK million	Stage 1	Stage 2	Point in time (before FLI shift)	Upside scenario	Baseline scenario	Downside scenario
2022						
CRE	1,462,540	185,938	(17,242)	(14,492)	(6,492)	6,293
2021						
CRE	1,510,429	136,763	(21,684)	(10,332)	(8,029)	8,788

Impact of different scenarios on credit loss allowances (CLA)

	Current status - parameters (FLI shifted)		Simulated impact on CLA			
in CZK million	Stage 1	Stage 2	Point in time (before FLI shift)	Upside scenario	Baseline scenario	Downside scenario
2022						
CLA	(1,990)	(7,501)	2,109	1,421	582	(494)
2021						
CLA	(2,110)	(6,158)	2,694	554	397	(480)

Composition of credit loss allowances

in CZK million	2022	2021
Credit loss allowances	(19,142)	(18,443)
Loss allowances for loan commitments and financial guarantees	(1,096)	(1,174)
Provisions for other commitments	(352)	(367)
Total	**(20,590)**	**(19,984)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for any other commitments are subject to IAS 37.

38 Restructuring, renegotiation and forbearance

Overview

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. For further definitions and details see Art 47b CRR.

The largest part of the forbearance measures is set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Bank.

A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- early warning signals for this customer identified;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:

- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- granting the forbearance has not led to classifying the exposure as non-performing/default.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- an additional forbearance measure is extended;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:

- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
- the moment of extending the restructuring measure;
- the end of the grace period included in the restructuring agreement;
- the moment when the exposure has been classified as defaulted.
- the forbearance has not led the exposure to be classified as non-performing;
- the customer is not classified as defaulted according to the definition of default;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
  - the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
  - the customer has repaid the full past due amount or the written-off amount (if there was any).
- corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Bank.

Default definition

Default definitions complies with the EBA 'Guidelines on the application of the definition of default under Art. 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'.

The definitions of non-performing and default are aligned within the Group.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of CZK 2,500 and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of CZK 12,600 and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in CZK million	Loans and advances	Debt securities	Other positions	Loan commitments	Total
2022					
Gross exposure	**1,128,777**	**371,657**	**84,261**	**229,556**	**1,814,251**
thereof gross forborne exposure	5,768	-	-	107	5,875
Performing exposure	1,112,719	371,657	83,658	228,632	1,796,667
thereof performing forborne exposure	1,817	-	-	1	1,818
Credit loss allowances for performing exposure	(8,470)	(187)	(304)	(535)	(9,496)
thereof credit loss allowances for performing forborne exposure	(199)	-	-	-	(199)
Non-performing exposure	16,057	-	603	924	17,584
thereof non-performing forborne exposure	3,950	-	-	107	4,057
Credit loss allowances for non-performing exposure	(10,484)	-	(410)	(199)	(11,093)
thereof credit loss allowances for non-performing forborne exposure	(2,555)	-	-	(52)	(2,607)
2021					
Gross exposure	**1,155,721**	**350,003**	**57,268**	**144,360**	**1,707,352**
thereof gross forborne exposure	6,230	-	-	49	6,279
Performing exposure	1,139,493	350,003	56,636	143,919	1,690,051
thereof performing forborne exposure	1,183	-	-	1	1,184
Credit loss allowances for performing exposure	(8,289)	(168)	(272)	(623)	(9,352)
thereof credit loss allowances for performing forborne exposure	(118)	-	-	-	(118)
Non-performing exposure	16,228	-	632	441	17,301
thereof non-performing forborne exposure	5,047	-	-	48	5,095
Credit loss allowances for non-performing exposure	(9,988)	-	(398)	(248)	(10,634)
thereof credit loss allowances for non-performing forborne exposure	(2,781)	-	-	(43)	(2,824)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2022			
Loans and advances	5,768	5,765	3
Loan commitments	107	107	-
Total	**5,875**	**5,872**	**3**
2021			
Loans and advances	6,230	6,203	27
Loan commitments	49	49	-
Total	**6,279**	**6,252**	**27**

Loans and advances also include lease, trade and other receivables.

39 Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 121.4% (2021: 117.2%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2022. For the portion of the non-performing credit risk exposure that is not covered by allowances, the Bank assumes there are sufficient levels of collateral and expected other recoveries.

During 2022, the non-performing credit risk exposure increased by CZK 283 million (2021: increase by CZK 1,289 million), or 1.6% (2021: 8.1%). The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 618 million (2021: CZK 299 million) or 3.2% (2021: 1.5%).

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

40 Market Risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them. These market value changes might appear mainly in the profit and loss or statement of comprehensive income. In the Bank, market risks may arise from open positions in interest rates, credit spread, currency, equity, and volatility of financial instruments.

Market risk measures

Potential losses that may arise from market movements are assessed using the Value-at-Risk (VaR). The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

In addition, the Bank uses stress testing and analysis of impacts of adverse developments in market risk factors on the market value of the Trading book and on the parts of the Banking book revalued to market values. Scenarios are based on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to Financial Markets Risk Management Committee. In the Comprehensive Stress testing the complex scenario impact on the Bank is analyzed on a half-year basis and results are reported to management board.

The majority of open positions arising from client transactions in the Bank's Trading book are transferred to the Erste Group Bank through back-to-back transactions. As such, the market risk arising from the Bank's OTC transactions is managed within the Erste Group Bank portfolio.

Methods and instruments of risk mitigation

At the Bank, market risks are controlled by setting several layers of limits. The overall limit on the basis of risk-weighted assets (RWAs) is allocated by the management board in the Risk Appetite Statement. The acceptable level of risk is based on the assessment of the risk appetite and capital available to cover the risks.

For the Trading book, The RWA limit is broken down into dedicated VaR limits and assigned in a top-down procedure to the individual trading units. Additionally, VaR sub-limits for individual trading desks are established. Trading book VaR values are calculated in a Bank Market Risk System (MRS) on a confidence level of 99% and one-day holding period using historical simulation based on two years history. Additionally, sensitivity values of the trading portfolios to individual risk factors are limited to facilitate the maintenance of the overall market risk profile. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant risk factor within the predefined period to maturity.

All Trading book limits are approved by and reported on a monthly basis to Financial Markets Risk Management Committee.

For the Banking book, VaR limit is established based on the ICAAP methodology where 250,000 historical scenarios are calculated with a theoretical holding period of 1 year and a confidence level of 99.92%. The overall Banking book VaR is subsequently allocated to individual sub-portfolios, taking into account both the perspective of strategic portfolio management and the accounting treatment of portfolios. These portfolios are limited and monitored on a daily basis using confidence level of 99% and 1-month holding period using historical simulation based on two years history.

All Banking book limits are approved by and reported on a monthly basis to the Asset Liability Committee.

Analysis of market risk

The following table summarizes the VaR values as of 31 December 2022 and 31 December 2021 assuming 1 day holding period and confidence level of 99%.

in CZK million	Market risk total	Interest rate risk	Credit spread risk	Currency risk	Equity risk	Commodity risk	Volatility risk
2022							
ČS Total	**1,492**	**1,484**	**154**	**-**	**-**	**-**	**-**
Banking book	1,486	1,478	154	-	-	-	-
Trading book	6	6	-	-	-	-	-
2021							
ČS Total	**1,104**	**1,097**	**123**	**-**	**-**	**-**	**-**
Banking book	1,100	1,093	123	-	-	-	-
Trading book	4	4	-	-	-	-	-

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

The Bank manages the interest rate risk of the Banking book by monitoring the repricing dates of the Bank's assets and liabilities and implements models which show the potential impact that changes in interest rates may have on the Bank's economic value of equity and net interest income.

In order to identify interest rate risk, all financial instruments, including off-balance instruments are taken into account to calculate the impact of certain interest rate scenarios on economic value and earnings. Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value as well as the change in net interest income. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly. For positions where the customer has the right to prepay his debt prepayment models are applied.

The Banking book interest rate exposures are regularly analyzed in the context of the overall development in financial markets and structural changes in the Group's balance sheet and reported on a monthly basis to the Asset Liability Committee.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the present value of a basis point (PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e., the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account.

	2023		2022	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	219	(132)	1,562	(1,522)
Other comprehensive income	(3,093)	3,234	(2,689)	2,823
EUR				
Income statement	(53)	73	(706)	988
Other comprehensive income	832	(882)	961	(1,022)

The table shows the impact on the income statement and other comprehensive income of the Bank if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. Foreign currency exposures are primarily carried by the Bank and real estate companies within the Bank as they generate the bulk of their rental income in EUR. The foreign currency risk of other Bank entities is limited. With regard to real estate companies, the Bank uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

The Bank's FX open position is managed by Trading book's FX Desk. Total Banking book portfolio's FX open position is closed with TB FX Desk on daily basis as well as TB desk portfolios which are not allowed to keep FX open position. TB FX Desk then manages FX open position based on approved sensitivity limits set for single currencies and FX VaR limits. In addition, 'greeks' sensitivity limits are set for TB desks which are not FX closed with FX desk on daily basis and are allowed to enter into option contracts.

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market.

The Bank is exposed to credit spread risk with respect to its securities portfolio, both in the trading as well as in the banking book.

Hedging

The market risk management consists of optimizing Bank's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment and outlook, competitive landscape, fair value of risk, effect on net interest income and appropriate interest and liquidity position.

41 Liquidity Risk

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and the Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that

the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Liquidity risk measures

Regulatory indicators Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored as a part of comprehensive liquidity risk limit system. In addition, various internal metrics and stress tests are implemented to ensure sufficient levels of liquidity which are calulated at both total currency level and for significant currencies. Regulatory and internal liquidity indicators are monitored and limited for relevant members of the Bank on individual levels.

The LCR is part of the internal Risk Appetite Statement (RAS) and monitored daily. The LCR limits are defined in the RAS and targeted to be well above the regulatory minimum. The LCR is reported on a monthly basis to the regulatory authority.

Same as the LCR, the NSFR is part of the internal RAS and limits are defined in the RAS sufficiently above the regulatory minimum. The NSFR is monitored monthly and reported on a quarterly basis to the regulatory authority.

Short-term insolvency risk is internally monitored by internal stress measure the Survival Period Analysis (SPA). The SPA determines the maximum period during which the entity can survive a set of defined scenarios lasting up to 12 months, including a severe market and idiosyncratic crisis while relying on its pool of liquidity enhancing actions, mainly the liquidity buffer. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. The simulation also assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralized derivative transactions estimating the effect of collateral outflows in the case of adverse market movements.

Long-term structural liquidity is internally monitored by the Structural Liquidity Ratio (STRL). The STRL is measuring the structural funding gap ensuring an appropriate balance between assets and liabilities in the medium- and long-term time horizons avoiding excessive maturities transformation and consequently avoiding increased pressure on the short-term liquidity position.

The Bank also reports Additional Liquidity Monitoring Metrics (ALMM) to its regulator, which complement regulatory liquidity risk ratios in the form of several detailed liquidity risk reports.

Methods and instruments of risk mitigation

General standards of liquidity risk management have been thoroughly defined and are continuously reviewed and improved within internal liquidity adequacy assessment process (ILAAP).

All liquidity indicators and liquidity situation are regularly reported to and monitored by the Operational Liquidity Committee (OLC). On a monthly basis the management board is informed during the Asset Liability Committee (ALCO).

The Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

At the end as well throughout whole year, both LCR and NSFR for the Bank were significantly above the regulatory and internal limits and confirm a sound liquidity situation of the bank. A comfortable liquidity situation was also confirmed by other short-term and long-term internal liquidity measures.

Liqudity coverage ratio

The LCR is used as one of the metrics for monitoring and steering of short-term liquidity position.

in CZK million	2022	2021
Hiqh-quality liquid assets	424,337	617,963
Net liquidity outflow	206,472	331,395
Liquidity coverage ratio	**206%**	**186%**

Net stable funding ratio

The NSFR is used as one of the metrics for monitoring structural long-term liquidity position to promote resilience over a longer time horizon.

in CZK million	2022	2021
Available stable funding	1,132,278	1,094,308
Required stable funding	655,679	629,896
Net stable funding ratio	**173%**	**174%**

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Bank has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank regularly monitors its liquid assets, which consists of cash, excess minimum reserve at the central banks, and unencumbered central bank eligible assets. These assets can be mobilized in short term to offset potential cash outflows in a crisis situation.

The structure of the Bank's counterbalancing capacity as of year-end 2022 and 2021 are shown in the tables below:

	< 1 week	
in CZK million	**2022**	**2021**
Cash, excess reserve	14,242	16,824
Liquid assets	413,046	603,678
Counterbalancing capacity	**427,288**	**620,502**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2022 and 2021 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
2022						
Non-derivative liabilities	**1,388,056**	**1,391,737**	**1,238,877**	**105,375**	**30,207**	**17,278**
Deposits by banks	110,233	111,229	61,077	40,305	4,421	5,426
Customer deposits	1,195,686	1,196,188	1,142,871	45,935	5,767	1,615
Debt securities in issue	77,262	79,445	30,055	19,135	20,019	10,237
Other financial liabilities	4,875	4,875	4,875	-	-	-
Derivative liabilities	**29,597**	**29,597**	**1,790**	**7,983**	**10,820**	**9,003**
Contingent liabilities	**280,842**	**280,842**	**280,842**	**-**	**-**	**-**
Financial guarantees	20,035	20,035	20,035	-	-	-
Irrevocable commitments	260,807	260,807	260,807	-	-	-
Total	**1,698,495**	**1,702,176**	**1,521,509**	**113,358**	**41,027**	**26,281**
2021						
Non-derivative liabilities	**1,405,577**	**1,406,690**	**1,285,753**	**92,338**	**11,586**	**17,013**
Deposits by banks	47,758	47,961	12,103	27,986	4,557	3,315
Customer deposits	1,120,661	1,121,210	1,101,343	12,946	5,396	1,525
Debt securities in issue	219,986	220,347	155,135	51,406	1,633	12,173
Other financial liabilities	17,172	17,172	17,172	-	-	-
Derivative liabilities	**15,392**	**15,402**	**767**	**3,060**	**5,572**	**6,003**
Contingent liabilities	**184,067**	**184,067**	**184,067**	**-**	**-**	**-**
Financial guarantees	35,412	35,412	35,412	-	-	-
Irrevocable commitments	148,655	148,655	148,655	-	-	-
Total	**1,605,036**	**1,606,159**	**1,470,587**	**95,398**	**17,158**	**23,016**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

42 Operational Risk

In accordance with regulatory requirements, the Bank defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Bank put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of The Bank', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application EMUS to collect data about operational risk which conforms to the data collection requirements. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. The system is also used as a case management tool for all fraud investigations (i.e. final investigation report, list measures and monitoring of its fulfilment, communication exchange with law enforcement authorities,...). In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by management. In this respect, the Bank has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Bank also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.

The Bank successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Bank's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Special focus is put on assessment of non-financial risk based on a methodology called Risk Return Decisions (i.e. assessment of reputational, legal and financial impacts put in relation with its expected return). The analysis must be developed for each decision taken by Board of Directors or any Advisory Committee, all material outsourcing projects and all PAP relevant topics. The significant Risk Return Decisions are also evaluated by the Regional Operational Conduct Committee (ROCC) Office in Erste Group Bank which provides its recommendation in order to support local decision process.

Top management of the Bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Head of Non-financial Risk and Compliance section, who further presents selected topics at the Risk Committee (chairman - Chief Risk Officer).

Information Disclosure and Transparency

The Bank rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Bank to enjoy unauthorised gains in dealing with the Bank's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Bank or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Bank's Board of Directors as well as designated employees are obliged to inform the Bank's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Bank has established a Compliance Department whose principal activities include ensuring compliance of the Bank's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Bank activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Bank's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain whistleblowing channels for ensuring protection of whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as an integral part of Compliance department ensures meeting Bank´s obligations in the area of anti money laundering and terrorist financing and also secures the compliance of the Bank's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

43 Property, equipment and right-of-use assets

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Right-of use of assets

For accounting policy for leases including right-of use of assets see Note 46 The Bank as a lessor.

Own property and equipment - at cost

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Total property and equipment
Balance as of 1 Jan 2021	**13,554**	**3,577**	**2,370**	**19,501**
Additions in current year (+)	581	174	304	1,059
Disposals (-)	(295)	(224)	(453)	(972)
Reclassification (+/-)	27	(1,038)	1,011	-
Assets held for sale (-)	(297)	-	-	(297)
Balance as of 31 Dec 2021	**13,570**	**2,489**	**3,232**	**19,291**
Additions in current year (+)	595	167	316	1,079
Disposals (-)	(129)	(179)	(666)	(974)
Reclassification (+/-)	-	(38)	40	2
Assets held for sale (-)	(142)	-	-	(142)
Balance as of 31 Dec 2022	**13,893**	**2,438**	**2,922**	**19,255**

Own property and equipment - Accumulated depreciation

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Total property and equipment
Balance as of 1 Jan 2021	**(7,665)**	**(2,303)**	**(1,581)**	**(11,549)**
Depreciation (-)	(509)	(100)	(303)	(912)
Disposals (+)	249	210	448	907
Impairment (-)	(407)	-	-	(407)
Reclassification	(24)	439	(415)	-
Assets held for sale (+)	266	-	-	266
Currency translation	(5)	(3)	(29)	(37)
Balance as of 31 Dec 2021	**(8,095)**	**(1,757)**	**(1,880)**	**(11,732)**
Depreciation (-)	(525)	(97)	(321)	(943)
Disposals (+)	102	173	645	920
Impairment (-)	(1)	-	-	(1)
Assets held for sale (+)	133	-	-	133
Balance as of 31 Dec 2022	**(8,385)**	**(1,680)**	**(1,556)**	**(11,622)**

Right of use property and equipment - at cost

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Balance as of 1 Jan 2021	**4,579**	**51**	**18**	**4,648**
Additions	547	23	3	573
Disposals	(61)	(10)	-	(71)
Balance as of 31 Dec 2021	**5,065**	**64**	**21**	**5,150**
Additions	1,008	44	-	1,051
Disposals	(143)	(8)	(21)	(172)
Balance as of 31 Dec 2022	**5,929**	**101**	**-**	**6,029**

Right of use property and equipment - Accumulated depreciation

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Balance as of 1 Jan 2021	**(999)**	**(25)**	**(15)**	**(1,039)**
Amortisation and depreciation	(671)	(20)	(5)	(696)
Disposals	24	10	-	34
Impairment	(10)	-	-	(10)
Balance as of 31 Dec 2021	**(1,656)**	**(35)**	**(20)**	**(1,711)**
Amortisation and depreciation	(664)	(22)	(2)	(688)
Disposals	68	8	21	97
Balance as of 31 Dec 2022	**(2,251)**	**(49)**	**-**	**(2,300)**

Carrying amounts

Own property and equipment

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Dec 2021	5,475	732	1,352	7,559
Dec 2022	5,508	757	1,366	7,631

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 367 million (2021: CZK 316 million).

Right of use property and equipment

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment
Dec 2021	3,409	29	1	3,439
Dec 2022	3,679	53	-	3,731

Own property, equipment and investment properties – Carrying amounts

in CZK million	Land and buildings (used by the the Bank)	Office and plant equipment/ other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2021	9,469	1,300	792	11,561
Balance as of 31 Dec 2021	8,884	761	1,353	10,998
Balance as of 31 Dec 2022	9,186	809	1,366	11,362

The balances as at 31 December 2022 shown above include CZK 812 million (2021: CZK 785 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,286 million as at 31 December 2022 (2021: CZK 3,378 million).

As at 31 December 2022, land and buildings were impaired in the amount of CZK 982 million (2021: CZK 1,272 million).

For details related to right of use assets capitalized in balance sheet arising from leases where the Bank is lessee, please see Note 47 Leases where the Bank is a lessee .

44 Intangible assets

The Bank's intangible assets include computer software, licences, know-how and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if the Bank can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to

measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4-8
Other (licences, patents, etc.)	6

Brands have been impaired to nil carrying amount. As a result, they are not being amortised.

Acquisition and production costs

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2021	**16,636**	**1,830**	**18,466**
Additions	1,305	572	1,877
Disposals (-)	(141)	(913)	(1,054)
Balance as of 31 Dec 2021	**17,800**	**1,489**	**19,289**
Additions	1,183	44	1,227
Disposals (-)	(1,692)	(172)	(1,864)
Balance as of 31 Dec 2022	**17,289**	**1,360**	**18,649**

Accumulated depreciation

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2021	**(11,027)**	**(1,602)**	**(12,629)**
Amortisation charge (-)	(929)	(122)	(1,051)
Disposals (+)	138	493	631
Impairment (-)	(161)	-	(161)
Balance as of 31 Dec 2021	**(11,979)**	**(1,231)**	**(13,210)**
Amortisation charge (-)	(970)	(65)	(1,035)
Disposals (+)	1,692	172	1,864
Impairment (-)	(64)	-	(64)
Balance as of 31 Dec 2022	**(11,321)**	**(1,124)**	**(12,445)**

Carrying amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2021	**5,609**	**228**	**5,837**
Balance as of 31 Dec 2021	**5,821**	**258**	**6,079**
Balance as of 31 Dec 2022	**5,968**	**236**	**6,204**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,215 million as at 31 December 2022 (2021: CZK 1,614 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,154 million as at 31 December 2022 (2021: CZK 3,220 million).

The Bank has not identified any contractual commitments for the purchase of intangible assets.

Impairment of non-financial assets (property and equipment, intangible assets, right-of-use-assets)

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

45 Other assets

in CZK million	2022	2021
Prepayments	528	304
Sundry assets	500	603
Other assets	**1,028**	**907**

'Sundry assets' consist mainly of long-term advances of CZK 278 million (2021: CZK 258 million).

LEASES

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

46 The Bank as a lessor

Accounting and measurement methods

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value.

Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property, equipment and right-of-use assets' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

The vast majority of lease agreements in which the Bank operates as a lessor are finance leases.

Quantitative disclosure

Finance leases

Finance lease receivables are included under the statement of financial position item ´Finance lease receivables'.

The principal assets held under lease arrangements include vehicles and other technical equipment. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in CZK million	2022	2021
Outstanding minimum lease payments	220	227
Gross investment	**220**	**227**
Unrealised financial income	(20)	(13)
Net investment	**200**	**214**
Present value of minimum lease payments	**200**	**214**

Maturity analysis by residual maturities

	2022		2021	
in CZK million	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	42	39	45	42
1-2 years	40	37	37	35
2-3 years	39	36	36	34
3-4 years	33	30	34	32
4-5 years	33	29	29	27
> 5 years	33	30	46	44
Total	**220**	**200**	**227**	**214**

During 2022, the Bank recognised interest income on finance lease receivables in the amount of CZK 5 million (2021: CZK 2 million).

Finance lease receivables

The analysis of the GCA and of related CLA of the Bank's finance lease receivables per impairment buckets as of 31 December 2022 is provided in the table below:

in CZK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Carrying amount
2022									
General governments	61	-	-	61	(3)	-	-	(3)	58
Other financial corporations	101	-	-	101	-	-	-	-	101
Non-financial corporations	38	-	-	38	(2)	-	-	(2)	36
Total	**200**	**-**	**-**	**200**	**(5)**	**-**	**-**	**(5)**	**194**
2021									
General governments	77	-	-	77	(5)	-	-	(5)	72
Other financial corporations	86	-	-	86	-	-	-	-	86
Non-financial corporations	51	-	-	51	(3)	-	-	(3)	48
Total	**214**	**-**	**-**	**214**	**(8)**	**-**	**-**	**(8)**	**206**

For a development of the Expected Credit Loss related to Finance Lease Receivables please refer to the Risk Report in Note 36 Development of Credit Loss Allowances.

Operating leases

Under operating leases, the Bank leases real estate and movable property to other parties.

Maturity analysis of lease payments from operating leases and investment properties

in CZK million	2022	2021
< 1 year	80	76
1-2 years	78	64
2-3 years	75	61
3-4 years	49	59
4-5 years	48	47
> 5 years	35	49
Total	**366**	**356**

For information about rental income please refer to Note 6 Rental income from other operating leases.

47 Leases where the Bank is a lessee

Accounting and measurement methods

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low- value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Bank uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property, equipment and right-of-use assets' or, if they are subleased to third parties, for finance lease as 'Finance lease receivables'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Pribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Pribor. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

For details about right-of-use assets capitalized in balance sheet arising from leases where the Bank is lessee, please see Note 36 Property, equipment and right-of-use assets.

Maturity analysis of lease liabilities on the basis of undiscounted cash flows

in CZK million	2022		2021	
	Nominal values	Present values	Nominal values	Present values
< 1 year	774	663	754	702
1-5 years	2,515	2,263	2,164	2,038
> 5 years	1,281	1,202	1,134	1,077
Total	**4,570**	**4,128**	**4,052**	**3,817**

During 2022, interest expenses on lease liabilities were recognised in the amount of CZK 82 million (2021: CZK 39 million). In 2022, expenses in the amount of CZK 63 million (2021: CZK 62 million) relating to short term leases, for which the recognition exemption of IFRS 16 applies, were recognised. In addition, expenses amounting to CZK 58 million (2021: CZK 50 million) relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, were recognized.

Loss arising from sale and leaseback transactions in the amount of CZK 0 million (2021: loss in amount of CZK 143 million) were recognised.

Income from subleasing right-of-use assets was recognized in the amount of CZK 29 million (2021: CZK 55 million). Total cash outflow for leases in 2022 was CZK 917 million (2021: CZK 886 million). The Bank does not have commitments for future cash outflows which are not reflected in the measurement of lease liabilities as of 31 December 2022.

SUBSIDIARIES AND ASSOCIATES

48 Investments in subsidiaries and associates

Investments in subsidiaries, associates and joint ventures are measured at cost less any impairment loss. The transaction costs are capitalised as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such a profession fees for legal services, transfer taxes and other acquisition related costs.

Initial cost of the investments comprises also the contingent consideration. The subsequent remeasurement of the contingent consideration classified as financial liability is recognised in profit or loss.

The investments are tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable.

If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognised on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognised in profit or loss as gain or

loss on disposal. The same applies if the disposal result in a step down from subsidiary to joint venture or an associate measured at cost.

Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

As of 31 December 2022	Share capital in MCZK/ TEUR	Country of residence	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidiaries						
CEE Property Development Portfolio B.V. *	20.0	Netherlands	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	Czech Republic	CZK	100%	100%	977
Czech and Slovak Property Fund B.V.	30.0	Netherlands	EUR	100%	100%	14
Erste Grantika Advisory, a.s.	7.0	Czech Republic	CZK	100%	100%	-
Factoring České spořitelny, a.s.	114.0	Czech Republic	CZK	100%	100%	1,385
Česká spořitelna - penzijní společnost, a.s.	350.0	Czech Republic	CZK	100%	100%	491
REICO investiční společnost České spořitelny, a.s.	25.0	Czech Republic	CZK	100%	100%	90
Leasing České spořitelny, a.s.	500.0	Czech Republic	CZK	100%	100%	3,255
Stavební spořitelna České spořitelny, a.s.	750.0	Czech Republic	CZK	100%	100%	3,815
Holding Card Service, s.r.o.	873.0	Czech Republic	CZK	67%	67%	583
ČS NHQ, s.r.o.	10.0	Czech Republic	CZK	100%	100%	-
ČS Seed Starter, s.r.o.	6.0	Czech Republic	CZK	100%	100%	125
Budějovická Development, s.r.o.	1.0	Czech Republic	CZK	100%	100%	338
Dostupné bydlení České spořitelny, a.s.	2.0	Czech Republic	CZK	100%	100%	352
Subtotal						**11,426**
Investments in associates						
Erste Group Shared Services (EGSS), s.r.o.	0.2	Czech Republic	CZK	40%	40%	-
Procurement Services CZ, s.r.o.	0.2	Czech Republic	CZK	40%	40%	-
Total						**11,426**

During the year, the Bank completed planned liquidation of the company MOPET CZ, a.s., v likvidaci and acquired a new subsidiary Dostupné bydlení České spořitelny, a.s. On 19 December 2022 the Bank increased its investment in Stavební spořitelna České spořitelny, a.s. by CZK 2.3 billion.

As of 31 December 2021	Share capital in MCZK/ TEUR	Country of residence	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidiaries						
CEE Property Development Portfolio B.V. *	20.0	Netherlands	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	Czech Republic	CZK	100%	100%	1,272
Czech and Slovak Property Fund B.V.	30.0	Netherlands	EUR	100%	100%	345
Erste Grantika Advisory, a.s.	7.0	Czech Republic	CZK	100%	100%	-
Factoring České spořitelny, a.s.	114.0	Czech Republic	CZK	100%	100%	985
Česká spořitelna - penzijní společnost, a.s.	350.0	Czech Republic	CZK	100%	100%	491
MOPET CZ, a.s., v likvidaci	27.0	Czech Republic	CZK	100%	100%	-
REICO investiční společnost České spořitelny, a.s.	25.0	Czech Republic	CZK	100%	100%	90
Leasing České spořitelny, a.s.	500.0	Czech Republic	CZK	100%	100%	3,255
Stavební spořitelna České spořitelny, a.s.	750.0	Czech Republic	CZK	100%	100%	1,515
Holding Card Service, s.r.o.	873.0	Czech Republic	CZK	67%	67%	583
ČS NHQ, s.r.o.	10.0	Czech Republic	CZK	100%	100%	310
ČS Seed Starter, s.r.o.	6.0	Czech Republic	CZK	100%	100%	69
Budějovická Development, s.r.o.	1.0	Czech Republic	CZK	100%	100%	338
Subtotal						**9,253**
Investments in associates						
Erste Group Shared Services (EGSS), s.r.o.	0.2	Czech Republic	CZK	40%	40%	-
Procurement Services CZ, s.r.o.	0.2	Czech Republic	CZK	40%	40%	-
Total						**9,253**

During the year, the Bank completed planned liquidation of the companies Czech TOP Venture Fund B.V. v likvidaci and brokerjet České spořitelny, a.s. v likvidaci. CS Property Investment Limited went into liquidation on 20 December 2021and reclassified to FVPL in December 2021.

*While the Bank holds 20% of the issued share capital of the funds and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investments.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

49 Other liabilities

in CZK million	2022	2021
Deferred income	488	453
Sundry liabilities	5,333	4,170
Other liabilities	**5,821**	**4,623**

Sundry liabilities consist mainly of suspense account amounting to CZK 2,174 million (2021: CZK 874 million) and costs of staff bonuses for 2022 amounting to CZK 1,509 million (2021: CZK 1,728 million) of which CZK 44 million (2021: CZK 34 million) is a liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2022 includes ‘contract liabilities’ in accordance with IFRS 15 in amount of CZK 488 million (2021: CZK 453 million). Revenue recognised in the reporting year 2022 that was included in the contract liability balance at the beginning of the period amounts to CZK 506 million (2021: CZK 198 million).

50 Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. In the statement of financial position, provisions are reported under the line item ‘Provisions’. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan

commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'. However restructuring expenses relating to employees are presented under line item 'Personnel expenses'.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Bank.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item "Fee and commission income" under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan commitments.

If the Bank is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk are guaranteed. The Bank considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. They are ignored in measuring the ECL and are measured separately and in the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Significant accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether the Bank has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 33 Credit risk exposure. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 51 Contingent liabilities.

in CZK million	2022	2021
Restructuring	67	59
Pending legal issues	1,696	1,981
Loan commitments and financial guarantees given	1,096	1,174
CLA for loan commitments and financial guarantees in Stage 1	385	453
CLA for loan commitments and financial guarantees in Stage 2	454	441
CLA for loan commitments and financial guarantees in Stage 3	257	280
Other provisions	418	374
Provisions	**3,277**	**3,588**

The restructuring provision was created at the end of 2019 for the next phase reorganization of the Bank's redundant activities performed by the HQ departments of the Bank and their employees. The reorganization is expected to be completed in 2023.

Under position 'Pending legal issues and tax litigation' provisions related to litigations from lending business, asset management or litigations with customer protection associations, which normally occur in banking business, are disclosed (refer to Note 51 part Legal disputes).

Remaining classes of provisions

Following table provides the information about the development of the remaining classes of provisions:

in CZK million		Allocations	Use	Releases	Exchange rate and other changes (+/-)	
	Jan 2022					**Dec 2022**
Provision for restructuring	59	67	(59)	-	-	67
Pending legal issues and tax litigation	1,981	1	-	(227)	(59)	1,696
Other provisions	374	-	-	-	44	418
Provisions	**2,414**	**67**	**(59)**	**(227)**	**(15)**	**2,181**

	Jan 2021					**Dec 2021**
Provision for restructuring	93	59	(63)	(30)	-	59
Pending legal issues and tax litigation	1,727	265	(10)	(1)	-	1,981
Other provisions	43	7	(1)	(1)	326	374
Provisions	**1,863**	**331**	**(74)**	**(32)**	**326**	**2,414**

The level of sundry provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate.

51 Contingent liabilities

In the ordinary course of business, the Bank becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The table below presents the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date, the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. Legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested

and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests. Based upon historical experience and expert opinion, the Bank assesses the developments in these cases, and the probability and the amount of potential financial outcome which are appropriately provided for.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Bank recognises a provision for legal disputes (refer to Note 50 Provisions).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of CCFs,

PDs and LGDs. CCFs indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

The Bank recorded credit loss allowances for off-balance sheet risks to cover expected credit losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2022 the aggregate balance of these allowances was CZK 1,096 million (2021: CZK 1,174 million). Refer to Note 36 Development of Credit Loss Allowances.

in CZK million	2022	2021
Amounts owed under guarantees and letters of credit	20,035	14,113
Undrawn loan and other commitments	260,807	169,954
out of which loan commitments	229,556	144,360
Total	**280,842**	**184,067**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

52 Total equity

Details on equity are provided in Section IV, Statement of Changes in Equity.

in CZK million	2022	2021
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	9,040
Retained earnings and other reserves	104,459	109,690
Total equity	**128,711**	**133,942**

The share capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register. As of 31 December 2021, share capital consists of 152,000,000 voting ordinary shares. In addition, the Bank issued AT1 (additional Tier 1 capital). Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

The issue of Additional Tier 1 ("AT1") equity instruments is compliant with Article 52 of the CRR (Regulation EU No 575/2013). In December 2015 the Bank has launched an issue of AT1, denominated in Euro, for a total of EUR 300 million (the equivalent of CZK 8,107 million). In June 2019 the Bank has launched second issue of AT1, denominated in Euro, for a total of EUR 350 million (the equivalent of CZK 9,039 million).

In December 2021 the Bank has called the first issue of AT1 of EUR 300 million (equivalent of CZK 8,107 million out of which CZK 484 million FX result was accounted to retained earnings). The issued AT1 capital is recognized under the line item "Additional equity instruments".

In accordance with the characteristics of AT1 (i.e. the terms of the issue), the Bank is not obliged to deliver funds or other financial assets to the AT1 holder to settle the contractual obligation, ie. AT1 holders are not entitled to repay the amount due or pay proceeds, and AT1 has no maturity date.

The main reasons for the issuance of AT1 is optimisation of capital structure and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

Distributions on own equity instruments are recognised as a liability and deducted from equity when they are approved by the Bank shareholder.

For dividends on ordinary shares the decision is taken by the Annual General Meeting. For coupons on Additional Tier 1 instruments the payouts recorded in equity do not need approvals of Annual General Meeting but an event of non-payment would require a decision of the Bank's Board.

As at 1 January 2021, the Bank took over the Czech branch of the Waldviertler Sparkasse (WSPK) bank. The Bank decided to use pooling of interest accounting principles (or so-called „predecessor accounting") with no revaluation of assets and liabilities acquired to fair value.

The impact with respect to the predecessor accounting principle was decrease of equity by CZK 267 million.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital is as follows:

	2022		2021	
	Number of shares	CZK million	Number of shares	CZK million
Ordinary shares of CZK 100 each	152,000,000	15,200	152,000,000	15,200
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

OTHER DISCLOSURE MATTERS

53 Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Bank.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Bank is controlled by Erste Group Bank AG.

The parties that have a special relationship to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the ČNB's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the categories of the Bank's related parties principally comprise Erste Group Bank, the Bank's subsidiaries, which include both direct and indirect investments with controlling influence, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at standard commercial rates. Outstanding balances at the year-end are unsecured except for loans to finance investment property and property under construction.

There was no impairment related to the outstanding balances with Related Parties reported by the Bank.

	Erste Group Bank AG	Subsidiaries	Associates	Other related parties	Members of the BoD and Supervisory Board	Erste Group Bank AG	Subsidiaries	Associates	Other related parties	Members of the BoD and Supervisory Board
			2022					2021		
Assets										
Cash and cash balances	1,233	-	-	39	-	998	-	-	81	-
Financial assets - held for trading	19,994	-	-	-	-	8,590	-	-	-	-
Financial assets - FVPL	1,383	-	-	-	-	755	-	-	-	-
Financial assets – amortised costs	1,355	28,899	-	150	40	1,270	26,575	-	170	33
Trade and other receivables	5	172	-	122	-	6	223	1	118	-
Derivatives Hedge Accounting	3,000	-	-	-	-	504	-	-	-	-
Other assets	-	680	-	1	-	-	725	-	1	-
Liabilities										
Financial liabilities held for trading	10,557	-	-	-	-	6,796	-	-	-	-
Financial liabilities measured at amortised costs	88,173	2,564	17	485	128	34,716	1,966	14	248	107
Debt securities in issue	42,703	606	-	17	-	200,195	6,630	-	-	-
Derivatives Hedge Accounting	2,839	-	-	-	-	1,634	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	710	-	1	-
Other Liabilities	-	173	-	1	-	-	137	-	1	-
Profit&Loss statement			**01-12 2022**					**01-12 2021**		
Net interest income	(10,366)	684	-	(490)	3	(1,306)	99	-	3	1
Net fee and commision income	14,343	472	-	1,442	-	109	603	-	1,150	-
Dividend income	-	2,300	-	232	-	-	49	-	-	-
Net trading result and fair value result	14,343	-	-	16	-	6,983	-	-	-	-
Rental income and other operating lease	-	-	-	-	-		4	7	3	-
Other administrative expenses	(140)	(74)	(43)	(878)	-	(287)	(114)	(44)	(830)	(106)
Other operating result	33	(664)	9	63	-	26	95	2	13	-
Loans commitments, financial guarantees and other commitments given	12,517	18,067	8	490	-	6,179	12,947	8	361	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	-	-	-	-	-	-

'Other related parties' include companies wholly or partly owned by Erste Group Bank.

Financial assets measured at amortized cost to subsidiaries as at 31 December 2022 comprise mainly of providing long term loans to Leasing ČS, a.s. of CZK 19,501 million (2021: CZK 18,006 million) and Factoring České spořitelny of CZK 5,460 million (2021: CZK 6,355 million).

Financial assets at amortized costs to Erste Group Bank AG as at 31 December 2022 include primarily term deposits of CZK 1,348 million (2021: CZK 1,270 million).

The term deposits are mainly denominated in EUR, the interest rates on term deposits are in the range of –0,1% to 2,76% and maturity of these transactions is up to 52 months.

Financial liabilities measured at amortized costs as at 31 December 2022 include primarily repurchase agreements with Erste Group Bank AG in CZK 77,217 million (2021: CZK 34,218 million).

The repurchase agreements are mainly denominated in CZK (CZK 36,050 million as at 31 December 2022, (2021: CZK 4,232 million) and EUR (CZK 41,167 million as at 31 December 2022, 2021: CZK 29,985 million), the interest rates on repurchase agreements are in the range of -0,1% to 2,75% and maturity of these transactions is up to 12 months.

Financial assets held for trading to Erste Group Bank AG as at 31 December 2022 include primarily derivatives held for trading of CZK 19,453 million (2021: CZK 8,561 million).

As at 31 December 2022 financial assets and financial liabilities held for trading include mainly derivative instruments (currency and interest rate derivatives). In 2022 and 2021, the net trading and fair value result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Loans commitments, financial guarantees and other commitments given include primarily risk participation on Leasing ČS, a.s. and Factoring, a.s. in amount of CZK 16,771 million as at 31 December 2022 (2021: CZK 5,881 million) which were concluded on armslength conditions.

Terms of the debt securities issued are described in Note 17.

54 Share based payments

Remuneration of the Board of Directors and Supervisory Board members

Board remuneration Board of Directors Members are remunerated on the basis of an „Agreement on the Performance of the Position of a Member of the Board of Directors". The overall income of a Board of Directors Member for any given year is comprised of fixed pay, variable income, and benefits/ in-kind performances.

in CZK million	Short-term benefits		Long-term benefits			
			Variable performance linked remuneration			
Board total	Fixed salaries	Other remuneration (in kind)	Previous years (cash)	Previous years (non-cash)	Previous years (phantom/ shares)	Total
2022	65	2	13	16	7	103
2021	61	2	16	21	6	106

The item Other remuneration comprises income from providing pool cars for personal use to Board of Directors member.

Mr. Bravek received CZK 6.9 million as termination benefit in 2021. No termination benefit was paid out in 2022 to the Board of Directors members.

All of the above mentioned income is paid-out by the Bank. Board of Directors members do not have any income from any of the companies controlled by the Bank.

Variable performance linked remuneration of the Board of Directors members

The variable remuneration component of the Board of Directors members includes both:

- Cash payment;
- Non-cash payments in the form of ČS performance certificates and share-equivalents in the form of Erste Group Bank shares ("phantom shares")

None of them are exchange-traded but they are paid out in cash after vesting period based on defined criteria. The Bank recognizes liability to pay for services delivered by Board of Directors members (see also Note 49 Other liabilities).

The variable performance linked component of remuneration relates to the services rendered by the Board of Directors members in current year („performance period"). The payments are conditional on the Bank's performance in current and following five years. The actual variable performance linked remuneration payment (cash and non-cash payments part) is divided into an upfront (40 %) and deferred remuneration tranches (60 %). A maximum of 20% of total variable remuneration consists of a cash payment payable in the first subsequent year after the performance period and at least 20% is awarded in non-financial instruments. The 30% of deferred remuneration payments are awarded in cash and 30% in non-financial instruments.

The non-financial instruments for upfront and deferred remuneration tranches comprised of phantom shares (50%) and ČS performance certificates (50%). Both instruments will be paid out in cash when due. These components – both the upfront and deferred parts – must be retained throughout the retention period.

The variable performance linked remuneration component is calculated as the fixed income multiplied by the bonus potential (100% for Board of Directors members) and by bonus multiplier, where the value of the bonus multiplier is set as the outcome of the evaluation of the Strategy and Business part (evaluation of set performance indicators; overall weight 75%) and the Leadership part (overall weight 25%). The annual variable remuneration of the Board of Directors members as managers normally amounts to less than 4% of the aggregate annual volume of variable remuneration at the Bank as a whole.

Evaluation of the performance of Board of Directors members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The outputs from the TEAC are then assessed by the Remuneration Committee of the Supervisory Board. The Supervisory Board decides about the setting of bonuses for Members of the Management Board on the basis of a proposal from the Remuneration Committee.

The total variable performance linked remuneration – taking into account both current remuneration based on performance period and possible reductions in pay-outs of amounts previously earned – is awarded only if the participant remains employed and it is sustainable considering the overall financial situation of the Bank and justified on the basis of the performance of the Bank. Should any of these criteria not allow for the full bonus to be awarded, up to 100 % of the total variable remuneration shall be subject to malus or clawback arrangements.

Variable performance linked remuneration for Board of Directors members for reporting period 2022 was estimated at CZK 51 million (2021: CZK 47 million).

At year-end 2022 the outstanding amount of liability from cash part of bonus programme for Board of Directors members consisting of current and also previous years (deferral parts) is CZK 45 million (2021: CZK 38 million) and for non-cash part is CZK 76 million (2021: CZK 80 million) of which CZK 36 million are phantom shares (2021: CZK 34 million).

Non-cash remuneration instruments

Phantom shares

Share-based payments (phantom shares) are variable remuneration components, which – according to the remuneration policy of the Bank – are deferred over a period of five years and are awarded only if it is sustainable considering the overall financial situation of the Bank and justified on the basis of the performance of the Bank.

Amount paid depends on the average share price of Erste Group Bank AG in the year of payment. As services are received by the Bank in the performance year, the total estimated amount of bonus payments is accrued via profit or loss and recognized as liability in balance sheet. The share-based component of the bonus payment is measured with the respective average share price calculated in current financial year. Subsequent adjustments due to changes in the share price are recognized in profit or loss. As of 31 December 2022, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2022 in the amount of EUR 29.50 (2021: EUR 32.95) per share. Pay-outs of share-based bonus payments are made one-year after the final amount is determined.

Phantom shares are settled in cash and therefor treated as cash-settled share-based payment transactions. The average daily weighted price of a phantom share is calculated on the basis of the official DataStream (Thomson Reuters Corp) information of Erste Group Bank shares and is based on data published on the Vienna Stock Exchange (Wiener Börse).

The allocated number of phantom shares to the Board of Directors members is calculated by division of respective gross bonus amount by the average daily weighted price of Erste Group Bank shares stock in the performance period. For performance period 2022 Board of Directors members receive equivalent of 14,810 pcs of phantom shares with average price 29.50 EUR.

At the end of the vesting period when phantom shares are due, shares are transferred into cash by a multiplication of the average daily weighted price of the share in the last closed year preceding the year in which the shares are being paid out.

ČS Performance Certificates

As a non-cash performance linked instruments, the Bank uses also ČS Performance certificates, the nature of which is „other instruments“ as described in the Article 4 of Regulation (EU) No 527/2014.

The valuation of the Group is based on an annual impairment test conducted at the level of the parent company Erste Group Bank. The comparison of the result of the Group's value in individual years using this valuation model is used to determine the year-on-year change in the value of the certificates. The fundament based for the valuation is a 5 year plan which is prepared by the Bank using several states of the art parameters to justify the financial performance over

the following 5 consecutive years. In the preparation of the plan, the macroeconomic outlook, present performance, expected growth, and compliance with the business strategy are considered. All regulatory requirements are deemed to constitute key deliverables of the five-year plan – in particular requirements concerning capital and liquidity. "Old" performance certificates used until 2018 are not awarded, only deferred parts are still paid out (last part will be paid out in 2024).

WeShare program

The WeShare program is an cash-settled share-based payment transaction and consists of two parts: WeShare-Investment Plus and WeShare-Participation. Both parts are offered to employees of the Bank provided that the specific requirements are met.

Under the WeShare-Investment Plus part program all employees, who had been employed by the Bank, from March/April 2022 until September 2022 (service condition) could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus part was settled in September 2022. The number of free shares, which were granted under this program for the period, is 279,849. Personnel expenses in the amount of CZK 199 million were recorded.

In the WeShare-Participation part all employees, who have been employed by an entity of the Erste Group for at least six months in 2022 and are still employed until the transfer of the shares to the employees in 2023 (service condition) are entitled to receive shares in an equivalent amount of EUR 350. The number of shares granted is calculated using the on-grant date expected EGB share price on settlement date. The expected number of free shares, which are granted under this program for the period, is 117,709. Based on the number of entitled employees, personnel expenses in the amount of CZK 47 million were recorded and a corresponding reserve in retained earnings was created.

55 Fees of the Auditors

The following table contains audit fees and other fees charged by the auditors (excluding VAT) - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.:

in CZK million	2022	2021
Audit fees	16	18
Other assurance services	8	7
Other services	1	-
Total	**25**	**25**

56 Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Bank recognises this difference as a provision under the statement of financial position line item 'Provisions'.

in CZK million	2022	2021
Assets held for sale	9	20

The assets held for sale are represented by buildings for sale as a result of ongoing optimisation of the branch network.

57 Analysis of remaining maturities

The breakdown of the Bank's assets and liabilities based on residual expected maturities as at 31 December 2022 and 2021 was as follows:

	2022		2021	
in CZK million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and cash balances	20,974	-	36,663	-
Financial assets - held for trading	28,009	-	15,561	-
Derivatives	27,961	-		
Other financial assets held for trading	48	-		
Non-trading financial assets at fair value through profit or loss	2,213	628	1,556	836
Equity instruments	-	628	-	836
Debt securities	830	-	812	-
Loans and advances to banks	1,383	-	744	-
Financial assets at FVOCI	8,995	38,238	2,065	27,766
Debt securities	8,995	38,238	2,065	27,766
Financial assets at AC	368,996	1,058,929	464,925	985,431
Loans and receivables to credit institutions	265,214	947	359,227	1,714
Loans and receivables to customers	90,597	749,255	78,169	691,915
Debt securities	13,186	308,726	27,530	291,801
Finance lease receivables	-	195	-	206
Hedge accounting derivatives	3,235	-	607	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(17)	-	-	-
Property and equipment	-	11,362	-	10,998
Intangible assets	-	6,204	-	6,079
Investments in associates and joint ventures	-	11,426	-	9,253
Current tax assets	437	-	992	-
Deferred tax assets	-	2,369	-	2,333
Assets held for sale	9	-	20	-
Trade and other receivables	1,881	351	5,465	4
Other assets	1,028	-	907	-
Total Assets	**435,759**	**1,129,702**	**528,751**	**1,042,906**
Financial liabilities - held for trading	29,597	-	15,392	-
Financial liabilities designated at FVPL	31,331	-	10,653	-
Financial liabilities measured at AC	730,030	626,695	605,877	789,047
Deposits from banks	100,524	9,709		
Deposits from customers	575,947	588,409		
Debt securities issued	48,685	28,577		
Other financial liabilities	4,875	-		
Finance lease liabilities	663	3,466	702	3,115
Derivatives - hedge accounting	5,870	-	4,718	-
Commitments and guarantees given	-	-	-	1,175
Provisions	-	3,277	-	2,413
Other liabilities	5,821	-	4,623	-
Total Liabilities	**803,313**	**633,437**	**641,965**	**795,750**

58 Net Debt reconciliation

The table below sets out an analysis of debt of the Bank (i.e. debt securities issued and lease liabilities) and the movements in the Bank's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from debt securities issued

in CZK million	2022	2021
Opening balance of debt securities issued as of 1 January	219,986	176,128
Cash-flows reported within the cash-flow from financing activities	(142,266)	44,098
Non-cash adjustment	(458)	(240)
Closing balance of debt securities issued as of 31 December	**77,262**	**219,986**

Non-cash adjustments consist mainly of FX impact.

Cash-flows from lease liabilities

in CZK million	2022	2021
Opening balance of lease liabilities as of 1 January	3,817	3,988
Cash-flows reported within the cash-flow from financing activities	(796)	(861)
Non-cash adjustments	1,108	690
Closing balance of lease liabilities as of 31 December	**4,129**	**3,817**

Non-cash adjustments includes the interest expense and the lease liability from the newly concluded and modified contracts in 2022 and 2021.

59 Events after the balance sheet date

On 16 December 2022, the Bank signed an agreement on the purchase and sale of the enterprise of Sberbank CZ consisting, among others, of loan portfolio in the nominal value of CZK 47.1 billion. The purchase price, ceteris paribus, amounts to CZK 41.053 billion. The settlement date of the transaction is expected in Q2/2023 and is subject to several conditions. As there has not been any fulfillment of the rights and obligation arising from the concluded agreement, it does not have a material impact on the 2022 financial statements.

60 Interest Rate Benchmark Reform

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Bank closely monitors, assesses, and applies changes of IBOR reform and follow the EUR Benchmark regulation.

Based on the EU Benchmark Regulation 2016/1011 ('BMR') effective from 1 January 2018, BMR prohibits EU-supervised users from using a benchmark unless its administrator is approved by a national regulator in one of the EU Member States and appears on the benchmarks register maintained by the European Securities and Markets authority ('ESMA'), an EU supranational supervisory authority.

The Bank's main currency is CZK where PRIBORs benchmarks are authorized by ČNB (authorization provided in 2018 to the Czech Financial Benchmark Facility ('CFBF') for further usage in contracts, so there is no impact in CZK currency as PRIBOR continues. This is also valid for WIBOR (authorization by the Polish Financial Supervision Authority to GPW Benchmark as administrator) and EURIBOR, that was authorized by the The Financial Services and Markets Authority ('FSMA') of Belgium, on 2 July 2019.

The Bank has majority floating exposure in EUR currency with reference to EURIBORs. So there is no major impact of BMR also in EUR currency. Contracts (over 3,200) on EONIA were already transposed into €STR during 2021 (see table below).

There is no impact on the exposures of CZEONIA, BUBOR and ROBOR as the national banks are responsible for the administration and production of those rates.

The Bank had negligible exposure (approx. 0.003% of total assets) with reference to LIBOR authorized till 31 December 2021. All opened contracts (mostly commercial loans, overdrafts, current accounts) as at 31 December 2021 were already switched to Official ON fallback rate or official term rates based on negotiations with the clients or automatically.

Process of alignment to the new official fallback rates was mixture of decision: to stop offering the ending benchmark rates, followed by focus to change the contracts based on prioritization (active contracts first) under bilateral negotiation and communication to clients in case of automatic switch. Currently also no new business is executed with reference to USD LIBOR.

There were no contracts with EUR LIBOR reference as at 31 December 2021. There were 2 accounts in total amount of CHF 313 thousand with CHF LIBOR reference that were switched to SARON. There were 16 accounts with GBP LIBOR reference from which one account was closed and the rest in amount of GBP 329 thousand was switched to SONIA.There was1 account with JPYLIBOR reference of JPY30 million which was switched to TONA.

There were no opened derivative contracts and also no hedging contracts with EUR LIBOR reference as at 31 December 2022 and 2021. There were opened hedging instruments with nominal amount of USD 3.6 million (equivalent of CZK 79 million) with USD LIBOR reference as at 31 December 2022 (2021: USD 50 million). Their hedging period reaches beyond the cessation date of the respective LIBOR rates (30 June 2023 for USD LIBOR 1M, 3M, 6M and 12M tenors). The Bank is using USD SOFR with the equivalent of CZK 206 milion as of 31 December 2022. For details see also Note 25 Hedge accounting.

Table below shows the Banks exposures with LIBOR reference subject to cessation as at 31 December 2021 and 2022 in comparison with balances as at 31 December 2020:

in CZK million						
Ending Benchmarks	**Exposure to Ending Benchmarks in Dec 2020**	**Ccy**	**Authorized by**	**Official Fall Back rate**	**Exposure to Official fall back rates Dec 2021**	**Exposure to Official fall back rates Dec 2022**
EONIA	266	EUR	No	€STR	2,551	1,445
EUR LIBOR	-	EUR	FCA till 12/2021			
GBP LIBOR	22	GBP	FCA till 12/2021	SONIA/TSRR	6	474
CHF LIBOR	8	CHF	FCA till 12/2021	SARON	8	22
JPY LIBOR	3	JPY	FCA till 12/2021	TONA/TORF	9	5

Report on Relations between Related Parties

Pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations for the accounting period from 1. 1. 2022 to 31. 12. 2022

The Board of Directors of Česká spořitelna, as, with its registered office in Prague 4, Olbrachtova 1929/62, 140 00, IČ: 45244782, entered in the Commercial Register, Section B, Insert 1171, kept by the Municipal Court in Prague (hereinafter "Česká spořitelna" or the "Bank"), prepared the following report on relations in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., On Business Corporations (hereinafter referred to as the "Business Corporations Act") for the accounting period of the calendar year 2022 (hereinafter "Reporting period").

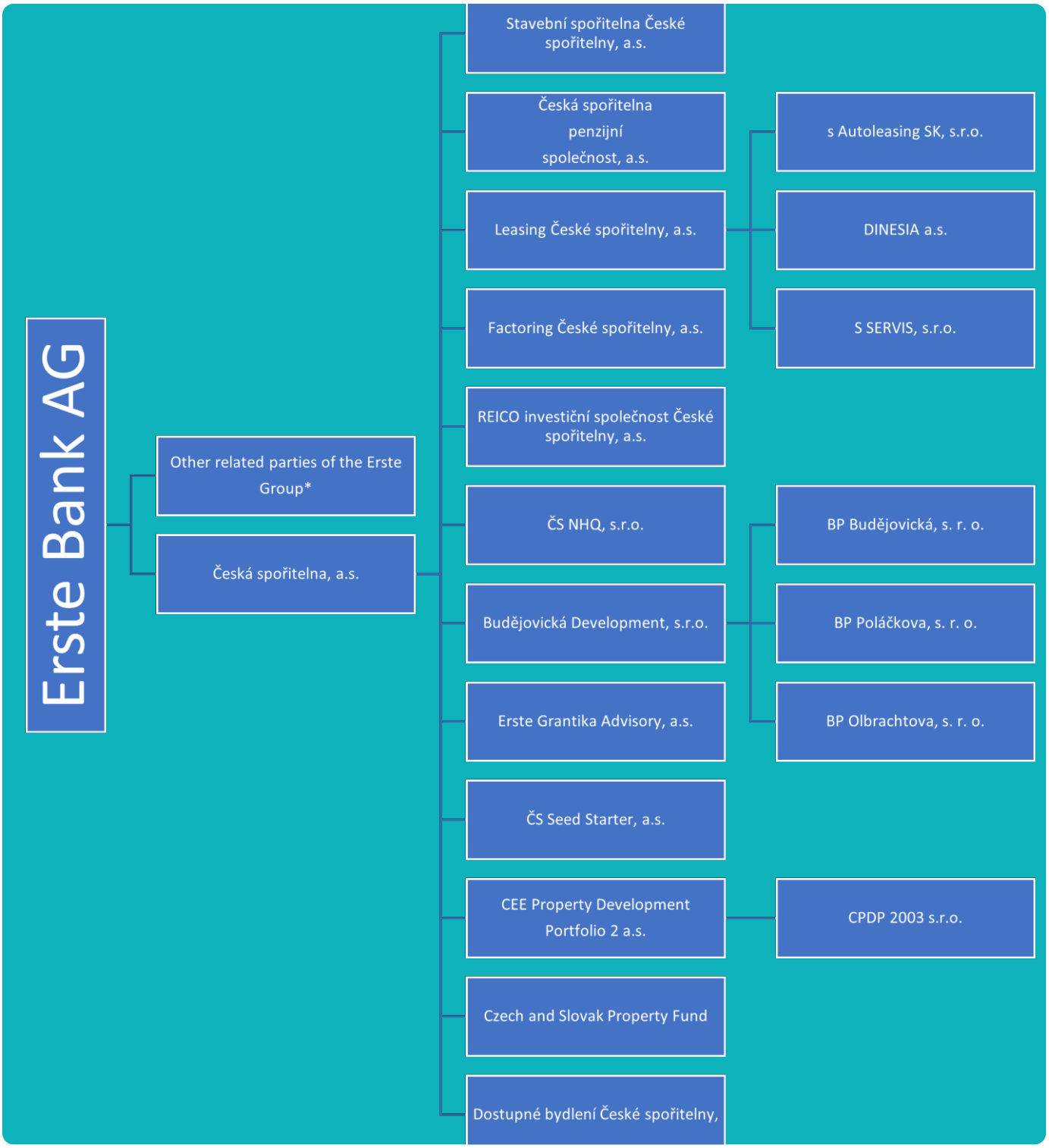
Česká spořitelna, a. s. is a member of a business group in which the described relationships exist between Česká spořitelna and controlling parties, and between Česká spořitelna and parties controlled by the same controlling parties (hereinafter referred to as "Related Parties").

The valid agreements set out below were made by and between Česká spořitelna and the parties stated below, and the described legal acts and other factual measures were taken in that period. The Report on Relations features a financial expression of relationships with related parties for the reporting period from 1 January 2022 to 31 December 2022.

A Financial Group of Česká spořitelna, a.s.

Česká spořitelna was part of the Group in which Erste Group Bank AG is the controlling entity throughout the relevant period (the "Group" or the "Erste Group"). Data on persons belonging to the Group are presented as of 31 December 2022.

The structure of relations in the Erste Group is graphically illustrated in the following chart:



* Enterprises listed in Part C, Other related parties, Erste Group Bank AG.

** Companies listed in Part C with 100% ownership of Česká spořitelna, a.s.

B Controlling Party

Erste Group Bank AG, Am Belvedere 1, Vienna, Austria („Erste Group Bank“)

Erste Group Bank is the ultimate parent company of the Erste Group and sole shareholder of Česká spořitelna during the Reporting period, which includes directly or indirectly controlled companies. Erste Group Bank shares are traded on the Vienna, Prague and Budapest stock exchanges. Information on the shareholder structure of Erste Group Bank is published in the financial statements of Erste Group Bank for the year 2022 and current information is also available on the Erste Group Bank website (www.erstegroup.com).

C Other Related Parties

Controlled by Erste Group Bank	Address
Banca Comerciala Romana s.a.	Regina Elisabeta Bvd 5, Bucharest, Romania
Erste & Steiermärkische Bank d.d.	Jadranski Trg 3a 51000 Rijeka, Rijeka, Croatia
Erste Asset Management GmbH	Am Belvedere 1, 1100 Vienna, Austria
Erste Bank der oesterreichischen Sparkassen AG	Am Belvedere 1, 1100 Vienna, Austria
Erste Bank Hungary Zrt	Népfürdő u. 24-26, Budapest, Hungaria
Erste Befektetesi Zrt.	Nepfuerd Utca 24-26. 8. EM, Budapest, Hungaria
Erste Group Card Processor d.o.o.	Radnička cesta 45, Zagreb, Croatia
Erste Group Immorent ČR s.r.o.	Budějovická 1518/13a, Prague 4, Czech Republic
Erste Group Immorent GmbH	Am Belvedere 1, 1100 Vienna, Austria
Erste Group IT HR društvo s ogranicenom odgovornošcu za usluge informacijskih tehnologija	Jurja Haulika 19/A, Bjelovar, Croatia
Erste Digital GmbH	Am Belvedere 1, 1100 Vienna, Austria
Erste Group Shared Services s.r.o.	Národní třída 44, Hodonín, Czech Republic
Erste Securities Polska S.A.	ul. Królewska 16, Warsaw, Polland
Intermarket Bank AG	Am Belvedere 1, 1100 Vienna, Austria
Procurement Services CZs.r.o.	Budějovická 1912/64b, Prague 4, Czech Republic
Slovenská sporiteľňa a.s.	Tomášikova 48, Bratislava, Slovak Republic
Epsilon Immorent s.r.o.	Budějovická 1518/13a, 14000 Prague 4, Czech Republic
Omega Immorent s.r.o.	Budějovická 1518/13a, 14000 Prague 4, Czech Republic
Österreichische Sparkassenakademie Gmbh	Am Belvedere 1, 1100 Vienna, Austria

Controlled by Česká Spořitelna	Address
BP Budějovická, s. r. o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
BP Olbrachtova, s. r. o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
BP Poláčkova, s. r. o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
Budějovická Development, s.r.o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
CEE Property Development Portfolio 2 a.s.	Budějovická 1912/64B, Prague 4, Czech Republic
CPDP 2003 s.r.o.	Budějovická 1912/64B, Prague 4, Czech Republic
Czech and Slovak Property Fund B.V.	Prins Bernhardplein 200, Amsterdam, Netherlands
Česká spořitelna - penzijní společnost, a.s.	Poláčkova 1976/2, Praha 4, Prague Republic
ČS NHQ, s.r.o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
ČS Seed Starter, a.s.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
Erste Grantika Advisory, a.s.	Jánská 448/10, Brno, Czech Republic
Factoring České spořitelny, a.s.	Budějovická 1518/13B, Prague 4, Czech Republic
Holding Card Service s.r.o.	Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
Leasing České spořitelny, a.s.	Budějovická 1912/64B, Prague 4, Czech Republic
MOPET CZ a.s. v likvidaci	Budějovická 1518/13a, Prague 4, Czech Republic
REICO investiční společnost České spořitelny, a.s.	Antala Staška 2027/79, Prague 4, Czech Republic
Stavební spořitelna České spořitelny, a.s.	Vinohradská 180/1632, Prague 3, Czech Republic
Dostupné bydlení České spořitelny, a.s.	Budějovická 1518/13b, 140 00 Prague 4, Czech Republic
DINESIA a.s.	Střelničná 1680/8, 182 00 Prague 8, Czech Republic
s Autoleasing SK, s.r.o	Vajnorská 100/A 831 04 Bratislava, Slovakia

D Structure of Relations between Related Parties, Role of the Controlled Party, Method and Means of Control

Česká spořitelna is a member of the Erste Group, with the ultimate parent being Erste Group Bank. The Česká spořitelna Financial Group ("FSČS") is a business grouping of legal entities in which Česká spořitelna is the controlling party, within the meaning of the applicable provisions of Act No. 90/2012 Coll., on business corporations and cooperatives (the Corporations Act) and other members of FSČS are the controlled parties. The FSČS is the group formed for the purpose of attaining long-term prosperity and stability. The structure of relations in the Erste Group and in the FSČS is graphically depicted in Sections A to C.

FSČS members apply a uniform group management system, whose goal is to ensure the influence of the managing party in advancing individual group policies and in the policy management of major components or activities in the group's business. The uniform group management system is embodied primarily in the group standards.

Criteria for including a company into the FSČS are as follows:

1. a comprehensive offer of financial and complementary services for target client segments,
2. a high level of cooperation and synergies,
3. shared distribution and communication channels,
4. co-responsibility for FSČS's consolidated results,
5. shared services.

FSČS members form the foundation of the consolidated group unit that is characterised by group strategic goals, consolidated results and reports, consolidated risk management rules, regulatory restrictions, and consolidated supervision.

Relations with the related parties bring benefits for Česká spořitelna in terms of the use of available resources (human, technical, material) in the field of sales and supporting activities, knowledge of back-ground and the systems used, etc. Unified systems and processes then enable broad synergies across the related parties.

Centralisation of business support activities of FSČS members could involve a certain level of risk in exceptional situations; to that end, Česká spořitelna has drawn up and tests Business Continuity Plans.

E Transactions with Related Parties

Česká spořitelna identified relationships with the related parties listed in Sections B and C and grouped them into the following categories.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Item of Income statement in million CZK	Type of contract	Controlling Party	Other Related Parties
Net interest income	Agreements on the provision of loans, term deposits, maintenance of current accounts, overdrafts, accepted loans, agreements on the sale of bonds and other securities issued by Česká spořitelna, a.s.	(10)	669
Net fee and commission income	Agreements on the provision of loans, term deposits, maintenance of current accounts, overdrafts, accepted loans, agreements on the sale of bonds and other securities issued by Česká spořitelna, a.s.	1	2
Dividend income	Related party share distribution agreements.	-	3
Net trading result	Agreements on the provision of derivatives for trading, contracts for the acquisition of derivatives for trading.	13	-
Rental income from investment properties & other operating leases	Lease and rental agreements and other non-banking contracts.	-	(84)
Other administrative expenses	Non-banking contracts.	(140)	(891)
Other operating result	Non-banking contracts.	33	155

Related Party Transactions Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Item of Statement of Financial Position in million CZK	Type of contract	Controlling Party	Other Related Parties
Cash and cash balances	Agreement on the establishment and maintenance of current, term, deposit and investment accounts.	1	39
Financial assets held for trading	Agreements on the acquisition of bonds and similar securities, contracts for the acquisition of derivatives for trading.	20	-
Non-trading financial assets at fair value through profit and loss	Loan agreement, agreement on long-term deposits, agreement on the establishing and maintenance of current accounts, overdrafts.	1	-
Financial assets at amortised costs	Loan agreement, agreement on long-term deposits, agreement on the establishing and maintenance of current accounts, overdrafts.	1	29
Hedge accounting derivates	Hedging derivative contracts	3,000	-
Right to use assets	Non-banking contracts.	-	680
Financial lease receivables, trade and other receivables, other assets	Non-banking contracts.	5	295

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Item of Statement of Financial Position in million CZK	Type of contract	Controlling Party	Other Related Parties
Financial liabilities held for trading	Derivative trading agreements	11	-
Financial liabilities at amortised costs	Agreement on the establishment and maintenance of current and term accounts, contracts on the sale of bonds and other securities issued by Česká spořitelna, a.s.	131	3
Hedge accounting derivates	Derivative derivative contracts	3	-
Other liabilities	Non-banking contracts.	-	771

Other Banking and Trading Relationships with Related Parties

Item out of Statement of financial position/ Income statement in million CZK	Type of contract	Controlling Party	Other Related Parties
Guarantees Provided	Guarantee agreements	162	10
Net position of derivatives notional amount	Derivative contracts	647	-
Equity investments with Related Parties	Related party share distribution agreements	4	-
Dividends	Decision of the General Meeting of 11 April 2022	25	3
Additional Tier 1 Notes interest	Decision of the General Meeting of 11 April 2022	421	-

F Contractual Relationships

In previous accounting periods, Česká spořitelna, a.s. entered into agreements of a banking and non-banking nature with related parties listed in Part B and Part C, whose financial statements for the accounting period are set out in Part E. All banking agreements were concluded under standard conditions according to the ČS price list. with regard to the creditworthiness of individual clients within the conditions usual in business or interbank transactions, and all non-bank contracts were concluded under standard business conditions. During the accounting period, ČS did not incur any damage from these contracts.

AGREEMENTS BETWEEN THE COMPANY AND THE CONTROLLING ENTITY, WHICH WERE APPLICABLE AT THE APPLICABLE PERIOD CONTRACTUAL

RELATIONS OF THE STANDARD BANKING CHARACTER

Contractual party	Name	Description	Date	Detriment
Erste Group Bank AG	GMRA (SFTR)	ESTR, SFTR, BAIL IN	2021	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ESTR, BAIL IN	2021	None incurred
Erste Group Bank AG	Change OO, PV without IDOP	Process Agent - change notification	2021	None incurred
Erste Group Bank AG	Other	MASTER AGREEMENT ON CERTIFICATES OF DEPOSIT ČESKÁ SPOŘITELNA, A.S.	2020	None incurred
Erste Group Bank AG	Other	Clearing Framework Agreement	2020	None incurred
Erste Group Bank AG	Other	Annex to Clearing Framework Agreement ('Framework Agreement') for indirect clearing	2020	None incurred
Erste Group Bank AG	Cash Management	EUR Agreement on Current Account	2020	None incurred
Erste Group Bank AG	Cash Management	Client Account Agreement (nostro accounts)	2020	None incurred
Erste Group Bank AG	Other	Authorized persons for concluding transactions	2019	None incurred
Erste Group Bank AG	GMSLA	Global Master Securities Lending Agreement	2019	None incurred
Erste Group Bank AG	Cash Management	CZK Agreement on Current Account	2019	None incurred
Erste Group Bank AG	Other	Electronic Trading Agreement - ČS is a client	2018	None incurred
Erste Group Bank AG	Other	Electronic Trading Agreement - EGB is a client	2018	None incurred
Erste Group Bank AG	Cash Management	Business24 - Light	2018	None incurred
Erste Group Bank AG	GMRA	Global Master Repurchase Agreement	2017	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Variation Margin CSA	2017	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Notification of the change of the counterparty 's registered office	2016	None incurred
Erste Group Bank AG	Other	Zentai + Böwing signature patterns	2015	None incurred
Erste Group Bank AG	Other	Agent in England	2013	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ISDA EMIR protocol	2013	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Amendment - change in issue. allowances	2013	None incurred
Erste Group Bank AG	Commission agreement	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	2011	None incurred
Erste Group Bank AG	Custody	Global Custody Agreement	2010	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ISDA - Annex on Emission Allowances	2009	None incurred
Erste Group Bank AG	Commission agreement	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	2007	None incurred
Erste Group Bank AG	Other	II. AGREEMENT on the issuance and use of debit cards of Česká spořitelna, a.s.	2007	None incurred
Erste Group Bank AG	Other	Framework Agreement for Handling Options & Futures	2005	None incurred
Erste Group Bank AG	Other	Pledge Agreement	2003	None incurred
Erste Group Bank AG	Commission agreement	Mandate Agreement on Entering into Derivate Transaction	2003	None incurred
Erste Group Bank AG	Other	Agreement on Fees	2002	None incurred
Erste Group Bank AG	Other	Commission Agent´s Contract on Arranging Purchase or Sale	2002	None incurred
Erste Group Bank AG	Other	Agreement on Classes of Fully Capitalized Units	2002	None incurred
Erste Group Bank AG	Other	Contract On Arranging for the Purchase Price Playments for the Transfer of Securities	2001	None incurred
Erste Group Bank AG	Other	Contract On intermediation of Sale and Purchase of Securities	2001	None incurred
Erste Group Bank AG	Other	Custody Agreement with Česká Spořitelna, a.s.	2001	None incurred

CONTRACTUAL RELATIONS OF THE STANDARD NON – BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
Erste Group Bank AG	GMSLA	SFTR, BAIL IN, ESTR FALL BACK	2021	None incurred
Erste Group Bank AG	Other	Omnibus Reporting Agreement	2021	None incurred
Erste Group Bank AG	Other	MIFID II Indirect clearing account type selection for ETD	2020	None incurred
Erste Group Bank AG	Other	Service Level Agreement	2019	None incurred
Erste Group Bank AG	Other	Cooperation agreement-Hong Kong branch	2019	None incurred
Erste Group Bank AG	Other	Service Level Agreement MIFID II	2018	None incurred
Erste Group Bank AG	Syndicated financing	Funded Subparticipation Agreement dated October 29, 2018 between Erste Group Bank AG and ČS a.s.	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement - Amendment Nr. 7	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement - Amendment 6	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement - Amendment 5	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement - Amendment 4	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement - Appendix No. 1	2017	None incurred
Erste Group Bank AG	Syndicated financing	Funded Subparticipation Agreement dated 27 October 2017 between Erste Group Bank AG and ČS a.s.	2017	None incurred
Erste Group Bank AG	Other	Service Level Agreement for Care Order Execution	2016	None incurred
Erste Group Bank AG	Other	Distribution Agreement	2013	None incurred
Erste Group Bank AG	Other	Memorandum of understanding	2013	None incurred
Erste Group Bank AG	Other	cooperation agreement	2011	None incurred
Erste Group Bank AG	Other	Sub-Distribution Agreement	2011	None incurred
Erste Group Bank AG	Other	AML - Credit- / Fin. Ins. Working Instruction	2010	None incurred
Erste Group Bank AG	Other	Cooperation Agreement	2009	None incurred
Erste Group Bank AG	Other	Cooperation Agreement - Profit Transfer Matrix	2008	None incurred
Erste Group Bank AG	Other	service level agreement	2008	None incurred
Erste Group Bank AG	Other	notice of change of contact details	2005	None incurred

G Contracts concluded between the company and other persons controlled by the controlling entity

CONTRACTUAL RELATIONS OF THE STANDARD BANKING CHARACTER

Contracts for the establishment and maintenance of current, term, deposit and investment accounts

The Bank provided the following banking services in various currencies in the given accounting period. For these banking services, the contracting parties paid a contractual fee in the form of fees and interest in the case of a debit balance on the account.

- **Agreement on the establishment and maintenance of current accounts (incl. escrow accounts)** - BP Budějovická, s.r.o. (4x), BP Olbrachtova, s.r.o. (4x), BP Poláčkova, s.r.o. (4x), Budějovická Development, s.r.o. (1x), CEE Property Development Portfolio 2 a.s. (1x), Czech and Slovak Property Fund B.V. (1x), CS NHQ, s.r.o. (2x), Česká spořitelna - penzijní společnost, a.s. (1x), DINESIA a.s. (1x), Erste Asset Management GmbH, Czech branch (1x), Factoring České spořitelny, a.s. (1x), Holding Card Service s.r.o. (1x), MOPET CZ a.s. (2x), REICO investiční společnost České spořitelny, a.s. (1x), Stavební spořitelna České spořitelny, a.s. (1x), Leasing ČS, a.s. (1x), ČS Seed Starter, a. s. (1x), Epsilon Immorent s.r.o., (1x), Erste Befektetesi Zrt. (1x), Erste Grantika Advisory a.s. (1x), Erste Group Immorent ČR s.r.o. (1x), Intermarket Bank AG (1x), Omega Immorent s.r.o. (1x), Dostupné bydlení Ceské sporitelny, a.s. (2x), Erste Group Shared Services, s.r.o. (1x), Erste Bank der oesterreichischen Sparkassen AG (1x)
- **Agreement on the establishment and maintenance of a term account** – Česká spořitelna - penzijní společnost, a.s. (1x), REICO investiční společnost České spořitelny, a.s. (1x), CEE Property Development Portfolio 2 a.s. (1x), Erste Group Immorent CR s.r.o. (1x), BP Olbrachtova, s. r. o. (1x), BP Polackova, s. r. o. (1x), BP Budejovicka, s. r. o. (1x), Budejovicka development, s. r. o. (1x), CS NHQ, s.r.o. (1x), CPDP 2003 s.r.o. (1x)

- **Margin accounts** - Erste Asset Management GmbH, pobočka ČR (in respect of mutual funds 6x)
- **International cash pooling** – Slovenská sporiteĺňa, a.s.;Erste Group Bank AG;Erste & Steiermarkische Bank D.D.;Erste Bank Hungary Zrt.;Erste Bank der oesterreichischen Sparkassen AG;Banca Comerciala Romana s.a.

Loans, guarantee and other receivables

In the given accounting period, the Bank provided performance based on agreements related to credit products: loans, placement of term deposits, interbank loans, permitted overdraft and guarantees. The contracting parties paid contractual fees and interest for these loan products.

Loans and other receivables

In the given accounting period, the Bank provided performance on the basis of agreements related to credit products: loans, placement of term deposits, interbank loans, permitted overdraft. The contracting parties paid contractual fees and interest for these loan products.

- **Loan or guarantee agreements** - Leasing České spořitelny a.s. (2x), Factoring České spořitelny a.s. (1x), ČS Seed Starter, a. s. (1x), BP Olbrachtova, s. R. O. (1x), BP Poláčková, s. r. o. (1x), BP Budějovická, s. r. o. (1x), Erste Group Immorent ČR s.r.o. (1x), REICO investiční společnost České spořitelny, a.s. (1x)
- **Overdraft agreement** - Erste Asset Management GmbH, pobočka ČR (in respect of mutual funds 15x), Erste Group Shared Services, s.r.o. (1x)
- **Collateral agreements** - BP Budějovická, s. r. o. (5x), BP Olbrachtova, s. r. o. (5x), BP Poláčkova, s. r. o. (5x), Budějovická Development, s. r. o (3x), Erste Asset Management GmbH, pobočka ČR (1x)

Investment and investment services

In the given accounting period, the Bank provided performance on the basis of an agreement on the purchase or sale of investment instruments, agreements on custody and deposit of securities, settlement of trades in investment instruments, securities management, depository activities and records of book-entry units. The consideration provided by the counterparties consisted of fees and contractual fees.

- **Framework agreement on trading on the financial market** - CEE Property Development Portfolio 2 a.s. (1x), Czech and Slovak Property Fund B.V. (1x), Erste Asset Management GmbH, branch of the Czech Republic (3x), Česká spořitelna - penzijní společnost, a.s. (1x), CS NHQ, s.r.o. (1x), REICO investiční společnost České spořitelny, a.s. (3x), Stavební spořitelna České spořitelny, a.s. (2x), Leasing České spořitelny, a.s. (1x)
- **Custody agreements (incl. keeping separate records)** - Česká spořitelna - penzijní společnost, a.s. (1x), Erste Asset Management GmbH, branch of the Czech Republic (3x), REICO investiční společnost České spořitelny, a.s. (5x), Stavební spořitelna České spořitelny, a.s. (1x)

Other banking services

In the given accounting period, the Bank provided performance on the basis of contracts relating to other banking services, such as contracts for the provision of internet banking services, contracts for the provision of advisory services. The consideration provided by the counterparties consisted of fees and contractual fees.

- **Safety deposit box** - Factoring České spořitelny, a.s. (1x), Stavební spořitelna České spořitelny, a.s. (1x), Erste Grantika Advisory, a.s. (1x), Leasing České spořitelny, a.s. (1x), Česká spořitelna - penzijní společnost, a.s. (1x)
- **Internet banking** – BP Budějovická, s. r. o. (1x), BP Olbrachtova, s. r. o., BP Poláčkova, s. r. o. (1x), Budějovická Development, s. r. o (1x), ČS NHQ, s.r.o. (1x), Stavební spořitelna České spořitelny, a.s. (2x), Holding Card Service s.r.o. (1x), Czech and Slovak Property Fund B.V. (1x), Factoring České spořitelny, a.s. (1x), Stavební spořitelna České spořitelny, a.s. (1x), Česká spořitelna - penzijní společnost, a.s., (1x), Erste Group Shared Services, s.r.o. (1x)

CONTRACTUAL RELATIONS OF THE STANDARD NON-BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
BP Budějovická, s. r. o.	Headquarter service contract	Residence	2022	None incurred
BP Budějovická, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Budějovická, s. r. o.	Agreement on subordination of BP Budějovická, s.r.o.	Subordination agreement	2020	None incurred
BP Olbrachtova, s. r. o.	Headquarter service contract	Residence	2022	None incurred
BP Olbrachtova, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Olbrachtova, s. r. o.	Agreement on subordination of BP Olbrachtova s.r.o.	Subordination agreement	2020	None incurred
BP Poláčkova, s. r. o.	Headquarter service contract	Residence	2022	None incurred
BP Poláčkova, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on subordination of BP Poláčkova s.r.o.	Subordination agreement	2020	None incurred
Budějovická Development, s. r. o	Agreement on subordination of BP Budějovická, s.r.o.	Subordination agreement	2020	None incurred
Budějovická Development, s. r. o	Agreement on subordination of BP Olbrachtova, s.r.o.	Subordination agreement	2020	None incurred
Budějovická Development, s. r. o	Agreement on subordination of BP Poláčkova s.r.o.	Subordination agreement	2020	None incurred
Budějovická Development, s. r. o	Headquarter service contract	Residence	2019	None incurred
Budějovická Development, s. r. o	Cooperation agreement	Real estate transaction cooperation	2019	None incurred
Budějovická Development, s. r. o	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
CEE Property Development Portfolio 2 a.s.	Non-residential lease agreement (including amendments)	Lease of commercial space	2018	None incurred
CEE Property Development Portfolio 2 a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
CEE Property Development Portfolio 2 a.s.	Service contract	Provision of telephone and data services	2014	None incurred
CEE Property Development Portfolio 2 a.s.	Agreement on the provision of a share premium of the company	Providing share premium to the company capital	2022	None incurred
CPDP 2003 s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Česká spořitelna - penzijní společnost, a.s.	Personal Data Processing Agreement (GDPR)	Rights and obligations of the parties in the field of personal data processing	2018	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the lease of business premises	Office space for rent in Veselí nad Moravou	2018	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the provision of outsourcing services	Outsourcing of 1. securing certain obligations of the pension company related to fund management, 2. bookkeeping of pension, mutual funds and transformed fund, 3. back office activities	2018	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred

Contractual party	Name	Description	Date	Detriment
Česká spořitelna - penzijní společnost, a.s.	Agency agreement	Sales representation for the branch network	2016	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the lease of premises serving Česká spořitelna, a.s.	Office for rent in Jihlava	2015	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the lease of premises serving Česká spořitelna, a.s.	Office for rent in Pilsen	2015	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the provision of outsourcing services	Outsourcing of the processing of requests for cooperation and the processing of execution orders	2014	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the lease of premises serving Česká spořitelna, a.s. for business	Commercial space for rent on Antala Staška Street, Prague	2014	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the provision of outsourcing services	Outsourcing of processing and payment of commissions and securing activities in product support and management of central partners	2013	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on providing activities in the field of information technology	Outsourcing of IT activities	2014, 2016, 2018	None incurred
Česká spořitelna - penzijní společnost, a.s.	Cooperation agreement	Participation in the financing of the Pension Solutions 2 campaign	2011	None incurred
Česká spořitelna - penzijní společnost, a.s.	Post-warranty service agreement	Post-warranty hardware service	2011	None incurred
Česká spořitelna - penzijní společnost, a.s.	Master Agreement for the Provisioning of IT Services for PFČS post-warranty service	Provision of cooperation agreement	2011	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on mutual exchange of information through special access to the CLIENT application	Using the CLIENT application service	2009	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the lease of commercial space	Premises for rent - archive, Olbrachtova street, Prague	2006	None incurred
Česká spořitelna - penzijní společnost, a.s.	Cooperation agreement	Providing CS Client Center services for CSPS	2005	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on access to the ČS Intranet	Intranet access for ČSPS employees	2003	None incurred
Česká spořitelna - penzijní společnost, a.s.	Confidential Information Agreement	Protection of confidential information between partners	2003	None incurred
Česká spořitelna - penzijní společnost, a.s.	Software License and Support Terms Agreement	Application Tableua	2019	None incurred
Česká spořitelna - penzijní společnost, a.s.	IT cost sharing agreement for the Reporting Module and the Limits Module	SW Arbes Topas	2019	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the provision of outsourcing services	Outsourcing of selected activities	2020	None incurred

Contractual party	Name	Description	Date	Detriment
Česká spořitelna - penzijní společnost, a.s.	Agreement on payments arrangement of ČSPS clients	Responsibllites for payments to ČSPS clients	2020	None incurred
Česká spořitelna - penzijní společnost, a.s.	Service contract	Sending tax receipts, confirmation letters	2003	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the lease of non-residential premises and movables	Lease of the Poláčkova 1976/2 building, Prague	2000	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract on communication services	External communication	2021	None incurred
Česká spořitelna - penzijní společnost, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
ČS NHQ, s.r.o.	2x Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022	None incurred
ČS NHQ, s.r.o.	Contract for the provision of IT services	Provision of IT services	2019	None incurred
ČS NHQ, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Olbrachtova	2018	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Trianon	2018	None incurred
ČS NHQ, s.r.o.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
ČS Seed Starter, a. s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
ČS Seed Starter, a. s.	4x Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022	None incurred
ČS Seed Starter, a. s.	Agreement on providing activities in the field of information technology	Outsourcing of IT activities	2022	None incurred
ČS Seed Starter, a. s.	Cooperation agreement	Mutual cooperation and synergies in relation to the financing of the client application	2022	None incurred
ČS Seed Starter, a. s.	Contract for the lease of business premises	Lease of business premises	2021	None incurred
ČS Seed Starter, a. s.	Personal Data Processing Agreement (GDPR)	Personal Data Processing	2021	None incurred
ČS Seed Starter, a. s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Dostupné bydlení České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Dostupné bydlení České spořitelny, a.s..	3x Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022	None incurred

Contractual party	Name	Description	Date	Detriment
Dostupné bydlení České spořitelny, a.s..	Agreement on sublease of premises used for business	Sublease space used for business	2022	None incurred
Dostupné bydlení České spořitelny, a.s.	Agreement on the sublease of a parking space	Sublease a parking space	2022	None incurred
Dostupné bydlení České spořitelny, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Erste & Steiermarkische Bank D.D.	SA FASCOR (incl. amendments)	Provision of services	2016, 2018, 2022	None incurred
Erste & Steiermarkische Bank D.D.	Utilization of analytics	Analytical tools	2019	None incurred
Erste Asset Management GmbH, branch ČR	Service Level Agreement (SLA) - Business cooperation	Business cooperation in form of support of mutual funds sale	2017 - 2019	None incurred
Erste Asset Management GmbH, branch ČR	Personal Data Processing Agreement (GDPR)	GDPR to the DPM contract	2018	None incurred
Erste Asset Management GmbH, branch ČR	Outsourcing Services Agreement (Including Supplements)	The subject of the agreement is the provision of outsourcing services by Česká spořitelna to Erste Asset Management GmbH, Czech Republic, in selected areas.	2020	None incurred
Erste Asset Management GmbH, branch ČR	Agreement on the provision of outsourcing services for the area of asset management of ČS clients (incl. Appendices)	DPM contract	2018	None incurred
Erste Asset Management GmbH, branch ČR	Agreement on distribution of mutual funds and provision of related services (incl. Amendments)	Distribution agreement setting out the conditions of services relating to collective investment	2017	None incurred
Erste Asset Management GmbH, branch ČR	Personal Data Processing Agreement (GDPR)	GDPR to the contract on keeping separate records	2017	None incurred
Erste Asset Management GmbH, branch ČR	Contract for sublease of premises used for business (Trianon) incl. Appendices	Sublease Trianon	2016	None incurred
Erste Asset Management GmbH, branch ČR	Risk management co-operation agreement	Ensuring synergies in risk management	2016	None incurred
Erste Asset Management GmbH, branch ČR	Agreement on securing selected back-office activities (incl. Amendments)	Providing selected back-office activities	2016	None incurred
Erste Asset Management GmbH, branch ČR	Storage contract	Archival storage	2015	None incurred
Erste Asset Management GmbH, branch ČR	Contract for remuneration for the provision of IT services (including amendments)	IT service agreement (including amendments)	2013	None incurred
Erste Asset Management GmbH, branch ČR	Agreement on ensuring the daily calculation of PL's equity, calculation of current unit values, mutual fund accounting and related affairs. Activities (incl. Supplements)	Ensuring NAV calculation and fund accounting	2012	None incurred

Contractual party	Name	Description	Date	Detriment
Erste Asset Management GmbH, branch ČR	IT cost sharing agreement for the Reporting Module and the Arbes Topas SW Limits Module	Cost sharing for the implementation of the reporting module and the limits module and for licenses (between EAM, ČS, REICO and ČSPS)	2019	None incurred
Erste Asset Management GmbH, branch ČR	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of Outsourcing Services - HR	2018	None incurred
Erste Asset Management GmbH, branch ČR	Contract for hardware lease	Hardware rent	2020	None incurred
Erste Asset Management GmbH, branch ČR	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Erste Asset Management GmbH, branch ČR	Cooperation agreement (call center Prostějov)	Providing services of call centrum Prostějov	2005	None incurred
Erste Bank der oesterreichischen Sparkassen AG	Group master agreement - Standard Software and Technical Support	Technical support	2008	None incurred
Erste Bank Hungary Zrt	SA FASCOR	Provision of services	2018	None incurred
Erste Digital GmbH	50x OSOW - Operating statement of work, incl. amendments (for various applications)	Software maintenance and operations support	2016-2022	None incurred
Erste Digital GmbH	28x PSOW - Project statement of work, incl. amendments (for various applications)	Software project development	2020-2022	None incurred
Erste Digital GmbH	Purchase agreement for hardware and its accessories	HW purchase	2019	None incurred
Erste Digital GmbH	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Erste Digital GmbH	2x TOM - Target operating model George	Target operation model	2020, 2022	None incurred
Erste Digital GmbH	3x Data processing agreement	Data processing	2019	None incurred
Erste Digital GmbH	Contract for the provision of IT services	IT services	2017	None incurred
Erste Digital GmbH	MSA - Master Service Agreement	Provision of services	2021	None incurred
Erste Grantika Advisory, a.s.	Contract for the provision of consulting services	Provision of consulting services to Česká spořitelna	2022	None incurred
Erste Grantika Advisory, a.s.	Sub-license agreement	Sublicense agreement - logo	2020	None incurred
Erste Grantika Advisory, a.s.	Non-residential sublease agreement	Sublease Campus, Palachovo	2020	None incurred
Erste Grantika Advisory, a.s.	Contract for the lease of commercial space	Rental warehouse contract Jánská 10, Brno	2020	None incurred
Erste Grantika Advisory, a.s.	The insurance contract	Management insurance	2020	None incurred
Erste Grantika Advisory, a.s.	Parking space sublease agreement 2020/2300/428	Parking Prague, Trianon	2020	None incurred

Contractual party	Name	Description	Date	Detriment
Erste Grantika Advisory, a.s.	Economic risk insurance - sml.7721139436	Economic risk insurance	2018	None incurred
Erste Grantika Advisory, a.s.	Consulting contract No. OP12 / 0081 / P01	Inostart	2012	None incurred
Erste Grantika Advisory, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Erste Grantika Advisory, a.s.	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	None incurred
Erste Grantika Advisory, a.s.	Provision of IT services (including supplements)	Operation of IT services and support	2013, 2017	None incurred
Erste Grantika Advisory, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Erste Group Card Processor d.o.o.	Data processing agreement	Provision of services	2018	None incurred
Erste Group Card Processor d.o.o.	Card Processing Services Agreement	Services related to card processing	2016, 2018, 2021	None incurred
Erste Group Card Processor d.o.o.	Gateway service contract	Service of data gateaway toward international card payment schemes VISA and MasterCard	2014, 2022	None incurred
Erste Group Immorent ČR s.r.o.	Agreement on the provision of IPT services	Providing IP telephone services for the operation of telephone services and infrastructure operation	2014	None incurred
Erste Group Immorent ČR s.r.o.	Contract for the provision of outsourcing services for the area of property management	Property management	2013	None incurred
Erste Group Immorent GmbH	Cooperation Framework Agreement: Erste Group Entities and EGI	Cooperation services	2011	None incurred
Erste Group IT HR d.o.o.	PDS – Performance and Development System	Software maintenance and operations support	2014, 2022	None incurred
Erste Group IT HR d.o.o.	Data processing agreement (PDS)	Data processing	2022	None incurred
Erste Group Shared Services, s.r.o.	Provision of IT services (including supplements)	Operation of IT services and support	2013, 2014, 2016	None incurred
Erste Group Shared Services, s.r.o.	Service level agreement	Providing selected services	2010	None incurred
Erste Group Shared Services, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Erste Group Shared Services, s.r.o.	Contract for the provision of IT services - HW lease	HW rental	2020	None incurred
Erste Group Shared Services, s.r.o.	Non-residential lease agreement (including amendments)	Rental of non-residential premises	2010, 2016	None incurred
Erste Group Shared Services, s.r.o.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Factoring České spořitelny, a.s.	Agreement on the provision of IPT services	Providing IP telephone services for the	2014, 2016	None incurred

Contractual party	Name	Description	Date	Detriment
		operation of telephone services and infrastructure operation		
Factoring České spořitelny, a.s.	Cooperation agreement	Receivables monitoring	2013-2017	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Exchange of information through the CLIENT application as amended	2008, 2019	None incurred
Factoring České spořitelny, a.s.	Subparticipation agreements	Risk participation in selected clients, as amended	2005-2018	None incurred
Factoring České spořitelny, a.s.	Service contract	Agreement on the assignment of the right to exercise the right to use the company logo, as amended	2002-2006	None incurred
Factoring České spořitelny, a.s.	License agreements	Software License and Support Terms Agreement - Tableau server	2019	None incurred
Factoring České spořitelny, a.s.	Lease agreement	Sublease of parking spaces agreement - Trianon	2019	None incurred
Factoring České spořitelny, a.s.	Lease agreement	Sublease of non-residential premises - Budějovická 1912 / 64b	2019	None incurred
Factoring České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Factoring České spořitelny, a.s.	Agreement on the processing of personal data	Personal data processing agreement - GDPR in relation to the monitoring of receivables and leases	2018	None incurred
Factoring České spořitelny, a.s.	Subparticipation agreement	Framework agreement on subparticipation for reverse factoring	2018	None incurred
Factoring České spořitelny, a.s.	License agreement	Use of the "Sparkassen" brand	2017	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Agreement on business cooperation in the area of approval of factoring transactions	2017	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Verification of pledged invoices; monitoring and evaluation of clients / pledges.	2015	None incurred
Factoring České spořitelny, a.s.	Service contract	Created system environment of Linux server farm.	2010	None incurred
Factoring České spořitelny, a.s.	Service contract	Agreement on the use of the ISIR_CS application and its development, support and operation	2009	None incurred

Contractual party	Name	Description	Date	Detriment
Factoring České spořitelny, a.s.	Cooperation agreement	Resolution of risky receivables	2009	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Restructuring factoring cooperation agreement	2009	None incurred
Factoring České spořitelny, a.s.	IT cost sharing agreement	Sharing of IT costs for the supply of data to Erste Group, provision of data discovery services and statutory and risk reporting	2022	None incurred
Factoring České spořitelny, a.s.	Agreement on issuing banking cards	Banking cards issuing	2005-2018	None incurred
Factoring České spořitelny, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Factoring České spořitelny, a.s.	Agreement on access to the ČS Intranet	Intranet access for Factoring employees	2003	None incurred
Factoring České spořitelny, a.s.	Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022	None incurred
Holding Card Service s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Leasing České spořitelny, a.s.	Agreement on mutual exchange of information through special access to the CLIENT application (including amendments)	Using the CLIENT application	2008-2018	None incurred
Leasing České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Leasing České spořitelny, a.s.	Non-residential sublease agreement	Sublease of non-residential premises in Prague 4, Budějovická 13B, Trianon	2014	None incurred
Leasing České spořitelny, a.s.	Contract for the lease of business premises	Commercial space for rent, Prague 4, Antala Staška	2014	None incurred
Leasing České spořitelny, a.s.	Contract for the provision of IT services	Provision of HW and SW infrastructure	2014	None incurred
Leasing České spořitelny, a.s.	Framework order agreement concerning the portfolio of receivables	Receivables portfolio management	2022	None incurred
Leasing České spořitelny, a.s.	Business Cooperation Agreement	Commission	2006	None incurred
Leasing České spořitelny, a.s.	Business Cooperation Agreement	Risk participation	2006	None incurred
Leasing České spořitelny, a.s.	Oracle Services and License Agreement	Oracle licence support	2013, 2019	None incurred
Leasing České spořitelny, a.s.	IT cost sharing agreement	Sharing of IT costs for the supply of data to Erste Group, provision of data discovery services and statutory and risk reporting	2020	None incurred
Leasing České spořitelny, a.s.	Software license and support agreement	Determination of the terms of use of the	2021	None incurred

Contractual party	Name	Description	Date	Detriment
		software, maintenance and servers		
Leasing České spořitelny, a.s.	Contract for the lease of a business premises	Rent of business premises - Prague	2017	None incurred
Leasing České spořitelny, a.s.	Contract for the lease of a business premises - ATM	Lease of premises to place and use an ATM	2017	None incurred
Leasing České spořitelny, a.s.	Framework Mandate Agreement	Monitoring of receivables portfolio	2012	None incurred
Leasing České spořitelny, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
MOPET CZ a.s.	Provision of IT services (including supplements)	Operation of IT services and support	2015, 2018	None incurred
MOPET CZ a.s.	Termination agreement on IT services	Termination of IT services	2022	None incurred
MOPET CZ a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
MOPET CZ a.s.	Termination agreement on outsourcing	Termination of outsourcing	2022	None incurred
MOPET CZ a.s.	Provision of IT - HW rent	HW rent	2021	None incurred
MOPET CZ a.s.	Termination agreement on HW rent	HW rent termination	2022	None incurred
MOPET CZ a.s.	Contract for the purchase of a business	Purchase of a remaining part of a business in Mopet	2022	None incurred
MOPET CZ a.s.	Trademark Transfer Agreement	Trademark transfer	2022	None incurred
Procurement Services CZ, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Procurement Services CZ, s.r.o.	Lease agreement (including amendments)	Rental of parking spaces in the Trianon building	2015-2017	None incurred
Procurement Services CZ, s.r.o.	Provision of IT services (including supplements)	Operation of IT services and support	2013, 2017	None incurred
Procurement Services CZ, s.r.o.	Contract for the lease of commercial space	Rental of non-residential premises	2015	None incurred
Procurement Services CZ, s.r.o.	Master Agreement for the Provision of Services	Provision of services in the area of purchasing, sourcing, managing contracts/orders.	2018, 2021	None incurred
Procurement Services CZ, s.r.o.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
REICO investiční společnost České spořitelny, a.s.	Agreement on ensuring the daily calculation of PL's equity, calculation of current values of PL and current values of investment fund shares and keeping fund accounting and related. tin. incl. supplements	Ensuring the daily calculation of PL's equity, calculation of the current values of PL and the current values of investment fund shares and bookkeeping of funds and related activities	2020, 2022	None incurred
REICO investiční společnost České spořitelny, a.s..	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred

Contractual party	Name	Description	Date	Detriment
REICO investiční společnost České spořitelny, a.s.	Sublicense Agreement	Using the new logo	2018	None incurred
REICO investiční společnost České spořitelny, a.s.	Agreement on providing activities in the field of information technology	Providing services in the field of information technology	2015	None incurred
REICO investiční společnost České spořitelny, a.s..	Contract for the provision of outsourcing services for the area of file services and company documentation	Activities related to the management of the company's archives	2014	None incurred
REICO investiční společnost České spořitelny, a.s.	Contract for the lease of business premises No. 2014/2310_02 / 1357	Sublease of non-residential premises to provide a replacement workplace	2014	None incurred
REICO investiční společnost České spořitelny, a.s.	Agreement on access to the ČS intranet	Providing access to the company's intranet to the ČS intranet	2007	None incurred
REICO investiční společnost České spořitelny, a.s.	Contract on distribution of share certificates and related services	Distribution of share certificats managed funds	2016	None incurred
REICO investiční společnost České spořitelny, a.s.	Agreement on provision of selected activities of the administrator of mutual funds	Providing back-office services	2022	None incurred
REICO investiční společnost České spořitelny, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Slovenská sporiteľňa, a.s.	License Agreement	License usage	2015	None incurred
Slovenská sporiteľňa, a.s.	Agreement on the processing and protection of confidential information and personal data	Protection of confidential information and personal data	2016	None incurred
Slovenská sporiteľňa, a.s.	Utilization of analytics	Analytical tools	2019	None incurred
Slovenská sporiteľňa, a.s.	Provision of communication and decentralized services	Provision of services	2018	None incurred
Slovenská sporiteľňa, a.s.	Aggregation API	Pilot and license	2018	None incurred
Slovenská sporiteľňa, a.s.	E-Commerce - Issuing	Provision of services	2018	None incurred
Slovenská sporiteľňa, a.s.	SA FASCOR (incl. ammendments)	Provision of services	2018	None incurred
Slovenská sporiteľňa, a.s.	Concern agreement (incl.ammendments)	Core banking systems utilization	2015, 2022	None incurred
Slovenská sporiteĺňa, a.s.;Erste Group Bank AG;Erste Group Bank AG;Banca Comerciala Romana s.a.;Global Payments, s.r.o.	Marketing Alliance Agreement	Marketing cooperation	2021	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract on the processing of personal data	Personal data processing	2021	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the lease of commercial space	Lease of non-residential premises, ČS branch at the SSČS headquarters	2018	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the lease of commercial space	Leaving non-residential premises (Central Education Team) for use	2018	None incurred
Stavební spořitelna České spořitelny, a.s.	Confidential Information Agreement	Protection of confidential information	2018	None incurred

Contractual party	Name	Description	Date	Detriment
Stavební spořitelna České spořitelny, a.s.	Application Access Agreement	Access to Visual Analytics	2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Service contract	LIC application services agreement	2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Outsourcing contract for internal audits	Outsourcing of internal audits in Stavební Spořitelna	2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Agency agreement	Developing activities aimed at concluding contracts for a building savings product	2016	None incurred
Stavební spořitelna České spořitelny, a.s.	IT Cooperation Agreement	Mutual cooperation in IT area	2016, 2019	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for sublease of office space and two parking spaces	Office space for rent and parking spaces in the Trianon building	2016	None incurred
Stavební spořitelna České spořitelny, a.s.	Service Agreement @ FACTURE 24	Modification of rights and obligations in the provision of the @ FAKTURA 24 service within the scope of the Business Conditions for the @ FAKTURA 24 ČS service; transfer of documents to electronic banking applications and other services specified in the conditions	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Sublease agreement for business premises	Sublease agreement for business premises	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
Stavební spořitelna České spořitelny, a.s.	DWH Data Transfer Agreement (including amendments)	Modification of mutual rights and obligations related to the transfer of Risk Data and SSČS Data and further handling of them	2015, 2017, 2018	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the provision of IPT services	Providing IP telephone services for the operation of telephone services and infrastructure operation	2015, 2017, 2019, 2021	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the access of Česká spořitelna, a.s. employees to the Intranet of Stavební spořitelna Česká spořitelna, a.s.	Enabling access to the Intranet	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Implementation agreement on commercial representation Personal account of Česká spořitelna	Implementation agreement on commercial representation Personal account of Česká spořitelna	2015	None incurred

Contractual party	Name	Description	Date	Detriment
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Cooperation in the operation of the CPS application (Central Workplace Sporoservis) to support the process of approving credit transactions	2014	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement - tripartite agreement (as amended)	Adjustment of cooperation - confirmation of Kooperativa's obligations as an insurer in favor of ČS or SSČS - encumbrance of the indemnity means	2014, 2016, 2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Payment brokerage agreement	Mediation of payments that SSČS pays to authorized persons	2013	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation in the operation of the REV module	Modification of the rights and obligations of the contracting parties from the use of the module for SSČS credit products	2013	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Cooperation in the field of processing SSČS secured loans	2011	None incurred
Stavební spořitelna České spořitelny, a.s.	Service Level Agreement	Provision of services - certificates and certification services	2009	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the conditions of using the Client application service (including amendments)	Determining the conditions for using the Client application service	2008, 2019	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the provision of services for the area of file and shredding services for product documentation	Services in the field of file and shredding services of product documentation	2008	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the lease of commercial space	Leaving non-residential premises (offices) to use	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Commission agreement on the administration of securities and the provision of settlement of trades in them	Securities asset management and revenue collection	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Power of Attorney	Power of attorney to conclude the "Agreement on the processing of acts in the field of building savings made through the direct banking services SERVIS 24"	2006	None incurred

Contractual party	Name	Description	Date	Detriment
Stavební spořitelna České spořitelny, a.s.	Intranet access agreement	Employee access to Česká spořitelna Intranet	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Data processing contract	Data processing, printing of forms, personalization, completion of shipments, wrapping and delivery to the Czech Post for sending	2005	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Collaboration in data transfer from XEF templates	2004	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the conditions of granting access	Modification of conditions to allow access to the Customer file	2003	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the assignment of the right to exercise the right to use the logo	Assignment of the right to exercise the right to use the logo and trade name	2001	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation	Agreement on cooperation in the operation of the Partner 24 service	2013	None incurred
Stavební spořitelna České spořitelny, a.s.	Framework insurance contract	Reporting of insurance contract, price allocation	2012, 2020	None incurred
Stavební spořitelna České spořitelny, a.s.	IT cost sharing agreement	Sharing of IT costs for the supply of data to Erste Group, provision of data discovery services and statutory and risk reporting	2020, 2021	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract on communication services	External communication	2021	None incurred
Stavební spořitelna České spořitelny, a.s.	Executive Agency Agreement for mortgage loans	Business cooperation in respect of mortgage loans	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Executive Agency Agreement for personal loans	Business cooperation in respect of personal loans	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Executive Agency Agreement for business loans	Business cooperation in respect of business loans	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Executive Agency Agreement for investment loans	Business cooperation in respect of investment loans	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Executive Agency Agreement for private business loans	Business cooperation in respect of private business loans	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the provision of an additional capital outside the share capital	Provision of additional capital outside of the share capital	2022	None incurred

Contractual party	Name	Description	Date	Detriment
Stavební spořitelna České spořitelny, a.s.	Agreement on the transfer of shares between SSČS and ČS	Transfer of shares between SSČS and ČS	2022	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022	None incurred

H Overview of Actions Performed at the Initiative of the Controlling Party

During the accounting period, no actions were taken at the direct initiative of the controlling entity, which would concern assets exceeding 10% of equity within the meaning of Section 82 of Act No. 90/2012 Coll., On Business Corporations, paragraph 2 d). The only exception is conduct made at the direct initiative of the controlling entity (in the form of the exercise of shareholder rights at the General Meeting), namely the payment of dividends specified in point E. The ratio of dividends paid to Česká spořitelna's average equity is 17.8%.

I Other Legal Acts

During 2022, there there was a liquidation and deletion from the Commercial Register of MOPET a.s., CS Property Investment Limited and REICO nemovitostní fond SICAV a.s..

Česká spořitelna did not accept or carry out any other legal actions in the interest or at the initiative of related parties during the accounting period.

J Other de facto Measures

Within Erste Group Bank, Česká spořitelna takes part in group projects whose common aim is to fully exploit the business potential of Central European markets in all segments as well as economies of scale and cost synergies, the concentration of support activities within the group, fulfilment of regulatory requirements in respect of being member of Erste Group and performance measurement transparency and comparability. These projects cover, for example, information technology, risk management, and service activity. Česká spořitelna incurred no detriment as a result of its involvement in the foregoing group projects.

K Conclusion

It can be concluded, based on the disclosed information and review of the legal relationships between Česká spořitelna and its related parties and also including the controlling party, that Česká spořitelna incurred no detriment as a result of contracts, other legal acts or other measures executed, effected or adopted by Česká spořitelna during the accounting period from 1 January 2022 to 31 December 2022 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 14 March 2023



Tomáš Salomon Chairman of the Board of Directors



Ivan Vondra Member of the Board of Directors



Česká spořitelna Financial Group

Česká spořitelna Financial Group

Overview of major members of the Česká spořitelna Financial Group. Unaudited figures reported in accordance with International Financial Reporting Standards (IFRS), unless otherwise stated

Stavební spořitelna České spořitelny, a.s.

Stavební spořitelna České spořitelny, a.s. – the Česká spořitelna Building Society – was established on 22 June 1994. Its registered office is at Antala Staška 1292/32, 140 00 Prague 4, it also operates under the brand "Buřinka" (the "Bowler Hat"). Its line of business is the provision of financial services pursuant to Act No. 96/1993 Coll., offering clients building savings with government support and a statutory right to a building savings loan. Česká spořitelna, a.s. has been its sole shareholder since the end of 2014.

As at the end of 2022, Stavební spořitelna České spořitelny had maintained approximately 126 thousand loan accounts, having lent its clients CZK 62.9 bn for obtaining better housing. It was maintaining over 594 thousand building savings accounts for its clients, with a target amount of nearly CZK 203 bn and current savings of CZK 62.0 bn.

Due to the economic situation in the Czech Republic and globally in 2022, the entire building society market noted a 50% year-on-year decline in lending. In contrary, the loan volume production of Stavební spořitelna České spořitelny was down by a mere 28% compared to 2021. In terms of the number of loan agreements concluded, there was a year-on-year decrease by 13%. Market-wide, the number of loan agreements concluded was down by 24% year-on-year. Buřinka, noted a year-on-year increase of 15% in building savings products, while the market noted only 10% increase.

2022 was also important in terms of marketing and communication. Buřinka focused on its goal of being the first choice in the financing of renovations. In this context, it created a Guide to Renovations for everyone who is modifying their home or planning to do so. It features practical tips on how to avoid making mistakes and go through the entire process smoothly, from preparation to implementation. The guide was put together on the basis of experience from an actual renovation project of a house for a foster family in Středokluky near Prague. It features a package of advice and tips on what to do and what to avoid at various stages of renovations.

Buřinka was also successful in PR competitions, with its communication campaign on the 3D printed parkour course in Prague 11, using recycled concrete. Buřinka´s most important award was the first place in the prestigious Czech PR competition - Lemur. At the same time, it had the opportunity to participate in the international SABRE Awards in the CEE category.

In the midst of the energy crisis, Buřinka focused on a concessionary product for financing of sustainable housing – the Buřinka Loan for the Future. It also continued to improve and simplify services connected to building savings products, offering its clients the possibility to save depending on their current needs; changes, as well as premature termination of an agreement free of charge; or a variable loan amount depending on the amount saved.

Stavební spořitelna České spořitelny, a.s.	2022	2021	2020	2019	2018
Share capital (CZK m)	750	750	750	750	750
Total assets (CZK bn)	71.5	74.5	73.9	73.0	72.3
Receivables from clients (CZK bn)	62.9	56.6	50.2	45.2	41.5
Amounts owed to clients (CZK bn)	62.0	64.2	63.8	63.4	62.5
Net profit (CZK m)	1,268	832	746	972	866
Number of accounts (m)	0.7	0.7	0.7	0.7	0.7
Average headcount	185	184	186	189	188

Correspondence address: Antala Staška 1292/32, 140 00 Prague 4
Toll-free info-line: +420 800 120 120

Internet: www.burinka.cz
E-mail: burinka@burinka.cz

Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s. was incorporated on 1 January 2013 by the transformation of Penzijní fond České spořitelny, a.s., which was established by a founding deed as a joint-stock company on 24 August 1994 and legally formed by registration in the Commercial Register of the Court in Prague on 23 December 1994. Since March 2001, Česká spořitelna, a.s. has been its 100% shareholder. Until the Company's transformation, its main line of business was the provision of supplementary pension insurance pursuant to Act No. 42/1994 Coll., on Supplementary Pension Insurance with a Government Contribution, as amended by Act No. 170/1999 Coll. and Act No. 36/2004 Coll. Since 2013, Česká spořitelna – penzijní společnost has been maintaining the savings of transformed fund participants, offering supplementary pension savings, pursuant to Act No. 427/2011 Coll., as amended by Act No. 377/2015 Coll. The purpose of the public role of Česká spořitelna – penzijní společnost is to secure a supplementary income for people beyond their productive years.

Česká spořitelna – penzijní společnost has long been the market leader in supplementary pension savings, maintaining the largest conservative participants fund on the market, with assets of CZK 13.6 bn. The Ethical Participation Fund, which is the only one in the Czech Republic to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, reached almost CZK 2.7 bn. As at the end of 2022, the Company had over 964 thousand unique participants, with a total volume of funds just under CZK 117 bn.

In financial markets, 2022 was influenced primarily by the war in the Ukraine and its adverse consequences for the world's economy, as a result of that there was a slump in international stock markets in the first half of the year. This was compounded by the drop in bond markets caused by interest rate increases by central banks. However, in the second half of 2022, all participant funds again reported positive appreciation of pension savings, significantly erasing the losses from the first half of the year. Despite the high volatility of the performance of participant funds in 2022, Česká spořitelna – penzijní společnost remains one of the best-performing pension companies on the Czech market in the long term.

Česká spořitelna - penzijní společnost, a.s.	**2022**	**2021**	**2020**	**2019**	**2018**
Share capital (CZK m)	350	350	350	350	350
Total assets (CZK bn)	3.0	3.2	2.6	2.3	2.1
Volume of funds in individual funds (CZK m)					
Transformed Fund	81,527	81,043	77,954	73,805	70,761
Conservative Participation Fund	13,632	13,140	12,199	10,376	8,439
Ethical Participation Fund (since 1. 11. 2017)	2,691	2,041	1,372	742	325
Balanced Participation Fund	13,249	11,055	8,442	6,285	4,348
Dynamic Participation Fund	5,871	4,559	3,083	2,112	1,298
Net profit (CZK m)	538	529	389	344	221
Number of unique participants (thousand)	964	970	949	936	920
Average headcount	65	65	65	64	61

Correspondence address: Poláčkova 1976/2, 140 21 Prague 4
Telephone: +420 956 777 444
Internet: www.csps.cz
E-mail: info@csps.cz

Leasing České spořitelny, a.s.

Leasing České spořitelny was incorporated on 6 October 2003. Česká spořitelna is its 100% owner. The Company´s registered office is at Budějovická 1912/64b in Prague 4. The Company has a share capital of CZK 500 m. On 1 January 2021, the Company merged nationally with its sister company Erste Leasing, which ceased to exist. The successor company, Leasing České spořitelny, thus newly profiles itself as a leasing company with a more universal focus and a strong share of financing for vehicles of up to 3.5 tonnes and agricultural machines and equipment in its aggregate portfolio.

In 2022, Leasing České spořitelny generated a profit of CZK 184 m. During the year, the Company financed new transactions, with the aggregate amount of initial debt being CZK 13,652 m. The Company covers all known risks arising from the portfolio of agreements concluded, including risks associated with an economic downturn related to the war in the Ukraine, by creating impairment provisions. Important facts that may have a positive impact on the achievement of the business objectives of Leasing České spořitelny in future years include intensification of co-operation with the parent bank.

Leasing České spořitelny, a.s.	2022	2021	2020	2019	2018
Share capital (CZK m)	500	500	500	500	500
Total assets (CZK bn)	28.0	23.9	12.9	13.1	12.3
Amount of newly concluded transactions (CZK bn)	13.7	11.3	5.1	5.5	5.8
Net profit / loss (CZK m)	184	115	81	119	116
Number of newly concluded agreements	13,749	14,129	10,242	13,120	15,009
Number of POS owned	2	2	1	1	1
Average headcount	171	168	111	111	109

Correspondence address: Budějovická 1912/64b, 140 00 Prague 4

Telephone: +420 956 785 111
Internet: www.leasingcs.cz

Factoring České spořitelny, a.s.

Factoring České spořitelny, a.s. was incorporated in 1995. It has been 100% subsidiary of Česká spořitelna since 2001. The Company is a founding member of the Association of Factoring Companies the Czech Republic, a member of the Czech Leasing and Finance Association, and a long-standing member of the international association FCI (Factors Chain International). The Company's registered office is at Budějovická 1912/64b in Prague 4.

Factoring České spořitelny has long been one of the largest factoring companies on the Czech market. In 2022, the Company carried on with the dynamic growth of its sales, which rose by more than 37% year-on-year, to CZK 84 bn. The reason for the high rate of growth of sales was the continued development of the client portfolio, primarily in the segment of large corporates as well as small and medium-size businesses. Sales were also influenced by an increase in the prices of industrial producers, which increased the nominal value of the receivables purchased and financed. Year 2022 was one of the Company's most successful years ever, as was confirmed by its net profit of CZK 135 m.

Factoring České spořitelny's long-sustained focus has been on comprehensive solutions for the financing of supplier-client relationships, known as Supply Chain Financing, for a broad range of corporate clients from diverse sectors of industry, trade, and services. In addition to providing classic factoring and comprehensive management and monitoring of receivables, the Company also focuses on financing clients' payables, in the form of reverse factoring and the Post Financing product, with maximum support for process automation and digitisation. With an emphasis on customised service solutions, Factoring České spořitelny brings its clients a major financial as well as business benefit, thereby contributing to their financial health and success on their markets.

In 2022, the Company provided a donation of CZK 500 thousand to the Locika Centre, which focuses on helping traumatised children. The amount, donated through the ČS Foundation, will help set up a mobile intervention team that will provide psychological assistance to Ukrainian children who have lived through the trauma of the war and found a temporary home in the Czech Republic.

Factoring České spořitelny, a.s.	**2022**	**2021**	**2020**	**2019**	**2018**
Share capital (CZK m)	114	114	114	114	114
Equity (CZK m)	1,861	1,326	1,278	1,234	1,199
Total assets (CZK m)	9,506	8,482	5,831	5,228	5,860
Contracted amount (CZK m)	83,958	61,167	37,097	35,682	35,916
Net profit (CZK m)	135	49	44	36	53
Average headcount	41	39	41	40	40

Correspondence address: Budějovická 1912/64b, 140 00 Prague 4

Telephone: +420 956 770 711
Internet: www.factoringcs.cz

REICO investiční společnost České spořitelny, a.s.

REICO investiční společnost České spořitelny, a.s. was incorporated on 13 June 2006. Since its incorporation, Česká spořitelna, a.s. has been its sole shareholder. The Company's registered office is at Antala Staška 2027/79, 140 00 Prague 4.

In 2022, REICO investiční společnost České spořitelny, a.s. managed a special real estate fund, the REICO ČS NEMOVITOSTNÍ (originally ČS nemovitostní fond), otevřený podílový fond REICO investiční společnosti České spořitelny, a.s. (hereinafter referred to as the "RČSN") and a special real estate fund, REICO ČS LONG LEASE, otevřený podílový fond REICO investiční společnosti České spořitelny, a.s. (hereinafter referred to as "RČSLL").

From the point of view of the Central European real estate market, the post-COVID year of 2022 was adversely affected by the war in the Ukraine and the subsequent high increase in inflation and interest rates. The investment market was affected the most, as it gradually cooled off as the year progressed. Conversely, the rental market profited from the high inflation rate, which was positively reflected in rental amounts in all major sectors of the commercial property market.

In 2022, the Investment Company focused primarily on acquisitions, active management of the properties, and income optimisation in the portfolios of both funds. In January, RČSN acquired the multifunctional building Bořislavka Centrum in Prague. For more than CZK 5 bn, it had been the Fund's most expensive acquisition to that point. RČSLL made a total of three new acquisitions for its portfolio: in April, the BWI research and development centre in Krakow, Poland; in August, the APS battery production centre near Gniezno, Poland; and in November, the VYVA PLAST centre for production of plastic packaging in Turnov in Northern Bohemia. The value of all three acquisitions exceeded CZK 1.3 bn, significantly increasing the total investment of the Fund. The lease of the newly acquired RČSLL buildings is contractually secured for at least 10 years.

The total number of properties managed by REICO investiční společnost České spořitelny, a.s. thus grew to 25 commercial properties, of which 21 are in the portfolio of RČSN and 4 in the portfolio of RČSLL. In terms of countries in 2022, the Investment Company managed 11 properties in the Czech Republic, 7 in Poland, and 7 in Slovakia. RČSN achieved its best-ever appreciation of invested funds, of 6.1%. The income was drawn primarily by the large proportion of the real estate component in the Fund's asset and the inflationary growth of rent, on the back of a strong rental market, primarily in the logistics sector, but also in the office sector. In 2022, the RČSLL fund also achieved above-average appreciation, of 5.9%. These results are primarily due to purchases at advantageous prices, which became manifest over the course of the year due to the smaller size of the Fund.

From the financial point of view, the RČSN and RČSLL portfolios are sound, most of the properties are leased from more than 90%, and regular rental income is secured. In terms of the assets under management, the RČSN remained the largest real estate fund in the Czech Republic, reaching a total volume of CZK 28.3 bn at the end of December 2022. In 2022, the assets under management of the RČSLL fund amounted to CZK 1.2 bn.

In 2022, REICO investiční společnost reported a net profit of CZK 110.7 m. The increase, compared to 2021, was primarily due to the growth of net interest income, fee and commission income and strict cost management.

REICO investiční společnost České spořitelny, a.s.	2022	2021	2020	2019	2018
Share capital (CZK m)	25	25	25	25	25
Equity (CZK m)	142	251	155	160	156
Total assets (CZK m)	193	300	200	201	197
Net profit (CZK m)	111	96	93	92	88
Assets under management (CZK bn)	29.5	29.6	27.6	25.8	21.6
Average headcount	15	16	15	13	15

Correspondence address: Antala Staška 2027/79, 140 00 Prague 4
Telephone: +420 956 786 511
Internet: www.reico.cz
E-mail: nemofond@reicofunds.cz

Definitions of Alternative Performance Indicators

in line with the General Directive issued by ESMA (European Securities and Markets Authority) are Alternative Performance Indicators defined as financial indicators of historical or future financial performance, financial position or cash flow

Alternative Performance Indicators that Can Be Determined Directly from the Consolidated Financial Statement

Alternative Performance Indicator		Financial Statement
Net interest income	A	Consolidated income statement
Net fee and commission income	B	Consolidated income statement
Dividend income	C	Consolidated income statement
Net trading result	D	Consolidated income statement
Gains/losses from financial instruments measured at fair value through profit or loss	E	Consolidated income statement
Net result from equity method investments	F	Consolidated income statement
Rental income from investment properties and other operating leases	G	Consolidated income statement
Operating income	**H=A+B+C+D+E+F+G**	**Consolidated income statement**
Personnel expenses	I	Consolidated income statement
Other administrative expenses	J	Consolidated income statement
Depreciation and amortisation	K	Consolidated income statement
Operating expenses	**L=I+J+K**	**Consolidated income statement**
Operating result	**H+L**	**Consolidated income statement**
Cost/Income ratio	**-L/H**	**Consolidated income statement**
Non-interest operating income/Operating income	**(B+C+D+E+F+G)/H**	**Consolidated income statement**
Non-trading financial assets at fair value through profit or loss - loans and advances to customers	M	Consolidated statement of financial position
Financial assets at amortised costs - loans and advances to customers	N	Consolidated statement of financial position
Finance lease receivables	O	Consolidated statement of financial position
Trade and other receivables	P	Consolidated statement of financial position
Financial liabilities at fair value through profit or loss - deposits from customers	Q	Consolidated statement of financial position
Financial liabilities at amortised cost - deposits from customers	R	Consolidated statement of financial position
Loans and advances to customers	**S=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**T=Q+R**	**Consolidated statement of financial position**
Loans and advances to customers/Deposits from customers	**U=S/T**	**Consolidated statement of financial position**

The Purpose of the Alternative Performance Indicators

Operating Income

Operating income shows the amount of bank income from common business activities.

Operating Expenses

Operating expenses express the volume of bank costs used for common business activities.

Operating Result

Operating result gives information about the bank´s success rate of common business activity. It shows the amount of financial resources that was earned from common business activity.

Cost/Income Ratio

This indicator expresses the volume of operating expenses consumed to achieve the operating income. The ratio gives a clear view of how efficiently the bank is being run – the lower it is, the more profitable the bank is.

Non-interest Operating Income/Operating Income

The indicator shows the share of income other than interest income on total operating income.

Loans to Customers/Deposits from Customers

The indicator shows the share of customer deposits used for funding of customer loans.

Alternative Performance Indicators that Cannot Be Determined Directly from the Consolidated Financial Statements

ROA

The ROA (Return on Assets) indicator shows how efficient a Bank's management is at using its assets to generate earnings. It is calculated as a ratio of consolidated net profit in the accounting period attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of total assets (internal figure for 13 periods – considers balances as at 1 January of the respective year and the last days of all months of the respective year).

ROE

The ROE (Return on Equity) indicator measures the efficiency of equity utilization, and its final value expresses the share of the net profit attributed to one Czech koruna of the equity. It is calculated as a ratio of the consolidated net profit in the accounting period attributable to the owners of the parent company (Consolidated income statement) net of the Additional Tier 1 (AT1) coupons to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – considers balances as at 1 January of the respective year and the last days of all months of the respective year) net of the Additional Tier 1 (AT1) capital.

Net Interest Margin

Česká spořitelna uses this indicator as the representative of the profitability of interest-bearing assets. It is calculated as a ratio where the numerator is the sum of the consolidated Net Interest Income, Dividend Income, Net Result from Equity Method Investments and Rental Income from Investment Properties and Other Operating Leases decreased by the Depreciation of these assets (Consolidated income statement), and the denominator is the average monthly volume (internal figure for 13 periods – considers balances as at 1 January of the respective year and the last days of all months of the respective year) of the sum of Non-trading Financial Assets at Fair Value through Profit or Loss, Financial Assets at Fair Value through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income, Financial Assets at Amortised Costs, Loans and Receivables to Credit Institutions, Loans and Receivables to Customers, Finance Lease Receivables to Customers, Trade and Other Receivables, Investments in Associates and Investment Properties.

Ratio of Defaulted Receivables from Clients to Total Volume of Receivables from Clients

The indicator is the basic indicator of the quality of bank loan portfolio. It is calculated as a ratio of consolidated gross loans and advances to defaulted customers to consolidated gross loans and advances to customers.

Ratio of Loss Allowances to NPL Coverage

The indicator expresses the volume of provisions relative to non-performing loans and is used as one of the basic indicators for monitoring of the credit risk coverage. It is calculated as a ratio of consolidated impairment loss allowances to customers to consolidated gross loans and advances to defaulted customers.

Ratio of Loss Allowances and Collateral to NPL Coverage

This indicator shows the volume of loss allowances and collateral relative to non-performing loans. It is used as one of the basic indicators for the monitoring of the credit risk coverage. The indicator is calculated as a ratio of consolidated impairment loss allowances for loans and advances to customers and consolidated volume of eligible collateral received for loans and advances to defaulted customers to consolidated gross loans and advances to defaulted customers.

Contacts

Česká spořitelna, a.s.
Olbrachtova 1929/62, 140 00 Prague 4, Czech Republic
Company ID no.: 45244782
LEI code: 9KOGW2C2FCIOJQ7FF485
Telephone: +420 956 777 901
Telex: 121010 SPDB C,
121624 SPDB C,
121605 SPDB C
Swift: GIBA CZ PX
Information Line: 800 207 207; **from abroad**: +420 956 777 901
E-mail: csas@csas.cz
Internet: www.csas.cz

Published on internet: https://www.csas.cz/en/documents-to-download#/37

Material for the Public

#silnější