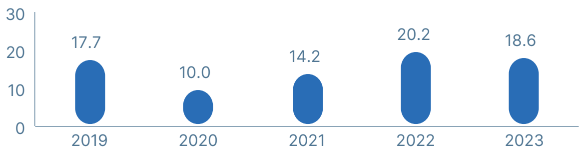
Annual Report 2023

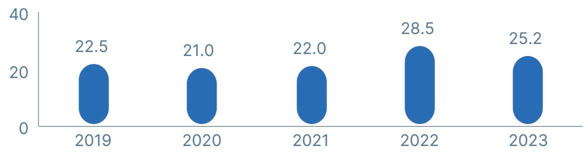
Content

Key Figures

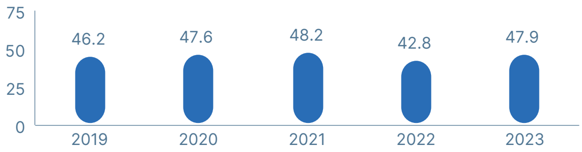
Net profit (CZK bn)



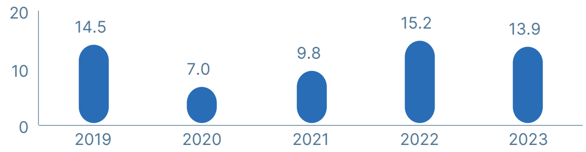
Operating result (CZK bn)



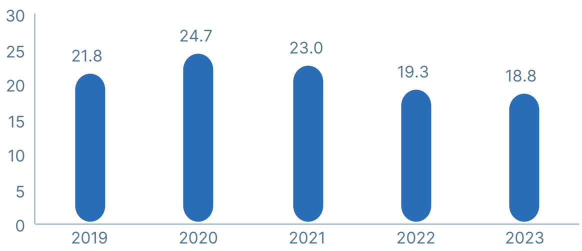
Cost/Income ratio (%)



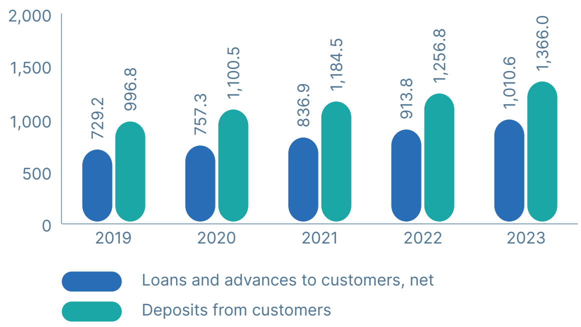
ROE (%)



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	2023	2022	2021	2020	2019
Total assets	1,797,820	1,639,938	1,641,741	1,537,780	1,458,650
Loans and advances to banks, net[2]	304,007	266,675	364,994	424,838	411,650
Loans and advances to customers, net	1,010,592	913,847	836,949	757,324	729,206
Securities[3]	408,678	378,216	358,466	277,646	242,301
Deposits from banks	122,287	113,541	49,695	91,335	292,111
Deposits from customers[4]	1,366,038	1,256,795	1,184,543	1,100,450	996,815
Equity attributable to owners of the parent	143,955	137,232	142,744	149,125	137,128

Income Statement Indicators

CZK million	2023	2022	2021	2020	2019
Net interest income	34,583	36,719	31,083	29,099	30,261
Net fee and commission income	10,894	9,504	9,186	8,243	8,591
Operating income	48,365	49,875	42,354	40,147	41,899
Operating expenses	(23,144)	(21,335)	(20,398)	(19,110)	(19,352)
Operating result	25,221	28,540	21,956	21,037	22,547
Net profit attributable to owners of the parent	18,614	20,161	14,181	10,006	17,743

Basic Ratios

	2023	2022	2021	2020	2019
ROE	13.9%	15.2%	9.8%	7.0%	14.5%
ROA	1.0%	1.1%	0.8%	0.6%	1.2%
ROA (Česká spořitelna, a.s. only)	1.0%	1.2%	0.8%	0.6%	1.2%
Cost/Income ratio	47.9%	42.8%	48.2%	47.6%	46.2%
Non-interest operating income/ operating income	28.5%	26.4%	26.6%	27.5%	27.8%
Net interest margin on interest-bearing assets	1.9%	2.1%	2.0%	1.9%	2.1%
Loan/Deposit ratio	74.0%	72.7%	70.7%	68.8%	73.2%
Capital adequacy (unconsolidated)	18.8%	19.3%	23.0%	24.7%	21.8%

Key Operating Indicators

Number of:	2023	2022	2021	2020	2019
staff (average headcount)	10,433	10,237	9,741	9,892	9,873
branches[5]	366	398	400	424	463
clients	4,545,699	4,547,686	4,492,801	4,474,198	4,597,170
private accounts	3,182,663	3,108,842	2,981,443	2,819,346	2,760,815
active cards	3,668,247	3,387,506	3,145,650	2,988,906	2,919,381
of which: credit cards	222,461	180,679	177,552	167,677	170,964
ATMs and payment machines	1,680	1,736	1,783	1,825	1,832

(1) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 391
(2) "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 since 1825. 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 provided mortgage loans, consumer loans including credit cards and overdrafts, and total deposits. Česká spořitelna is one of leaders in the distribution of mutual funds as well as in 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 has formulated four strategic commitments which FHC concept also aims to fulfil:

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

All the Bank's activities should lead to the active fulfilment of its strategic vision – to co-create #stronger and more sustainable society, which consists of financially healthy, educated and self-confident citizens and companies.

Supporting the Transformation of the Economy

Česká spořitelna continued to support the strategic transformation of Czech industry and economy, which should lead to strengthening the competitiveness of domestic companies on world markets, production with higher added value and deliveries of final products under its own brand.

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.

In the field of corporate banking, 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.

Strengthening the Country's Prosperity

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

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 2023, the Bank received an award from the Ministry of Finance for the second largest corporate taxpayer in the Czech Republic for 2022.

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 cooperates with universities across the country and is involved in increasing their quality and competitiveness.

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 cooperation in the field of innovation.

The Year 2023 in Review

January

- Česká spořitelna entered the year 2023 by public communication of its commitments to clients and society. In an effort to improve the financial health of citizens and companies, it has committed to support clients in building financial reserves and saving for retirement by 2025. Other commitments included making financial education accessible to children and supporting the competitiveness of companies and jobs.

- George internet and mobile banking enabled trading in stocks, certificates and ETFs, not only on the Prague Stock Exchange but also on all major stock exchanges around the world.

- The Bank released the independent energy price comparator DEAP available to clients to enable households to make savings on energy costs.

- As part of its ESG activities, the Bank began to evaluate new corporate loans in terms of their environmental impact based on the Green Asset Screening (GRAS) methodology. For the time being, this new methodology applies to clients from the segments of SMEs, Large Corporates, Real Estate and Public and Non-Profit Sector.

February

- Česká spořitelna won several prestigious awards. In the voting of experts and the public on the Finparada.cz portal, the Bank won five main prizes. In the Top Employer of the Year, Banka defended its position as the first career choice of university students in the field of Banking and Investment. At the same time, the Bank also became the winner in the special category The Econom, where the employer of the year was selected only by students of economic faculties of universities.

- In the independent IMAS client satisfaction assessment, the Bank defended its position as the most popular corporate bank in the Czech Republic in the SME segment.

- Česká spořitelna continued its #stronger television communication campaign with Jenovéfa Boková as a young lady alias Česká spořitelna. In the commercial, the Bank confirmed its emphasis on the financial health of its clients.

- Česká spořitelna provided the Rohlík Group with syndicated financing for further expansion. This is the first financing that the Rohlík Group received from banks and not from direct investors.

- Česká spořitelna prepared a new ESG website on which it describes its own concept of the topic of sustainability.

March

- Spořitelna announced that it had reached a historic milestone. The volume of investments managed by retail investors exceeded CZK 300 billion and ranks the Bank among the largest providers of investment services in the Czech Republic.
- The Česká spořitelna Foundation launched a new website focused on financial education www.silnejsidikyvzdelavani.cz.
- Česká spořitelna's new television campaign promotes the Moneyback service, in thanks to which clients receive their money back when paying at selected merchants.
- ČS Seed Starter entered the "wflow" accounting digitization platform. As a result, the Bank is able to offer corporate clients a solution for the digital issuance and receipt of invoices.

April

- Česká spořitelna successfully completed the takeover of client loan portfolio of the fallen Sberbank CZ. The acquisition contributed to strengthening the stability of the domestic banking market.

- Together with its subsidiary Leasing ČS the Bank launched a new web application called Electromobility. Its goal is to show corporate clients the opportunities and challenges that electromobility offers.

- Board member Daniela Pešková took 3rd place in the TOP 15 influential women on LinkedIn.

- The subsidiary Dostupné bydlení České spořitelny (DBČS) introduced its first project – the construction of rental apartments in Prague's Prosek Park. Among the first tenants of the affordable apartments should be the medical staff of the University Hospital in Motol.

May

- Česká spořitelna was the first domestic bank to enable online dividend payments via a special web application using Bank ID. The shareholders of ČEZ Power Company were the first to have access to it.

- The Bank expanded its product offer with a new savings account for children with an interest rate of up to 5% per annum. It can be set up for children by their parents.

- The company DBČS announced its second affordable housing project for key public sector workers. The new apartments will be built in Prague's Chodov district.

- The company Erste Grantika Advisory significantly helped the Roman Catholic parish - Archdeaconry of Kutná Hora to obtain a subsidy for the reconstruction of the Church of St. Jacob in Kutná Hora. The church was inaugurated in May.

- Česká spořitelna participated in the new financing of the Packeta Group, which owns the leading Czech technology and logistics company Zásilkovna. The new syndicated loan will allow the Packeta Group to expand further.

June

- Česká spořitelna published its first Sustainability Report. It maps its ESG activities, which belong to its strategic priorities.
- The Ministry of Finance awarded Česká spořitelna as the second largest payer of corporate income tax in the country.
- Subsidiary ČS Seed Starter acquired a stake in SmartHead, an innovative company that provides comprehensive solutions in the field of sustainability and ESG reporting. This is the seventh project in which ČS Seed Starter has invested.
- As part of its support for the digitization of the state and local governments, the Bank agreed with CorCo Systems, a.s. on the commercial representation and distribution of the Corrency service, which combines the benefits of credits or local discount vouchers to accelerate local demand.

July

- Česká spořitelna announced that it is planning to acquire the consumer loan portfolio of Hello bank. Spořitelna has already agreed on the terms of the acquisition with BNP Paribas Personal Finance.

- In the prestigious Golden Crown 2023 competition, Česká spořitelna won three Golden Crowns, three Silver Crowns and three Bronze Crowns. The Bank received the highest award for the ČS Mortgage, educational programme Money Alphabet and George Virtual Card.

- The Board of Directors of REICO investiční společnost České spořitelny was partially changed. Dušan Sýkora was appointed as the new Chairman of the Board of Directors.

- The Moneyback discount programme celebrated its third birthday. A million clients have already registered for it and have received almost CZK 600 million back for card payments.

August

- The Bank provided the Accolade Group with financing for the construction of an automated distribution centre for the clothing company H&M, which will become the largest logistics hall in the Czech Republic to date.

- Česká spořitelna again introduced a campaign for children's products. The intention is to teach children how to navigate the digital world of finance and how to manage their money.

- The Chief Economist of Česká spořitelna, David Navrátil, was perceived the most followed Czech economist on the professional social network LinkedIn by the news portal Newstream.cz.

September

- Česká spořitelna participated in the financing of the construction of the largest battery storage facility in the Czech Republic - E.nest Energy, which helps to ensure the safe operation of the Czech distribution network and enable the reduction of the carbon footprint.

- Česká spořitelna become the first Czech bank and one of the few European banks to directly invest in a joint venture investment fund to support the development of new drugs, diagnostic methods and medical technologies. The i&i Biotech Fund (i&i Bio), which operates at the renowned Institute of Organic Chemistry and Biochemistry of the Czech Academy of Sciences, plans to invest in about 20 medical and biotechnology projects to help them move from research to practice and to patients.

- Česká spořitelna signed an agreement with BNP Paribas Personal Finance to buy Hello bank's consumer loan portfolio. As a result, the Bank will gain around 200,000 new clients and take over loans worth around CZK 8 billion.

- Česká spořitelna launched a major advertising campaign aimed at strengthening safe behaviour in the online world.

October

- At the end of the third quarter of 2023, Česká spořitelna announced the achievement of another historic milestone. For the first time ever, the value of loans provided by the Bank to its customers exceeded CZK 1 trillion.

- Česká spořitelna announced that together with the European Investment Bank (EIB) it would provide EUR 400 million in new financing to Czech small and medium-sized and middle-capitalized companies.

- The Bank launched a special digital application for companies in the SME segment, the “Financial Health Zone”, which show them how well they take care of their company’s financial health and how they are doing compared to their competitors.

- The construction of the multifunctional hall Arena Brno, which represents the largest strategic project of the city, has begun at the Brno Exhibition Centre. For the construction of the new hall, Česká spořitelna provided the city of Brno with financing of CZK 2.2 billion.

November

- In the Bank of the Year 2023 competition, Česká spořitelna won the first place in the Private Bank of the Year category and also in the Mortgage of the Year category. Spořitelna took the second place in the main category Bank of the Year and in the Corporate Bank of the Year category. Spořitelna came third in the categories Bank without Barriers and Customers´ Bank.
- Česká spořitelna successfully completed the acquisition of the consumer loan portfolio from Hello bank. In total, Spořitelna added 200,000 new loans worth CZK 7.5 bn.
- A FIT advice zone was added to George mobile banking for all clients. Clients are able to get advice focused on their financial health, but also information on available social benefits or the optimal timetable of saving for retirement.
- Česká spořitelna provided financing to the Solar Global group for the launch of the first ever domestic commercial facility for the production of green hydrogen.

December

- George mobile banking surpassed the two million customer milestone.
- Česká spořitelna received the highest award in the Responsible Lending Index competition, compiled by the non-profit organisation People in Need.
- The subsidiary Dostupné bydlení České spořitelny has already started construction of more than 600 affordable rental apartments, which will be intended for employees in key social professions. New projects introduced at the end of 2023 were the Prague projects Harfa and Černý most.
- Subsidiary Seed Starter expanded its portfolio for the third time in 2023. The Czech start-up Born Digital became the ninth project supported.

Foreword by the Chairman of the Board of Directors

Dear Ladies and Gentlemen,

When I wrote the introduction to the annual report a year ago, I sincerely wished that the beginning of the next one would be more optimistic.

The fact is that the ongoing war in Ukraine, the new military conflict between Palestine and Israel, and the tragic death of nearly two dozen young people on the campus of Charles University in Prague at the end of the year do not add to the optimism.

However, despite difficult times, it is our duty to continue to play our part - to help where there is a need and to contribute to people's wellbeing and confidence in the future.

We started the year 2023 at Česká spořitelna with external communication of what we have been doing inside Spořitelna for a long time. We have publicly articulated specific commitments to clients in the areas of building financial reserves, saving for retirement, making financial education accessible to children, and supporting jobs and corporate competitiveness. We would like to fulfil our commitments as early as 2025, when we celebrate our 200th anniversary. In doing so, we believe we will contribute to improving the financial health of our clients and the social situation in society.

I am delighted that, together with the state, we are gradually contributing to a solution to one of the problems of Czech society, which is the affordability of housing. Česká spořitelna's subsidiary Dostupné bydlení (Affordable Housing) has successfully built on the model operating in Erste Bank and, as a result, last year initiated the construction of more than 650 affordable rental apartments. These are intended for employees in key social professions such as nurses, teachers, and police officers. We also lived up to our social responsibility by successfully acquiring the loans of Sberbank CZ, which ended up in insolvency. Our swift action contributed to the stabilisation of the domestic banking market.

I would like to take this opportunity to thank all the employees of Česká spořitelna for their work. Over the past year, they have all worked hard to improve our financial services, both by advising clients in our branches and in our digital banking service George.

I thank our clients and our shareholders for their trust. My wish for all of us is that in the near future we will be able to devote our full attention to doing things for a better, healthier and more prosperous future for our world. That we will forever exclude from it what does not belong in the 21st century.

Tomáš Salomon
Chairman of the Board of Directors, Česká spořitelna

Board of Directors of Česká spořitelna

Board of Directors of Česká spořitelna

Tomáš Salomon
Chairman of the Board of Directors

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

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

Karel Mourek
Vice-Chairman of the Board of Directors

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.

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

Martin Kobza
Member of the Board of Directors

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

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

Pavel Kráčmar
Member of the Board of Directors

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 (later the Czech National 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

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

Daniela Pešková
Member of the Board of Directors

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.

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

Ivan Vondra
Member of the Board of Directors

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

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

Supervisory Board of Česká spořitelna

Supervisory Board and Audit Committee of Česká spořitelna

Supervisory Board of Česká spořitelna

Willibald Cernko
Chairman of the Supervisory Board

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 the Chairman of the Supervisory Board since 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

Reference address: Am Belvedere 1, 1100 Vienna, Austria

Štefan Máj
Vice-Chairman of the Supervisory Board

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.

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

Stefan Dörfler
Member of the Supervisory Board

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. From 2004 to 2009 he held a leading position in the Capital Markets Trading & Sales. Between 2009 and 2016 Stefan Dörfler was the Head of Erste Group Bank Capital Markets and from 2016 until 2019 he 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

Reference address: Am Belvedere 1, 1100 Vienna, Austria

Zlata Gröningerová
Member of the Supervisory Board

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.

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

Maximilian Hardeg
Member of the Supervisory Board

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, 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.

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

Maurizio Poletto
Member of the Supervisory Board

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.

Reference address: Am Belvedere 1, 1100 Vienna, Austria

Aleš Veverka
Member of the Supervisory Board

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's 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, Odborová organizace zaměstnanců České spořitelny, a.s., Břeclav, Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví

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

Zlata Kunešová
Member of the Supervisory Board

Zlata Kunešová studied at the Faculty of Law of Charles University in Prague between 1992 and 1997 where she obtained a Master of Laws degree. From 2006 to 2007, she studied at Queen Mary and Westfield College, University of London, where she received an LL.M. in international banking and finance. She started her working career in 1999 at Československá obchodní banka, a.s., where she worked from the position of lawyer to director of the legal department until 2014. In the period 2015-2016, she worked in the advocacy specializing in banking, finance and banking regulation. Since 2016, she has been working at Česká spořitelna, a.s., where she was the manager of the legal support department for corporate banking credit transactions with responsibility for the legal agenda of corporate segments until 2023. Since 2024, she has been the Director of the Legal Department of Česká spořitelna.

Zlata Kunešová has been a member of the Supervisory Board of Česká spořitelna since 15 January 2023.

Membership in other companies: none

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

Marta Vrbová
Member of the Supervisory Board

Marta Vrbová is a graduate of the Faculty of Economics of the Mining University in Ostrava. In 1983, she joined Česká spořitelna, where she gradually worked as an accountant, later as an accounting office manager. In the period 2013-2015, she worked as a branch network specialist. Since 2015, she has been the regional operations manager for the North Moravia region. At the same time, she is the Chairwoman of the Trade Union Organization for region Nový Jičín and holds the position of a member of the Group-wide Trade Union Committee of Česká spořitelna.

Marta Vrbová has been a member of the Supervisory Board of Česká spořitelna since 15 January 2023.

Membership in other companies: none

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

Petr Brázda
Member of the Supervisory Board

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.

Petra Brázda's mandate in the Supervisory Board ended on 14 January 2023.

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

Helena Černá
Member of the Supervisory Board

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's mandate in the Supervisory Board ended on 14 January 2023.

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

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

More information in the chapter Supervisory Board of Česká spořitelna 2023, page 28.

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.

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

Maximilian Hardegg
Vice-Chairman of the Audit Committee

More information in the chapter Supervisory Board of Česká spořitelna 2023, page 28.

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

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

Zlata Gröningerová
Member of the Audit Committee

More information in the chapter Supervisory Board of Česká spořitelna 2023, page 28.

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

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

Pavel Závitkovský
Member of the Audit Committee

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.

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

Macroeconomic Development of the Czech Republic
in 2023

The development of the Czech economy was subdued in 2023. Domestic demand was negatively affected by high inflation, poor sentiment among households and firms and high ČNB rates. The decline in inventories was also acting in the same direction. Moreover, the second half of the year also saw a deterioration in external demand, driven by economic development in Germany. However, the weak performance of the Czech economy also contributed significantly to the weakening of inflationary pressures, especially in the second half of the year. Although inflation was very high at the beginning of 2023, it gradually eased during the months afterwards, and by the end of the year a significant part of the previous inflationary pressures dissipated. Labour market developments remained, as in 2022, mixed. On one hand, the unemployment rate was very low. On the other hand, however, real wages fell, due to high inflation, despite the relatively sound nominal wage growth. The easing of inflationary pressures at the end of 2023 then allowed the ČNB to cut interest rates for the first time. However, this also contributed to the depreciation of the koruna against the euro.

The easing of inflationary pressures at the end of 2023 allowed the ČNB to cut interest rates

In 2023, gross domestic product in the Czech economy contracted by 0.2%[6]. Domestic factors contributing to this were mainly strongly subdued household consumption, which was negatively affected by high inflation and unfavourable sentiment among households, and the significant fall in inventories that had been accumulated in previous years at a higher rate than would have been consistent with economic developments. Another factor behind the unfavourable GDP development was the high ČNB rates, which acted mainly in the direction of lower private investments. In addition to these factors, a cooling of external demand in the second half of 2023, which was related to the deterioration in economic developments in Germany, also added to the impact.

GDP y/y growth[7]

2023	2022	2021	2020	2019
-0.2%	2.4%	3.5%	-5.5%	3.0%

Inflation reached 10.7%[8] in 2023, remaining very high, despite a slight slowdown. Both external and domestic factors were behind the high inflationary pressures. Within the first group, the impact of the war in Ukraine and the associated rise in energy prices was significant. The latter not only affected consumers directly, but also indirectly, as firms' and entrepreneurs' costs increased, which in turn affected the prices of goods and services. Among domestic inflationary factors, the most important were an overheated labour market with a very low unemployment rate, the fiscal expansion of previous years and strong household consumption. However, along with the economic slowdown, inflationary pressures gradually eased over 2023. In the same vein, the decline in the prices of some commodities on world markets and lower producer prices in the agricultural sector also had an impact. At the end of 2023, inflation thus reached 6.9%[9], but would have been significantly lower after adjusting for the impact of the 2022 Savings Tariff.

Price growth (CPI inflation)[10]

2023	2022	2021	2020	2019
10.7 %	15.1 %	3.8%	3.2%	2.8%

Labour market developments in 2023 were mixed. On one hand, the unemployment rate remained at very low levels and firms' demand for new employees remained relatively high. On the other hand, real wages fell further. In this respect, even the solid nominal wage growth in the Czech economy was not enough to keep up with inflation, and

(6) Source: Czech Statistical Office, 28. 3. 2024, https://www.czso.cz/csu/czso/ari/quarterly-sector-accounts-4th-quarter-of-2023
(7) Source: Czech Statistical Office, 28. 3. 2024, https://www.czso.cz/csu/czso/hdp_ts
(8) Source: Czech Statistical Office, 1. 2. 2024, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2023
(9) Source: Czech Statistical Office, 1. 2. 2024, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2023
(10) Source: Czech Statistical Office, 1. 2. 2024, https://www.czso.cz/csu/czso/hmu_ts

average real wages fell. In the fourth quarter of 2023, the decrease reached -1.2%[11].

Unemployment rate[12]

2023	2022	2021	2020	2019
2.6%	2.2%	2.8%	2.6%	2.0%

For most of 2023, the Czech National Bank kept interest rates unchanged at very high levels. This was due not only to high inflation, but also to concerns about inflation expectations and the possibility of a wage-inflation spiral. These fears were not confirmed in the end and, as inflationary pressures eased during the second half of the year, the ČNB was able to cut interest rates for the first time in December, by 25 basis points to 6.75%[13] for its main rate.

The exchange rate of the koruna against the euro was at relatively strong levels for most of 2023. This was driven primarily by monetary policy, with the ČNB holding interest rates at high levels and its comments remaining hawkish. In the second half of the year, however, the exchange rate of the koruna against the euro weakened above EUR/CZK 24.0[14] and then even more. In addition to the worsening economic developments in the Czech and European economies, this was due to the markets' expectations regarding the coming start of the ČNB's rate cuts.

The impact of high ČNB rates and tight monetary policy in the Euro Area was also strongly reflected in the development of government bond yields. In this respect, it was not only the current interest rate developments of the ČNB and ECB, but also market expectations of continued tight monetary policy settings of both central banks. It was only in the second half of the year, when the first ČNB rate cut began to approach, that the yield curve began to fall along with the change in market expectations. This development then accelerated at the end of the year, when the ČNB cut its rates for the first time.

The war in Ukraine and its economic impact, on one hand, and the high structural deficit on the other, were behind another relatively significant state budget deficit. This reached around CZK 289 bn[15] in 2023. Although government debt increased in nominal terms, as a share of GDP it fell from 45.2% to 44.5%[16] of GDP y/y in the third quarter of 2023, with high inflation also having an impact, which was reflected in an increase in nominal GDP.

(11) Source: Czech Statistical Office, 5. 3. 2024, https://www.czso.cz/csu/czso/ari/average-wages-4-quarter-of-2023
(12) Source: Czech Statistical Office, 16. 2. 2024, https://www.czso.cz/csu/czso/zam_ts
(13) Source: Czech National Bank, 1. 2. 2024, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1703174400000/
(14) Source: Czech National Bank, 1. 2. 2024, https://www.cnb.cz/en/financial-markets/foreign-exchange-market/central-bank-exchange-rate-fixing/central-bank-exchange-rate-fixing/charts_form.html
(15) Source: Ministry of Finance, 1. 2. 2024, https://www.mfcr.cz/cs/rozpoctova-politika/statni-rozpocet/plneni-statniho-rozpoctu/2023/mesicni-pokladni-plneni-sr-50243
(16) Source: Czech Statistical Office, 1. 2. 2024, https://www.czso.cz/csu/czso/ari/government-deficit-and-debt-3-quarter-of-2023

Report of the Board of Directors

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

for 2023

Consolidated Financial Results[17]

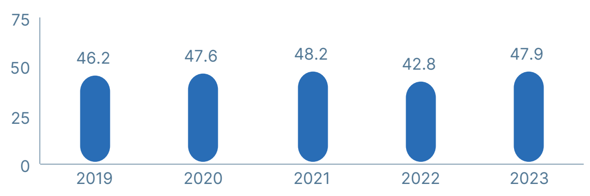
Consolidated Statement of Income

As at 31st December 2023, Česká spořitelna reported an audited consolidated net profit of CZK 18.6 bn, according to the International Financial Reporting Standards (IFRS). Operating result reached CZK 25.2 bn.

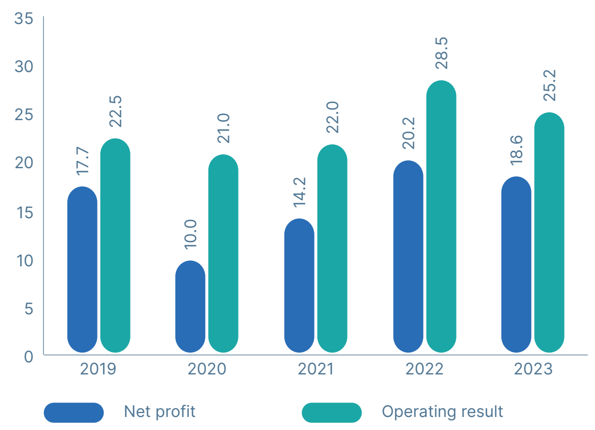
Česká spořitelna reported an audited consolidated net profit of CZK 18.6 bn

Operating result of Česká spořitelna decreased by 11.6% y/y to CZK 25.2 bn in FY 2023 as a combination of lower operating income and higher operating expenses. Operating income went down by 3.0% y/y attributed to higher interest expenses paid on deposits and losses from financial instruments measured at fair value through profit or loss which were partly offset by increase in net fee and commission income. The development of operating expenses was influenced by growth of personnel expenses and other administrative expenses. As the consequence, Cost/Income ratio rose to 47.9% from 42.8% in FY 2022.

Cost/Income ratio (%)



Net profit and operating result (CZK bn)



Net interest income decreased by 5.8% in comparison with FY 2022 and reached CZK 34.6 bn. The development of net interest income was affected mainly by higher interest rate environment which led to deposit re-pricing and resulted in growth of volumes and change of structure towards deposits with higher interest rates. As a consequence of these effects interest expenses rose considerably. Growth of interest expenses was partly offset by increase in interest income reflecting volume growth of loans and investments combined with higher yields. Net interest margin related to interest bearing assets reached 1.95% in FY 2023, reflecting increase in deposit interest rates and development of balance sheet structure.

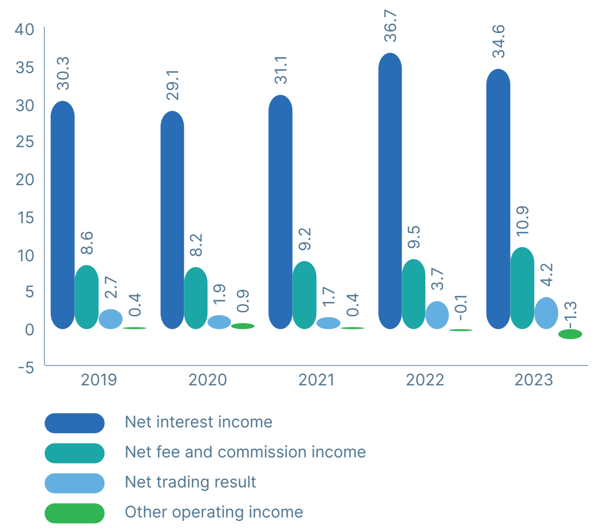
Net fee and commission income rose by 14.6% y/y to CZK 10.9 bn which was caused by insurance fees from life insurance products and insurance related to loans. Higher lending fees were supported by business development. The increase in payment transfers reflected higher interchange fees which was influenced by one-off

(17) Definitions of the below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 391

fee expense for Moneyback programme and support for Ukrainian refugees in 2022. Furthermore, net fee and commission income was positively affected by securities transactions due to fees from investments in mutual funds and pension insurance.

Net trading result increased by 11.7% y/y to CZK 4.2 bn in FY 2023 which was driven mainly by revaluation of derivatives.

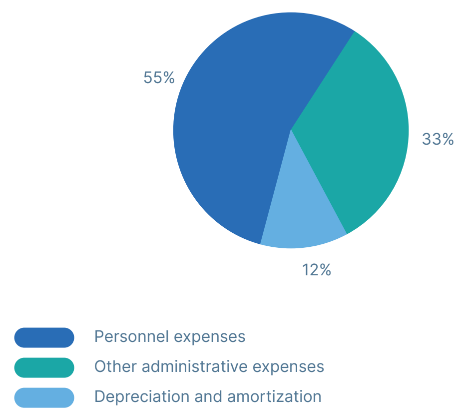
Composition of operating income (CZK bn)



Total operating expenses rose by 8.5% y/y to CZK 23.1 bn in FY 2023, mainly influenced by growth of personnel expenses and other administrative expenses. The increase in personnel expenses (+10.7% y/y) was driven mainly by salary increase, restructuring reserve and employee share programme. Higher costs of IT and business operation with higher contribution into Deposit Insurance Fund led to rise in other administrative expenses (+7.3% y/y). Depreciation increased by 2.3% y/y in comparison with FY 2022 as a result of higher deployment in category buildings.

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 reached CZK -0.3 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 -0.8 bn in FY 2023, reflecting excellent quality of the loan portfolio and one-off initial net provision creation due to Sberbank and Hello bank acquisitions.

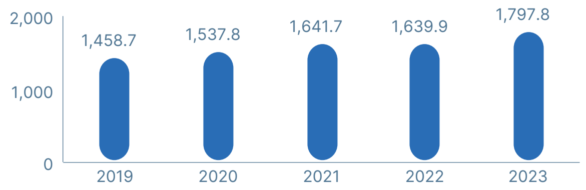
The quality of the loan portfolio experienced slight improvement in 2023; the share of non-performing loans over total loans decreased to 1.8% compared to 1.9% in 2022 as new defaults were more than offset by recoveries.

Coverage of non-performing loans by impairment provisions declined in a year-on-year comparison and reached solid 111% in 2023 (117% in 2022); the total coverage of non-performing loans (including collaterals) remained unchanged in a year-on-year comparison at 148%.

Other operating result of CZK -1.7 bn, consisting mainly of other income and costs not directly related to main operating activities of the Group, worsened by 2.2% y/y, attributed mainly to higher software impairment.

Consolidated Balance Sheet Analysis

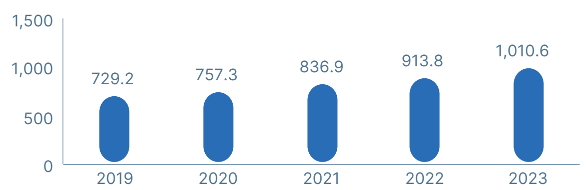
As at 31st December 2023, total consolidated ČS Group assets amounted to CZK 1,797.8 bn, which meant a 9.6% increase compared to 31st December 2022. On the assets side, the development was driven mainly by growth of loans to customers. The liability side of the balance sheet increased thanks to higher customer deposits.



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 913.8 bn at the end of 2022 to CZK 1,010.6 bn at the end of 2023, which meant a 10.6% increase. The proportion of net client loans to client deposits (Loans/Deposits ratio) went up from 72.7% at the end of 2022 to 74.0% at the end of 2023.

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

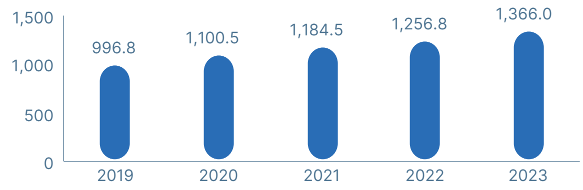


The gross volume of ČS Group customer loans was positively influenced by Sberbank CZ and Hello bank acquisitions and increased by 10.4% y/y to CZK 1,031.8 bn. The portfolio of retail loans amounted to CZK 648.3 bn, representing a year-on-year increase of 9.7%, driven by private mortgages (+9.5% y/y), consumer lending (+17.9% y/y) and Building Society (+5.9% y/y). The volume of corporate loans grew by 11.6% year-on-year to CZK 379.1 bn attributed to increase in Large Corporates (+15.2%), SME (+7.2%), Real Estate (+16.5%) and corporate subsidiaries (+13.0%).[18]

Balance sheet development in 2023 also reflected growth of debt securities of CZK 24.5 bn (or 7.5%) to CZK 352.3 bn. Loans and advances to banks at amortised cost increased by CZK 37.3 bn (or 14.0%) to CZK 304.0 bn driven by higher reverse repo operations with the ČNB.

Liabilities

Group deposits from customers grew by 8.7% y/y to CZK 1,366.0 bn attributed to increase in deposits from households (+2.4% y/y to CZK 934.4 bn), corporates (+21.8% y/y to CZK 318.9 bn) and public sector (+37.1% y/y to CZK 112.7 bn).



The deposits from banks rose by CZK 8.7 bn (or 7.7%) y/y to CZK 122.3 bn. Debt securities issued increased by CZK 44.8 bn (or 58.4%) y/y to CZK 121.5 bn reflecting senior non-preferred bond issuance eligible for the regulatory MREL requirement. These bonds were issued twice in the amount of EUR 500 m (in June and Green bonds in September 2023); moreover, there was successful issuance of T2 subordinated bonds for retail in the amount of CZK 6 bn in June 2023. The total MREL ratio therefore stood at 27.9% in 2023, well above regulatory requirement.

Equity attributable to owners of the parent grew to CZK 144.5 bn as at 31 December 2023, which was 4.9% more than at the end of the year 2022. The total capital ratio for Česká spořitelna Group reached 19.6% as at 31 December 2023, well above minimum regulatory capital requirement (16.4%).

(18) Source: ČS 2023 results, p. 45, 29. 02. 2024, https://www.csas.cz/static_internet/en/Redakce/Ostatni/Ostatni_IE/Prilohy/cs-results-fy-2023-final.pdf

Business Activities

Retail Banking

As at the end of 2023, more than 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 (366) as well as ATMs and transactional terminals (1,680). It ranks first in provision of mortgage loans, consumer loans, including credit cards and overdraft facilities, and in total deposits. It is also a one of leaders in distribution of mutual funds 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 improve the financial health of individuals, communities and companies and lead them to long-term prosperity. This concept is based on the professionalism of personal bankers in combination with the digital environment and uses a unique ecosystem of tools that permeate both worlds. Clients thus experience a connected interaction that can assess their financial health and offer relevant solutions. This allows to provide financial advice to a large group of clients, creating a meaningful differentiator leading to higher satisfaction, loyalty of current clients and the opportunity to reach new clients.

The Bank has entered 2023 with the communication of public promises aimed at improving financial health in the Czech Republic:

– ČS will help all its clients build a financial reserve for unexpected expenses and will provide all its new and existing clients with superior care so that they can repay their loans with peace of mind;

– ČS will help one million of its clients save up for retirement;

– ČS will make quality financial education available to all children in the Czech Republic;

– ČS will provide Czech companies with CZK 50 bn to increase their competitiveness and retain jobs.

The year 2023 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. The standard palette of financial solutions was therefore expanded to include entirely new solutions. Clients could assess their financial health (Fit Indicators), improve their habits (Financial Coach), achieve a specific personal goal (My Plans) or use one of the advice scenarios to improve a specific area of financial health (Get Better, State Benefits, Energy-efficient Living, Build Your Reserve, Wealthier in Retirement, Energy Price Comparator). These scenarios are developed in collaboration with behavioural psychology and support clients to make step-by-step progress towards improvement, using a broader context including contributions from insurance companies or the state to achieve this. At the same time, the Bank also incorporates the principles of promoting financially healthy habits into the way products and services are designed. The Bank has recently launched the Pay and Save service, which automatically creates a basic reserve for clients. Clients who regularly build up a long-term reserve are offered a higher interest rate. The Bank has incorporated a unique Fit Zone into mobile banking, which clearly displays all the tools for improving financial health. This has added another dimension to mobile banking and makes it one of the Top 3 in the market.

Despite the growing influence of technology, a combination of quality in-person and digital advice is proving to be the most effective approach. Česká spořitelna is the only bank on the market to provide personal counselling services to all its clients, regardless of their creditworthiness. And naturally, in these interactions, it connects the physical and digital worlds. This journey is also viewed very positively by clients - clients who have experienced a combination of digital and personal counselling have 15 points higher Net Promoter Score (NPS).

Česká spořitelna's long-term strategy is to improve the financial health of individuals, communities and companies and lead them to long-term prosperity

The Bank also promotes financial health through other educational activities not only among its clients but also in the community. It continues to provide financial education to children with its successful Money Alphabet programme, which was completed by 162,215 children in 2023. The Bank also engages in other activities with a positive social impact (e.g. promoting cyber security or financial literacy for seniors).

The positive impact of these activities is reflected in the increasing client satisfaction. The overall NPS increased by 5% year-on-year, the share of satisfied clients is 98%. Care for financial health is becoming a differentiator (81% of clients rate Česká spořitelna as an institution that helps them improve their financial health).

Mobile and Internet Banking

The Bank continues to develop its digital environment, which plays an increasingly important role in serving its clients. They receive personalised advice and tips on how to use Česká spořitelna's products and services more intelligently and how to manage their family finances as efficiently as possible in the George internet or mobile banking system. The long-term goal is to transform George from reactive to proactive.

The Usage of George

In 2023, George mobile banking confirmed and strengthened its position as the most used banking application on the market. In December, it reached almost 2 million active users (a user logged in at least once a month) and this number increased by 25% compared to 2022.

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

The average George mobile banking client logs into the app 31 times a month.

Nearly 2,914,000 unique users have already visited George at least once, and 2,263,000 customers are active in George (either mobile or web). The downward trend in web banking usage marked an 18% decline compared to 2022, i.e., 626,412 active users.

A significant innovation in the George in 2023 is the FIT Zone, which concentrates advice solutions and scenarios leading to improved financial health for clients. After a pilot, it was launched to more than 1.6 million clients at the end of November, and one in two accessed it and explored its contents. Of these, 250,000 clients then took advice specifically through the advice scenarios.

Another major change was the merger of the George app and George key to make it easier for clients to log in and send payments, as well as authenticate when they call a banker. By the end of the year, 1.9 million clients had been transferred from George key to George. The remaining clients will be transferred in the first quarter of 2024, when the George key application will be discontinued.

Other new features include the Pay on Contact service and the Pay and Save service. Pay to Contact greatly simplifies mobile payments as it does not require knowing the recipient's account number. Instead, all you need to do is enter the recipient's mobile phone number to send a one-off domestic payment. Payments sent to a phone number, like payments sent to an account number, support instant payment mode. The Pay and Save service offers a convenient way to help clients build up a financial reserve by automatically rounding up each card payment to the nearest CZK 10. The more a client pays by card, the more money is automatically sent to their savings account. This simple tool is complemented by the Moneyback rebate program, with which clients earn rewards back for purchases at selected merchants.

George mobile banking confirmed its position as the most used banking application on the market with almost 2 million active users

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. In 2023, more than 250,000 new clients activated the Moneyback service and more than 1.1 million of them are already using the service.

Due to the increasing number of offers, Česká spořitelna has added an improved option of offer filtering to the programme overview. The filters have made the programme clearer and easier for clients to navigate. In addition, Česká spořitelna has launched tailored notifications for clients, informing them about new traders, promotional offers, or the upcoming expiry of offers.

BankID

In 2023, Česká spořitelna provided the service to 2.4 million clients and is thus making a major contribution to the digitalisation of the Czech economy, which ranks 17th in Europe in terms of digitalisation, which is rather worse than the average.

Since the introduction of the service in January 2021, almost 780 thousand Česká spořitelna's clients had used the BankID service for e-government logins and had made more than 9 million logins. Česká spořitelna was thus the number one provider of e-government logins. The most frequently, clients logged in to the Data Box Information System, 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. Clients logged into the Data Box Information System the most, with almost 3 million logins over the entire period.

The BankID service for private companies was launched in June 2021, and in 2023, 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, more than 484 thousand Česká spořitelna's clients have used the service to verify their identity and 357 thousand clients used BankID in 2023. The most frequent clients used identity verification with betting shops, utility companies, insurance companies, financial institutions and the State Environmental Fund. In 2024, growth is expected for e-shops in verifying the age of customers and for HR processes related to employee e-signatures. There will also be strong demand for e-applications to schools.

Česká spořitelna's clients can use these 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 2023, the volumes of newly granted loans on the mortgage market gradually increased during the year. Česká spořitelna occupied the second position on the market in the volume of newly granted mortgages. At the same time, it confirmed the first place in terms of mortgage loan portfolio.

Spořitelna managed to maintain its position as number one on the market in terms of total mortgage loan portfolio

In 2023, Česká spořitelna provided 12,201 new mortgage loans with a total volume of CZK 34.4 bn. The mortgage portfolio volume exceeded CZK 424 bn, which meant an increase of CZK 40 bn compared to 2022 supported by acquisition of portfolio of Sberbank CZ.

Financing the Needs of Private Individuals

Stabilization. This is also how the year 2023 could be described from the perspective of the majority of Czech citizens. The reverberations of the energy crisis or the slowly calming inflationary environment continued to reduce the real incomes of citizens. On the other hand, the stabilisation of interest rates and a slight decline in the second half of the year caused the stabilization of market with unsecured loans which slightly grew towards the end of the year. On the other hand, there continues to be a growing interest in digital services - not only arranging credit products, but also service operations allowing full flexibility in product and service settings for clients. Česká spořitelna continued to develop its advisory concept, tools and propositions to fulfil its public promise "Let credit always be a good servant". It believes that this will also help its clients to manage any uncertainty in 2024.

Demand for consumer finance also began to stabilise during 2023 and saw a slight increase in the second half of the year. In addition to the aspects described above, clients perceived the market as stable and did not postpone their consumption and plans any further. There was continued interest in services, changes in the setup of already negotiated products (flexibility) and a growing interest in client advisory care - both physical and digital. Thus, even in 2024, the Bank will be working hard on concepts, tools and products that fulfil its promise to clients "Let credit always be a good servant", and therefore wants to deliver a superior service to all new and existing clients by 2025 so that they can repay their loans with peace of mind.

After the digitalisation of credit card arranging, Česká spořitelna also launched the arranging of virtual credit cards and all service operations to George in 2023. Thanks to this, clients not only have the opportunity to arrange all credit products in George but can also conveniently adjust their settings themselves.

This confirms the shift of clients to digital channels, which the Bank experienced in a big way during the coronavirus crisis - the purchase and administration of products in George is now a standard 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. Advisory services are also increasingly moving towards digital service channels, and this year the Bank will also focus on their development in this direction. Clients are comfortable with the digital environment and are getting used to advising in it. The role of branches will remain very important as clients still prefer to deal with more complex matters in person. The role of advice is growing as clients perceive that Česká spořitelna is the first to look after their financial health.

Also in 2024, 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 in George digital banking, and to improve personalised communication focused on its clients' "Payments under Control".

The Distribution Network

In 2023, the transformation of branches continued, in order to create the optimal environment to support the provision of financial advisory and digitalisation of services. Emphasis was placed on creating discreet spaces for physical meetings with clients in branches, creating conditions for bankers to conduct online meetings with clients, as well as adjusting the layout and standards to make the branches as suitable as possible for the actual work of bankers.

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 2023, the Bank renovated another 27 branches to the new format; in November 2023, the 200th branch in the new format was opened for clients. At the end of the year, the Bank thus had 10 flagship branches, 5 Erste Premier centres, 123 medium-sized branches (43 of them operating on a cashless basis), and 62 small branches (55 of them operating on a cashless basis).

In connection with the development of the business model, service trends and feedback from clients, the design of the new format branches is being adjusted (colour, materials, new types of work and service points, etc.), also with regard to the sustainability and economy of the branch operations. In 2023, a pilot of application of the new logo and new company colours was carried out in six branches - based on feedback from clients and bankers, the preparation of new standards for the renovated branches was initiated.

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 93 branches already) have voice navigation for blind clients installed. Clients with disabilities can make an appointment at a branch with so-called assistance. In cooperation with the Prague Organisation of Wheelchair Users, the Bank carries out a mapping of branches and ATMs in terms of their accessibility. Information on accessibility is made available to clients on Česká spořitelna's website and on a special website presbariery.cz.

In order to optimally cover customer demand, Česká spořitelna continued to adjust the location of its branches throughout the country in 2023, in particular by relocating them to locations with a higher concentration of demand. After a detailed analysis of the business success rate and based, among other things, on current data on branch attendance and client movements in the affected locations, 31 branches were closed.

At the end of 2023, a total of 222 branches were operating on a cashless basis. Clients can execute cash and cashless transactions through ATMs (in particular, the recycling ATM) or through the George services (a cash desk as such is no longer available). Great emphasis was placed on optimising the amount of cash in the branches and the quality of the cash tellers' work.

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 further development in 2023 – 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 2023

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 offering investment solutions that will bring its clients added value

The high interest rate environment had a positive impact on the yield potential of conservative investment products, which are favoured by clients who prefer lower market risk to the maximum possible return. Clients were thus particularly interested in currency premium deposits in Czech crowns, with the volume sold reaching more than CZK 23 bn. At the same time, the Bank established premium currency deposits in foreign currencies, with a volume of almost USD 68 m and EUR 73 m. Clients invested more than CZK 8.5 bn in 30 new issues of structured premium debt securities and premium bonds.

Clients invested more than CZK 6 bn in Česká spořitelna and EGB subordinated bonds, more than CZK 1.2 bn in senior Zerobonds, and more than CZK 1.6 bn in corporate bond issues.

One of the key areas is the digitalisation of investments. In 2023, more than 31,000 clients purchased investment products through George digital banking, of which more than 5,500 clients used George's new trading function for shares, certificates and ETFs. The total volume of these transactions exceeded CZK 2.5 bn in 2023.

The sale of physical gold continued to attract clients' interest in 2023, when clients purchased investment gold bullions through Česká spořitelna in the volume of more than 236 kg, worth more than CZK 387 million. Since the beginning of gold bullion sales in 2012, clients have purchased 2,435 kg of gold bullion worth more than CZK 3 billion.

Erste Asset Management GmbH Mutual Funds, the Czech Republic Branch

The year 2023 was very successful on the financial markets, even exceeding investors' expectations from the beginning of the year. Equities, bonds and several other types of investment assets did well. Some even managed to erase losses from the previous year and reached all-time highs. The performance of individual assets last year was mainly influenced by macroeconomic data, central bank monetary policy and geopolitical risks.

Almost no one expected such a good year for stock markets in early 2023. Economists were predicting a recession in the US economy and bank strategists were mostly predicting a continuation of the 2022 decline in equities. However, the reopening of the Chinese economy after the pandemic, the large fiscal stimulus in the US economy but also in Europe, and especially the unexpectedly strong US household consumption led to a stabilization of economic growth. All this has happened against a backdrop of continued interest rate rises, the largest since the 1980s. Additional impetus to equity markets came from the rapid emergence of artificial intelligence, the huge demand for luxury goods, the renewed growth of bitcoin, and later in the year the anticipation of an end to the interest rate cycle. Inflation on a global basis began to fall rapidly despite record consumer spending.

In 2023, total net sales of the mutual funds of the Czech branch of Erste Asset Management reached CZK 39.1 bn, which is a record result in the history of the Czech branch.

The successful development of the stock markets was also reflected in the performance of its equity funds.

The Stock SmallCaps equity fund, which focuses on companies with lower market capitalisation, was very popular among investors, with more than CZK 1.05 billion in new inflows. In 2023, its unit certificates grew by 16.5%. Top Stocks, the largest domestic equity fund, ended the year with 7.8% growth. This fund recorded net sales of more than CZK 916 m in 2023. However, the highest growth of 38% in 2023 was recorded by the Sporotrend fund, which invests in stocks mainly in Central and Eastern Europe.

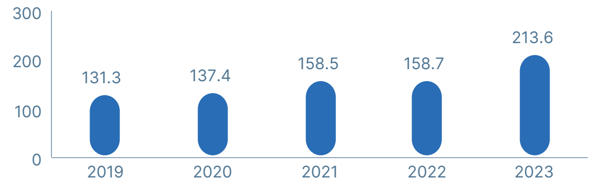
Mixed funds reversed the trend from the previous year and performed well in 2023. Unfortunately, even the strong performance of these funds did not contribute to the positive sales balance last year. For example, the largest mixed fund, the Conservative Mix, appreciated by 8.6%, and shares of the riskiest mixed fund, the Equity Mix, rose as much as 15.83%.

For most of 2023, bond yields were in a relatively narrow range. The easing of inflationary pressures gradually prompted central banks to stop tightening monetary conditions. Expectations of rapid interest rate cuts then began to intensify towards the end of the year, which was reflected in a sharp fall in bond yields. This development on the bond markets was naturally reflected in the appreciation of the Sporoinvest (6.40%) and Sporobond (10.86%) funds, which benefited in particular from the high short interest rate settings and the decline in Czech government bond yields. Both these funds also recorded the highest sales volumes of CZK 24.8 bn and CZK 10.97 bn, respectively. The stability in the credit markets, together with the decline in the euro yield curve, was positively reflected in the performance of the corporate bond funds - ČS Corporate Bond (10.04%) and High Yield Bond (12.78%). Net sales of these funds reached CZK 2.12 bn and CZK 0.60 bn respectively in 2023.

In 2023, 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. The absolute number of regular investors in funds increased, helped by combined products where higher interest rates on the deposit account were conditional on starting regular investment. Also, thanks to the inflow of new beginner investors, the average amount of the first regular investment decreased slightly compared to the previous year to CZK 1,750.

The total volume of assets of the funds managed by the Czech branch of Erste Asset Management as at the end of 2023 amounted to more than CZK 213 bn, which represents a significant year-on-year increase. This increase in assets under management was mainly due to the rise in market prices of risky investment instruments. However, the overall growth in assets was mainly driven by strong investor interest in conservative bond funds, with net inflows to these funds reaching record levels. As we approach 2024, investors are wondering whether the much-discussed recession will finally arrive and how central banks will have to react, as well as geopolitical conflicts and important elections in e.g. the USA and the UK.

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 cooperation with its subsidiary REICO investiční společnost České spořitelny, a.s. 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 26.4 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 2023, the investment company REICO focused on the most efficient management of properties, liquidity optimization through sales from the fund, and renegotiating terms of external financing. At the beginning of 2023, both REICO IS ČS funds under management met the requirements for so-called "light green" financial products and are deemed as financial products according to Article 8 of SFDR. The management primarily aimed to maximize rental income through rent increases in new lease agreements, and also to secure cheaper energy and the possibility of reducing the energy intensity of buildings through the installation of photovoltaic panels, replacing lights with LEDs, or smart measurement and regulation of consumption. In February, the RČSN fund sold the Office Box building in Bratislava from its assets, which was one of the first buildings acquired into the fund and no longer met the characteristics of a premium property. In May, the Rohan building in Prague's Karlín was sold from the RČSN fund at a price exceeding the expert appraisal despite unfavourable market conditions. The RČSLL fund, thanks to available liquidity and falling property prices, actively looked for new acquisition opportunities. New acquisitions into the fund are expected to be realized in the course of 2024.

The total number of properties managed by the REICO investment company Česká spořitelna, a.s. thus stabilized at 23 commercial properties, including 19 in the portfolio of the RČSN fund and 4 in the RČSLL fund. From a regional perspective, the Investment Company managed 10 properties in the Czech Republic, 7 in Poland, and 6 in Slovakia in 2023. In 2023, the RČSN achieved a return on investor funds of 2.05%. The yield was positively influenced mainly by inflationary rental growth together with an appreciation of the liquid component, while it was negatively affected by an overvaluation of the property portfolio and a full write-off of one three-year bond linked to the Ukrainian crisis. The RČSLL fund achieved a return of 4.79% in 2023. The achieved yield was mainly due to an inflationary increase in rent and an appreciation of the liquid component in deposit accounts.

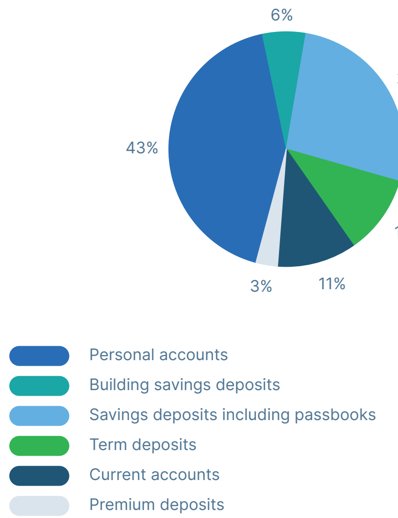
From the financial point of view, the RČSN and RČSLL portfolios are healthy, with most properties being more than 90% leased and regular rental income secured. The current values of the buildings in the portfolios of both funds are stable with significant long-term growth potential.

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 to clients at all times. The total amount saved with ČS Savings and other savings products amounted to CZK 382 bn at the end of 2023. 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 2023, ČS offered its clients a total of 12 CZK, 12 USD, and 12 EUR issues of premium currency deposits and one individual USD issue. Clients set up premium currency deposits in CZK worth nearly CZK 23 bn. Since the middle of the year, it has also been possible to purchase a crown currency premium deposit through the George Store. The Bank saw record demand for euro and dollar currency premium deposits, with total volumes last year exceeding EUR 70 m and USD 66 m.

Household savings



Building Savings

Building savings with Stavební spořitelna České spořitelny (also known as Buřinka – the “Bowler Hat”) came under pressure from the government in 2023 with discussions about reducing state support. This has already had a negative impact on the 2023 result. Thanks to the actions of Buřinka, which was the first to react to the forthcoming reduction of state support by guaranteeing a doubling of the rate from 1 August 2023, it was possible to achieve an appreciation of the building savings account of up to 5.9% per annum.

The number of new building savings contracts (including increased target amounts) fell by 18% year-on-year due to considerations on the reduction of state support in 2023, with a total of 92,262 new contracts concluded (including increases). The result was similar for the volume of negotiated target amounts of new contracts, including increases, which fell by 23% year-on-year to CZK 43 billion.

In total, Buřinka manages nearly 565 thousand building savings accounts with savings of CZK 59 bn and target amounts of nearly CZK 203 bn.

Buřinka is further developing its activities in the area of online building savings. In addition to the online arrangement process on the SSČS website and in George Internet Banking (including children), in 2023 the process of arranging building savings online on the SSČS website using one's own bank identity (BankID) was added. At the end of the year, Buřinka started to favour contracts negotiated online in all digital service channels. In the second half of 2023, Buřinka started the gradual launch of servicing operations for building savings in George.

Buřinka also thinks about its existing clients. To reduce deposit outflows, it has increased the rate on deposits for clients after the 6th year of saving from 1% to 3.5% per annum and has also introduced a new retention programme with fee exemption during the commitment period.

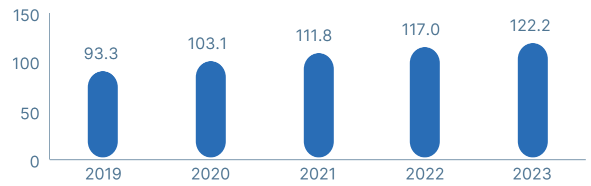
Pension Savings

Česká spořitelna – penzijní společnost is the long-standing market leader in supplementary pension savings, maintaining the two largest participant funds on the pension market, Balanced Fund with assets of CZK 18.2 bn and Conservative Fund with assets of CZK 15.3 bn. The Ethical Participation Fund, which is to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, reached over CZK 3.5 bn. As at the end of 2023, the Company had over 927 thousand unique participants, with a total volume of funds just under CZK 122 bn.

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

The year 2023 can be summarised as an exceptionally good year for investments, with both the equity and bond portfolios of our pension funds performing well. During the year, the mood on the financial markets was optimistic. The probability of an economic recession was becoming less likely, and thanks to falling inflation, the first central bank rate cuts are expected or realised. Both stock markets and global bond markets experienced strong growth. Czech government bonds performed very well above average in this respect. All funds managed to achieve the highest annual appreciation since their inception, for example the Conservative Fund +10.2% and the Dynamic Fund +19.3%.

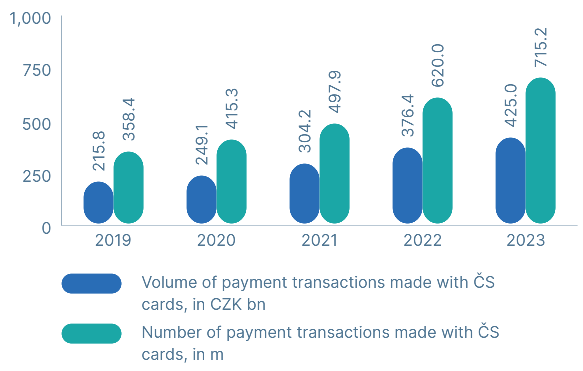
Volume of assets managed by ČS – penzijní společnost (CZK bn)



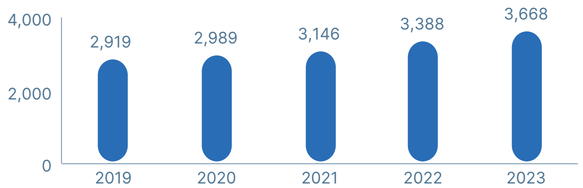
Payment Cards

The boom in the sphere of payment cards continued, kicked off by impact of the COVID-19 pandemic in 2020, with a significant transition from cash to payments by card. In 2023, Česká spořitelna noted a 12.9% increase in the volume of card transactions, to CZK 425 bn, and an increase in the number of card transactions, by 15.3% to 715 million transactions.

Card transactions made with ČS cards at merchants (issuing)



Number of active cards (thousand)



Online Payment Cards

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.

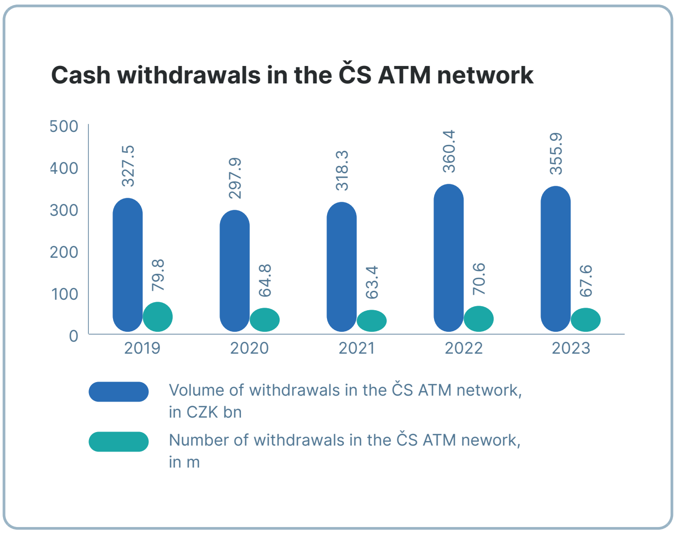
Clients can arrange a George virtual card instantly through George mobile or internet banking. In 2023, clients set up 229,000 permanent George virtual cards. Since their launch in 2021, nearly 490,000 cards were set up this way.

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, client minimises the risk linked to payments over the internet. In all of 2023, clients used 555,000 one-time virtual cards.

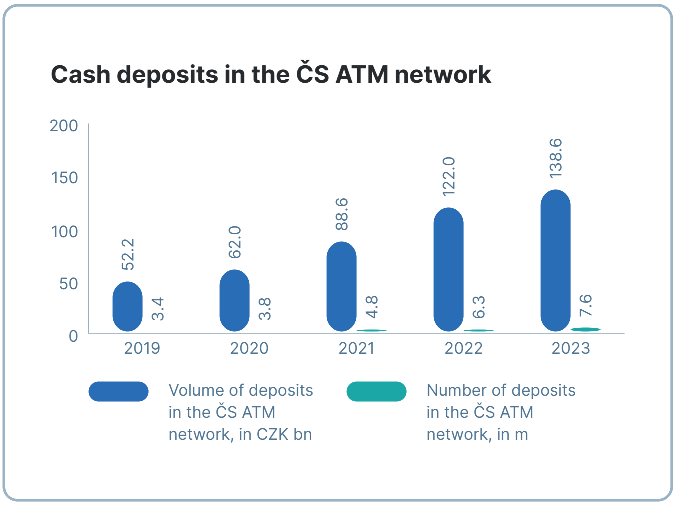
ATMs

In terms of its ATM network, Česká spořitelna has long maintained a leading position on the Czech market. At the end of 2023, it operated a total of 1,680 self-service devices (ATMs, transactional terminals). During 2023, cardholders made 67.6 million cash withdrawals from Česká spořitelna ATMs, amounting to CZK 355.9 bn. The average withdrawal amount was CZK 5,266.

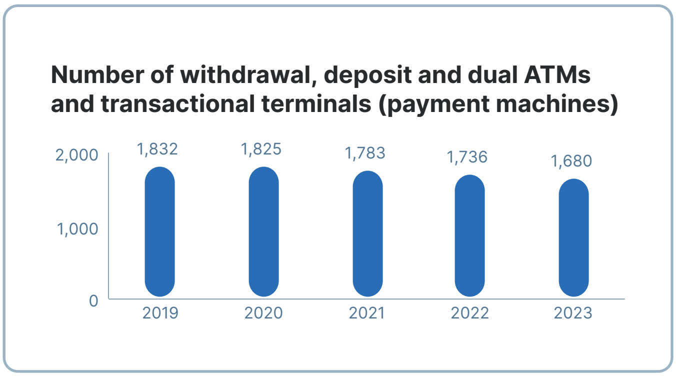


Česká spořitelna´s ATM network has long maintained a leading position on the Czech market

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 41. A total of 459 deposit, dual, and recycling ATMs are in operation, in which clients made 7.58 million deposits in the amount of CZK 138.56 bn. The average deposit amount was CZK 18,288.



In 2023, Česká spořitelna introduced a new service Transaction History. Using it, the client can view the most recent turnovers on the account on the ATM screen. The history of the last month is displayed, with a maximum of 40 transactions.



Corporate Banking

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, advisory on mergers and acquisitions, and a wide range of cash management and treasury products, to introductions to the bond or equity capital markets.

At the centre of the corporate banking strategy is advice on financial helth, ESG and Transformation 2.0, automation and digitisation

The concept of advisory banking, focused on supporting business competitiveness and sustainability in three key areas (financial health, ESG and Transformation 2.0, and on automation and digitisation of processes and services for clients) is at the core of Česká spořitelna's corporate banking development strategy.

The Czech economy and all entities operating here have gone through a very turbulent period over the last few years. In addition to the "covid" years, 2022-23 saw additional challenges such as high inflation, geopolitical tensions, disruption of supply and demand chains and the search for new energy sources in the context of the Green Deal and the ongoing conflict between Russia and Ukraine. This situation, which has completely changed and made conditions more difficult for many sectors, has affected Česká spořitelna's activities and confirmed the correctness of its strategic direction. Both the pandemic and the war have changed customer attitudes, and they are now willing to embrace digital opportunities.

In general, the trend for digitalisation has been confirmed. Česká spořitelna perceives this trend and has decided to invest considerable resources in the digitisation of processes and services for corporate clients in the coming years so that it will be able to satisfy an even greater number of client needs. In the past year, the Bank has made progress not only in the area of basic services, where it has significantly expanded, for example, the possibilities of signing documents without the need for a personal meeting with an electronic signature. Furthermore, the Bank took further steps to digitise the lending process or offered the first fully digital loan for entrepreneurs and launched digital onboarding. Česká spořitelna also sees a digital future in the area of advisory for companies and entrepreneurs, where it has managed to launch, for example, the Financial Health Zone, where clients get an overview of the health of their business, or four modules within the fully digital Sustainable Business Guide (electromobility, photovoltaics and CO2 footprint calculator).

The constant effort to satisfy client needs in the best possible way, to solve unexpected situations, not only in times of crisis, and to improve the overall client care has not only been rewarded in client satisfaction, but also appreciated by the professional public.

In addition to digitalisation, which enables to offer services or advice to a larger number of clients, Česká spořitelna also perceives the need for individual attention to the specific needs of clients. In response to the growing importance of the topic of sustainability, the Bank has managed to fully integrate the services of the Responsible Finance Team into its offer in order to provide the best and most comprehensive advisory to clients and to help them with the new challenges that await them in connection with this megatrend, as well as with identifying new opportunities that open up with it. 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 to establish a unique platform – Climate & Sustainable Leaders Czech Republic – which will map the carbon footprint of the Czech Republic. Thanks to its expertise and commitment in this area, Česká spořitelna has participated in several important transformation projects, which promise the future for the entire economy and its sustainability.

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 last years, 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.

In the SME segment, Česká spořitelna has long focused on an individual client approach, consulting for clients and financing needs with regard to their current situation, as well as their long-term development. With a view to the long term, the Bank relies on advisory to improve the financial health and overall sustainability of clients' businesses. At the same time, Česká spořitelna perceives the growing interest of clients in this segment in digital solutions that not only save their time, but above all are available at the time and place when the need arises and is coming up with many innovations in this area with a plan for further development in the future.

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. The Bank strives to best understand its clients' needs, to bea true partner in their business, and to provide them with highly qualified professionals with sector specialization 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 perspective, the military conflict, the inflationary environment in the Czech Republic and Europe, and the related high market interest rates affected the large corporate client segment in 2023. Firms not only sought conventional operating and investment finance, but also capital market, club and export finance products, which translated positively into solid lending activity during 2023. The trend, or the need for clients to address issues related to green transformation and associated regulation, is gaining traction, especially among larger and multinational firms. Česká spořitelna is very well prepared for this development and can help companies to finance their development plans on the debt or capital market, as well as provide ESG advice.

Structured, Trade, and Export Finance

Although the Bank faced another challenging year, it performed very well in the structured transactions sector and exceeded initial expectations.

The Bank maintained the trend of previous years, and successfully executed many deals for private and institutional clients in 2023. Thanks to its consistent and unrivalled role in the domestic market, transparency, credibility and positive references from many previous projects, the Bank increased the volume and number of structured deals in 2023.

Equally pleasing is the business activity in the field of export financing, where Spořitelna helped to implement several important projects through the financing provided. 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 with significant volumes, especially if they are projects with a higher scope and dimension than just the commercial aspect.

The complexity of today's world and the higher level of uncertainty in 2023 has also been reflected in the demand for hedging instruments, where the Bank provides its clients with a high-quality service in arranging bank guarantees and letters of credit, which is perceived very positively by clients, and is reflected not only in the volumes but also in the number of executed transactions. The Bank 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 2023, Česká spořitelna continued to actively support its clients, whom it was able to help to achieve very interesting appreciation on their deposit products, thanks to the high market interest rate environment. Thanks to operating loans, public sector clients were also able to bridge critical months and many non-profit organisations did not have to reduce their services thanks to operating loans or overdrafts 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. Despite the highly competitive environment, Spořitelna once again made many interesting client acquisitions, mainly thanks to its client-oriented approach and its wide range of highly professional services for the public and non-profit sectors.

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, 2023 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 its 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 2023, 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

Česká spořitelna has long-term developed and deepened its cooperation 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 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 also significantly supports non-profit and social enterprises on the Czech market. 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 supported non-profit and social enterprises on the Czech market

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 2023, Česká spořitelna continued to develop its cooperation with domestic, foreign, and international financial institutions.

Selected Awards in 2023

Česká spořitelna and its subsidiaries received many awards in 2023, which confirms the quality of the products and services provided:

International Awards

Customer Centricity World Series Awards 2023

- Česká spořitelna triumphed in the prestigious global Customer Centricity World Series Awards 2023 – in the Crisis Strategy & Management category. The Bank's activities to help war-affected Ukraine were appreciated. The competition was contested by 26 countries.

Domestic Awards

Golden Crown 2023

Česká spořitelna won three Golden Crowns:

- Mortgages – the Česká spořitelna mortgage triumphed for the sixth 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 for the third in a row.

Bank of the Year 2023

- Česká spořitelna won in the categories Private Bank of the Year and Mortgage of the Year;
- Česká spořitelna emerged in runner-up position in the main category Bank of the Year and also in the category Corporate Bank of the Year;
- Česká spořitelna also took third place in the Customer Bank category as well as in the Bank Without Barriers category.

Top Employer 2023

- Česká spořitelna defended its position as number one and the first career choice of university students in the field of Banking and Investments.

Responsible Lending Index 2023

- Česká spořitelna received the highest award.

Finparada.cz Awards – Financial Product of 2023

- Česká spořitelna won the highest Product Company of the Year award thanks to the largest number of rated products;
- The 1st place went to Česká spořitelna in the category of Building Savings, Pension Savings;
- TOP STOCKS Fund won the public award.

Česká spořitelna Supports the Prosperity of Individuals, Communities and Companies

The year 2023 was marked by high inflation, which brought uncertainty to society and contributed to further opening of the scissors between individual and household incomes. Spořitelna therefore sought to contribute as much as possible to the financial stability of the Czech Republic and to strengthening the financial condition of individuals and companies through various instruments. The Bank introduced a unique ecosystem combining personal and digital advice, which has been used by more than two million clients.

Česká spořitelna Improves Financial Health

Česká spořitelna's mission is to improve the financial health of individuals and companies. In 2023, the Bank introduced public commitments focused on key areas of financial health: building financial reserves, saving for retirement, financial education, proper handling of loans, and supporting the competitiveness of companies. The Bank's key activities have been aimed at building a unique ecosystem for clients to improve their financial health through a combination of in-person and digital advice. Each client thus has access to personalized advice that enables them to assess the state of their finances, recommends priority areas for improvement, and guides them step by step to improve their financial habits and financial situation.

Specific results for 2023:

- More than 2 million clients received some form of financial health advice (clients experienced advice in a branch, used advice or referrals, got extra money in their budget, changed a financial behaviour);
- On average, they received CZK 7,254 as a result;

- 813,000 clients know their financial health status (Fit Indicators);
- 63,000 clients got their monthly budget into the black thanks to financial advice;
- 12,000 clients received a social benefit thanks to Spořitelna;
- 750,000 clients visited the Fit Zone - a unique space in George that allows clients to get information about their financial health and ways to improve it in one place;
- 127,000 children participated in the accredited Money Alphabet programme, in which Česká spořitelna´s employees were actively involved.

Spořitelna also continues to provide succesfull financial Money Alphabet programme for children

The positive impact of all these activities is reflected in the increasing client satisfaction. Despite the stagnant development of the banking market NPS, Česká spořitelna's client satisfaction increased by 2 points y/y. Taking care of financial health has become a strong differentiator: 81% of clients rate Česká spořitelna as a bank that takes care of its clients' financial health.

Česká spořitelna Cares about Sustainability

Česká spořitelna manages sustainability by evaluating environmental and social impacts, risks and opportunities. The basis of the sustainability strategy are four pillars:

- Financial health – is the core of Bank’s strategy and is the key for long-term sustainability of its business;
- Healthy society – that Spořitelna develops through its employees, inclusive approach and support of communities;
- Healthy environment – to which the Bank contributes by limiting the financing of greenhouse gases and other environmental impacts of its loan portfolio, promoting sustainable economic transformation and reducing the environmental impact of its own activities;
- Healthy governance – in the areas of compliance, ethics, corruption prevention, data security and others.

It is evident that the Bank can achieve the greatest positive impact through the activities it finances. Therefore, it helps clients to reduce energy costs and the environmental impact of their housing through the products "Mortgage for the Future" and "Loan for the Future by Buřinka", where, in addition to financing, it also informs about the possibility of obtaining subsidies from the "New Green Savings" programme and offers a selection of partners for the implementation of measures. For corporate clients, the Bank offers products for financing energy savings, renewable energy and the circular economy. Clients can also benefit from personal and online advisory in sustainability management, carbon footprint measurement, renewable energy installation and e-mobility. At the same time, the Bank actively informs them about other available opportunities in the field of sustainability.

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 (financed emissions). In line with the commitment of Erste Group Bank AG arising from its membership in the Net-Zero Banking Alliance, goals have been set for reducing emissions in several industries.

Spořitelna continues to measure and reduce the environmental impact of its own activities.

Detailed sustainability information is available in the Annual Report of Erste Group Bank AG (regulatory) and in the Sustainability Report published on Spořitelna’s website.

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 Česká spořitelna Foundation ranks among the top three biggest corporate foundations in the Czech Republic. It specifically supports projects and approaches that advance the Czech education system and motivate students to develop the knowledge and skills needed for an active personal and professional life. The main mission of the ČS Foundation is to develop children and young people and to motivate teachers and school management to develop competency-based learning. The core of the Foundation's activities is the creation and distribution of innovative educational methods and tools and the strengthening of the network of key participants in the field of education. In 2023, the Foundation donated more than CZK 130 million to support the modernisation of education.

In addition to third-party support, the Foundation also develops its own programmes. In 2022, it launched a new Foundation “Day for School” programme, which connects the school world of theory with practice. Teachers and students can invite expert volunteers from different disciplines to visit them at work or hold online meetings.

In 2023, it managed to organise 1,100 "Days for School" and inspire over 20,000 primary and secondary school children, not only in the Czech Republic but also in Slovakia. The community of volunteers grew to 1,200 professionals from a wide range of professions, from health professionals to creatives, judges and economists. The Bank has nourished lasting cooperation with universities and supports interesting discussion forums and organisations. For example, the Aspen Institute CE is one of Bank´s partners.

The Money Alphabet

In 2023, the number of schools with which the financial education programme was conducted stabilised. The Money Alphabet was tested in 752 schools and over 162,000 children in second and fourth grades participated. In addition to financial literacy, fourth graders in the “Enterprising Class” programme developed their digital literacy skills by setting up their own e-shop with products and the possibility for customers to pay their children with credit cards on mobile phone terminals. Second graders experienced an interactive program called "Where the Money Rolls in" where they get to relive an adult's day with lots of props.

More than 2,000 children enjoyed the financial education programme at more than 30 summer camps across the country. A new feature was the camp game "Brigoška na léto", which allowed teenagers to try out different types of temporary jobs and test their knowledge by signing a "real work contract".

Big thank you goes to the dozens of staff volunteers who travel to schools to present the "We Can Make it at School" program to children.

It is also great news that Money Alphabet has defended the first place of the Golden Crown Award in the category of social responsibility.

Česká spořitelna Supports Stronger Neighbourhood Relations

The founders of savings and loan associations 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. In the area of social impact, the Bank aims to improve people's competencies for the 21st century for all without distinction and to inspire by its own example.

Through its unique development programme “Stronger Movers”, the Bank supports people who are able to actively address the problems of the place they live. Furthermore, with the Programme, they are able to convert their activities into sustainable and beneficial business. In 2023, 19 movers successfully completed the Programme. The second part of the Programme is the “Mover Inspirational Meetings” across the country, of which Spořitelna organised three in 2023.

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. An application for a grant of up to CZK 100,000 can be submitted any time through www.dokazemevic.cz. Spořitelna cooperates with the VIA Foundation on the Programme and the Česká spořitelna Foundation then doubles the donation appeals announced within the Programme on the darujme.cz portal. In 2023, the Bank supported 54 projects across the Czech Republic, allocating CZK 4.5 m among them. In cooperation with the VIA Foundation, the Bank also launched a round of microgrants in the Programme “Together for Landscape”. It distributed CZK 336,900 and supported 19 projects. In 2023, the Bank has also launched two-year large grants in the Programme, where a successful applicant can not only receive up to CZK 0.5 million, but especially expert assistance on how to effectively involve the public in the creation of a place for neighbourhood gatherings.

In 2023, 1,752 employees took advantage of the “Day Differently” volunteer programme and the Bank donated a total of 16,335 hours to good causes. Other volunteers take part in the financial literacy programme Money Alphabet. Spořitelna employees are also involved in the Česká spořitelna Foundation's “Day for School” programme, which brings practical inspiration to Czech schools. Among the 1,000 volunteers are 50 Spořitelna professionals across various fields - from bankers to HR and IT specialists.

Česká spořitelna donated 16,335 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 preferential financing, thanks to support from the European Investment Fund.

Česká spořitelna Cares about 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 366 branch buildings, 291 are wheelchair accessible and 95 branches feature a voice beacon to navigate visually impaired clients. The Bank has 278 ATMs which are fully or partially wheelchair accessible, and 1,446 of its ATMs (i.e., 86%) 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.

Matter of course is also full-fledged remote counselling, which can also be used by clients with physical disabilities.

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. Consequently, in 2023, in the context of diversity, the focus was placed on the gender pay gap indicator, with an emphasis on equality in remuneration. Česká spořitelna also provides its employees with an above-standard range of benefits. Additionally, it strives to support work-life balance. Since 2020, so-called "My Days," have been introduced which are 12 extra days off per year, beyond the standard five-week vacation.

Health, and not only in the financial sense, is one of ČS’ fundamental values. ČS offers a wide range of various health benefits. The most appreciated are telemedicine, medical consultations, and Medical Concierge services, freely and anonymously accessible within the “uLékaře” service for employees and their family members. Also, employees and their relatives have the option to use psychological or legal advice for free and anonymously, online and in person. As part of the Health Days, there is a possibility of preventative medical check-ups and a range of lectures and workshops focused on mental and physical health and healthy lifestyle at various ČS workplaces. Recently, as part of the Health Center at the Prague headquarters, there is also a general practitioner's office with superior client approach and a focus on prevention, as well as massages, physiotherapy, nutritional counselling, and the services of an optometrist.

As in previous years, in 2023, Česká spořitelna provided its employees with a comprehensive development offer - from individual to team-based – which helps them to be successful not only in the present, but simultaneously prepares them for new challenges in a rapidly changing society. Digital forms of education are gaining an increasing share in the development offer for employees. ČS devoted great attention to the development of strengths (Gallup CliftonStrengths) and so-called future-skills such as the use of artificial intelligence, primarily in the context of personal productivity. Česká spořitelna regularly measures the satisfaction of its employees and their level of support for the current strategy, continuously achieving high 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 levels); support for parents on maternity/parental leave (and their return to employment); and increasing the number of disabled employees. Across these areas, Česká spořitelna is also addressing the related topic of flexibility and plans to launch a pilot in selected teams in 2024, with potential subsequent extension of work flexibility rules across the entire bank. In connection with the monitored metrics, Česká spořitelna also launched a working group that set out to establish a diversity benchmark not only within Česká spořitelna, but across the entire banking sector in 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.

In 2023, ČS set its objective to remain an attractive employer for talented candidates. The primary focus for the year was on IT positions. Considering the labour market evolution and the shortage of IT experts, an initiative was undertaken to support and raise the visibility of IT leaders within the bank. By promoting their personal brands and increasing visibility of the teams they lead, the bank began to form a community of experts around its IT leaders. Thanks to these activities, ČS succeeded in raising the parameter of "Considering ČS as an IT employer" in the IT community from zero to 3%, and even 6% in Prague, which was a significant success. In 2024, ČS will continue to work on increasing the visibility of leaders and engage more employees.

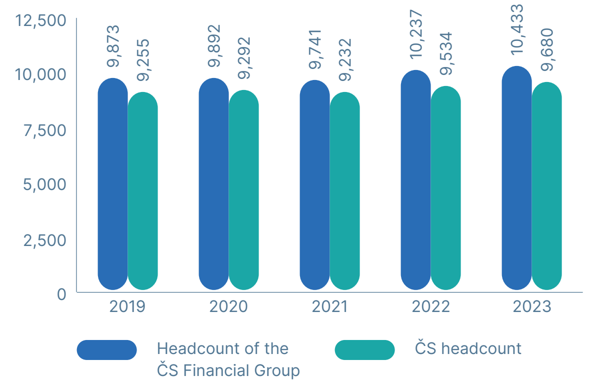
ČS incorporated artificial intelligence into the recruitment process, which helps candidates identify suitable positions in the Bank. ČS also worked on improving processes and systems to make the candidate's journey through the selection process as simple as possible. Simplifying the onboarding process for new employees remains one of priorities for 2024.

In 2023, a domain of Employee Experience was established within the People & Culture unit, which aims to continuously improve employee satisfaction. The main area of focus will be to create an interactive and digital environment in which an employee will be able to handle most of his or her ČS-related needs in just a few clicks. Simultaneously, the domain aims to address the five biggest pain points employees face in their work every year. The domain will continue to focus on the health and wellbeing of employees.

In 2023, Česká spořitelna continued to develop its employee portal, which includes improvements of the EMMA application, primarily in the recruitment, onboarding, and employee profile modules. ČS also launched a new compensation module for managers for mass salary increases. Many improvements were also implemented in SAP, which focused on legislative changes and reducing administrative tasks for HR administrators. As part of the automation, electronic distribution of some employment law documents to employees was introduced.

The average headcount of the consolidated entity increased by 1.9% to 10,433. For Česká spořitelna alone, the average headcount was 9,680. Women accounted for 66% of all employees; 9.6% of employees worked part-time. The Bank successfully integrated 177 employees who had returned from parental leave. The average length of employment grew to 10.9 years and the average age increased to 43 years. Employees over 50 years of age represented 24% of Česká spořitelna’s population.

Average headcount



Strategic Objectives and Plans for the Future

Strategic Plans for the Future

Strategic Objectives

The historical predecessor of Česká spořitelna was founded almost two centuries ago with the key idea of leading clients and the wider society to prosperity. This objective remains highly relevant even today, although the ways to achieve this goal are changing. In the 19th century, the main means of prosperity for clients was a seemingly simple passbook, which enabled people who had been excluded from banking to save widely and protect themselves from the adversities and uncertainties of life.

Česká spořitelna builds on this historical heritage but places it in the current reality. Today's mission of Česká spořitelna is to co-create a stronger and more sustainable society formed by financially healthy, educated and self-confident individuals and businesses. To fulfil this mission, Česká spořitelna focuses on providing advice to retail banking clients as well as to entrepreneurs and companies whereas digitization ensures that this advice is truly available to a wide range of clients. Sustainability, a fundamental principle running through the whole idea of advisory, is the basic rule for all ČS activities. All these strategic elements have a common basis in the company's strategy of improving clients' financial health. Spořitelna will remain faithful to this strategy in 2024, with an emphasis on accelerating its implementation.

Česká spořitelna's mission is to co-create a stronger and more sustainable society formed by financially healthy, educated and self-confident individuals and businesses

In 2024, as in previous years, the Czech Republic will remain a key market for Česká spořitelna, with a traditional overlap, especially in the corporate sector, into Central and Eastern Europe.

In this region, Česká spořitelna will take full advantage of the synergies offered by Erste Group Bank, of which ČS is a member. Within the product portfolio, Česká spořitelna will focus in particular on the continuous development of its digital banking platform called George. Great emphasis will be placed on George's advisory capabilities so that it is able to advise clients wherever they are and thus open up advisory services to the general public. In 2023, the first major milestone on the retail banking side was the launch of the so-called FIT zone within the George mobile application, where relevant propositions aimed at improving clients' financial health can be found in one place. For clients in the corporate segment, a new proposition with a focus on sustainability was launched in 2023 where clients can compare the benefits of electric cars versus traditional cars with an internal combustion engine in a completely digital way.

Macroeconomic Assumptions

The Czech economy is likely to remain subdued at the beginning of 2024, but there should be a gradual improvement in economic development, which will be reflected in a recovery in domestic and external demand, a significant weakening of inflationary pressures and a return of real wages to positive growth. However, uncertainty is likely to remain very high, as a number of external factors will influence economic developments in the Czech Republic. Most notable among these will be the war in Ukraine, the situation in the Middle East and economic developments in China.

For 2024, Česká spořitelna assumes the following key macroeconomic assumptions:

- Real GDP growth will reach 1.2%[19]. At the beginning of the year, domestic demand will still be weak and will be negatively affected by high inflation in 2023 and worsening developments in Germany, which will adversely affect demand for Czech exports. During the year, however, household consumption will improve along with the decline in inflation and the return of real wages to growth, while external demand will also strengthen, which will feed through into the development of Czech exports and investment;
- Inflation will fall significantly at the start of the year. The impact of the base effect will remain key, as the significant price increase from January 2023 will fade from the y/y development. By contrast, electricity price growth will be inflationary. During 2024, inflation is expected to be at relatively low levels, as the impact of subdued macro developments in 2023, a slight increase in the unemployment rate, high ČNB rates and expected fiscal consolidation will be anti-inflationary. For the full year 2024, average inflation is expected to be 2.2%[20];

(19) Česká spořitelna, a.s., 4. 4. 2024, https://www.csas.cz/cs/research/analyza/cz/SR380985
(20) Česká spořitelna, a.s., 4. 4. 2024, https://www.csas.cz/cs/research/analyza/cz/SR380985

- Labour market developments should be mixed, but overall, there should be no significant deterioration. On one hand, real wages will return to growth, due to a fall in inflation. On the other hand, however, the unemployment rate will rise slightly, with a delayed impact of the cooling of domestic and external demand in 2023. For the whole of 2024, the average unemployment rate is expected to be 3.3%[21], which is still a very favourable figure;
- The ČNB should gradually cut rates throughout the year, the main reason being a rapid decline in inflation and weak domestic demand at the start of the year. On the other hand, given the risk of a possible re-intensification of inflationary pressures, the fall in rates will not be rapid and the ČNB will remain cautious in this respect;
- The EUR/CZK is likely to remain relatively weak throughout the year, with only a slight appreciation expected compared with the end of 2023. This will be due to the expected economic recovery, but on the other hand, pressures on the koruna's appreciation will be hampered by falling ČNB rates. The geopolitical situation and related sentiment in the markets will also matter significantly. If the markets calm down, the koruna could strengthen slightly. Otherwise, however, a weakening cannot be ruled out. For the end of 2024, the EUR/CZK is expected to be 24.7[22].

Outline of Business Policy, Expected Economic and Financial Situation in 2024, and an Outlook for Upcoming Years

Retail Banking

In 2023, retail banking continued the strategic path it has taken in recent years. Česká spořitelna strives to advise and help its clients to become #silnější (#stronger), especially in the area of financial health. The concept of financial health means that clients have their finances under control and are not surprised by any unexpected situation. The means to achieve this is the ecosystem of retail financial advisory that is being built, including both the world of branches and, increasingly, the George digital banking advisory system. The satisfaction of needs aimed at financial health is then quite naturally done through the products of Česká spořitelna and its subsidiaries or partners.

In the area of physical advisory at branches, the number of bankers' meetings with clients continues to grow, reaching approximately 1.5 million in 2023. A high level of dynamics has been recorded for online meetings, although this type of meeting is still a minority. In order to provide a pleasant environment for meetings on financial health, Spořitelna continued to renovate its branches to a new modern format.

George's digital banking is becoming an increasingly important part of the advisory ecosystem. George is no longer a traditional mobile bank but is increasingly becoming a place that can be (alongside the physical world of branches) a client's partner, helper and advisor to the client in meeting financial health needs. A very specific expression of this strategy is the "FIT Zone" in George, where clients can find useful tips and advice to improve financial health in all possible areas (preparing for retirement, help with government contributions, building a financial reserve, saving for housing and energy, financial coaching). Of course, the number of service operations that the client can deal with through George is growing. This is reflected in the pricing policy of retail banking, where service operations handled through George are free of charge, i.e., they become a free option for service operations of the physical world.

The retail strategy is also reflected in the fact that the number of active clients continued to grow in 2023 and the penetration of retail products also increased. Product penetration increased particularly in the areas of insurance and investments. This confirms the fact that Spořitelna is moving away from the former traditional banking model where the bank receives money on the one hand and lends money on the other. Spořitelna focuses on meeting the financial health needs of clients across the spectrum, including the above-mentioned areas of risk management (insurance) and wealth creation (investing). Spořitelna's market share in investments increased significantly in 2023.

Česká spořitelna continued to grow the number of active clients in 2023

Spořitelna focuses across the spectrum of retail products on simplifying, digitising and making the customer experience more convenient. In the area of consumer lending, the process of setting up loans has therefore been adjusted towards greater simplicity. The Financial Health application helps clients set up loans so that repayment is not a problem for clients. Thanks to this (alongside generally responsible lending), ČS continues to have an excellent (very low) share of non-performing loans.

(21) Česká spořitelna, a.s., 4. 4. 2024, https://www.csas.cz/cs/research/analyza/cz/SR380985
(22) Česká spořitelna, a.s., 28. 3. 2024, https://www.csas.cz/cs/research/analyza/cz/SR380199

In the area of mortgages, Spořitelna has significantly expanded the number of operations that clients can perform from home via mobile banking. An interesting guide to sustainable living is the energy calculator, in which ČS advises clients on how to reduce their housing costs. A pleasing fact and reward for quality mortgage services is that Spořitelna continued to grow its market share in mortgage loans in 2023.

In the area of deposits, the fact that savings accounts have become a fully digital product (from creation through management to cancellation) can be mentioned as a concrete reflection of the digitisation strategy. Similarly, for payment cards, the client has a simpler overview thanks to the possibility of displaying payment card details in mobile banking. For current accounts, the Moneyback discount programme has been further improved (e.g., notifications of new offers). As part of the Moneyback programme, clients receive part of their money from purchases from partners back directly to their current account.

The above-mentioned area of investing also helped to fulfil the strategy aimed at strengthening the usability of George, both in the area of investment purchases (stock purchases, ETFs, certificates, currency premium deposits, subordinated bonds) and administration (payment of dividends of selected companies). Clients can learn about responsible investing in accordance with the principles of financial health through an educational video series. Financial health in the area of insurance is supported by automatic evaluation of the quality of insurance contracts with an indication of the next steps. Improved life insurance further extends the coverage of risks in clients' lives.

The above list of changes in retail products is not exhaustive. However, it is intended to demonstrate that the strategy of advisory (including advisory at George), digitization and simplification towards client financial health was not something that remained at the level of a generic strategy in 2023, but instead had tangible results behind it. This strategy has been successful and Spořitelna intends to continue this strategy in 2024, when it plans to further increase advisory services both in the physical world of branches (growth in the number of meetings with clients) and in the digital world, when it will further develop its financial advisory services in the world of mobile and internet banking.

Corporate Banking

Also in corporate banking, Česká spořitelna profiles 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 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 strengthening 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 and changing client needs. 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.

The priority areas for further development are digitisation and automation of operation in an intuitive and client-oriented environment

In that context, it will carry on with the continued digitisation of services and business operations. Simultaneously, Česká spořitelna, in cooperation with Erste Group Bank, is developing a group solution under the brand "George Business". Following the successful development of cornerstones in 2022 and preparations for a phased launch in 2023 the first clients will try out the "basic version" of George for Business in 2024, with further development and integration of advanced functionalities to make George the best choice even for clients with more complex needs in the next year.

In the SME segment, Česká spořitelna's main goal for 2024 and beyond is to become the partner of the 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 within 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, the digital Financial Health Zone or the ESG advice application, which were launched during 2023, remain a priority. 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 2024. 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 its clients to manage their needs across the CEE region in which Erste Group Bank operates.

In the sphere of structured financing in 2024, 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, again 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 the 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 an 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 2024 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 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 2024 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 these pillars in the future.

The sale of financial market products in 2024 will decisively concentrate on individual client needs related to the impact of the uncertainties and volatility in markets caused by geopolitical developments. Business-wise, Česká spořitelna will focus on selling products hedging medium and longer-term risks associated with currency rate and interest rate fluctuations.

In 2024, the sale of financial market products will decisively concentrate on individual client needs

Expected Economic and Financial Situation

Improving macroeconomic development expected in 2024 will be reflected in Česká spořitelna´s financial performance. Net interest income the main driver of operating income will benefit from volume growth. The decreasing interest rate environment will have lower negative impact on net interest income due to Česká spořitelna´s balance sheet positioning. Operating income will be further supported by net fee and commission income, in particular in the area of investment products and insurance. Growth of operating expenses is expected to be below the growth rate of 2023, reflecting easing inflationary pressures and applied cost management measures. The above-mentioned development indicates an improvement of the Cost/Income ratio, which should end up slightly below 2023 level. Overall, Česká spořitelna's operating result in 2024 should be above that of 2023.

Česká spořitelna's balance sheet will continue to be dominated by client deposits and client loans. Both these items are projected to grow by mid-single digits of percent. Loan portfolio quality in 2024 is expected to stay at very high levels with relative risk costs below the long-term average.

Capital position of Česká spořitelna is predicted to stay well above regulatory requirements.

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;
- Framework of the rating system and the setting and review of debtors' ratings;
- Principles of the system of limits and the structure of approval levels;
- Loan collateral management rules;
- Structure of 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, high inflation and energy price), evaluation of their impact on the Bank's portfolio, and timely steps to mitigate potential adverse effects.

In 2022 and 2023, 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 and 2023, the interest 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).

Since 2022, a sustained trend of DDoS (Distributed Denial of Service) attacks has been observed. 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 99.9%. 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[23]

2023	2022	2021	2020	2019
18.82%	19.31%	22.98%	24.73%	21.77%

(23) 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 106 and 244 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 2023

	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 359 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 2023, 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 2,023 thousand shares with an aggregate purchase price of CZK 1,578 million and sold 2,023 thousand shares with an aggregate selling price of CZK 1,578 million. In 2023, the minimum price for the purchase and sale of one share was CZK 663.00 and CZK 664.00 respectively, the maximum price for the purchase and sale of one share in 2023 was CZK 907.59 and CZK 909.80 respectively. Neither at the beginning nor at the end of 2023 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2023.

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 2023 was CZK 2,219.6 million. The contribution itself amounted to CZK 44.39 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 25 million in 2023.

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 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 ISIN XS2555412001, ISIN XS2638560156 (senior non-preferred note) and ISIN XS2676413235, ISIN AT0000A2STV4 (green senior non-preferred note) have been traded on the Vienna Stock Exchange Wiener Börse since their issue date. Issuances of debt securities ISIN CZ0003707291, ISIN AT0000A2STV4, ISIN XS2555412001, ISIN XS2638560156 and ISIN XS2676413235 were assigned an issuance rating by rating agencies Standard & Poor's (“BBB+“) 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, Moody's and Standard & Poor'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 the minimum capital adequacy requirements, and additionally, it recognizes the need to hold an 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 2023

§ 118, paragraph 4 letter k)

CZK million	Audit services		Other assurance services		Other services		Total	
	incl. VAT	excl. VAT	incl. VAT	excl. VAT	incl. VAT	excl. VAT	incl. VAT	excl. VAT
Česká spořitelna	31	26	4	3	8	7	43	36
Other consolidated companies	9	7	1	1	0	0	10	8
Total	**40**	**33**	**5**	**4**	**8**	**7**	**53**	**44**

Services in Addition to the Statutory Audit Provided by the Statutory Auditor and Its Network in 2023

PwC company	Recipient of the service	Service description	Price excluding 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	1,500,000
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)	390,765
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated annual and half-year financial statement for Czech regulatory purposes	355,096

PwC company	Recipient of the service	Service description	Price excluding VAT (CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Green bond allocation and impact reporting to the EGB group auditor	270,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Assurance on the methodology, model and reported fraud rates according to PSD2 SCA	504,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	ISAE 3000 CSRD assurance readiness	1,109,123
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Comfort letters preparation for EUR SNP issue on EU market (MREL)	2,785,301
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor’s confirmations for insolvency proceedings	36,000
ProcewaterhouseCoopers Audit, s.r.o.	s Autoleasing SK, a.s.	Voluntary audit for the year ended 31 December 2023	411,370
ProcewaterhouseCoopers Audit, s.r.o.	ČS NHQ, s.r.o.	Voluntary audit for the year ended 31 December 2023	210,274
PricewaterhouseCoopers Audit, s.r.o.	CEE Property Development Portfolio 2 a.s	Voluntary audit for the year ended 31 December 2023	188,644
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	CyberArk support & assessment for current capabilities vs. target operating model	2,960,100
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Attendance on open training courses and workshops	279,400
Total			**11,000,073**

During the accounting period from 1 January 2023 to 31 December 2023, 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[24]-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 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 2023 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

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

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 23 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:[25]

- Financial remuneration for statutory body members of CZK 61.681 m;
- Bonuses for managing a division (cash part), of CZK 10.186 m;
- Bonuses for managing a division (non-financial part – certificates and phantom EGB shares), of CZK 18.965 m; and
- In-kind income for Board members of CZK 2.614 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 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

(25) - 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)

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 2023, 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 equity; 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 and targeted financial advisory, digitization, efficiency, ecology, work environment 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 driven risk management; strategic and business-specific objectives – Digital Lending, Compliance and ESG; local priorities such as development of financial health and targeted financial advisory, digitization, efficiency, ecology, work environment and prosperity; leadership;
- Board member responsible for financial management: operational objectives – ČS operating result, return on equity, Cost/Income ratio, data management; strategic and business-specific objectives – capital management incl. fulfilment of the regulatory MREL requirements and ESG; local priorities such as development of financial health and targeted financial advisory, digitization, efficiency, ecology, work environment and prosperity; leadership;
- Board member responsible for retail banking: operational objectives – ČS operating result and operating result of the Retail division, return on equity, Customer Experience Index of retail customers; strategic and business-specific objectives – retail strategy implementation and ESG; local priorities such as development of financial health and targeted financial advisory, digitization, efficiency, ecology, work environment and prosperity; leadership;
- Board member responsible for corporate banking: operational objectives – ČS operating result and operating result of the Corporate Banking division, return on equity, 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 and targeted financial advisory, digitization, efficiency, ecology, work environment and prosperity; leadership;
- Board member responsible for operations and IT: operational objectives – ČS operating result, return on equity, data management; strategic and business-specific local and group objectives - progressive modernisation of IT and IT security, digitization of E2E operations and ESG; local priorities such as development of financial health and targeted financial advisory, digitization, efficiency, ecology, work environment and prosperity; leadership.

Each of the indicators specified above had a target value set to be achieved in 2023 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 AG shares and by 50% ČS performance certificates. These components – both the deferred and the un-deferred 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 un-deferred 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 2023, all members of the Supervisory Board received a total of:[27]

- Financial remuneration for being members of the Supervisory Board of CZK 7.533 m; and
- Supervisory Board members – Česká spořitelna's employees – received financial income from their employment relationships of CZK 4.537 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 four times in 2023. In addition to that, the committee decided twice by way of per rollam.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 cooperates with People & Culture unit 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. 2023-1. 1. 2027
Pavel Kráčmar, member	2. 2. 2020-1. 2. 2024 re-elected until 31. 1. 2028
Karel Mourek, Vice-Chairman	1. 8. 2021-31. 7. 2025
Daniela Pešková, member	2. 2. 2020-1. 2. 2024 re-elected until 31. 1. 2028
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. 2023-31. 10. 2027
Stefan Dörfler, member	1. 11. 2023-31. 10. 2027
Maurizio Poletto, member	14. 6. 2021-13. 6. 2025
Zlata Kunešová, member	15. 1. 2023-14. 1. 2027
Marta Vrbová, member	15. 1. 2023-14. 1. 2027
Zlata Gröningerová, member	27. 4. 2021-26. 4. 2025
Maximillian Hardegg, member	26. 5. 2020-25. 5. 2024
Aleš Veverka, member	15. 1. 2023-14. 1. 2027

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, 28 March 2024

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 2023. 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. In addition to this policy, the Bank has set goals to have at least 30% of the positions in both the Board of Directors and the Supervisory Board and 33% of the B-1 Management staffed by women by 2028. One of the six seats in the Board of Directors had been occupied by a woman and further seven women were members of the top management positions out of a total of 43 positions (level B-1) as at 31 December 2023. Another woman is in the management of 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 it will continue in 2024.

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 2024 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. The principle of gender-balanced selection committee should be applied during the selection process. 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 15%.

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 2023, there were three 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 2023. During 2023, 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. Seven women participated in this program and this programme will also continue in 2024.

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. The return of parents back to employment increased by 14 percentage point to 67% in 2023.

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 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 2023, the Board of Directors held 40 ordinary and 2 extraordinary 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 23 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 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 27 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 2023, the Supervisory Board convened in five 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 2023. 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 and 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.

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, manage 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 in person or anonymously report suspicion about illegal or prohibited conduct in the connection with work or other similar activity for the Bank by current or former employees (so-called Whistleblowing) incl. parttime employees or Bank suppliers and be protected within such report according to Act No. 171/2023 Coll., on Protection of Whistleblowers. The Bank has an Ethics Manager to resolve matters of unethical workplace conduct.

The Compliance unit provides regular reports on its activities, on performed controls and measures taken within such controls and on 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, which operates within the Non-financial Risk department, 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, non-financial reports (ESG reporting), 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 more information than it is required under the legal requirements. 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 including information on sustainability and responsible investment. 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 2023 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 under- represented 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 assesses and approves the launch, innovation or discontinuation of high-profile products and services in retail and corporate banking and financial markets, and 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 40).

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.

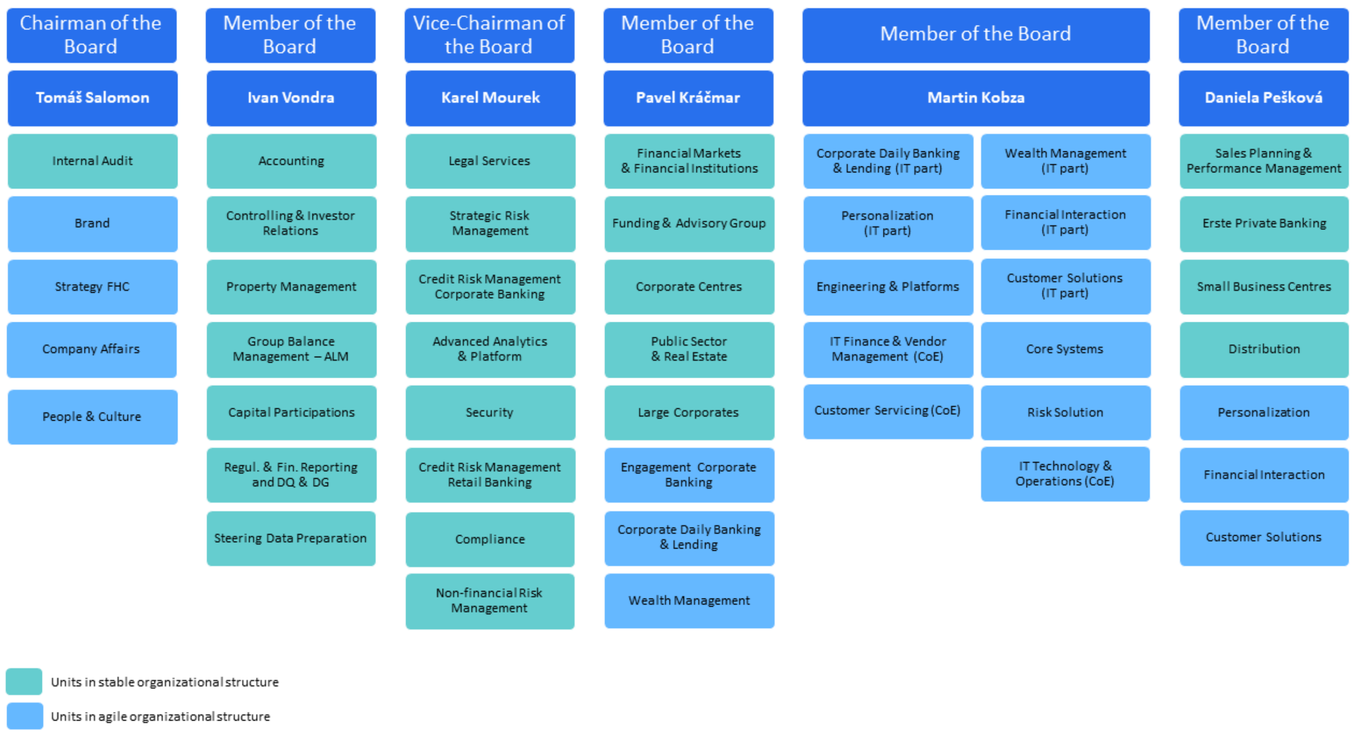
Statutory and legislative regulations do not separately address the area of management accounting, except for the definition of basic requirements, e.g., for clarity. Česká spořitelna established management accounting based on historical developments while respecting current requirements for accounting 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 of 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 2023



Supervisory Board Report
for 2023

In 2023 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 2023 financial statements, proposal for distribution of 2023 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 regularly discussed the concept of Financial Health Company, the Security strategy, ESG strategy, revised principles of remuneration and approved the 2024 budget.

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 2023 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 2023, the Supervisory Board held four regular meetings and one extraordinary meeting. Besides these meetings, the Supervisory Board also took "per rollam" resolutions.

During 2023 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 2023, there were changes in the composition of the Supervisory Board. In January, the term of office of the employee representatives A. Veverka, P. Brázda and H. Černá ended. Newly elected employee representatives are Z. Kunešová, M. Vrbová and A. Veverka. In October, the term of office of the Supervisory Board of S. Dörfler and Š. Máj ended. They were both re-elected by the decisions of the sole shareholder within the performance of scope of authority of the General Meeting for another mandate.

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. 2023 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. 2023. 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. 2023, of their financial performance and their cash flows for the year that ended 31. 12. 2023 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 2023

In 2023, 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 2023, 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 2023, the Audit Committee discussed the internal audit plan and its changes, as well as the updated strategy of internal audit, 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 and business continuity management.

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 2023, and of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting 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 2023, and of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting 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 2023;
- the consolidated statement of other comprehensive income for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of changes in equity for the year ended 31 December 2023;
- the consolidated statement of cash flows for the year ended 31 December 2023; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2023;
- the separate statement of other comprehensive income for the year ended 31 December 2023;
- the separate statement of financial position as at 31 December 2023;
- the separate statement of changes in equity for the year ended 31 December 2023;
- the separate statement of cash flows for the year ended 31 December 2023; and
- the notes to the separate financial statements, comprising material accounting policy information 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

Basis for opinion

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

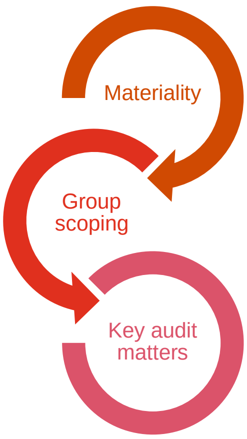
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



The overall materiality for the Group and the Bank is determined as 5% of the profit before tax in the separate financial statements, which represents CZK 1,091 million.

Our audit covered 97.1% of the Group’s total assets and 91.8% of the Group’s net profit. We applied analytical procedures to further 2.6% of the total assets and 5.9% of the net profits of the Group at the level of smaller subsidiaries.

Calculation of credit risk in loans and advances to customers taking into account geopolitical situation and macroeconomic developments

Acquisition of loan portfolios

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 1,091 million
How we determined it	Materiality for the Group and the Bank was determined as 5% of the profit before tax in the separate financial statements.
Rationale for the materiality benchmark applied	We chose 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 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 2023 and in Note 16 of the consolidated financial statements, the Group presents its customer loan portfolio at the gross carrying amount of CZK 1,017,305 million, of which CZK 943,726 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 20,487 million as at 31 December 2023, of which CZK 18,831 million has been 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	When assessing credit risk and credit-impaired status of loans, we specifically focused on recalibration of credit risk models including update of the key parameters, and whether they 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.

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estimate that has a direct and significant impact on 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 (IFRS 9) 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 (FLI) and future development scenarios derived from it also play a significant role.

The performance of Group's/Bank's loan portfolio and related credit risk costs were influenced by a number of external factors in 2023: the economy was still under impact of the slowdown in global demand and high inflation, though no longer accelerating, which brought an environment of high interest rates, decrease in consumption and continuing market uncertainty and volatility.

The Group/Bank responded mainly by:

- adjusting the macro-shift models to reflect the expected effects of these events in the credit risk parameters;

- updating weights assigned to the individual forward-looking scenarios; and

- updating the criteria for loan classification into the stages relevant for measuring expected credit losses.

We continued with verification of the model recalibration used for the expected credit loss calculation as a result of uncertainties and markets' fluctuations (high inflation, high interest rates, energy prices etc.). Our credit risk modelling experts were involved in assessment of the validations and results of the back-testing 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 FLI estimation model, we compared the underlying macro-economic forecasts with the information made available by 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 SICR 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 SICR 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 Accounting Standards as adopted by the European Union.

Acquisition of loan portfolios	
The Bank acquired two loan portfolios during the year. In April 2023 the Bank acquired the loan portfolio of Sberbank CZ, a.s. in liquidation and in November 2023 the Bank acquired the loan portfolio of BNP Paribas Personal Finance SA, odštěpný závod operating under the brand name Hello bank! Information on these transactions is provided in section Acquisitions within Note Material Accounting Policies of the consolidated and separate financial statements. The management of the Bank used external valuation experts when determining the value of the acquired assets. Due to the inherent complexity and specific risks associated with these acquisitions, our audit focused on examining the valuation and recognition of these portfolios in accordance with IFRS Accounting Standards as adopted by the European Union.	We have familiarised ourselves with the contractual documentation of both acquisitions and assessed the substance of these transactions to determine whether they represent purchase of assets or a business combination in the scope of IFRS 3, Business Combinations. We inspected the outputs of the Bank's external valuation experts who determined the fair value of the acquired assets and we assessed the appropriateness of the estimates and assumptions involved. Our valuation experts were involved in this process to verify the fair value determination on a sample of acquired loans. Our information technology specialists inspected that the purchased loan portfolios were properly migrated into the Bank's systems and evaluated the effectiveness of internal controls over the acquisition process. On a sample of acquired loans, we verified the existence and accuracy of data inputs. We verified the accounting recording of the transaction including the initial recognition and classification of the acquired loans either in Stage 1 or POCI (purchased or originated credit-impaired) at the acquisition date. We inspected the rating bridges and the Bank's approach to the subsequent loan monitoring and creation of expected credit loss allowances. We also assessed the adequacy of disclosures related to these significant transactions.

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 in the Group's 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 91.8% of the Group's net profit. 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 net profit to 97.7%. This approach allowed us to reasonably exclude significant misrepresentations of the Group results.

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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 IFRS Accounting 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 2023 by the general meeting of shareholders of the Bank on 27 April 2023. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 7 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 2023 to 31 December 2023 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.

28 March 2024

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 2023

in CZK million	Notes	2023	2022
Net interest income	2	34,583	36,719
Interest income		89,090	72,731
Other similar income		10,750	4,714
Interest expenses		(50,971)	(33,405)
Other similar expenses		(14,286)	(7,321)
Net fee and commission income	3	10,894	9,504
Fee and commission income		12,339	11,172
Fee and commission expense		(1,445)	(1,668)
Dividend income	4	42	68
Net trading result	5	4,178	3,739
Gains/losses from financial instruments measured at fair value through profit or loss	6	(1,764)	(438)
Net result from equity method investments		208	73
Rental income from investment properties & other operating leases	7	224	210
Personnel expenses	8	(12,685)	(11,458)
Other administrative expenses	8	(7,675)	(7,156)
Depreciation and amortisation	8	(2,784)	(2,721)
Gains/losses from derecognition of financial assets measured at amortised cost	9	(272)	(1,221)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	(2)	(633)
Impairment result from financial instruments	11	(825)	(636)
Other operating result	12	(1,706)	(1,669)
Pre-tax result from continuing operations		**22,416**	**24,381**
Taxes on income	13	(3,736)	(4,193)
Net result for the period		**18,680**	**20,188**
Net result attributable to non-controlling interests		66	27
Net result attributable to owners of the parent		**18,614**	**20,161**

The Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2023

in CZK million	Notes	2023	2022
Net result for the period		**18,680**	**20,188**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(81)**	**87**
Own credit risk reserve	13	(81)	87
Items that may be reclassified to profit or loss		**5,487**	**(312)**
Fair Value reserve of debt instruments	13	2,082	(1,732)
Gain/(loss) during the period		2,079	(2,361)
Reclassification adjustments		-	624
Credit loss allowances	11	3	5
Cash flow hedge reserve		4,763	1,369
Gain/(loss) during the period	13, 26	9,042	2,654
Reclassification adjustments		(4,279)	(1,285)
Net investment hedge		48	-
Transferred to profit or loss		48	-
Currency reserve		(96)	(18)
Gain/(loss) during the period		(96)	(18)
Deferred taxes relating to items that may be reclassified	13	(1,310)	69
Gain/(loss) during the period		(2,114)	(57)
Reclassification adjustments		804	126
Total other comprehensive income/loss	13	**5,406**	**(225)**
Total comprehensive income		**24,086**	**19,963**
Total comprehensive income attributable to non-controlling interests		66	27
Total comprehensive income attributable to owners of the parent		**24,020**	**19,936**

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

The Consolidated Statement of Financial Position

as at 31 December 2023

in CZK million	Notes	2023	2022
Assets			
Cash and cash equivalents	15	27,918	21,870
Financial assets held for trading		16,662	28,009
Derivatives	21	16,643	27,961
Other financial assets held for trading	22	19	48
Non-trading financial assets at fair value through profit or loss	23	3,798	3,331
Equity instruments		2,109	1,003
Debt securities		819	926
Loans and advances to banks		856	1,383
Loans and advances to customers		14	19
Financial assets at fair value through other comprehensive income		53,432	48,434
thereof pledged as collateral	29	-	785
Equity instruments		22	-
Debt securities	19	53,410	48,434
Financial assets at amortised cost	16	1,653,124	1,495,014
thereof pledged as collateral	29	123,076	89,423
Debt securities		352,299	327,805
Loans and advances to banks		304,007	266,675
Loans and advances to customers		996,818	900,534
Finance lease receivables	49	1,467	1,474
Hedge accounting derivatives	26	3,241	3,235
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(9)	(17)
Property, equipment and right-of-use asset	46	12,159	12,031
Investment property	46	1,748	1,803
Intangible assets	47	6,407	6,417
Investments in associates	57	1,649	1,437
Current tax assets	13	545	445
Deferred tax assets	13	1,839	2,918
Assets held for sale	62	10	9
Trade and other receivables	17	12,292	11,821
Other assets	48	1,538	1,707
Total assets		**1,797,820**	**1,639,938**

in CZK million	Notes	2023	2022
Liabilities and equity			
Financial liabilities held for trading	21	16,716	29,597
Derivatives		16,716	29,597
Financial liabilities at fair value through profit or loss	24	13,283	31,331
Deposits from customers		13,283	31,331
Financial liabilities at amortised cost	18	1,604,624	1,421,830
Deposits from banks		122,287	113,541
Deposits from customers		1,352,755	1,225,464
Debt securities issued		121,451	76,657
Other financial liabilities		8,131	6,168
Lease liabilities	50	3,259	3,475
Hedge accounting derivatives	26	4,534	5,870
Provisions	52	3,468	3,406
Current tax liabilities	13	115	144
Deferred tax liabilities	13	19	16
Other liabilities	51	7,301	6,558
Total equity	54	**144,501**	**137,711**
Equity attributable to non-controlling interests		546	479
Equity attributable to owners of the parent		143,955	137,232
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	9,040
Retained earnings and other reserves		119,703	112,980
Total liabilities and equity		**1,797,820**	**1,639,938**

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 19 March 2024 and are subject to approval at the Supervisory Board and by the sole shareholder.

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 2023

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**

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 2023	**15,200**	**12**	**118,221**	**9,040**	**387**	**(4,277)**	**(1,393)**	**89**	**(47)**	**137,232**	**479**	**137,711**
Dividends paid/AT1 distribution	-	-	(17,314)	-	-	-	-	-	-	(17,314)	-	(17,314)
Capital increases	-	-	-	-	-	-	-	-	-	-	-	-
Changes in scope of consolidation and ownership interest	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	17	-	-	-	-	-	-	17	1	18
Total comprehensive income	-	-	18,614	-	-	3,897	1,686	(81)	(96)	24,020	66	24,086
Net result for the period	-	-	18,614	-	-	-	-	-	-	18,614	66	18,680
Other comprehensive income	-	-	-	-	-	3,897	1,686	(81)	(96)	5,406	-	5,406
Change in fair value reserve	-	-	-	-	-	-	2,082	-	-	2,082	-	2,082
Changes in tax	-	-	-	-	-	(905)	(396)	-	-	(1,301)	-	(1,301)
Change in cash flow hedge reserve	-	-	-	-	-	4,802	-	-	-	4,802	-	4,802
Change in currency translation reserve	-	-	-	-	-	-	-	-	(96)	(96)	-	(96)
Change in own credit risk reserve	-	-	-	-	-	-	-	(81)	-	(81)	-	(81)
As of 31 December 2023	**15,200**	**12**	**119,538**	**9,040**	**387**	**(380)**	**293**	**8**	**(143)**	**143,955**	**546**	**144,501**

The Consolidated Statement of Cash Flows

for the year ended 31 December 2023

in CZK million	Notes	2023	2022
Pre-tax result from continuing operations		**22,417**	**24,382**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		3,566	3,521
Net allocation to provisions (including risk provisions)		1,086	1,481
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		1,260	(1,543)
Gains/(losses) from the sale of non-financial assets		(18)	(390)
Change in fair values of derivatives		(1,622)	1,799
Interest income	2	(99,840)	(77,445)
Interest expense	2	65,257	40,726
Other adjustments		225	(150)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		49	(37)
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(1,106)	(141)
Debt securities		107	(21)
Loans and advances to customers		532	(658)
Financial assets - at fair value through other comprehensive income: debt instruments		(2,741)	(16,921)
Financial assets at amortized cost			
Debt securities		(23,341)	(1,865)
Loans and advances to banks		(37,235)	96,537
Loans and advances to customers		(93,560)	(83,762)
Finance lease receivables		2	(388)
Hedge accounting derivatives		1,958	(107)
Other assets from operating activities		(434)	1,383
Financial liabilities at amortised cost			
Deposits from banks		7,982	65,955
Deposits from customers		124,990	53,328
Financial liabilties at fair value through profit or loss		(19,615)	20,368
Other liabilities from operating activities		467	(10,192)
Other operating cash flows			
Interest paid		(61,148)	(39,709)
Interest received		97,986	74,944
Payments for taxes on income		(3,894)	(3,746)
Cash flow from operating activities		**(16,670)**	**147,349**
Financial assets - at fair value through other comprehensive income: equity instruments		(22)	-
Proceeds of disposal			
Property, equipment and intangible assets		140	923
Acquisition of			
Property and equipment, intangible assets and investment properties		(3,152)	(2,474)
Disposal of joint ventures and associates		(212)	(80)
Cash flow from investing activities		**(3,246)**	**(1,631)**
AT1 call	54	-	-
Dividends paid/AT1 distribution	14	(17,314)	(25,451)
Other financing activities		(8)	8
Payments of lease liability	64	(667)	(650)
Repayments of bonds in issue	64	-	(136,242)
Proceeds from bonds issued	64	43,460	-

in CZK million	Notes	2023	2022
Changes in non-controlling interest	55	67	27
Cash flow from financing activities		**25,538**	**(162,308)**
Cash and cash equivalents at beginning of period	15	**21,870**	**37,472**
Cash flow from operating activities		(16,670)	147,349
Cash flow from investing activities		(3,246)	(1,631)
Cash flow from financing activities		25,538	(162,308)
Effect of currency translation		426	988
Cash and cash equivalents at end of period	15	**27,918**	**21,870**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

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 2023 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.

MATERIAL ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group for the financial year ending 31 December 2023 and related comparative information were prepared in compliance with applicable IFRS® Accounting Standards as adopted by the European Union ('IFRS Accounting Standards') 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 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 OCI in the line 'Currency reserve' of the statement of comprehensive income. The accumulated OCI is presented in equity, specifically under 'Currency reserve' in the statement of changes in equity. 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:

- SPPI assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES)
- Business model assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES)
- Fair value of financial instruments (Note 25 Fair value of financial instruments)
- Impairment of financial instruments (Chapter Financial instruments – Material accounting policies, Note 36 Measurement of Expected Credit Loss) and Note 39 Scenarios used in forward looking information)
- Provisions (Note 52 Provisions)
- Impairment of non-financial assets (Chapter NON-CURRENT ASSETS AND OTHER INVESTMENTS)

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.

In 2023 and further, uncertainty and market fluctuations caused by the war in Ukraine (energy crisis, high inflation, high interest rates, etc.) still remain. Therefore, the Group continues to carefully assess the conditions for significant deterioration in credit risk (SICR) for cyclical sectors and, in the private segment, assess the impact of higher interest rates and inflation.

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

Acquisitions

On 5 April 2023, the Bank acquired the loan portfolio of Sberbank CZ, a.s. in liquidation with a nominal value of CZK 47.1 billion for a purchase price of CZK 41.053 billion under an agreement signed on 16 December 2022. By the end of April, a total of CZK 36.6 billion of loans had been physically transferred, of which CZK 29.9 billion are loans to individuals (more than 27,500 clients) and CZK 6.7 billion are loans to legal entities (more than 3,000 clients). The assessment related to the substance of the transaction was performed for the accounting purposes. This acquisition does not represent a business combination in the scope of IFRS 3 as the acquired activities accompanying the assets were not significant and not substantial for creating outputs from the acquired inputs. As a result, the acquisition was accounted for as a purchase of assets.

Based on the Portfolio Transfer Agreement signed on 18 September 2023, the Bank acquired the loan portfolio of Hello bank! (BNP Paribas Personal Finance SA, a spin-off) with a nominal value of CZK 7.5 billion for a purchase price of CZK 6.5 billion as of 1 November 2023. The loan portfolio consists mainly of consumer loans and credit cards to more than 200,000 customers. Similarly, to the first acquisition, it does not represent a business combination in the scope of

IFRS 3 as the acquired activities accompanying the assets were not significant and not substantial for creating outputs from the acquired inputs and in addition to this, the entire portfolio represents a 'group of similar identifiable assets'. This, consequently, means that the voluntary concentration test was met and the acquired group of assets (loans) does not represent a business, but purchase of assets.

Application of amended and new IFRS Accounting Standards

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 2023. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2023 and have been 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: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules

Application of the above mentioned amendments in 2023 did not have a significant impact on the Group's financial statements. However, Amendments to IAS 1 resulted in a significant reduction in the disclosures of the accounting policies with focus on material information. Furthermore, Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules led to new disclosures in Note 13 Taxes on income.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective.

- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability. The amendments to IAS 21 were issued in August 2023 and become effective for annual periods beginning on or after 1 January 2025. The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).

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., Investown Technologies s.r.o. 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., ČS Seed Starter, a.s., 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 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 short-term 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. 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	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Net interest income	23,253	25,111	11,191	10,568	(1,033)	173	1,172	866	34,583	36,719
Net fee and commission income	7,755	6,484	1,806	1,743	(519)	(491)	1,851	1,768	10,894	9,504
Dividend income	-	-	-	-	42	68	-	-	42	68
Net trading result	1,840	1,571	717	1,057	776	(540)	845	1,652	4,178	3,739
Gains/losses from financial instruments at FVPL	15	(17)	(45)	-	(1,734)	(421)	-	-	(1,764)	(438)
Net result from equity method investments	8	(8)	200	81	-	-	-	-	208	73
Rental income from investment properties & other operating leases	-	2	188	184	35	24	-	-	224	210
General administrative expenses	(17,485)	(16,452)	(3,563)	(3,209)	(1,409)	(1,005)	(687)	(669)	(23,144)	(21,335)
thereof: depreciation and amortization	(2,589)	(2,508)	(263)	(265)	117	105	(49)	(54)	(2,784)	(2,721)

	Retail		Corporates		ALM&LCC		Group Markets		Total Group	
in CZK million	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Gains/losses from derecognition of financial assets at AC	-	(1)	-	-	(272)	(1,220)	-	-	(272)	(1,221)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	(1)	(2)	(632)	-	-	(2)	(633)
Impairment result from financial instruments	(899)	66	(60)	(918)	23	195	112	21	(825)	(636)
Other operating result	(268)	(249)	(331)	(811)	(799)	(342)	(309)	(267)	(1,706)	(1,669)
Pre-tax result from continuing operations	**14,218**	**16,507**	**10,105**	**8,694**	**(4,891)**	**(4,191)**	**2,984**	**3,371**	**22,416**	**24,381**
Taxes on income	(2,698)	(3,094)	(1,915)	(1,675)	1,444	1,216	(567)	(641)	(3,736)	(4,193)
Net result for the period	**11,521**	**13,413**	**8,190**	**7,019**	**(3,447)**	**(2,975)**	**2,417**	**2,731**	**18,680**	**20,188**
Net result attributable to non-controlling interests	-	-	(67)	(27)	-	-	-	-	(67)	(27)
Net result attributable to owners of the parent	**11,521**	**13,413**	**8,123**	**6,992**	**(3,447)**	**(2,975)**	**2,417**	**2,731**	**18,614**	**20,161**
Operating income	32,871	33,143	14,058	13,633	(2,432)	(1,187)	3,868	4,286	48,365	49,876
Operating expenses	(17,485)	(16,452)	(3,563)	(3,209)	(1,409)	(1,005)	(687)	(669)	(23,144)	(21,335)
Operating result	**15,386**	**16,690**	**10,495**	**10,424**	**(3,841)**	**(2,191)**	**3,182**	**3,618**	**25,222**	**28,541**
Risk-weighted assets (credit risk, pillar 1, eop)	213,446	160,672	344,099	328,749	41,077	33,909	7,985	7,847	606,607	531,177
Average allocated capital	25,832	24,155	31,008	30,253	81,386	79,368	2,074	2,759	140,299	136,535
Cost/income ratio	53.20%	49.60%	25.30%	23.50%	-57.90%	-84.70%	17.80%	15.60%	47.90%	42.80%
Return on allocated capital	44.60%	55.50%	26.20%	23.10%	-4.20%	-3.80%	116.50%	99.00%	13.30%	14.80%
Total assets (eop)	667,996	608,572	383,147	344,065	720,503	652,052	26,175	35,249	1,797,820	1,639,938
Total liabilities excluding equity (eop)	989,224	960,529	282,065	252,283	107,748	98,921	274,282	190,494	1,653,319	1,502,227

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.

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	2023	2022
Interest and other similar income		
Financial assets at fair value through other comprehensive income	2,914	1,780
Financial assets at amortised costs	86,176	70,951
Interest income	**89,090**	**72,731**
Financial assets held for trading	13,783	6,981
Derivatives - Hedge accounting, interest rate risk	(3,088)	(2,388)
Other assets	55	17
Negative interest from financial liabilities	-	104
Other similar income	**10,750**	**4,714**
Total interest and other similar income	**99,840**	**77,445**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(50,971)	(33,405)
Interest expenses	**(50,971)**	**(33,405)**
Financial liabilities at fair value through profit or loss	(62)	(22)
Financial liabilities held for trading	(13,257)	(6,909)
Derivatives - Hedge accounting, interest rate risk	(860)	(210)
Other liabilities	(105)	(65)
Negative Interest from financial assets	(2)	(115)
Other similar expenses	**(14,286)**	**(7,321)**
Total interest and other similar expense	**(65,257)**	**(40,726)**
Net interest income	**34,583**	**36,719**

Interest income on impaired financial assets amounted to CZK 1,111 million (2022: CZK 718 million). No modification gains or losses were accounted for in the year 2023 and 2022. 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.

In 2023 the Group has changed presentation of changes in fair value of foreign exchange forwards and forward legs of foreign exchange swaps in the Consolidated Statement of Income. The changed presentation better reflects the way the Group uses foreign exchange forwards and foreign exchange swaps to generate profit for the Group and it results in applying a consistent P&L presentation of all derivative instruments not designated as hedging instruments.

From 2023 the Group presents interest sensitive portion of the changes in fair value on the face of the Consolidated Statement of Income in the line 'Interest income' (sub-item ‘Other Similar Income‘) in case the interest rate differential implied in the forward points is positive for the Group and 'Interest expense' (sub-item 'Other Similar Expense ') in case it is negative for the Group. Up to 2023 full amount of fair value change was recognized in the line 'Net trading result'.

The Group neither changed the way it calculates the fair value of foreign exchange forwards and forward legs of foreign exchange swaps nor the way it manages risks connected to them. Thus the amounts of fair value on the face of Consolidated Statement of Financial Position have not changed. The fair value is presented in the lines 'Financial assets held for trading' (sub-item 'Derivatives') if the fair value of foreign exchange forwards and foreign exchange swaps is positive for the Group and 'Financial liabilities held for trading' (sub-item 'Derivatives') if it is negative.

The Group has not restated comparatives since the change is not material from the point of view of users of financial statements. The following table shows the impact on the relevant income statement lines and sub-items for the years ended 31 December 2023 and 31 December 2022. The figures for the year ended 31 December 2022 show both the original comparative amounts presented in the Audited Consolidated Financial statements for the year ended 31 December 2022 and the amounts if the Group had restated the figures presented in the Audited Consolidated Financial statements for the year ended 31 December 2022.

Change in presentation of fair value of foreign exchange swaps and forwards in CZK million	**2023**	**2022**	**2022 if restated**
Net interest income	34,583	36,719	36,989
Interest income	89,090	72,731	72,731
Other similar income	10,750	4,714	8,391
Interest expenses	(50,971)	(33,405)	(33,405)
Other similar expenses	(14,286)	(7,321)	(10,727)
Net trading result	4,178	3,739	3,469

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	2023		2022	
	Income	Expenses	Income	Expenses
Securities	757	(105)	616	(101)
Clearing and settlement	-	(5)	-	(5)
Asset management	1,992	(57)	1,677	(52)
Custody	140	(60)	150	(55)
Payment services	4,107	(789)	3,820	(867)
Customer resources distributed but not managed	3,225	-	2,880	-
Collective investment	1,406	-	1,220	-
Insurance products	1,819	-	1,660	-
Servicing fees from securitization activities	-	(11)	-	(26)
Lending business	1,403	(123)	1,298	(203)
Other	716	(295)	732	(359)
Total fee and commission income and expenses	**12,339**	**(1,445)**	**11,172**	**(1,668)**
Net Fee and commission income	**10,894**		**9,504**	

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 2,076 billion as at 31 December 2023 (2022: CZK 1,885 billion).

Net fee and commission income above include income of CZK 3,999 million (2022: CZK 3,346 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	2023	2022
Non-trading financial assets at fair value through profit or loss	41	67
Financial assets at cost	1	1
Dividend income	**42**	**68**

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 MATERIAL 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	2023	2022
Securities and derivatives trading	902	950
Foreign exchange transactions	3,192	2,771
Ineffectiveness of hedge accounting	84	18
Net trading result	**4,178**	**3,739**

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	2023	2022
Realised and unrealised gains on trading assets	489	964
Foreign exchange trading	367	420
Total	**856**	**1,384**

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. The Group has applied fair value option to premium deposits where the return is a function of the embedded derivative.

in CZK million	2023	2022
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	(1,534)	(312)
Result from financial assets and liabilities designated at fair value through profit or loss	**(1,534)**	**(314)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	(230)	(124)
Gains/losses from financial instruments measured at fair value through profit or loss	**(1,764)**	**(438)**

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	2023	2022
Investment properties	188	184
Other operating leases	36	26
Rental income from investment properties & other operating leases	**224**	**210**

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.

The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes, jubilee benefits and share-based 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	2023	2022
Personnel expenses	**(12,685)**	**(11,458)**
Wages and salaries	(8,858)	(8,078)
Compulsory social security	(2,759)	(2,539)
Other personnel expenses	(1,068)	(841)
Other administrative expenses	**(7,675)**	**(7,156)**
Deposit insurance contribution	(470)	(329)
IT expenses	(3,464)	(3,096)
Expenses for office space	(977)	(985)
Office operating expenses	(749)	(678)
Advertising / marketing	(1,133)	(1,144)
Legal and consulting costs	(227)	(249)
Sundry administrative expenses	(655)	(675)
Depreciation and amortization	**(2,784)**	**(2,721)**
Software and other intangible assets	(1,094)	(1,087)
Owner occupied real estate	(592)	(548)
Investment property	(51)	(67)
Office furniture and equipment and sundry property and equipment	(427)	(435)
Right of use asset	(620)	(584)
General administrative expenses	**(23,144)**	**(21,335)**

Personnel expenses include expenses of CZK 1,720 million (2022: CZK 1,583 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	2023	2022
Remuneration	106	103

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 and 60 Share-based payments.

Average headcount of full time employees per reporting date

in CZK million	2023	2022
Staff	9,975	9,846

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	2023	2022
Losses from sale of financial assets at amortised cost	(272)	(1,221)
Gains/losses from derecognition of financial assets measured at amortised cost	**(272)**	**(1,221)**

Due to sell of debt securities during 2023 the Group realized loss in amount of CZK 272 million (2022: CZK 1,221 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	2023	2022
From sale of financial assets at fair value through other comprehensive income	-	(625)
From repurchase of liabilities measured at amortised cost	(2)	(8)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(2)**	**(633)**

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	2023	2022
Financial assets at fair value through other comprehensive income	(3)	(5)
Financial assets at amortised cost	(1,064)	(725)
Net allocation to risk provisions	(1,355)	(1,188)
Direct write-offs	(13)	(14)
Recoveries recorded directly to the income statement	304	477
Finance lease receivables	(5)	3
Net allocation to credit loss allowances	(5)	3
Net allocation of provisions for commitments and guarantees given	247	92
Impairment result from financial instruments	**(825)**	**(636)**

Development of risk provision was driven by slightly higher creation in 2023 (CZK 1,355 million) in comparison with 2022 (CZK 1,188 million) which reflects excellent quality of loan portfolio, the increase in risk provisions was affected by one-off initial net provision creation due to Sberbank and Hello bank acquisitions in 2023.

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 2023 and 2022

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 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)**			
Opening balance of CLA (total) as at 1 January 2023				**(22,117)**
Net impairment loss for the period	(1,134)			(1,134)
(Increase) due to passage of time (unwinding correction)		(395)		(395)
CLA decreases due to sales			220	220
CLA decreases due to write-offs			1,256	1,256
CLA changes due to foreign exchange differences		(1)		(1)
Other CLA changes		(296)		(296)
Closing balance of CLA (total) as at 31 December 2023				**(22,466)**
Impairment gain/(loss) from POCI without CLA	18			
Direct write-offs	(13)			
Recoveries of written-off amounts	304			
Net impairment loss for the period as at 31 December 2023	**(825)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase of CZK 349 million, 2022: increase of CZK 728 million) CZK 1,134 million (2022: CZK 1,197 million) was reported in Net impairment result in Profit and Loss (NIR). Other movement (decrease) in amount of CZK 784 million (2022: CZK 470 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 309 million (2022: decreased by CZK 561 million) consisting of impairment loss from POCI in amount of CZK 18 millon (2022: gain of CZK 98 million), direct write-offs in amount of CZK 13 million (2022: CZK 14 million) and decreased by recoveries of written-offs in amount of 304 CZK million (2022: CZK 477 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	2023	2022
Other operating expenses	**(1,208)**	**(1,068)**
Allocation to other provision	(431)	(104)
Other taxes	(16)	(2)
Recovery and resolution fund contributions	(761)	(962)
Other operating income	**377**	**262**
Release of other provision	377	262
Result from properties/movables/other intangible assets other than goodwill	**(803)**	**(760)**
Result from other operating expenses/income	**(73)**	**(103)**
Other operating result	**(1,706)**	**(1,669)**

In 2023 the Group released the impairment and reserves of CZK 442 million related to new HQ accounted for in 2022 and created the impairment related to software of CZK 786 million and buildings of CZK 313 million (the impairments are recognized in the line item 'Result from properties/movables/other intangible assets other than goodwill'). The Group also created the provision of CZK 215 million for onerous contracts.

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 761 million (2022: CZK 962 million) was reported within the line “Recovery and resolution fund contributions”.

13 Taxes on income

Following Act No. 416/2023 Coll. on top-up taxes for large multinational enterprise groups and large domestic groups implementing European Directive No. 2022/2523 of 14 December 2022 the Group expects to become a taxpayer of the top-up tax on the Act's effective date. The Group has made an assessment of its potential exposure to the top-up tax and does not expect the top-up tax to have an impact on its total tax liability and therefore on its future results. From a top-up tax perspective, the Group is part of Erste Group, the ultimate parent company of which is Erste Group Bank AG.

At 31 December 2023 the Group applied the temporary exception to the requirements of IAS 12 under which a company does not recognise or disclose information about deferred tax assets and liabilities related to the proposed OECD/G20 BEPS Pillar Two model rules.

The legislation will be effective for the Group’s financial year beginning 1 January 2024.

The Group is in scope of the enacted or substantively enacted legislation and has performed an assessment of the Group’s potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Group.

The Group does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

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.

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used.

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	2023	2022
Current tax expense / income	(3,964)	(4,421)
current period	(4,134)	(4,379)
prior period	170	(42)
Deferred tax expense / income (+)	228	227
current period	228	227
Total taxes on income	**(3,736)**	**(4,193)**

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	2023	2022
Pre-tax profit/loss	22,416	24,381
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(4,259)	(4,632)
Non-taxable income	1,734	1,505
Non-deductible expenses	(1,471)	(1,251)
Other	(97)	151
Prior period over/(under) accrual	356	34
Total	**(3,736)**	**(4,193)**
Effective tax rate	**16.67%**	**17.20%**

Tax effects relating to each component of other comprehensive income:

in CZK million	2023			2022		
	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	2,082	(396)	1,686	(1,732)	329	(1,403)
Own credit risk reserve	(81)	-	(81)	87	-	87
Cash flow hedge reserve	4,763	(905)	3,858	1,369	(260)	1,109
Currency translation	(96)	-	(96)	(18)	-	(18)
Net investment hedge	48	(9)	39	-	-	-
Other comprehensive income	**6,716**	**(1,310)**	**5,406**	**(294)**	**69**	**(225)**

Major components of deferred tax assets and deferred tax liabilities:

in CZK million	Tax assets As of Dec 2023	Tax assets As of Jan 2023	Tax liabilities As of Dec 2023	Tax liabilities As of Jan 2023	Net variance 2023 Total	Net variance 2023 Through P/L	Net variance 2023 Through OCI
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	10	1	(121)	(116)	9	9	-
Financial assets at FVOCI	23	346	(72)	-	(395)	-	(395)
Financial assets at AC	1,618	1,409	-	-	209	209	-
Property and equipment (useful life in tax law different)	311	216	(22)	(11)	84	84	-
Intangible assets other than goodwill	-	-	(526)	(440)	(86)	(86)	-
Other provisions	-	19	-	-	(19)	(19)	-
Hedge accounting derivatives	209	1,012	(120)	(18)	(905)	9	(914)
Other assets and liabilities	511	483	-	-	28	28	-
Recognized Deferred tax position from accumulated tax loss carried forward, after recoverability considerations	-	-	-	-	-	-	-
Effect of netting according IAS 12.71	(842)	(569)	842	569	-	-	-
Total deferred taxes	**1,839**	**2,918**	**(19)**	**(16)**	**(1,081)**	**228**	**(1,310)**
Current taxes	**545**	**445**	**(115)**	**(144)**	**128**		
Total taxes	**2,384**	**3,363**	**(134)**	**(160)**	**(952)**		

in CZK million	Tax assets As of Dec 2022	Tax assets As of Jan 2022	Tax liabilities As of Dec 2022	Tax liabilities As of Jan 2022	Net variance 2022 Total	Net variance 2022 Through P/L	Net variance 2022 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)**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 21% (2022: 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 (1,081) million (2022: CZK 296 million) an amount of CZK 228 million (2022: CZK 227 million) is reflected as net deferred tax income in the Group's income statement for the year 2023, whilst an expense amount of CZK 1,310 million (2022: income CZK 69 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 1,821 million as of 31 December 2023 (2022: CZK 2,902 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 2023, 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 18,680 million under the Czech law, which increased its distributable capital accordingly (2022: CZK 20,188 million).

The equity increased accordingly.

The sole shareholder of the Group has approved the distribution of profit in the total volume of CZK 17,314 million (out of which the dividend was CZK 16,902 million and the AT1 coupon CZK 412 million). Dividend per share was CZK 111.20.

A decision on the distribution of 2023 profit has thus not been taken before the date of issue of these financial statements.

FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES

Accounting and measurement methods of financial instruments

Regular way (spot) purchases and sales of financial assets and of financial liabilities are recognised at the settlement date, which is the date that an asset is delivered.

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.

ii. Fair value

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.

‘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

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- The business model for managing the financial assets; and
- The cash flow characteristics of the financial assets.

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 note.

- 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. Interest expense is calculated by applying the EIR to the amortised cost of a financial liability. 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 equivalents, 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 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 recorded since their initial recognition or which are subject to the ‘low credit risk exemption’ allowed by IFRS 9. The impairment is measured in the amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. 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 (and the 'low credit risk exemption' does not apply). Stage 2 also includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. 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 (as for Stage 1). 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. Interest income is calculated by EIR applied to the gross carrying amount of the financial asset.

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Group adopted the approach of aligning it with the regulatory concept of 'default' (i.e. CRR concept) in accordance with guidelines of the European Banking Authority EBA/GL/2016/07 and Commission Delegated Regulation (EU) 2018/171. The Group generally applies a customer view for the default definition, which leads to Stage 3 classification of all transactions with the customer 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 all the transactions with the customer cease to be impaired. The impairment of financial instruments in Stage 3 is measured in the amount of the lifetime expected credit loss. Interest income is calculated by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From a 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 reflected through the allowance account (without impacting the impairment loss).

For financial assets that are credit-impaired at initial recognition (purchased or originated credit-impaired financial assets 'POCI') 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 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.

Reimbursement assets from financial guarantees which are not considered integral are recognised 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 further information on the definition of default refer to Note 36 Measurement of Expected Credit Loss.

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 36 Measurement of Expected Credit Loss.

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

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 substance 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 and thus the financial asset should be derecognised.

Commercial interest rate adjustments fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such interest rate adjustments relate to performing non-forborne financial assets for which 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 low. Such conditions introduce an implicit floating rate element to the contract. This kind of interest rate adjustments 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

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, project financing loans and interest rate adjustments based on the fulfilment of certain ESG-related targets. 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 2023 and 2022.

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.

In the last years financial assets whose interest is adjusted based on meeting certain ESG-linked targets by the borrowers (e.g. meeting specified CO2 emission targets) became part of the Group's business. No specific guidance currently exists in IFRS 9 for assessing the SPPI compliance of such features. the Group has concluded that ESG-related interest adjustments have a de minimis effect on the contractual cash flows of the existing loan portfolio. As a result, they do not affect the SPPI assessment.

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

On the balance sheet, 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 equivalents'.

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 equivalents

Cash and cash equivalents 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 11,963 million (2022: CZK 5,561 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 restraints.

in CZK million	2023	2022
Cash on hand	14,134	14,260
Cash balances at central banks	12,047	5,627
Other deposits on demand	1,737	1,983
Cash and cash equivalents	**27,918**	**21,870**

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 – MATERIAL 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 2023 and 2022 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
2023									
General governments	332,719	-	-	332,719	(15)	-	-	(15)	332,704
Credit institutions	18,042	249	-	18,291	(5)	-	-	(5)	18,286
Other financial corporations	760	204	-	965	(1)	(7)	-	(8)	957
Non-financial corporations	349	3	-	352	-	-	-	-	352
Total	**351,870**	**457**	**-**	**352,327**	**(21)**	**(7)**	**-**	**(28)**	**352,299**
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**

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'.

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 2023 and 2022 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
2023									
Central banks	302,039	-	-	302,039	(1)	-	-	(1)	302,038
Credit institutions	1,970	-	-	1,970	(1)	-	-	(1)	1,969
Total	**304,009**	**-**	**-**	**304,009**	**(2)**	**-**	**-**	**(2)**	**304,007**
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**

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 POCI assets in this balance sheet item as of 31 December 2023 and 2022.

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 2023 and 2022 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
2023											
General governments	24,346	824	473	213	25,856	(10)	(15)	(109)	(5)	(139)	25,717
Other financial corporations	26,637	1,387	23	-	28,048	(38)	(24)	(21)	-	(83)	27,965
Non-financial corporations	255,740	84,360	8,262	1,207	349,569	(861)	(4,001)	(4,966)	(364)	(10,191)	339,378
Households	543,559	61,371	8,138	764	613,831	(1,265)	(3,207)	(5,411)	(191)	(10,073)	603,757
Total	**850,283**	**147,943**	**16,896**	**2,183**	**1,017,305**	**(2,175)**	**(7,246)**	**(10,506)**	**(560)**	**(20,487)**	**996,818**
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**

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 2023, 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 2023 amounted to CZK 1,355 million (2022: CZK 850 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**
2023									
General governments	318	15	-	332	(2)	(1)	-	(2)	330
Credit institutions	12	-	-	13	-	-	-	-	12
Other financial corporations	136	3	-	139	(1)	(1)	-	(2)	137
Non-financial corporations	10,182	1,614	373	12,168	(144)	(21)	(297)	(462)	11,707
Households	104	102	67	273	(5)	(95)	(66)	(167)	106
Total	**10,751**	**1,734**	**440**	**12,925**	**(151)**	**(118)**	**(363)**	**(632)**	**12,292**
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**

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’.

Other items consist mainly of payables to card associations in amount of CZK 2,529 million (2022: CZK 1,485 million), unbilled supplies in amount of CZK 984 million (2022: CZK 1,212 million) and received margin for futures of CZK 1,123 million (2022: CZK 639 million) and other financial liabilities of CZK 500 million (2022: CZK 483 milion).

in CZK million	**2023**	**2022**
Deposits	**1,475,042**	**1,339,005**
Deposits from banks	122,287	113,541
Deposits from customers	1,352,755	1,225,464
Debt securities issued	**121,451**	**76,657**
Bonds	121,451	76,657
Other financial liabilities	**8,131**	**6,168**
Financial liabilities measured at amortised costs	**1,604,624**	**1,421,830**

Deposits from banks

in CZK million	**2023**	**2022**
Overnight deposits	4,876	13,105
Term deposits	23,547	13,873
Repurchase agreements	93,864	86,563
Deposits from banks	**122,287**	**113,541**

Deposits from customers

in CZK million	2023	2022
Current accounts/Overnight deposits	963,349	964,452
General governments	73,081	70,454
Other financial corporations	19,476	21,435
Non-financial corporations	134,232	131,954
Households	736,560	740,609
Term deposits	316,230	227,303
General governments	20,516	11,446
Other financial corporations	49,901	24,857
Non-financial corporations	61,197	49,998
Households	184,616	141,002
Repurchase agreements	73,175	33,709
General governments	19,082	278
Other financial corporations	53,693	33,431
Non-financial corporations	400	-
Deposits from customers	**1,352,755**	**1,225,464**
General governments	112,679	82,179
Other financial corporations	123,070	79,722
Non financial corporations	195,829	181,952
Households	921,176	881,612

All deposits are from customers and entities realized within the Czech Republic.

In repurchase agreements, the Group uses securities that are recognised in the statement of financial position as well as assets received by the Group as collateral not shown in the statement of financial position.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	2023	2022
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	-	419
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	-	5,067
Mortgage bonds	CZ0002008790	December 2022	March 2023	floating	-	12,539
Mortgage bonds	CZ0002008808	December 2022	January 2023	floating	-	30,055
SNP	AT0000A2STV4	September 2021	September 2028	0.50%	11,174	10,237
SNP	CZ0003707291	July 2022	July 2027	7.41%	6,209	6,209
SNP	XS2555412001	November 2022	November 2025	6.693%	12,453	12,131
Bonds-subordinated	CZ0003708315	June 2023	June 2029	6.750%	6,259	-
SNP	XS2638560156	June 2023	June 2027	5.943%	12,707	-
SNP	XS2676413235	September 2023	March 2028	5.737%	12,553	-
Mortgage bonds	CZ0002009160	December 2023	January 2024	6.75%	60,095	-
Bonds issued					**121,451**	**76,657**

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 317,528 million (2022: CZK 298,009 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. On the balance sheet, 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 2023 and 2022 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
2023											
Debt securities											
General governments	38,461	-	-	38,461	(2)	-	-	(2)	38,460	544	39,004
Credit institutions	3,687	-	-	3,687	(1)	-	-	(1)	3,686	(115)	3,571
Other financial corporations	2,927	-	-	2,927	(2)	-	-	(2)	2,924	(10)	2,914
Non-financial corporations	3,903	4,226	-	8,129	(1)	(151)	-	(152)	7,978	(56)	7,921
Total	**48,978**	**4,226**	**-**	**53,204**	**(6)**	**(151)**	**-**	**(156)**	**53,048**	**363**	**53,410**
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**

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 POCI assets in this balance sheet item as of 31 December 2023 and 2022.

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 (except for insurance business). 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 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 makes use of 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.

On the balance sheet, 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 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 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') and is calculated by applying the EIR to the amortized cost component of the financial assets. 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, and they also include the transaction and origination fees. 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. For investments in funds, which are not consolidated by the Group, the interest or dividend component is not separated from the fair value gains or losses.

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 financial instruments are used by the Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Group include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options.

Hedge accounting derivatives are discussed in Note 26 Hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those which are not designated as hedging instruments for hedge accounting. 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.

Changes in fair value (clean price) of derivatives – held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to held for trading derivatives is presented 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 description of the treatment of derivatives – hedge accounting can be found in Note 26 Hedge accounting.

Embedded derivatives

The Group issues certain financial liabilities which contain structured features. Structured features mean that a derivative is embedded in non-derivative host instruments.

Embedded derivatives that meet prescribed criteria are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in 'Financial assets held for trading' or 'Financial liabilities held for trading'. At the Group, these relate to bonds and deposits whose payments are linked to equity prices or FX rates.

In the business of the Group, the majority of embedded derivatives which would otherwise be separated relates to bonds issued for which fair value option has been applied. As a result, these embedded derivatives are part of the measurement of the entire hybrid instrument at FVPL.

Derivatives held for trading

	2023			2022		
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	**804,462**	**16,489**	**(15,557)**	**819,892**	**27,680**	**(26,102)**
Interest rate	402,619	10,482	(9,945)	370,862	17,281	(16,570)
Foreign exchange	401,843	6,007	(5,612)	449,030	10,399	(9,532)
Derivatives held in the Banking book	**44,937**	**154**	**(1,160)**	**95,349**	**281**	**(3,495)**
Interest rate	26,429	-	(915)	53,414	-	(3,070)
Foreign exchange	18,508	154	(245)	41,935	281	(425)
Total	**849,399**	**16,643**	**(16,716)**	**915,241**	**27,961**	**(29,597)**

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	**2023**	**2022**
Debt securities	19	48
General governments	6	9
Credit institutions	13	35
Other financial corporations	-	4
Other financial assets held for trading	**19**	**48**

23 Non-trading financial assets at fair value through profit or loss

	2023		2022	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	2,109	-	1,003
Debt securities	-	819	-	926
Other financial corporations	-	819	-	926
Loans and advances to banks	-	856	-	1,383
Loans and advances to customers	-	14	19	-
Non-financial corporations	-	14	19	-
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**3,798**	**19**	**3,312**
Non-trading financial assets at fair value through profit or loss	**3,798**		**3,331**	

Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in 'Classification and subsequent measurement of financial assets' in section 'Material accounting policies'.

24 Financial liabilities at fair value through profit or loss

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 fixed interest rate financial liabilities otherwise measured at amortised cost and related derivatives measured at FVPL. The Group assesses quantitatively that the designation actually eliminates or significantly reduces the accounting mismatch in respect of fair value changes attributable to interest rate risk; or
- the entire hybrid contract contains a non-closely related embedded derivative.

Financial liabilities designated at FVPL are reported on the balance sheet under the line item 'Financial liabilities at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Other financial liabilities relate to fund units issued by funds consolidated by the Group. Interest incurred is calculated by applying the EIR to the amortised cost of the financial liability and is reported in the statement of income under in line item 'Other similar expenses' under 'Net interest income'. Gains and losses resulting from changes in fair value are recognised net of the interest expense under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'.

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 'Own credit risk reserve'. 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 at 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	2023	2022	2023	2022	2023	2022
Deposits	13,283	31,331	12,827	31,151	456	180
Financial liabilities at FVPL	**13,283**	**31,331**	**12,827**	**31,151**	**456**	**180**

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	2023	2022	2023	2022
Financial liabilities - at fair value through profit or loss				
Deposits from customers	81	(87)	(8)	(89)

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.

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, 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.

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 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 CVA-adjustments amounted to CZK 96 million (2022: CZK 84 million) and the total DVA-adjustment amounted to CZK 64 million (2022: CZK 135 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 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

	2023				2022			
in CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets - held for trading	7	16,653	2	16,662	9	27,671	329	28,009
Derivatives	-	16,641	2	16,643	-	27,633	328	27,961
Other trading assets	7	13	-	20	9	38	1	48
Non-trading financial assets - FVPL	85	-	3,713	3,798	96	-	3,235	3,331
Equity instruments	-	-	2,109	2,109	-	-	1,003	1,003
Debt securities	85	-	734	819	96	-	830	926
Loans and advances	-	-	870	870	-	-	1,402	1,402
Financial assets - FVOCI	45,439	5,623	2,370	53,432	39,901	5,406	3,126	48,433
Debt securities	45,439	5,623	2,348	53,410	39,901	5,406	3,126	48,433
Derivatives Hedge Accounting	-	3,241	-	3,241	-	3,151	84	3,235
Total assets	**45,531**	**25,517**	**6,086**	**77,134**	**40,007**	**36,228**	**6,774**	**83,009**
LIABILITIES								
Financial liabilities held for trading	-	16,716	-	16,716	-	29,597	-	29,597
Derivatives	-	16,716	-	16,716	-	29,597	-	29,597
Financial liabilities designated at fair value through profit or loss	-	13,283	-	13,283	-	31,331	-	31,331
Deposits from customers	-	13,283	-	13,283	-	31,331	-	31,331
Derivatives Hedge Accounting	-	4,534	-	4,534	-	5,870	-	5,870
Total liabilities	**-**	**34,534**	**-**	**34,534**	**-**	**66,798**	**-**	**66,798**

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

	2023		2022	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	231
Net transfer from Level 2	-	-	2	-
Purchases/sales/expiries	5,524	191	18,477	(1,960)
Changes in derivatives	-	(10,902)	-	14,796
Total year-to-date change	**5,524**	**(10,711)**	**18,479**	**13,067**

In 2022 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 2023							Dec 2023
Assets								
Financial assets HfT	329	-	-	2	(1)	-	(328)	3
Derivatives	329	-	-	2	-	-	(328)	3
Other financial assets held for trading	1	-	-	-	(1)	-	-	-
Non-trading financial assets at FVPL	3,235	682	-	1,298	(1,502)	19	(19)	3,713
Equity instruments	1,003	(12)	-	1,118	-	-	-	2,109
Debt securities	830	(188)	-	181	(87)	-	-	734
Loans and advances	1,402	882	-	-	(1,414)	19	(19)	870
Financial assets at FVOCI	3,126	-	68	22	(30)	1,335	(2,150)	2,370
Debt securities	3,126	-	68	-	(30)	1,335	(2,150)	2,348
Hedge accounting derivatives	84	-	-	-	-	-	(84)	-
Total assets	**6,774**	**683**	**68**	**1,323**	**(1,534)**	**1,354**	**(2,582)**	**6,086**

	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**

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

	2023	2022
in CZK million	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	2	212
Derivatives	2	212
Non-trading financial assets at fair value through profit or loss	633	1,270
Equity instruments	(12)	(201)
Debt securities	(185)	88
Loans and advances	830	1,383
Financial assets at fair value through other comprehensive income	-	(44)
Debt securities	-	(44)
Hedge accounting derivatives	-	84
Total	**635**	**1,522**

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:

in CZK million	Positive fair value changes when applying alternative valuation parameters 2023	2022	Negative fair value changes when applying alternative valuation parameters 2023	2022
Derivatives	-	19	-	(24)
Income statement	-	19	-	(24)
Debt securities	29	48	(38)	(64)
Other comprehensive income	29	48	(38)	(64)
Equity instruments	68	72	(136)	(143)
Income statement	68	72	(136)	(143)
Total	**96**	**139**	**(174)**	**(231)**
Income statement	**68**	**91**	**(136)**	**(167)**
Other comprehensive income	**29**	**48**	**(38)**	**(64)**

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 2023 and for the year-end 2022. 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
2023					
ASSETS					
Cash and cash equivalents	27,918	27,918	14,134	13,784	-
Financial assets at amortised costs	1,653,123	1,588,647	320,041	5,629	1,262,977
Loans and advances to banks	304,007	303,970	-	-	303,970
Loans and advances to customers	996,818	958,392	-	-	958,392
Debt securities	352,299	326,285	320,041	5,629	615
Finance lease receivables	1,467	1,467	-	-	1,467
Trade and other receivables	12,292	12,269	-	-	12,269
LIABILITIES					
Financial liabilities measured at amortised costs	1,604,624	1,595,581	-	109,650	1,485,931
Deposits from banks	122,287	121,530	-	-	121,530
Deposits from customers	1,352,754	1,343,212	-	-	1,343,212
Debt securities issued	121,451	122,704	-	109,650	13,054
Other financial liabilities	8,131	8,135	-	-	8,135
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	74	-	-	74
Loan commitments	n/a	1,763	-	-	1,763
2022					
ASSETS					
Cash and cash equivalents	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

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 applies hedge accounting to hedge exposures to interest rate risk and foreign currency risk. As permitted by the transitional provisions of IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

On the balance sheet, derivatives designated as hedging instruments are carried at fair value (dirty price). They are presented in the line item 'Hedge accounting derivatives' on the asset or liability side depending on whether their fair value is positive or negative.

(i) Fair value hedges

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'.

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.

For terminated hedges 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

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in OCI 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.

For terminated hedges 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.

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.

As at 31 December 2023, the loss on hedging derivatives used for fair value hedging was CZK 691 million (2022: loss CZK 2,016 million); the gain due to changes in the fair value of hedged items was CZK 741 million (2022: gain CZK 2,037 million).

Fair values of hedging instruments are disclosed in the following table:

	2023			2022		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**41,450**	**18**	**(3,099)**	**17,081**	**36**	**(2,254)**
Interest rate	41,450	18	(3,099)	17,081	36	(2,254)
Cash flow hedge	**99,517**	**3,223**	**(1,435)**	**113,387**	**3,199**	**(3,616)**
Interest rate	50,900	1,149	(1,000)	70,469	171	(3,616)
Foreign exchange	48,617	2,074	(436)	42,918	3,028	-
Total	**140,967**	**3,241**	**(4,534)**	**130,468**	**3,235**	**(5,870)**

Notional amount of hedged items:

in CZK million		**2023**	**2022**
Assets/liabilities	**Type of hedged items**	**Hedged notional amount**	**Hedged notional amount**
Fair value hedges			
Assets	Portfolios of client loans	100	100
Assets	Single loans	-	-
Assets	Bonds at FVOCI	-	-
Assets	Bonds at AC	27,751	100
Liabilities	Issued bonds	12,363	12,058
Liabilities	Other liabilities - Loans	1,236	4,823
Liabilities	Other liabilities - REPO	-	-
Cash flow hedges (interest)			
Assets	Interbank loans / repos	16,400	28,931
Assets	Client loans (single and portfolio)	34,500	41,538
Assets	Corporate/government bonds	-	-
Cash flow hedges (fx)			
Assets	Client loans (single and portfolio)	11,327	11,165
Assets	Forecast cash flows in foreign currency	5,088	3,959
Assets	Corporate/government bonds	32,201	27,793

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 2023 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			
2023	**Assets**	**Liabilities**			**≤ 3 m**	**> 3 m and ≤ 1 y**	**> 1 y and ≤ 5 y**	**> 5 y**
Fair value hedges								
Interest rate risk	18	(3,099)	(691)	41,450	-	-	12,560	28,889
Cash flow hedges								
Interest rate risk	1,149	(1,000)	7,678	50,900	-	2,000	48,900	-
Foreign exchange risk	2,074	(436)	1,791	48,617	4,053	933	31,716	11,915
Total	**3,241**	**(4,534)**	**8,778**	**140,967**	**4,053**	**2,933**	**93,176**	**40,805**
2022								
Fair value hedges								
Interest rate risk	36	(2,254)	(2,016)	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	42,918	4,727	3,886	28,255	6,050
Total	**3,235**	**(5,870)**	**490**	**130,468**	**4,727**	**12,055**	**106,230**	**7,456**

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
2023				
Financial assets at AC				
Interest rate risk	29,322	1,515	1,554	-
Financial liabilities at AC				
Interest rate risk	13,293	(215)	(813)	-
2022				
Financial assets at AC				
Interest rate risk	165	(35)	(13)	-
Financial liabilities at AC				
Interest rate risk	16,508	(373)	2,050	2

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
2023			
Interest rate risk	7,678	314	681
Foreign exchange risk	1,791	(526)	-
Total	**9,469**	**(212)**	**681**
2022			
Interest rate risk	1,401	(3)	4,995
Foreign exchange risk	1,105	3	237
Total	**2,506**	**-**	**5,232**

Effects of hedge accounting in profit or loss and other comprehensive income

in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	Cash flow hedge reclassified to profit or loss because the hedged item has affected profit or loss	Cash flow hedge reclassified to profit or loss because the hedged future cash flows are no longer expected to occur
2023				
Fair value hedges				
Interest rate risk	50	-	-	-
Cash flow hedges				
Interest rate risk	1	7,253	(3,219)	-
Foreign exchange risk	33	1,789	(1,061)	-
Total	**84**	**9,042**	**(4,280)**	**-**
2022				
Fair value hedges				
Interest rate risk	22			
Cash flow hedges				
Interest rate risk	(4)	1,390	(2,409)	-
Foreign exchange risk	-	1,264	1,124	-
Total	**18**	**2,654**	**(1,285)**	**-**

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

The following table shows netting effects on the balance sheet of the Group as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

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	
2023						
Derivatives (Note 21 and 26)	19,884	19,884	11,050	2,913	-	5,921
Reverse repurchase agreements (Note 16)	284,716	284,716	-	-	283,813	902
Total	**304,599**	**304,599**	**11,050**	**2,913**	**283,813**	**6,823**
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**

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	
2023						
Derivatives (Note 21)	21,250	21,250	11,050	907	-	9,293
Repurchase agreements (Note 18)	167,039	167,039	-	-	167,039	-
Total	**188,289**	**188,289**	**11,050**	**907**	**167,039**	**9,293**
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**

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 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 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	2023		2022	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Financial assets at AC	51,898	42,573	68,573	50,521
Financial assets at FVOCI	-	-	785	-
Total - repurchase agreements	**51,898**	**42,573**	**69,358**	**50,521**
Securities lendings				
Financial assets at AC	71,178	-	20,850	-
Total - securities lendings	**71,178**	**-**	**20,850**	**-**
Total	**123,076**	**42,573**	**90,208**	**50,521**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 51,898 million (2022: CZK 69,358 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 42,573 million (2022: CZK 50,521 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	2023			2022		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Financial assets at AC	48,262	42,803	5,459	57,757	50,775	6,982
Financial assets at FVOCI	-	-	-	785	1	785
Total	**48,262**	**42,803**	**5,459**	**58,542**	**50,776**	**7,767**

29 Financial Assets pledged as Collateral

Carrying amount of financial assets pledged as collaterals

in CZK million	2023	2022
Financial assets at AC	183,171	138,108
Financial assets at FVOCI	-	785
Total	**183,171**	**138,893**

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 175,158 million (2022: CZK 185,288 million).

30 Securities

in CZK million	2023 At AC	2023 Trading assets	2023 Financial assets Mandatorily at FVPL	2023 Financial assets Designated at FVPL	2023 At FVOCI	2022 At AC	2022 Trading assets	2022 Financial assets Mandatorily at FVPL	2022 Financial assets Designated at FVPL	2022 At FVOCI
Bonds and other interest-bearing securities	**352,299**	**20**	**819**	**-**	**53,410**	**327,805**	**48**	**926**	**-**	**48,434**
Listed	345,712	7	85	-	45,439	318,724	9	96	-	39,901
Unlisted	6,587	13	734	-	7,971	9,081	39	830	-	8,533
Equity-related securities	**-**	**-**	**2,109**	**-**	**22**	**-**	**-**	**1,003**	**-**	**-**
Unlisted	-	-	2,109	-	22	-	-	1,003	-	-
Total	**352,299**	**20**	**2,928**	**-**	**53,432**	**327,805**	**48**	**1,929**	**-**	**48,434**

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.

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
- 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) as required under Pillar 2 of the Basel framework and regulatory guides (e.g., ECB Guide to ICAAP).

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);
- capital allocation and performance management;

- 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 is 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 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.

ESG risks are embedded in the Risk Appetite Statement and in the risk strategy and are also part of the Group's Risk Materiality Assessments. They are integrated into the Group's risk taxonomy as transversal risks (risk types that have impact and are reflected through more than one key risk category) and are included in the relevant risk categories credit, market, liquidity and operational risk. Group's definition of ESG risk is part of the Group ICAAP guideline and covers a wide range of risks arising from environmental, social and governance factors.

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 H2-22 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.

ESG risks and their materiality keep being assessed within existing risk types. The criteria for assessing physical and transitory risks were further enhanced in the most recent RMA.

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 or unemployment rate) into risk parameters in order to support the stress testing process.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2023 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) describes the methodology of Pillar 2 capital adequacy calculation. In contrast to the normative (regulatory) view of Pillar 1, referring to the Group's ability to fulfil all of its capital-related regulatory and supervisory requirements and demands, the RCC is based on an economic view of Pillar 1+ approach, assuming continuation of the Group as expected by the ECB Guide to ICAAP. The RCC determines whether the Group has sufficient internal capital for covering all (regulatory and economic) risks it is exposed to. Economic and normative perspectives at the Group are set in a way to mutually inform each other and are integrated into all material business steering activities and decisions. In addition, with applied Pillar 1+ approach the Group increases efficiency and ensures comparability with the Pillar 1 calculation. Based on the results of the RMA, the economic capital is considered for relevant risk types as approved by the management board. The economic capital requirement is then compared to internally available capital (coverage potential) to cover the Group's risks in Pillar 2. Both economic capital and coverage potential are computed on the CRR scope of consolidation of the Group based on IFRS Accounting Standards.

Besides the Pillar 1 risk types (credit, market in trading book, FX in banking book and operational risks), concentration risk, interest rate risk in the Banking book, 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%. For the calculation of the economic capital, the Group uses, where possible, more risk sensitive/advanced methodologies tailored to its individual risk profile and specificities of the Group's individual risk exposures. Diversification effects between risks (inter-risk diversification) are not considered, reflecting the Group's prudent approach to maintain sufficient internal capital in times when correlations between risks may change dramatically (like in times of stress). The largest portion of economic capital requirements is coming from credit risk, which accounts for 58.9% of total economic capital requirements at the end of 2023 (2022: 55.6%).

The calculation of internal capital or coverage potential required to cover Pillar 2 risks/unexpected losses is based on Pillar 1+ approach. Namely, CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) regulatory own funds are adjusted by internal capital components, i.e. Pillar 2 adjustments, necessary to come to the internally available capital deemed as risk-bearing and loss absorbing from the economic view (e.g. exclusion of Additional Tier 1 and Tier 2 capital instruments, Pillar 2 IRB expected loss excess/shortfall add-on, year-to-date profit, if it is not already considered in Pillar 1 capital, etc.).

The coverage potential must be sufficient to absorb Pillar 2 risks/unexpected losses resulting from the Group's operations at any point in time (normal and stressed), as reflected in the Group's Risk Appetite through the limits set for Group economic capital adequacy and stressed capital adequacy utilisation. At the end of 2023, the economic capital adequacy was at 60.1%, fully in line with group RAS.

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 %	2023	2022
Credit risk	58.86%	55.95%
Market risk	28.60%	30.87%
Operational risk	4.85%	5.14%
Other risks	7.69%	8.04%

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.

Under the Recovery and Resolution Act, transposing the Bank Recovery and Resolution Directive (BRRD), the Group is also subject to a Minimum Requirement for own funds and Eligible Liabilities (MREL). As of 1 January 2024, the final binding MREL target prescribed by the resolution authority became applicable, set at 19.4% RWA (before considering the combined buffer requirement). The Bank has complied with this requirement by issuing senior non-preferred debt.

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[26*] as of 31 December 2023 and 2022:

(26) *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.

in CZK million	2023	2022
Tier 1 capital	115,457	110,790
Tier 1 + Tier 2 capital	124,501	113,691
Exposure to credit risk	603,538	538,441
Exposure to market risk	2,956	2,639
Exposure to operational risk	54,906	47,660
Total risk exposure	**661,400**	**588,740**
Capital adequacy ratio for the year (Tier 1 ratio)	**17.5%**	**18.8%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**18.8%**	**19.3%**

The Group meets all capital adequacy requirements as requested by regulators as of 31 December 2023 and 2022. 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. 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.

ESG Risk management

The Group integrates ESG factors in its risk management and industry strategy framework. In the first place, the Group ESG Factor Heatmap is used as a screening instrument to identify certain industry segments (out of the existing sub-industries) that may be exposed to ESG risk factors and determine those industries which are more vulnerable to ESG risks. The Group establishes industry strategies and lending standards to support the steering of the portfolio under considerations of ESG risks; both are the basis for decisions, which determine which clients and transactions fit into the group's portfolio.

Secondly, the Group has established an ESG risk framework for the assessment of material ESG factors, related risks, and appropriateness of the mitigating strategies in the credit and rating processes. In this manner, the Group takes ESG risk criteria into account when making credit decisions.

For large corporate, commercial real estate and commercial residential real estate transactions, the Group conducts a systemic ESG analysis via an internal digital ESG assessment questionnaire. The questionnaire is a mandatory prerequisite in the loan origination and monitoring process. By providing a comprehensive ESG risk assessment, the Group is able to determine how certain ESG factors may have a positive or negative impact on the financial performance of clients. The questionnaire enables the group to identify clients' ESG risks or opportunities.

Particular questions in the questionnaire may also require an in-depth assessment in order to understand the nature and severity of the ESG risks to which the client is exposed. The questionnaire forms an integral part of the credit application and is updated at least annually, allowing the Group to understand the client's business model in the context of carbon transition. In 2023, in order to support achieving the group's decarbonization targets, additional lending guidance has been introduced for large corporates, depending on their communicated strategy to align with climate science recommendations.

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. Environmental aspects which affect the value of the collateral have to be included in the real estate valuations, which can lead to a higher or lower valuation result. Moreover, any risks arising from social (e.g., location and transportation, mass urbanisation – being indicators for easy accessibility for people) and governance factors (such as improper business practices such as tax fraud or bribery of the financed company being the owner of the building serving as collateral) have to be considered as well. For commercial real estate assets, the questionnaire additionally includes an assessment of the building's environmental footprint, including information on land consumption, space efficiency, and the existence of a sustainable building certificate.

With regards to credit risk measurement and internal models 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. For the LGD models, climate risk is indirectly reflected via the collateral value. In 2023, ESG factors are considered in the soft facts assessment in the corporate rating models. Additionally, the Group is in the process of analyses how the ESG risks can be incorporated into ECL measurement. As of 31 December 2023 no overlays are deemed necessary.

For the assessment and management of physical risks, the Group uses Munich Re's Location Risk Intelligence. Over the last year, the Group has conducted a physical risks materiality assessment together with the University of Graz in order to identify key hazards and climate change scenarios relevant for its collateral portfolio. The results of the assessment, highlighting the importance of river flood, fire weather stress, drought stress, sea level rise and heat stress, is integrated into the collateral management, incorporating an intermediate climate change scenario of 2-3C by 2100 (Representative Concentration Pathway 4.5 / Shared Socioeconomic Pathway 2, developed by the Intergovernmental Panel on Climate Change) as a reasonable assumption. In case of the existence of very high physical risks of a location, the collateral value would be negatively affected. Stress testing of the impact of physical risks on the Group's portfolio is now being prepared, including the implementation of other use cases in the bank (impact of physical risks on real estate valuation, evaluation as part of green asset screening, etc.).

By year-end 2023, the Energy Performance Certificate (EPC) label of real estate collaterals has been collected for 9% of total portfolio collateralized by real estate, mainly classified in the two best categories B and C.

Among the industries presented in the table "Credit risk exposure by industry and risk category" below in this chapter, the Group identified, as part of the strategic climate initiative for the Net Zero Banking Alliance, certain sectors (where the Group is exposed to high greenhouse gas emissions due to either the credit risk exposure or its emission intensity) as important levers for setting interim emission targets for 2030, thereby supporting the migration of "Transition Risk" in the Group financed portfolio. Targets are set for the following sectors: housing mortgages, commercial real estate, electricity production, heat production, cement production, auto manufacturing, oil and gas, iron, and steel.

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 in each subsidiary locally and by Corporate Risk Management at the Group level.

Credit risk related to retail and SME loan portfolios is managed at the group and at local entity level 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.

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 decision-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 and in other relevant model use areas. 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 behaviour 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.

The central Model Validation department is responsible for defining the validation methodologies and standards to be applied to all credit risk models within the Group as well as for conducting the validation activities across the whole the Group. All Pillar 1, material Pillar 2 and IFRS 9 models are subject to an annual validation, while for non-material Pillar 2 and IFRS 9 models a regular validation cycle is implemented. Model Validation employs qualitative as well as quantitative validation methods to challenge conceptual soundness, performance and model use aspects. The validation outcomes are approved by the respective model committees and, in case of IRB models, shared with the regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of IRB models, reflecting developments in new defaults and early delinquencies.

Approvals of all new models, model changes, changes to risk parameters, changes in group-wide methodological standards and other model-related aspects are following a dual approval process within the Group – corresponding Holding and local model committee structures reflect joint responsibilities for decisions on Pillar 1 IRB and Pillar 2 credit risk models as well as on methodologies related to IFRS 9 parameters. Responsibilities are assigned depending on model perimeter (group-wide or locally developed model). In this context, the following committees are established: Strategic Risk Executive Committee and Strategic Risk Management Committee on the Holding level and Risk Management Model Committee on the local level.

Ultimate responsibility for all models used within the Group (at consolidated level) lies with the Group CRO. All model governance, development, validation, data management and monitoring activities are coordinated by the Credit Risk Methods division.

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 equivalents – 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 2022 and 31 December 2023, the credit risk exposure increased from CZK 1,885 billion to CZK 2,027 billion. This is an increase of 7.5% or CZK 142 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
2023				
Cash and cash equivalents - demand deposits to credit institutions	1,737	(1)	-	1,737
Debt instruments held for trading	16,662	-	-	16,662
Non-trading debt instruments at FVPL	1,689	-	-	1,689
Debt securities	819	-	-	819
Loans and advances to banks	856	-	-	856
Loans and advances to customers	14	-	-	14
Debt instruments at FVOCI	53,204	(156)	363	53,410
Debt securities	53,204	(156)	363	53,410
Debt instruments at AC	1,673,641	(20,517)	-	1,653,123
Debt securities	352,327	(28)	-	352,299
Loans and advances to banks	304,009	(2)	-	304,007
Loans and advances to customers	1,017,305	(20,487)	-	996,818
Trade and other receivables	12,925	(632)	-	12,292
Finance lease receivables	1,532	(65)	-	1,467
Positive fair value of hedge accounting derivatives	3,241	-	-	3,241
Off balance-sheet exposures	262,451	(1,152)	-	-
Financial guarantees	8,384	(229)		
Loan commitments	158,368	(865)		
Other commitments	95,699	(57)		
Total	**2,027,082**	**(22,523)**	**363**	**1,743,622**
2022				
Cash and cash equivalents - 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)	-	-
Financial guarantees	9,871	(361)	-	-
Loan commitments	229,614	(752)	-	-
Other commitments	30,047	(352)	-	-
Total	**1,884,552**	**(22,469)**	**(1,719)**	**1,592,298**

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
2023					
Natural Resources & Commodities	50,317	13,555	3,897	3,047	70,817
Energy	54,596	5,377	5,817	387	66,178
Construction and building materials	45,745	15,620	3,052	929	65,346
Automotive	31,363	5,857	1,377	379	38,976
Cyclical Consumer Products	26,228	12,811	2,619	1,299	42,957
Non-Cyclical Consumer Products	30,370	10,980	1,614	418	43,382
Machinery	17,871	6,809	1,003	1,514	27,197
Transportation	27,553	5,182	671	412	33,818
TMT; Telecommunications, Media, Technology and Paper & Packaging	20,533	2,870	579	876	24,858
Healthcare & Services	17,948	4,161	1,788	434	24,331
Hotels, Gaming & Leisure Industry	20,572	2,988	1,486	958	26,004
Real Estate	100,805	9,679	5,657	1,427	117,568
Public Sector	711,984	847	31	818	713,680
Financial Institutions	75,348	3,029	1,290	32	79,699
Private Households	547,507	88,030	8,578	8,148	652,263
Other	1	8	-	-	9
Total	**1,778,742**	**187,803**	**39,458**	**21,079**	**2,027,082**
2022					
Natural Resources & Commodities	41,906	20,249	4,934	2,529	69,618
Energy	44,023	14,246	1,015	192	59,477
Construction and building materials	35,397	22,125	2,252	1,070	60,843
Automotive	26,133	6,765	2,351	940	36,189
Cyclical Consumer Products	24,548	12,174	2,365	1,476	40,563
Non-Cyclical Consumer Products	25,836	12,479	1,502	407	40,224
Machinery	12,892	8,899	1,042	1,625	24,457
Transportation	12,535	16,658	1,204	428	30,825
TMT; Telecommunications, Media, Technology and Paper & Packaging	14,144	6,667	1,076	829	22,716
Healthcare & Services	14,807	6,148	1,647	393	22,995
Hotels, Gaming & Leisure Industry	13,283	3,927	1,548	1,432	20,190
Real Estate	86,354	13,431	4,075	1,029	104,889
Public Sector	645,915	1,008	852	-	647,774
Financial Institutions	89,435	4,909	911	92	95,346
Private Households	577,226	17,318	7,046	6,815	608,404
Other	1	39	1	-	42
Total	**1,664,434**	**167,042**	**33,820**	**19,256**	**1,884,552**

The low risk exposure has the highest proportion in total credit risk exposure, with 87.75% (2022: 88.32%), while management attention represents 9.26% (2022: 8.86%), The substandard exposure represents 1.95% (2022: 1.79%) and the non-performing 1.04% (2022: 1.02%).

From industry and financial instrument point of view, the highest exposure is represented by public sector exposure of CZK 714 billion (2022: CZK 648 billion) and private households exposure of CZK 652 billion (2022: CZK 608 billion), representing 67.4% (2022: 66.7%) from total. The increase in exposure under management attention for private households is partly attributable to newly purchased loan portfolios, but mainly due to updated internal monitoring process.

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
2023					
Retail	579,956	100,074	19,159	10,017	709,206
Corporates	460,850	85,542	18,747	10,973	576,113
Group Markets	46,032	1,669	238	-	47,939
ALM & LCC	691,904	517	1,314	89	693,824
Total	**1,778,742**	**187,803**	**39,458**	**21,079**	**2,027,082**
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**

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 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 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 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
2023									
Cash and cash equivalents - demand deposits to credit institutions	1,737	-	-	-	-	1,737	1,737	-	-

				Collateralised by				Impairment IFRS 9	
Debt instruments held for trading	16,662	-	-	-	-	16,662	-	-	-
Non-trading debt instruments at FVPL	1,689	-	-	-	-	1,689	-	-	-
Debt instruments at FVOCI	53,204	-	-	-	-	53,204	53,204	-	-
Debt instrumentsat AC	1,673,641	837,974	25,776	519,845	292,354	835,667	1,647,460	7,587	18,594
Debt securities	352,327	2,954	2,954	-	-	349,373	352,327	-	-
Loans and advances to banks	304,009	285,342	369	-	284,974	18,667	304,009	-	-
Loans and advances to customers	1,017,305	549,678	22,453	519,845	7,380	467,627	991,124	7,587	18,594
Trade and other receivables	12,925	4,817	4,817	-	-	8,108	11,141	1,343	440
Finance lease receivables	1,532	-	-	-	-	1,532	1,481	16	35
Positive fair value of hedge accounting derivatives	3,241	-	-	-	-	3,241	-	-	-
Off balance-sheet exposures	262,451	19,020	773	8,470	9,777	243,431	165,626	-	1,127
Total	**2,027,082**	**861,812**	**31,366**	**528,315**	**302,131**	**1,165,270**	**1,880,649**	**8,946**	**20,196**
2022									
Cash and cash equivalents - 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 instruments at 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**

The collateral attributable to exposures that are credit-impaired at 31 December 2023 amounts to CZK 6,830 million (2022: 5,757 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, as described in the chapter “Financial instruments – Material accounting policies”, in the section “Impairment of financial instruments”.

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).

The Group methodology allows introduction of the cure periods for migrations back to Stage 1 from Stage 2 in addition to those already established in general credit risk practices (forbearance, watch lists, default). However, for migration back to Stage 1 there are no additional cure periods applied for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Quantitative criteria. Quantitative SICR indicators include adverse changes in lifetime probability of default with significance being assessed by comparison to the 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.

SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument. 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 101% to 359% according to PD segment and rating level.

The relative thresholds		
	Min	Max
Retail	101%	330%
Corporate	133%	359%
Banks	124%	128%
Public sector	219%	240%
Governments	113%	134%
Institutions	219%	240%

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.

The relative thresholds in place since the IFRS 9 implementation were kept stable as one of the most significant estimates in ECL measurement. In the fourth quarter of 2022, the process of splitting the corporate portfolio into Group (large) Corporates and Local Corporates was initiated and it triggered in 2023 thresholds' recalibration for these portfolios.

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 (identification of regulatory forbearance), information from the early-warning system and fraud indicators. 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 the war in Ukraine (implemented in 2022) and related economic impacts. For more details refer to “Collective assessment” in the next chapter.

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 2023, in the Group, the corresponding exposure amounted to CZK 395.7 billion (2022: CZK 372.8 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repo excluded) of CZK 4.5 billion (2022: CZK 3.8 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 CZK 5 million. 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 split 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 over an available history. The calculated LT PDs are extrapolated, e.g., via matrix multiplication, to ensure that the final lifetime PD covers the lifetime of the loans from initial recognition. It is assumed to be the same across all assets in the same portfolio, rating band; and the country of risk which is an additional relevant PD characteristic considered via forward looking information in case of central models for Group (Large) Corporate since the fourth quarter of 2023.

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 Accounting 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
2023												
Retail	613,874	84,968	9,288	945	131	(1,499)	(4,992)	(5,887)	(212)	5.9%	63.4%	22.4%
Corporates	402,003	87,889	9,087	1,281	75,853	(1,006)	(2,729)	(5,447)	(343)	3.1%	59.9%	26.8%
Group Markets	11,710	238	-	-	35,991	(122)	(3)	-	-	1.4%	86.8%	100.0%
ALM & LCC	688,066	354	81	8	5,315	(40)	(98)	(80)	(7)	27.6%	98.5%	94.2%
Total	**1,715,653**	**173,449**	**18,455**	**2,234**	**117,291**	**(2,668)**	**(7,822)**	**(11,413)**	**(563)**	**4.5%**	**61.8%**	**25.2%**
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%**

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 IFRS 9 impairment” represents exposures measured at fair values and revocable other commitments.

The defaulted part of POCI amounted to CZK 1,741 million (2022: CZK 1,130 million), the non-defaulted part to CZK 493 million (2022: CZK 181 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 2023 or initial recognition date) to Stages 2 or 3 at 31 December 2023 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 2023						**Dec 2023**
Stage 1	(28)	(13)	10	7	4	-	(21)
Stage 2	(6)	-	12	-	(12)	-	(7)
Total	**(34)**	**(13)**	**21**	**7**	**(9)**	**-**	**(28)**
	Jan 2022						**Dec 2022**
Stage 1	(19)	(11)	12	-	(9)	-	(28)
Stage 2	-	-	2	(23)	14	-	(6)
Total	**(19)**	**(11)**	**14**	**(23)**	**5**	**-**	**(34)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2023 and not sold by 31 December 2023 amounts to CZK 45,761 million (2022: CZK 41,795 million). The GCA of AC debt securities that were held at 1 January 2023 and de-recognized (matured/sold) during the year 2023 amounts to CZK 11,100 million (2022: CZK 38,421 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 2023					Dec 2023
Stage 1	(4)	(142)	141	1	3	(2)
Stage 2	-	(1)	-	-	1	-
Total	**(4)**	**(143)**	**141**	**1**	**4**	**(2)**
	Jan 2022					Dec 2022
Stage 1	(3)	(152)	112	1	38	(4)
Stage 2	-	(1)	-	-	1	-
Total	**(3)**	**(153)**	**112**	**1**	**39**	**(4)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 308,676 million (2022: CZK 264,357 million). The GCA of AC loans and advances to banks that were held at 1 January 2023 and fully de-recognized (matured) during the year 2023 amounts to CZK 262,824 million (2022: CZK 358,142 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 2023							Dec 2023
Stage 1	**(1,817)**	**(2,422)**	**507**	**2,383**	**(824)**	**-**	**(1)**	**(2,175)**
General governments	(8)	(3)	-	3	(2)	-	-	(10)
Other financial corporations	(24)	(19)	10	69	(78)	-	4	(38)
Non-financial corporations	(751)	(1,352)	205	681	361	1	(5)	(861)
Households	(1,034)	(1,049)	292	1,630	(1,105)	-	-	(1,265)
Stage 2	**(7,226)**	**(551)**	**757**	**(3,663)**	**3,464**	**5**	**(32)**	**(7,246)**
General governments	(148)	-	-	(3)	135	-	-	(15)
Other financial corporations	(36)	(38)	3	(19)	66	-	-	(24)
Non-financial corporations	(3,266)	(363)	397	(1,523)	785	-	(31)	(4,001)
Households	(3,776)	(150)	357	(2,119)	2,477	4	-	(3,207)
Stage 3	**(10,597)**	**(110)**	**1,318**	**(640)**	**(1,488)**	**1,051**	**(41)**	**(10,506)**
General governments	-	-	-	-	(106)	-	(3)	(109)
Other financial corporations	(1)	-	-	-	(19)	-	-	(21)
Non-financial corporations	(5,515)	(58)	882	(303)	(114)	179	(38)	(4,966)
Households	(5,080)	(52)	436	(338)	(1,249)	872	-	(5,411)
POCI	**(474)**	**-**	**100**	**-**	**(380)**	**197**	**(3)**	**(560)**
General governments	-	-	-	-	(5)	-	-	(5)

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
Non-financial corporations	(449)	-	88	-	(196)	196	(3)	(364)
Households	(25)	-	12	-	(179)	1	-	(191)
Total	**(20,113)**	**(3,084)**	**2,682**	**(1,920)**	**773**	**1,253**	**(78)**	**(20,487)**
	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 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 2023 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2023 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 395 million cumulatively for the year 2023 (2022: CZK 337 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
2023								
General governments	274	285	473	-	-	-	-	-
Other financial corporations	1,283	3,471	-	-	-	-	-	-
Non-financial corporations	33,285	46,740	1,859	514	1,591	372	-	224
Households	28,070	32,019	1,784	640	1,757	279	3	90
Total	**62,913**	**82,515**	**4,116**	**1,154**	**3,348**	**651**	**3**	**315**
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**

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 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 231,143 million (2022: CZK 226,781 million). The GCA of the AC loans and advances to customers that were held at 1 January 2023 and fully de-recognized during the year 2023 amounts to CZK 96,156 million (2022: CZK 114,228 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 2023 amounted to CZK 683 million (2022: CZK 789 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 2023							Dec 2023
Stage 1	(92)	(84)	41	4	(19)	-	(1)	(151)
Stage 2	(164)	-	29	(6)	21	2	-	(118)
Stage 3	(359)	-	28	-	(31)	1	(2)	(363)
Total	**(616)**	**(84)**	**97**	**(2)**	**(29)**	**3**	**(3)**	**(632)**
	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)**

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 2023					Dec 2023
Stage 1	(8)	-	1	7	(5)	(6)
Stage 2	(145)	-	3	-	(9)	(151)
Total	**(153)**	**-**	**4**	**7**	**(14)**	**(156)**
	Jan 2022					Dec 2022
Stage 1	(3)	(60)	-	44	10	(8)
Stage 2	(146)	-	2	-	(2)	(145)
Total	**(149)**	**(60)**	**3**	**44**	**9**	**(153)**

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	2023	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	-	1,937
To Stage 1 from Stage 2	2,563	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 2023					Dec 2023
Stage 1	(32)	(1)	-	2	(10)	(40)
Stage 2	(13)	-	-	(1)	11	(2)
Stage 3	(36)	-	8	(3)	9	(22)
Total	**(81)**	**(1)**	**7**	**(1)**	**10**	**(65)**
	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)**

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 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarized below:

Transfer between stages - finance lease receivables

in CZK million	2023	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	8	113
To Stage 1 from Stage 2	55	14
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	1	19
To Stage 2 from Stage 3	-	3
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	1	10
To Stage 1 from Stage 3	4	-

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 893 million (2022: CZK 893 million). The GCA of the finance lease receivables that were held at 1 January 2023 and fully de-recognized during the year 2023 amounts to CZK 99 million (2022: CZK 86 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 2023						**Dec 2023**
Stage 1	395	586	(356)	(345)	(10)	2	272
Stage 2	460	-	(280)	230	(115)	3	298
Stage 3	258	-	(289)	20	317	217	522
POCI	1	-	(4)	-	5	-	3
Total	**1,114**	**586**	**(929)**	**(94)**	**196**	**221**	**1,094**
	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**

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 2023 to a different stage compared to 1 January 2023 (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	2023	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	10,429	36,967
To Stage 1 from Stage 2	7,378	19,522
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	369	73
To Stage 2 from Stage 3	61	26
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	50	695
To Stage 1 from Stage 3	2	36

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 119,817 million (2022: CZK 69,069 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2023 and fully de-recognized during the year 2023 amounts to CZK 45,989 million (2022: CZK 45,977 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 several 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 partly included in 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 scenario weighted ECL considering FLI is derived using the weights representing the outcome 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 selection of variables also depends on the availability of reliable forecasts for the given local market. The main indicator of the estimated economic development and basis for alternative scenario derivation is the GDP. In addition, economic effects of the ongoing war in Ukraine and the emerging conflicts in the middle east came along with the 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.

Macro-shift FLI models are recalibrated regularly to reflect the most relevant macro-variables. The recalibration is performed by the local entities (except for the central models for Group (Large) Corporate) and variables with the highest statistical relevance are included.

In case of central model for Group (Large) Corporates, the Erste Group (dedicated central units) is responsible for the PD review including FLI.

The Group reviewed the FLI in the fourth quarter of 2023 according to the disclosed forecasts for baseline, downside, and upside scenarios. Based on the assessment of conditions (exit triggers) for applying in-model adjustments in FLI models (40% weight assigned to baseline scenarios, expertly set up weights for downside and upside scenarios, and incorporation of comprehensive stress test scenario into the downside scenario, applied in December 2022), the Group decided to assign 50% scenario weight to baseline forecast due to more stable macroeconomic forecasts than were observed during previous year. Moreover, the higher NPL inflows observed in the second half of 2023, led to the decision to apply the modelled weights for downside and upside scenarios instead of expertly set weights applied in 2022. It relates to all local models, including Group (Large) Corporate model due to significant exposure of this portfolio. The approach with including the comprehensive stress test (CST) scenario into the downside scenario design is kept unchanged. However, the CST scenario was updated according to the assumptions considered in comprehensive stress test 2023.These model adjustments took place to address the still persisting uncertainty of the macroeconomic forecasts, higher downside risks and effects of those on ECL resulting from the unstable geopolitical situation.

The Group is disclosing sensitivity of the staging and ECL on macro scenarios in the “Collective assessment” section below.

Baseline scenario

The Group expects the Eurozone economy to gradually recover from the first half of 2024 onwards. The main factor supporting the constructive baseline outlook for the Eurozone in 2024 is a further slight easing of inflationary pressures on a domestic and as well as on global level. European gas and electricity prices have already dropped substantially and easing pressures from global supply chains have already eased inflationary pressures in recent months. In this environment it is forecasted real wage gains for consumers in 2024, which should be supportive for private consumption growth 2024.

The expected end of global destocking in the course of 2024 should gradually improve the order situation and order backlogs of manufacturing companies. This should be another growth supportive factor during the first half of 2024. The Group forecasts that in this environment, a gradual acceleration of consumption and investments will be seen in the first half of 2024. In this environment the Group expects the ECB to deliver the first rate cut in June 2024.

Although the Czech economy is likely to remain subdued at the beginning of 2024, economic development should gradually improve, which will be reflected in a recovery in both domestic and foreign demand. Domestic demand will be positively affected mainly by a rapid decline in inflation towards the inflation target and improved sentiment among households, which will also be influenced by a return to growth in real wages. For external demand, improved economic developments in Germany will be a key factor. Inflation will fall sharply at the start of 2024, with other factors contributing in addition to the impact of the base, including a continuation of the weak demand from 2023, a fall in some commodity prices, a decline in agricultural producer prices and easing inflationary pressures in the euro area. Inflation should then remain within the ČNB's tolerance band around the inflation target throughout 2024.

The ČNB started to cut interest rates already at the end of 2023 and is widely expected to continue gradually reducing interest rates towards normal levels in 2024. The main reason will be the rapid decline in inflation and weak domestic demand. On the other hand, given the risk of a possible re-intensification of inflationary pressures and pressures in the direction of a depreciation of the koruna, the ČNB is likely to remain cautious.

Risks to the baseline scenario and comprehensive stress test scenario as considerations added to downside scenario

The ongoing war in Ukraine, including emerging conflicts in the middle east, remains significant risk factor. If it escalates further this could potentially harm the sentiment of global investors vs the Eurozone with potential dampening effects on growth.

Russia could cut off gas supply to an increased number of "unfriendly" countries. Energy security becomes a priority for EU policymakers who regard the momentum to become less dependent from Russian commodities and to accelerate the transition to a low carbon economy. This goal could trigger an energy policy shock, whereby the price of CO2 emissions skyrocket in the first year, crystalizing a disorderly transition risk. The energy policy shock could exacerbate the increase in energy/consumer prices and de anchors inflation expectations; prompting the ECB to tighten monetary policy aggressively (affecting the entire yield curve) to keep inflation under control. In addition, the fast rise of green energy investments adds volatility and instability to an European power grid. Temporary pressure on the power grid from large swings in energy supply from green energy, could result in temporary price spikes for electricity which could harm industrial activity and the consumers purchasing power.

Moreover, the current turmoil in the Red Sea, which exerts pressure on container ship traffic between Europe and Asia could flare up again supply chain issues. This could translate into higher inflation than anticipated in our current base line scenario.

The fast rise of interest rates is a threat for the investment activity of companies and consumers could lead to lower investments than currently anticipated for our base case scenario.

In general, higher Harmonized Index of Consumer Prices (HICP), especially electricity/gas bills, reduces disposable income and contracts consumption. Given the high debt inherited from the pandemic, increasing military spending and expansive fiscal policies to mitigate higher energy prices/influx of refugees could make investors to question debt sustainability.

Upside risk to the baseline scenario

In case the global industry recovers faster and stronger, than it is expected in baseline scenario, this would certainly have an immediate positive impact on the German economy. In light of the tight interconnections between Germany and other major countries of the Eurozone, a stronger and faster recovery of German industry would also have an immediate positive impact on the entire industry of the Eurozone. A faster and stronger recovery of European industry would give GDP growth in 2024 and 2025 certainly a positive boost, as the recovery of investment activity would take hold faster and stronger than currently expected in our baseline scenario. The Group would expect in this scenario that consumer sentiment would also be impacted positively. So private consumption would have a bigger contribution to growth in 2024 and 2025, when compared to our baseline scenario. The services sector of the economy would benefit from a better and higher consumer sentiment as well. However, a further gradual easing of inflationary pressure – especially in the services sector – is mandatory in this scenario in order not to endanger expected rate cuts by the ČNB in 2024.

Overview of Baseline, Upside and Downside scenarios

Below we are summarizing expected development of the GDP, all scenarios and scenario weights, as main indicator of the macro-economic situation.

Additionally, we are disclosing the most relevant variables for the macro-shift model.

Macro-shift models are calibrated for the three main sub-portfolios: private individuals, micro enterprises, and another corporate business. Models' calibration and variables disclosed below are incorporated into expected credit loss measurement as of 31 December 2023. The baseline and weighted scenario outcome for the major variables is disclosed in the tabular format for the years 2024-2026.

Baseline, upside and downside scenarios of GDP growth

		Probability weights	GDP growth in %		
	Scenario	**2024-2026**	**2024**	**2025**	**2026**
2023					
	Upside	21%	3.8	5.3	4.8
Czech Republic	Baseline	50%	1.8	3.3	2.8
	Downside	29%	(2.5)	(0.9)	0.3
2022		**2023-2025**	**2023**	**2024**	**2025**
	Upside	1%	3.4	6.2	5.9
Czech Republic	Baseline	40%	0.9	3.7	3.4
	Downside	59%	(4.9)	(0.3)	0.9

	Baseline scenario			Scenario weighted outcome		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**
2023						
Unemployment rate	3.7	4.0	4.0	3.7	4.3	4.4
Inflation (PPI)	141.8	144.3	147.2	142.2	144.7	147.6
2022	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
Unemployment rate	3.5	3.5	3.5	4.0	4.6	4.5
Inflation (PPI)	146.8	149.5	152.5	149.4	152.1	155.1

Collective assessment

In addition to standard SICR assessment, the Group applied collective SICR assessment, i.e., transfer into Stage 2 based on pre-defined portfolio characteristics, due to emerging risks not covered by standard models. This approach is aligned with all affected entities and business lines and approved by the respective governance bodies of the Group. It requires, after the assessment of the outliers from the common portfolio characteristics, to have exemptions from the collective SICR assessment, if properly documented why they would behave differently than the rest of the portfolio.

In June 2022, the Group implemented rules for collective staging assessment 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 higher than 250bp. The Group has identified the portfolio of industry sectors susceptible to being hit by the macro-economic environment based on cost inflation and interest rate increases leading to decreasing confidence levels on consumer as well as production side, and consequently a decrease in consumption and investments.

In addition to cyclical industries, from September 2022 the Group has introduced additional Energy stage overlay due to the distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were considered. Effects of energy prices and availability on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability was driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected.

Moreover, from September 2022 the additional stage overlay was introduced also for Retail. Increasing interest rates together with unprecedented increase of inflation posed 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.

The Group evaluates, on quarterly basis, the conditions (exit triggers) for applying of collective SICR assessment. It was concluded that in case of cyclical industries the risk neither passed nor was materialized. Therefore, in December 2023, the rules for collective SICR assessment were kept the same as they were applied in 2022.

In case of Energy industries, it was concluded that conditions for exit triggers were partly fulfilled mainly on energy availability part. Electricity demand in the European Union declined for the second consecutive year in 2023, even though energy prices fell from record highs. On the other hand, in 2023, there were also signs of some permanent demand destruction, especially in the energy-intensive chemical and primary metal production sectors. These segments will remain vulnerable to energy price shocks. Moreover, all companies belonging to the Energy sector can potentially be affected by the distortions in the current energy market. However, certain business models in the energy sector rather benefit from the current situation and, thus, do not match the overall portfolio characteristics as energy sector is widely defined. Therefore, in December 2023, only selected industries (production & distribution of energy and heating) were considered within collective SICR assessment and migrated to Stage 2; except some companies excluded based on individual assessment.

Effect on Expected Credit Loss

The analysis tables below present the effects of the collective SICR assessment 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.

In December 2023, the exposure in Stage 2 due to the application of the rules for Ukraine war collective SICR assessment stood for cyclical industries at CZK 34,357 million (2022: CZK 20,531 million) and for energy (intensive) industries at CZK 28,579 million (2022: CZK 50,854 million), with additional ECL allocated in the amount of CZK 979 million (2022: CZK 807 million) for cyclical industries and CZK 207 million (2022: CZK 327 million) for energy (intensive) industries. The exposure in Stage 2 due to high inflation rate and increased interest rates collective SICR assessment stood for private individuals at CZK 30,263 million (2022: CZK 31,002 million), with additional ECL allocated in the amount of CZK 349 million (2022: CZK 382 million).

As described above, FLI were reassessed based on the latest macro-scenarios in the fourth quarter of 2023. Considering the review of in-model adjustments (change the weight assigned to baseline scenario from 40% to 50%, and application of modelled weights assigned to upside and downside scenarios for the local models and Group (Large) Corporate model central, the Stage 2 exposure triggered by FLI decreased to CZK 15,348 million as of December 2023 (2022: CZK 17,242 million). The decrease of the Stage 2 exposure and PD levels affected the level of ECL allocated in Stage 2 due to FLI: CZK 2,469 million as of December 2023 versus CZK 2,109 million as of December 2022.

In 2022 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 were:

- 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

Because the reasons still persist, override has been applied also in 2023. However, the amount of the override has been reduced by in connection with the decline of inflation.

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 weighted scenario outcome would lead to a decrease of Stage 2 exposure by CZK 884 million (2022: CZK 6,492 million), resulting in an ECL drop by CZK 72 million (2022: CZK 582 million). The lower difference between weighted scenario and baseline scenario is affected by the increase of the weight assigned to baseline scenario in 2023.

The downside scenario would lead to additional CZK 11,990 million of exposure migration to Stage 2 in comparison with scenario weighted FLI (2022: CZK 6,293 million), resulting in ECL increase of CZK 738 million (2022: CZK 494 million).

For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented sensitivities are results of internal simulations.

	Current status - parameters (FLI shifted)		Stage 2 impacted by			
			Cyclical	Energy	Private individual	Effect of FLI shifts
in CZK million	Stage 1	Stage 2				
2023						
CRE	1,715,653	173,449	34,357	28,579	30,263	15,348
2022						
CRE	1,523,833	200,940	20,531	50,854	31,002	17,242

	Current status - parameters (FLI shifted)		Out of which			
			Cyclical	Energy	Private individual	Effect of FLI shifts
in CZK million	Stage 1	Stage 2				
2023						
CLA	(2,668)	(7,822)	(979)	(207)	(349)	(2,469)
2022						
CLA	(2,377)	(8,015)	(807)	(327)	(382)	(2,109)

	Current status - parameters (FLI shifted)		Simulated impact on Stage 2		
			Upside scenario	Baseline scenario	Downside scenario
in CZK million	Stage 1	Stage 2			
2023					
CRE	1,715,653	173,449	(8,553)	(884)	11,990
2022					
CRE	1,523,833	200,940	(14,492)	(6,492)	6,293

	Current status - parameters (FLI shifted)		Simulated impact on CLA		
			Upside scenario	Baseline scenario	Downside scenario
in CZK million	Stage 1	Stage 2			
2023					
CLA	(2,668)	(7,822)	704	72	(738)
2022					
CLA	(2,377)	(8,015)	1,421	582	(494)

40 Restructuring, renegotiation and forbearance

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. 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.

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. 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.

Forbearance concession triggers the performing forbearance classification and 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;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all the following conditions are met:

- a minimum of two years has 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.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- 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 non-performing forbearance classification can be discontinued and reclassified as performing under probation when all 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.

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
2023					
Gross exposure	**1,336,641**	**406,350**	**125,723**	**158,368**	**2,027,082**
thereof gross forborne exposure	5,129	-	-	96	5,225
Performing exposure	1,317,571	406,350	124,717	157,365	2,006,003
thereof performing forborne exposure	1,873	-	-	10	1,884
Credit loss allowances for performing exposure	(9,746)	(184)	(168)	(403)	(10,501)
thereof credit loss allowances for performing forborne exposure	(174)	-	-	(1)	(175)
Non-performing exposure	19,069	-	1,006	1,003	21,079
thereof non-performing forborne exposure	3,256	-	-	86	3,342
Credit loss allowances for non-performing exposure	(11,441)	-	(119)	(462)	(12,022)
thereof credit loss allowances for non-performing forborne exposure	(1,962)	-	-	(6)	(1,968)
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)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2023			
Loans and advances	5,129	5,127	2
Loan commitments	96	96	-
Total	**5,225**	**5,223**	**2**
2022			
Loans and advances	6,243	6,240	3
Loan commitments	107	107	-
Total	**6,350**	**6,347**	**3**

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 "Credit risk classification". Credit risk allowances include credit loss allowances for financial assets, credit loss allowances for loan commitments and financial guarantees (all allowances within the scope of IFRS 9) and provisions for other commitments.

Credit loss allowances (all stages combined) covered 111.2% (2022: 120.6%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2023. 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 2023, the non-performing credit risk exposure increased by CZK 1,823 million (2022: increase by 178 million), or 9.5% (2022: 0.9%). The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 349 million (2022: increased by CZK 727 million), or 1.6% (2022: 3.4%).

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral). 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 (all allowances within the scope of IFRS 9) divided by non-performing credit risk exposure at AC and FVOCI. Collateral is not taken into account in the NPE coverage ratio.

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
2023												
Retail	10,017	10,017	709,206	709,075	(12,590)	2,382	2,382	1.4%	1.4%	125.7%	23.8%	23.8%
Corporates	10,973	10,090	576,113	500,259	(9,525)	4,448	4,448	1.9%	2.0%	94.4%	40.5%	44.1%
Group Markets	-	-	47,939	11,948	(126)	-	-	0.0%	0.0%	340482.8%	0.0%	0.0%
ALM & LCC	89	89	693,824	688,509	(225)	-	-	0.0%	0.0%	253.1%	0.0%	0.0%
Total	**21,079**	**20,196**	**2,027,082**	**1,909,791**	**(22,466)**	**6,830**	**6,830**	**1.0%**	**1.1%**	**111.2%**	**32.4%**	**33.8%**
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%**

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
2023					
Retail	527,543	92,128	18,089	9,861	647,621
Corporates	291,854	62,281	13,715	9,120	376,970
Group Markets	5,139	1	-	-	5,141
ALM&LCC	964	229	763	88	2,045
Total	**825,500**	**154,639**	**32,567**	**19,069**	**1,031,776**
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**

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**
2023												
Retail	9,861	9,861	647,621	647,606	(12,303)	2,364	2,364	1.5%	1.5%	124.8%	24.0%	24.0%
Corporates	9,120	9,120	376,970	376,970	(8,676)	4,007	4,007	2.4%	2.4%	95.1%	43.9%	43.9%
Group Markets	-	-	5,141	5,141	(4)	-	-	0.0%	0.0%	10850.1%	0.0%	0.0%
ALM&LCC	88	88	2,045	2,045	(201)	-	-	4.3%	4.3%	226.9%	0.0%	0.0%
Total	**19,069**	**19,069**	**1,031,776**	**1,031,761**	**(21,184)**	**6,371**	**6,371**	**1.8%**	**1.8%**	**111.1%**	**33.4%**	**33.4%**
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%**

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'. Collaterals for non-performing loans mainly consist of real estates.

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 considered.

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
2023												
Retail	557,527	80,011	9,174	894	14	1,418	4,828	5,847	209	6.0%	63.7%	23.4%
Corporates	297,990	69,583	8,116	1,281	-	928	2,441	4,964	343	3.5%	61.2%	26.8%
Group Markets	5,141	-	-	-	-	4	-	-	-	6.7%	86.8%	100.0%
ALM&LCC	1,854	102	81	8	-	17	97	79	7	95.5%	98.5%	94.2%
Total	**862,512**	**149,695**	**17,371**	**2,183**	**14**	**2,367**	**7,367**	**10,891**	**560**	**4.9%**	**62.7%**	**25.6%**
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%**

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 1,699 million (2022: 1,125 million), the non-defaulted part to CZK 485 million (2022: 177 million).

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 99.9%. 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 2023 and 31 December 2022 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
2023							
ČS Total	**980**	**970**	**139**	-	-	-	-
Banking book	971	961	139	-	-	-	-
Trading book	9	9	1	-	-	-	-
2022							
ČS Total	**1,492**	**1,484**	**154**	**-**	**-**	**-**	**-**
Banking book	1,486	1,478	154	-	-	-	-
Trading book	6	6	-	-	-	-	-

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 in the timing of interest rate adjustments.

The Group has implemented and follows the latest EBA Guideline for the identification, evaluation, management, and mitigation of the risks arising from potential changes in interest rates.

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 supervisory outlier tests of economic value of equity and net interest income are monitored and limited safely within regulatory thresholds. 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 book 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.

in CZK million	2024 Interest rate increase	2024 Interest rate decrease	2023 Interest rate increase	2023 Interest rate decrease
CZK				
Income statement	807	(878)	238	(161)
Other comprehensive income	(2,873)	3,022	(3,093)	3,234
EUR				
Income statement	864	(919)	(100)	120
Other comprehensive income	1,338	(1,441)	832	(882)

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. The impact on the income statement increased for both currencies, mainly due to an increase in the sensitivity of off-balance sheet items carried at fair value to an increase in interest rates (and vice versa for a decrease in interest rates). In the case of CZK, this was offset by a change in interest rate sensitivity from positive to negative (for interest rate increases). The sensitivity of other comprehensive income has changed in particular for EUR, where the sensitivity to a rise in interest rates has increased.

Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

In the Group, foreign currency exposures are primarily carried by the Bank and real estate companies. The foreign currency risk of other Group entities is limited. Foreign currency exposure is subject to regulatory and internal limits that are approved by management board.

The Bank's open foreign exchange position is managed and closed by Trading book FX desk on a daily basis. Portfolios that are allowed to keep open position are limited based on approved VaR and sensitivity limits set for single currencies and monitored on a daily basis.

Credit spread risk

Credit spread risk is the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments. 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.

In order to achieve the goals of risk management fair value and cash flow hedges are used. Interest rate swaps serve to hedge against interest rate risk, while currency risk coming from mismatch between foreign currency assets and liabilities is hedged with foreign exchange swaps and cross currency swaps.

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 calculated 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

Throughout whole year, both LCR and NSFR for ČS 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. The regulatory indicators showed greater than usual volatility at the end of the year; however, these movements reflected primarily the short-term effect of client operations through the end of the year. The budgeted values of these indicators show a stable and significant surplus of liquidity even for the year 2024.

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 2023 and 2022 are shown in the tables below:

	< 1 week	
in CZK million	**2023**	**2022**
Cash, excess reserve	18,243	14,495
Liquid assets	405,911	418,147
Counterbalancing capacity	**424,154**	**432,642**

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 2023 and 2022 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
2023						
Non-derivative liabilities	**1,617,907**	**1,632,819**	**1,386,042**	**134,956**	**94,400**	**17,422**
Deposits by banks	122,287	122,722	91,252	22,817	2,060	6,593
Customer deposits	1,366,038	1,367,209	1,226,345	108,954	27,588	4,322
Debt securities in issue	121,451	134,757	60,313	3,185	64,751	6,507
Other financial liabilities	8,131	8,131	8,131	-	-	-
Derivative liabilities	**16,716**	**16,716**	**650**	**4,311**	**7,180**	**4,575**
Contingent liabilities	**262,451**	**262,451**	**262,451**	**-**	**-**	**-**
Financial guarantees	8,384	8,384	8,384	-	-	-
Loan commitments	158,368	158,368	158,368	-	-	-
Other commitments	95,699	95,699	95,699	-	-	-
Total	**1,897,074**	**1,911,987**	**1,649,143**	**139,267**	**101,579**	**21,997**
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	-	-	-
Loan commitments	229,614	229,614	229,614	-	-	-
Irrevocable commitments	30,047	30,047	30,047	-	-	-
Total	**1,752,290**	**1,756,513**	**1,517,030**	**140,810**	**67,428**	**31,245**

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

Depreciation of property and equipment 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.

Any impairment losses including their reversals and 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) are 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. Investment property is presented on the balance sheet in the line item ‘Investment properties’.

Rental income is recognised in the statement of income in the line item ‘Rental income from investment properties and 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.

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 2022	**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**
Additions in current year (+)	780	242	279	1,302	17
Disposals (-)	(230)	(279)	(388)	(897)	-
Reclassification (+/-)	-	(59)	63	4	-
Assets held for sale (-)	(173)	-	-	(173)	-
Balance as of 31 Dec 2023	**18,796**	**2,412**	**2,971**	**24,178**	**3,944**

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 2022	**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**
Additions	457	53	-	510
Disposals	(88)	(37)	-	(125)
Balance as of 31 Dec 2023	**5,458**	**116**	**-**	**5,575**

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 2022	**(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	-
Balance as of 31 Dec 2022	**(11,669)**	**(1,726)**	**(1,629)**	**(15,024)**	**(2,125)**
Depreciation (-)	(592)	(108)	(319)	(1,019)	(51)
Disposals (+)	223	264	370	857	-
Impairment (-)	(313)	-	-	(313)	(21)
Reversal of impairment (+)	341	-	-	341	-
Assets held for sale (+)	164	-	-	164	-
Balance as of 31 Dec 2023	**(11,846)**	**(1,571)**	**(1,578)**	**(14,994)**	**(2,197)**

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 2022	**(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)**
Amortisation and depreciation	(588)	(26)	-	(614)
Disposals	63	28	-	91
Balance as of 31 Dec 2023	**(2,553)**	**(46)**	**-**	**(2,600)**

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 2022	**6,749**	**780**	**1,388**	**8,917**	**1,803**
Dec 2023	**6,950**	**841**	**1,393**	**9,184**	**1,748**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 285 million (2022: CZK 316 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 2022	**3,064**	**53**	**-**	**3,114**	**-**
Dec 2023	**2,905**	**70**	**-**	**2,975**	**-**

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 2022	**10,046**	**786**	**1,370**	**12,201**	**2,221**
Balance as of 31 Dec 2022	**9,813**	**833**	**1,388**	**12,031**	**1,803**
Balance as of 31 Dec 2023	**9,855**	**911**	**1,393**	**12,159**	**1,748**

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
2023					
Assets whose fair value is disclosed in the notes					
Investment property	1,748	1,760	-	-	1,760
2022					
Assets whose fair value is disclosed in the notes					
Investment property	1,803	1,818	-	-	1,818

In 2023, rental income arising from investment property amounted to CZK 188 million (2022: CZK 184 million), see Note 7. Operating expenses related to investment property amounted to CZK 67 million (2022: CZK 68 million).

The balances as at 31 December 2023 shown above include CZK 677 million (2022: CZK 812 million) in property and equipment under construction (mainly land and buildings).

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,180 million as at 31 December 2023 (2022: CZK 4,379 million). As at 31 December 2023, land and buildings were impaired in the amount of CZK 1,212 million (2022: CZK 982 million). As of 31 December 2023, the recoverable amount of these impaired assets amounted to CZK 913 million (2022: CZK 342 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 2023 the fair value of investment properties with a carrying amount of CZK 1,748 million (2022: 1,803 million) amounts to 1,760 million (2022: CZK 1,818 million) and is classified as level 3 of the fair value hierarchy, the common value of the investment property is determined on the basis of the comparison method as of the day of valuation.

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

The Group's intangible assets include goodwill (see Note 56 Subsidiaries), computer software, customer relationships and other intangible assets.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation expense 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

Impairment of intangible assets including goodwill

It is typical of intangible assets that they do not generate cash inflows that are largely independent of those from other assets. As a result, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. For CGUs to which goodwill has been allocated the impairment test is carried out annually in November, or whenever there is an indication of possible impairment during the year.

For CGUs at the Group the recoverable amount for determining the potential impairment loss is typically based on value in use which is the present value of the future cash flows expected to be derived from the CGU. The calculation starts with estimation of future earnings distributable to shareholders. In this respect financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements are used. 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.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the estimated future earnings. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The discount rates reflect risks specific to the CGU and 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.

When the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the statement of income under the line item 'Other operating result'.

The analysis on the recoverability of non-financial assets is explained in section 'Material accounting policies' in the chapter 'Significant accounting judgements, assumptions and estimates.

Acquisition and production costs

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2022	**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**
Additions in current year (+)	-	1,785	99	1,884
Disposals (-)	-	(669)	(9)	(678)
Disposal of group	-	-	-	-
Reclassification	-	(14)	11	(3)
Currency translation	-	-	-	-
Balance as of 31 Dec 2023	**34**	**19,611**	**1,499**	**21,144**

Accumulated depreciation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2022	**-**	**(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)**
Amortisation charge (-)	-	(1,024)	(70)	(1,094)
Disposals (+)	-	669	9	678
Reclassification	-	90	(90)	-
Impairment (-)	-	(786)	(11)	(797)
Balance as of 31 Dec 2023	**-**	**(13,417)**	**(1,320)**	**(14,737)**

Carrying amounts

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2022	**34**	**6,004**	**263**	**6,301**
Balance as of 31 Dec 2022	**34**	**6,144**	**240**	**6,417**
Balance as of 31 Dec 2023	**34**	**6,194**	**179**	**6,407**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,852 million as at 31 December 2023 (2022: CZK 1,215 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 3,408 million as at 31 December 2023 (2022: CZK 3,013 million).

The Group has not identified any contractual commitments for the purchase of intangible assets.

48 Other assets

in CZK million	2023	2022
Prepayments	458	647
Assets under construction/unfinished goods/inventory	64	42
Sundry assets	1,016	1,018
Other assets	**1,538**	**1,707**

'Sundry assets' consist mainly of long-term advances of CZK 297 million (2022: CZK 278 million) and deposit into the transformed fund of Česká spořitelna - penzijní společnost, a.s. of 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

The Group is mitigating the risk associated with any rights it retains in underlying assets. This is achieved especially by means of residual value guarantees, variable lease payments for use in excess of specified limits and buy-back agreements with third parties.

The vast majority of lease agreements in which the Group operates as a lessor are finance leases.

Finance leases

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	2023	2022
Outstanding minimum lease payments	1,726	1,687
Gross investment	**1,726**	**1,687**
Unrealised financial income	(193)	(133)
Net investment	**1,532**	**1,555**
Present value of minimum lease payments	**1,532**	**1,555**

Maturity analysis by residual maturities

in CZK million	2023		2022	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	364	328	421	387
1-2 years	379	342	334	307
2-3 years	270	243	238	218
3-4 years	184	165	154	140
4-5 years	125	111	106	96
> 5 years	403	343	434	407
Total	**1,726**	**1,532**	**1,687**	**1,555**

During 2023, the Group recognised interest income on finance lease receivables in the amount of CZK 27 million (2022: CZK 12 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 2023 and 2022 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**
2023									
General governments	63	-	-	63	(10)	-	-	(10)	53
Other financial corporations	10	-	-	10	-	-	-	-	10
Non-financial corporations	1,388	18	35	1,440	(25)	(2)	(22)	(48)	1,392
Households	18	1	-	19	(5)	(1)	-	(6)	13
Total	**1,478**	**18**	**35**	**1,532**	**(40)**	**(2)**	**(22)**	**(65)**	**1,467**
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**

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	2023	2022
< 1 year	247	220
1-2 years	243	220
2-3 years	235	220
3-4 years	235	215
4-5 years	235	216
> 5 years	795	970
Total	**1,990**	**2,061**

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

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. The lease payments also include 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. Extension and termination options are included in a number of real estate leases across the Group. The use of extension and termination options gives the Group added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

When determining the present value of lease payment the Group typically uses the incremental borrowing rate as the discount 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	2023		2022	
	Nominal values	Present values	Nominal values	Present values
< 1 year	565	488	648	567
1-5 years	1,877	1,701	2,006	1,815
> 5 years	1,154	1,070	1,170	1,093
Total	**3,596**	**3,259**	**3,824**	**3,475**

During 2023, interest expenses on lease liabilities were recognised in the amount of CZK 95 million (2022: CZK 57 million). In 2023, expenses in the amount of CZK 73 million (2022: CZK 66 million) relating to short term leases, for which the recognition exemption of IFRS 16 applies, were recognised. In addition, expenses amounting to CZK 52 million (2022: CZK 60 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 19 million (2022: CZK 0 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 59 million (2022: CZK 29 million). Total cash outflow for leases in 2023 was CZK 790 million (2022: CZK 774 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 2023.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

51 Other liabilities

in CZK million	2023	2022
Deferred income	525	523
Sundry liabilities	6,776	6,035
Other liabilities	**7,301**	**6,558**

Sundry liabilities consist mainly of suspense account of CZK 2,710 million (2022: CZK 2,174 million) and costs of staff bonuses amounting to CZK 1,418 million (2022: CZK 1,509 million) of which CZK 47 million (2022: CZK 44 million) is liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2023 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 500 million (2022: CZK 488 million). Revenue recognised in the reporting year 2023 that was included in the contract liability balance at the beginning of the period amounts to CZK 523 million (2022: CZK 506 million).

52 Provisions

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".

Loan commitments and financial guarantees given in scope of IFRS 9

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.

For financial guarantees provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Loan commitments are generally not recognised in the balance sheet before they are drawn. If it is probable that the Group will enter into the loan agreement loan commitment fees received are deferred and adjust the effective interest rate of the loan when the commitment is drawn. Loan commitments result in recognition of provisions based on the expected credit loss impairment model.

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'.

For information about development of credit loss allowances for provision for financial guarantees and loan commitments refer to Note 38 Development of Credit Loss Allowances, part 'Loan commitments and financial guarantees': table 'Movement in credit loss allowances – loan commitments and financial guarantees'.

Provisions recognised in accordance with IAS 37

Expenses or income related to provisions which are in scope of IAS 37 are reported in the statement of income under the line item 'Other operating result'.

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	**2023**	**2022**
Restructuring	305	67
Pending legal issues	1,708	1,706
Loan commitments and financial guarantees given in scope of IFRS 9	1,094	1,114
CLA for loan commitments and financial guarantees in Stage 1	272	395
CLA for loan commitments and financial guarantees in Stage 2	298	460
CLA for loan commitments and financial guarantees in Stage 3	522	258
CLA for loan commitments and financial guarantees POCI	3	1
Commitments and guarantees given out of scope of IFRS 9	57	-
Provision for onerous contracts	215	101
Other provisions	89	418
Provisions	**3,468**	**3,406**

The restructuring provision of CZK 252 million was created at the end of 2023 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 2025.

Under position 'Pending legal issues' 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 (+/-)	
proc	**Jan 2023**					**Dec 2023**
Provision for restructuring	67	252	(67)	-	53	305
Pending legal issues and tax litigation	1,706	3	-	(1)	-	1,708
Other provisions	520	428	-	(377)	(211)	360
Provisions	**2,292**	**683**	**(67)**	**(377)**	**(157)**	**2,374**
	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**

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 2023, the aggregate balance of these allowances was CZK 1,094 million (2022: CZK 1,114 million). Refer to Note 38 Development of Credit Loss Allowances.

in CZK million	2023	2022
Amounts owed under guarantees and letters of credit	8,384	9,871
Undrawn loan and other commitments	254,067	259,661
out of which loan commitments	158,368	229,614
Total	**262,451**	**269,532**

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	2023	2022
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	9,040
Retained earnings and other reserves	119,703	112,980
Owners of the parent	**143,955**	**137,232**
Non-controlling interests	546	479
Total equity	**144,501**	**137,711**

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 2023, 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.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital is as follows:

	2023		2022	
	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**

As of 31 December 2023, 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.

55 Non-controlling interest

in CZK million	2023	2022
At 1 January	**479**	**452**
Profit for the year	66	27
Other changes	1	-
At 31 December	**546**	**479**

SCOPE OF CONSOLIDATION

Basis of consolidation

As at 31 December 2023, the Group includes in its IFRS Accounting Standards scope of consolidation a total of 24 subsidiaries (31 December 2022: 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 2023, and for the year then ended.

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 balance sheet.

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 to variable returns from the involvement with the investee stemming from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- 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 2023

On 10 October 2023 the company DBČS Žďár, s.r.o. and on 18 December 2023 the company DBČS Černý Most, s.r.o. were established. Both companies are 100% owned by Dostupné bydlení České spořitelny, a.s.

Disposals in 2023

On 1 January 2023 DINESIA, a.s. entered into liquidation.

On 10 October 2023 the company Czech and Slovak Property Fund B.V. was deleted from the Commercial Register.

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 company 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.

57 Investment in associates and joint ventures

In the case of the Group, all equity method investments are direct or indirect investments in associates and joint ventures over which the Group exercises significant influence or joint control stemming from voting power greater than 20% up to 50%.

Additions/disposals in 2023

There were no acquisitions or disposals in 2023. The ownership in Investown Technologies s.r.o. decreased to 24.96%.

Additions in 2022

As of 31 May 2022 the Group acquired the 26% share in Investown Technologies s.r.o., the company started to be consolidated at equity since June 2022.

in CZK million	2023	2022
Financial institutions	1,649	1,437
Total	**1,649**	**1,437**

The table below shows the aggregated financial information of companies accounted for using the equity method:

in CZK million	2023	2022
Total assets	8,238	6,691
Total liabilities	4,850	3,761
Income	2,070	1,847
Profit (Loss)	439	135

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	2023 Global Payments s.r.o.	2023 Investown Technologies s.r.o.	2022 Global Payments s.r.o.	2022 Investown Technologies s.r.o.
Country of Incorporation / Place of business	Czech Republic	Czech Republic	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services	Payment services	Payment services
Ownership% held	49.00%	24.96%	49.00%	26.00%
Voting rights held%	49.00%	24.96%	49.00%	26.00%
Classification (JV/A)	Associate	Associate	Associate	Associate
Reporting currency	CZK	CZK	CZK	CZK
Cash and cash equivalents	923	217	518	71
Other current assets	3,990	6	2,944	1
Non-current assets	2,686	417	2,729	427
Current liabilities	25	-	36	-
Non-current liabilities	4,231	594	3,221	504
Operating income	1,937	70	224	12
Post-tax result from continuing operations	408	31	166	(31)
Depreciation and amortization	(169)	(1)	(177)	-
Interest expense	(75)	(21)	(55)	(23)
Tax expense/income	(25)	-	(37)	-
Net assets attributable to the Group	869	10	669	(1)
Carrying goodwill included in the cost of investment	769	-	769	-
Carrying amount	1,638	10	1,439	(1)

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	2023	2022
Carrying amount of assets	4,322	1,075
Fair value of liquidity support drawn	2,720	657
Total	**7,042**	**1,732**

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
	2023			2022		
Assets						
Cash and cash equivalents	1,207	224	-	1,236	40	
Financial assets - held for trading	10,012	-	-	19,994	-	
Financial assets - FVPL	856	-	-	1,383	-	
Financial assets – amortised costs	81	266	46	1,377	277	40
Derivatives Hedge Accounting	3,050	-	-	3,000	-	
Other assets	-	1	-	-	1	
Liabilities						
Financial liabilities held for trading	8,098	-	-	10,557	-	
Financial liabilities measured at amortised costs	84,570	620	115	88,173	506	128
Debt securities in issue	60,196	17	-	42,703	17	
Derivatives Hedge Accounting	3,531	-	-	2,839	-	
Other Liabilities	-	(2)	-	-	1	
Profit&Loss statement	01-12 2023			01-12 2022		
Net interest income	(10,268)	(6)	3	(10,366)	(11)	3
Net fee and commision income	72	1,620	-	33	1,442	-
Dividend income	-	115	-	-	233	-
Net trading result and fair value result	(856)	8	-	14,343	16	-
Other administrative expenses	(138)	(1,171)	-	(140)	(941)	-
Other operating result	131	102	-	120	93	-
Loans commitments, financial guarantees and other commitments given	7,212	464	-	12,517	490	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	-	-

Financial liabilities measured at amortized costs as at 31 December 2023 include primarily repurchase agreements in CZK 82,940 million (2022: CZK 78,102 million) and cash collaterals taken of CZK 1,450 million (2022: CZK 10,034 million).

The repurchase agreements are mainly denominated in CZK (CZK 55,167 million as at 31 December 2023; 2022: CZK 36,059 million) and EUR (CZK 27,773 million as at 31 December 2023; 2022: CZK 42,043 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 2023 financial assets and financial liabilities held for trading includes mainly derivative instruments (currency and interest rate derivatives). In 2023 and 2022, 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 62 million as at 31 December 2023 (2022: CZK 1,348 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
2023	74	3	10	11	8	106
2022	65	2	13	14	9	103

The item Other remuneration comprises income from providing pool cars for personal use to Board of Directors members.

No termination benefit was paid out in 2023 and 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 based on 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 2023 was estimated at CZK 51 million (2022: CZK 51 million).

At year-end 2023 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 53 million (2022: CZK 45 million) and for non-cash part is CZK 69 million (2022: CZK 76 million) of which CZK 35 million are phantom shares (2022: CZK 36 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 2023, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2023 in the amount of EUR 33.02 (2022: EUR 29.50) 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 respective gross bonus amount by the average daily weighted price of Erste Group Bank shares stock in the performance period. For performance period 2023 the Board of Directors members receive equivalent of 16,139 pcs of phantom shares (2022: 14,810 pcs) with average price 33.02 EUR (2022: EUR 29.50).

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, at least six months in 2022 and were still employed until the transfer of the shares to the employees in June 2023 (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 June 2023. The number of free shares, which were granted under this program for the period, is 171,741 (2022: 296,753). Personnel expenses in the amount of CZK 170 million were recorded (2022: CZK 210 million).

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 were still employed until the transfer of the shares to the employees in June 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 number of free shares, which are granted under this program for the period, is 90,198 (2022: 125,833). Based on the number of entitled employees, personnel expenses in the amount of CZK 53 million (2022: 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 - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.

in CZK million	2023	2022
Audit fees	40	25
Other assurance services	5	9
Other services	8	1
Total	**53**	**35**

The audit fees for 2023 are presented incl. VAT 21%, whereas the audit fees for 2022 are shown excl. VAT.

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	2023	2022
Assets held for sale	10	9

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 2023 and 2022 was as follows:

	2023		2022	
in CZK million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and cash equivalents	27,918	-	21,870	-
Financial assets - held for trading	16,662	-	28,009	-
Derivatives	16,643	-	27,961	-
Other financial assets held for trading	19	-	48	-
Non-trading financial assets at fair value through profit or loss	3,137	661	2,328	1,003
Equity instruments	1,457	652	-	1,003
Debt securities	819	-	926	-
Loans and advances to banks	856	-	1,383	-
Loans and advances to customers	5	9	19	-
Financial assets at FVOCI	2,350	51,082	9,204	39,230
Equity instruments	-	22	9,204	39,230
Debt securities	2,350	51,060	9,204	39,230
Financial assets at AC	409,099	1,244,024	366,276	1,128,739
Loans and receivables to credit institutions	302,507	1,499	265,728	947
Loans and receivables to customers	89,539	907,279	85,940	814,594
Debt securities	17,053	335,246	14,608	313,197
Finance lease receivables	114	1,353	119	1,355
Hedge accounting derivatives	-	3,241	-	3,235
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(9)	-	(17)	-
Property and equipment	-	12,159	-	12,031
Investment properties	-	1,748	-	1,803
Intangible assets	-	6,407	-	6,417
Investments in associates and joint ventures	-	1,649	-	1,437
Current tax assets	545	-	445	-
Deferred tax assets	-	1,839	-	2,918
Assets held for sale	10	-	9	-
Trade and other receivables	12,275	17	11,470	351
Other assets	1,643	(106)	1,798	(92)
Total Assets	**473,745**	**1,324,075**	**441,510**	**1,198,427**
Financial liabilities - held for trading	16,716	-	29,597	-
Financial liabilities designated at FVPL	12,308	975	31,331	-
Financial liabilities measured at AC	938,202	666,422	765,455	656,375
Deposits from banks	104,707	17,580	100,178	13,363
Deposits from customers	765,318	587,436	611,029	614,435
Debt securities issued	60,095	61,356	48,080	28,577
Other financial liabilities	8,081	50	6,168	-
Finance lease liabilities	(38)	3,298	3	3,472
Derivatives - hedge accounting	29	4,505	-	5,870
Provisions	12	3,456	111	3,295
Current tax liabilities	115	-	144	-
Deferred tax liabilities	-	18	-	16
Other liabilities	7,301	-	6,631	(73)
Total Liabilities	**974,644**	**678,675**	**833,271**	**668,955**

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	2023	2022
Opening balance of debt securities issued as of 1 January	76,657	213,357
Cash-flows reported within the cash-flow from financing activities	43,460	(136,242)
Non-cash adjustment	1,334	(458)
Closing balance of debt securities issued as of 31 December	**121,451**	**76,657**

Non-cash adjustments consist mainly of accrued interest and FX impact.

Cash-flows from lease liabilities

in CZK million	2023	2022
Opening balance of lease liabilities as of 1 January	3,475	3,121
Cash-flows reported within the cash-flow from financing activities	(667)	(650)
Non-cash adjustments	451	1,004
Closing balance of lease liabilities as of 31 December	**3,259**	**3,475**

Non-cash adjustments includes the interest expense and the lease liability from the newly concluded and modified contracts in 2023 and 2022.

65 Events after the balance sheet date

As of 1 January 2024 the Corporate Income Tax rate in Czech Republic increased from 19% to 21%.

As of 15 January 2024 the subsidiary ČS NHQ, s.r.o. concluded the agreement with the general contractor for the construction of new HQ, approx. volume of CZK 8 billion.

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.

Company name, registered office		2023 Interest in %	2022 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%
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%
REICO investiční společnost České spořitelny, a.s.	Prague	100.00%	100.00%
s Autoleasing SK, s.r.o.	Slovakia	100.00%	100.00%
Other			
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%
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%	100.00%
DBČS Žďár, s.r.o.	Prague	100.00%	-
DBČS Černý most, s.r.o.	Prague	100.00%	-
Other investments			
Other financial institutions			
DINESIA a.s., v likvidaci	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%
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	24.96%	26.00%
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 2023, the portfolio of subdiary and associate undertakings underwent the following changes:

- On 1 January 2023 DINESIA a.s. entered into liquidation.

- On 4 January 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 423.4 million.
- On 6 January 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 10 million.
- On 24 March 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 5.9 million.
- On 30 March 2023 the Bank increased its investment in Bankovní identita, a.s. by CZK 9.9 million.
- On 31 March 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 216.4 million.
- On 27 April 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 4 million.
- On 28 April 2023 the Bank increased its investment in Holding Card Service s.r.o. by CZK 0.3 million.
- On 2 May 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 10 million.
- On 16 May 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 24.2 million.
- On 23 May 2023 the Bank increased its investment in CEE Property Development Portfolio B.V. by EUR 80 thousand.
- On 2 June 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 2.4 million.
- On 12 June 2023 the Bank increased its investment in Stavební spořitelna České spořitelny, a.s. by CZK 1.8 billion
- On 20 June 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 6 million.
- On 30 June 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 8.6million.
- On 30 June 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 168.8 million.
- On 27 July 2023 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 100 million.
- On 11 September 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 20 million.
- On 2 October 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 91.6 million.
- New subsidiary DBČS Žďár, s.r.o. was established on 10 October 2023 (100% owned by the company Dostupné bydlení České spořitelny, a.s.).
- On 10 October 2023 the company Czech and Slovak Property Fund B.V. was deleted from the Commercial Register.
- On 25 October 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 10 million.
- On 30 October 2023 the share capital of Česká spořitelna - Penzijní společnost, a.s. was decreased from CZK 350 million to CZK 50 million.
- On 10 November 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 5.8 million.
- On 30 November 2023 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 17.1 million.
- On 13 December 2023 the Bank decreased its investment in CEE Property Development Portfolio 2 a.s. by CZK 480 million.
- On 15 December 2023 the Bank increased its investment in Dostupné bydlení České spořitelny, a.s. by CZK 171.5 million.
- New subsidiary DBČS Černý most, s.r.o. was established on 18 December 2023 (100% owned by the company Dostupné bydlení České spořitelny, a.s.).
- On 19 December 2023 the Bank's 40% investment in Erste Group Shared Services, s.r.o. was sold to Erste Group Bank AG

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 February 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.
- On 31 December 2022 the company Czech and Slovak Property Fund B.V. Entered into liquidation.

APPENDIX: OWN FUNDS AND CAPITAL REQUIREMENTS

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory own funds 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)1. Both the CRD IV and CRD V2 were transposed into national law in the Act on Banks (21/1992 Coll.).

All requirements as defined in the CRR, the ABA and in technical standards issued by the European Banking Authority (EBA) are applied by the Group for regulatory purposes.

Furthermore the Group also fulfils capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS Accounting Standards. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS Accounting Standards.

Regulatory scope of consolidation and institutional protection scheme

The consolidated regulatory own funds and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the CRR. The definition pursuant to CRR differs from the scope of consolidation according to IFRS Accounting Standards, which also includes insurance companies and other entities, that are subject to full consolidation.

Consolidated own funds

Own funds according to CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount.

The items of own funds as disclosed are also used for internal capital management purposes, except AT1 and T2 capital instruments. The Group fulfilled the capital requirements throughout the reporting period.

Beside the regulatory minimum capital ratios also capital buffers according to ABA and regulations of the Financial Market Authority (FMA) need to be considered.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). As a result of the 2022 SREP process performed by the European Central Bank (ECB) the Group applies a Pillar 2 requirement (P2R) of 1.75% as of 31 December 2023.

Following the SREP 2022, the Group is expected to meet a Pillar 2 Guidance (P2G) of 1.0% with CET1, valid as of 1 January 2023 onwards.

Overview of capital requirements and buffers

	2023	2022
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)	**6.42%**	**5.92%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	1.92%	1.42%
Systemic risk buffer	2.00%	2.00%
O-SII capital buffer	0.00%	0.00%
Minimum CET 1 requirement (incl.CBR)	10.92%	10.42%
Minimum Tier 1 requirement (incl.CBR)	12.42%	11.92%
Minimum Own Funds requirement (incl.CBR)	14.42%	13.92%
Pillar 2	**2.00%**	**1.70%**
Minimum CET1 requirement	1.13%	0.96%
Minimum T1 requirement	1.50%	1.28%
Minimum Own Funds requirement	2.00%	1.70%
Total CET 1 requirement for Pillar 1 and Pillar 2	**12.05%**	**11.38%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.92%**	**13.20%**
Total Capital requirement for Pillar 1 and Pillar 2	**16.42%**	**15.62%**

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	2023	2022
Common equity tier 1 capital (CET1)		
Capital instruments eligible as CET1	15,202	15,202
Retained earnings	100,905	98,026
Interim profit	2,664	2,867
Accumulated other comprehensive income	(224)	(5,618)
Other reserve funds	362	351
Common equity tier 1 capital (CET1) before regulatory adjustments	**118,909**	**110,828**
Prudential filter: cash flow hedge reserve	380	4,238
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(8)	(89)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(64)	(135)
Value adjustments due to the requirements for prudent valuation	(252)	(152)
Securitizations with a risk weight of 1,250%	-	(427)
Other intangible assets	(3,820)	(3,819)
CET1 capital elements or deductions – other	(554)	(400)
Common equity tier 1 capital (CET1)	**114,591**	**110,044**
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	**123,631**	**119,084**
Tier 2 capital (T2)		
Capital instruments and subordinated loans eligible as T2	5,920	-
IRB excess of provisions over expected losses eligible	3,198	2,973
Tier 2 capital (T2) before regulatory adjustments	**9,118**	**2,973**
Tier 2 capital (T2)	9,117	2,973
Total own funds	**132,749**	**122,057**
Capital requirement	**54,107**	**48,379**
CET1 capital ratio	**16.90%**	**18.20%**
Tier 1 capital ratio	**18.30%**	**19.70%**
Total capital ratio	**19.60%**	**20.20%**

With the approval granted by the ČNB on February 12, 2024, the Group considers the annual profit of CZK 18,680 million reduced by the expected payment of dividends of CZK 15,941 million within its own funds in accordance with Art. 26 (2) CRR.

The position "CET1 elements or deduction – others" includes the 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 expecta-tions for prudential provisioning of non-performing exposures.

Risk structure according to EU directive 575/2013 (CRR)

	2023		2022	
in CZK million	Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	676,336	54,107	604,735	48,379
Risk weighted assets (credit risk)	608,776	48,702	544,929	43,594
Standardised approach	75,835	6,067	49,366	3,949
IRB approach	532,941	42,635	495,563	39,645
Contribution to the default fund of a CCP	-	-	-	-
Settlement Risk	-	-	-	-
Trading book, foreign FX risk and commodity risk	2,956	236	2,639	211
Operational Risk	60,732	4,859	52,910	4,233
Exposure for CVA	3,872	310	4,257	341
Other exposure amounts (incl. Basel 1 floor)	-	-	-	-

Separate Financial Statements

The Separate Statement of Income

for the Year Ended 31 December 2023

in CZK million	Notes	2023	2022
Net interest income	1	31,781	34,082
Interest income		85,342	69,783
Other similar income		10,727	4,704
Interest expenses		(49,969)	(33,060)
Other similar expenses		(14,319)	(7,345)
Net fee and commission income	2	9,253	8,226
Fee and commission income		10,523	9,696
Fee and commission expense		(1,270)	(1,470)
Dividend income	3	2,653	2,588
Net trading result	4	4,169	3,731
Gains/losses from financial instruments measured at fair value through profit or loss	5	(1,742)	(421)
Rental income from operating leases	6	53	39
Personnel expenses	7	(11,957)	(10,761)
Other administrative expenses	7	(7,239)	(6,704)
Depreciation and amortisation	7	(2,761)	(2,666)
Gains/losses from derecognition of financial assets measured at amortised cost	8	(272)	(1,221)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	(2)	(633)
Impairment result from financial instruments	10	(688)	(500)
Other operating result	11	(1,436)	(1,543)
Pre-tax result from continuing operations		**21,812**	**24,217**
Taxes on income	12	(3,058)	(3,872)
Net result for the period		**18,754**	**20,345**

The Separate Statement of Other Comprehensive Income

for the Year Ended 31 December 2023

in CZK million	Notes	2023	2022
Net result for the period		**18,754**	**20,345**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(81)**	**87**
Own credit risk reserve	12	(81)	87
Items that may be reclassified to profit or loss		**5,459**	**(215)**
Fair Value reserve of debt instruments	12	1,977	(1,635)
Gain/(loss) during the period		1,974	(2,264)
Reclassification adjustments		-	624
Credit loss allowances	10	3	5
Cash flow hedge reserve		4,763	1,369
Gain/(loss) during the period	12, 25	9,042	2,654
Reclassification adjustments		(4,279)	(1,285)
Deferred taxes relating to items that may be reclassified	12	(1,281)	51
Gain/(loss) during the period		(2,094)	(75)
Reclassification adjustments		813	126
Total other comprehensive income / loss	12	**5,378**	**(128)**
Total comprehensive income		**24,132**	**20,217**

For a detailed split of income tax items within other comprehensive income please refer to Note 12 Taxes on income.

The Separate Statement of Financial Position

as at 31 December 2023

in CZK million	Notes	2023	2022
Assets			
Cash and cash equivalents	14	27,304	20,974
Financial assets held for trading		16,662	28,009
Derivatives	20	16,643	27,961
Other financial assets held for trading	21	19	48
Non-trading financial assets at fair value through profit or loss	22	2,235	2,841
Equity instruments		645	628
Debt securities		734	830
Loans and advances to banks		856	1,383
Financial assets at fair value through other comprehensive income	18	52,325	47,234
Debt securities		52,325	47,234
Financial assets at amortised cost	15	1,580,563	1,427,925
thereof pledged as collateral		123,076	89,423
Debt securities		347,839	321,912
Loans and advances to banks		307,829	266,161
Loans and advances to customers		924,895	839,852
Finance lease receivables	46	284	194
Hedge accounting derivatives	25	3,241	3,235
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(9)	(17)
Property, equipment and right-of-use asset	43	11,000	11,362
Intangible assets	44	6,184	6,204
Investments in subsidiaries and associates	48	14,238	11,426
Current tax assets	12	527	437
Deferred tax assets	12	1,402	2,369
Assets held for sale	56	10	9
Trade and other receivables	16	1,761	2,231
Other assets	45	861	1,028
Total assets		**1,718,588**	**1,565,461**

in CZK million	Notes	2023	2022
Liabilities and equity			
Financial liabilities held for trading	20	16,716	29,597
Derivatives		16,716	29,597
Financial liabilities at fair value through profit or loss	23	13,283	31,331
Deposits from customers		13,283	31,331
Financial liabilities at amortised cost	17	1,534,636	1,356,725
Deposits from banks		112,090	110,233
Deposits from customers		1,294,668	1,164,355
Debt securities issued		121,451	77,262
Other financial liabilities		6,427	4,875
Lease liabilities	47	3,893	4,129
Hedge accounting derivatives		4,534	5,870
Provisions	50	3,441	3,277
Other liabilities	49	6,551	5,821
Total equity	52	**135,534**	**128,711**
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	9,040
Retained earnings and other reserves		111,282	104,459
Total liabilities and equity		**1,718,588**	**1,565,461**

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 19 March 2024 and are subject to approval at the Supervisory Board and by the sole shareholder.

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 2023

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 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**
As of 1 January 2023	**15,200**	**12**	**109,819**	**9,040**	**(4,237)**	**(1,212)**	**89**	**128,711**
Dividends paid/AT1 distribution	-	-	(17,314)	-	-	-	-	(17,314)
Other changes	-	-	5	-	-	-	-	5
Total comprehensive income	-	-	18,754	-	3,858	1,601	(81)	24,132
Net result for the period	-	-	18,754	-	-	-	-	18,754
Other comprehensive income	-	-	-	-	3,858	1,601	(81)	5,378
Change in fair value reserve	-	-	-	-	-	1,977	-	1,977
Changes in tax	-	-	-	-	(905)	(376)	-	(1,281)
Change in cash flow hedge reserve	-	-	-	-	4,763	-	-	4,763
Change in own credit risk reserve	-	-	-	-	-	-	(81)	(81)
As of 31 December 2023	**15,200**	**12**	**111,264**	**9,040**	**(379)**	**389**	**8**	**135,534**

The Separate Statement of Cash Flows

for the Year Ended 31 December 2023

in CZK million	Notes	2023	2022
Pre-tax result from continuing operations		**21,812**	**24,217**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		3,345	2,735
Net allocation to provisions (including risk provisions)		169	705
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		1,804	(1,543)
Gains/(losses) from the sale of non-financial assets		(14)	(114)
Change in fair values of derivatives		(1,622)	1,799
Interest income	1	(96,069)	(74,487)
Interest expense	1	64,288	40,405
Dividend income	3	(2,653)	(2,588)
Other adjustments		(287)	(92)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		49	(37)
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(17)	208
Debt securities		96	(18)
Loans and advances to customers		527	(639)
Financial assets - at fair value through other comprehensive income: debt instruments		(2,961)	(17,022)
Financial assets at amortized cost			
Debt securities		(25,319)	(2,155)
Loans and advances to banks		(41,679)	94,076
Loans and advances to customers		(81,291)	(75,200)
Finance lease receivables		(102)	15
Hedge accounting derivatives		1,919	(108)
Other assets from operating activities		672	3,065
Financial liabilities at amortised cost			
Deposits from banks		1,093	64,585
Deposits from customers		128,012	56,101
Financial liabilties at fair value through profit or loss		(19,615)	20,368
Other liabilities from operating activities		43	(10,197)
Other operating cash flows			
Interest paid		(59,816)	(39,093)
Interest received		94,791	71,828
Payments for taxes on income		(3,441)	(3,302)
Cash flow from operating activities		**(16,266)**	**153,512**
Investment securities		-	-
Proceeds of disposal			
Property, equipment and intangible assets		46	208
Acquisition of			
Property, equipment and intangible assets		(2,954)	(2,306)
Acquisition of joint ventures and associates, increase of interest in subsidiaries	48	(2,300)	(2,173)
Cash flow from investing activities		**(5,208)**	**(4,271)**
AT1 call	52	-	-
Dividends paid/AT1 distribution	13	(17,314)	(25,451)
Dividend received	3	2,653	2,588
Other financing activities		(8)	7
Payments of lease liability	58	(808)	(796)

in CZK million	Notes	2023	2022
Repayments of bonds in issue	58	-	(142,266)
Proceeds from bonds issued	58	42,855	-
Cash flow from financing activities		**27,378**	**(165,918)**
Cash and cash equivalents at beginning of period	14	**20,974**	**36,663**
Cash flow from operating activities		(16,266)	153,512
Cash flow from investing activities		(5,208)	(4,271)
Cash flow from financing activities		27,378	(165,918)
Effect of currency translation		426	988
Cash and cash equivalents at end of period	14	**27,304**	**20,974**

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

Notes to the Separate Financial Statements

for the year ended 31 December 2023

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 2023 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.

MATERIAL ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Bank for the financial year ending 31 December 2023 and the related comparative information were prepared in compliance with applicable IFRS® Accounting Standards as adopted by the European Union ('IFRS Accounting Standards') 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 Accounting Standards 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 2023 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:

- SPPI assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES)
- Business model assessment of financial instruments (Chapter FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES)
- Fair value of financial instruments (Note 24 Fair value of financial instruments)
- Impairment of financial instruments (Chapter FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES, Note 35 Measurement of Expected Credit Loss) and Note 37 Scenarios used in forward looking information
- Provisions (Note 50 Provisions)
- Impairment of non-financial assets (Chapter NON-CURRENT ASSETS AND OTHER INVESTMENTS)

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 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 Bank continues to monitor and assess current developments and reflects their impact in the financial statements.

In 2023 and further, uncertainty and market fluctuations caused by the war in Ukraine (energy crisis, high inflation, high interest rates, etc.) still remain. Therefore, the Bank continues to carefully assess the conditions for significant deterioration in credit risk (SICR) for cyclical sectors and, in the private segment, assess the impact of higher interest rates and inflation.

Details about effects of these factors on the expected credit losses estimation are described in Note 36 Development of Credit Loss Allowances.

Acquisitions

On 5 April 2023, the Bank acquired the loan portfolio of Sberbank CZ, a.s. in liquidation with a nominal value of CZK 47.1 billion for a purchase price of CZK 41.053 billion under an agreement signed on 16 December 2022. By the end of April, a total of CZK 36.6 billion of loans had been physically transferred, of which CZK 29.9 billion are loans to individuals (more than 27,500 clients) and CZK 6.7 billion are loans to legal entities (more than 3,000 clients). The assessment related to the substance of the transaction was performed for the accounting purposes. This acquisition does not represent a business combination in the scope of IFRS 3 as the acquired activities accompanying the assets were not significant and not substantial for creating outputs from the acquired inputs. As a result, the acquisition was accounted for as a purchase of assets.

Based on the Portfolio Transfer Agreement signed on 18 September 2023, the Bank acquired the loan portfolio of Hello bank! (BNP Paribas Personal Finance SA, a spin-off) with a nominal value of CZK 7.5 billion for a purchase price of CZK 6.5 billion as of 1 November 2023. The loan portfolio consists mainly of consumer loans and credit cards to more than 200,000 customers. Similarly, to the first acquisition, it does not represent a business combination in the scope of IFRS 3 as the acquired activities accompanying the assets were not significant and not substantial for creating outputs from the acquired inputs and in addition to this, the entire portfolio represents a ‘group of similar identifiable assets’. This, consequently, means that the voluntary concentration test was met and the acquired group of assets (loans) does not represent a business, but purchase of assets.

Application of amended and new IFRS Accounting Standards

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 2023. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2023 and have been 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: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules

Application of the above mentioned amendments in 2023 did not have a significant impact on the Bank's financial statements. However, Amendments to IAS 1 resulted in a significant reduction in the disclosures of the accounting policies with focus on material information. Furthermore, Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules led to new disclosures in Note 12 Taxes on income.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective.

- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability. The amendments to IAS 21 were issued in August 2023 and become effective for annual periods beginning on or after 1 January 2025. The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).

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

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	2023	2022
Interest and other similar income		
Financial assets at fair value through other comprehensive income	2,894	1,754
Financial assets at amortised costs	82,448	68,029
Interest income	**85,342**	**69,783**
Financial assets held for trading	13,782	6,981
Derivatives - Hedge accounting, interest rate risk	(3,087)	(2,388)
Other assets	32	7
Negative interest from financial liabilities	-	104
Other similar income	**10,727**	**4,704**
Total interest and other similar income	**96,069**	**74,487**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(49,969)	(33,060)
Interest expenses	**(49,969)**	**(33,060)**
Financial liabilities at fair value through profit or loss	(62)	(22)
Financial liabilities held for trading	(13,256)	(6,909)
Derivatives - Hedge accounting, interest rate risk	(860)	(210)
Other liabilities	(139)	(89)
Negative Interest from financial assets	(2)	(115)
Other similar expenses	**(14,319)**	**(7,345)**
Total interest and other similar expense	**(64,288)**	**(40,405)**
Net interest income	**31,781**	**34,082**

Interest income on impaired financial assets amounted to CZK 1,044 million (2022: CZK 660 million). No modification gains or losses were accounted for in the year 2023 and 2022. 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.

In 2023 the Bank has changed presentation of changes in fair value of foreign exchange forwards and forward legs of foreign exchange swaps in the Separate Statement of Income. The changed presentation better reflects the way the Bank uses foreign exchange forwards and foreign exchange swaps to generate profit for the Bank and it results in applying a consistent P&L presentation of all derivative instruments not designated as hedging instruments.

From 2023 the Bank presents interest sensitive portion of the changes in fair value on the face of the Separate Statement of Income in the line 'Interest income' (sub-item ‘Other similar income‘) in case the interest rate differential implied in the forward points is positive for the Bank and 'Interest expense' (sub-item ’Other similar expense ‘) in case it is negative for the Bank. Up to 2023 full amount of fair value change was recognized in the line 'Net trading result'.

The Bank neither changed the way it calculates the fair value of foreign exchange forwards and forward legs of foreign exchange swaps nor the way it manages risks connected to them. Thus the amounts of fair value on the face of Separate Statement of Financial Position have not changed. The fair value is presented in the lines 'Financial assets held for trading' (sub-item ’Derivatives’) if the fair value of foreign exchange forwards and foreign exchange swaps is positive for the Bank and 'Financial liabilities held for trading' (sub-item ’Derivatives’) if it is negative.

The Bank has not restated comparatives since the change is not material from the point of view of users of financial statements. The following table shows the impact on the relevant income statement lines and sub-items for the years ended 31 December 2023 and 31 December 2022. The figures for the year ended 31 December 2022 show both the original comparative amounts presented in the Audited Separate Financial statements for the year ended 31 December 2022 and the amounts if the Bank had restated the figures presented in the Audited Separate Financial statements for the year ended 31 December 2022.

Change in presentation of fair value of foreign exchange swaps and forwards in CZK million	2023	2022	2022 if restated
Net interest income	31,781	34,082	34,352
Interest income	85,342	69,783	69,783
Other similar income	10,727	4,704	8,381
Interest expenses	(49,969)	(33,060)	(33,060)
Other similar expenses	(14,319)	(7,345)	(10,751)
Net trading result	4,169	3,731	3,461

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 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	2023		2022	
	Income	Expenses	Income	Expenses
Securities	766	(105)	624	(101)
Clearing and settlement	-	(5)	-	(4)
Asset management	231	(58)	208	(52)
Custody	141	(27)	151	(25)
Payment services	4,111	(778)	3,825	(857)
Customer resources distributed but not managed	3,706	-	3,470	-
Collective investment	1,725	-	1,540	-
Insurance products	1,772	-	1,659	-
Building society brokerage	140	-	186	-
Other	69	-	85	-
Servicing fees from securitization activities	-	(11)	-	(26)
Lending business	1,187	(93)	1,032	(167)
Other	381	(193)	386	(238)
Total fee and commission income and expenses	**10,523**	**(1,270)**	**9,696**	**(1,470)**
Net Fee and commission income	**9,253**		**8,226**	

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 1,908 billion (2022: CZK 1,727 billion).

Net fee and commission income above include income of CZK 3,907 million (2022: CZK 3,345 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	**2023**	**2022**
Non-trading financial assets at fair value through profit or loss	41	67
Financial assets at cost	2,612	2,521
Dividend income	**2,653**	**2,588**

In 2023 the Bank has received the dividend from its subsidiaries Stavební spořitelna České spořitelny, a.s. of CZK 1,800 million, Česká spořitelna - penzijní společnost, a.s. of CZK 700 million and REICO investiční společnost České spořitelny, a.s. of CZK 111 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 Material 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	**2023**	**2022**
Securities and derivatives trading	903	948
Foreign exchange transactions	3,182	2,765
Ineffectiveness of hedge accounting	84	18
Net trading result	**4,169**	**3,731**

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	2023	2022
Realised and unrealised gains on trading assets	489	964
Foreign exchange trading	367	420
Total	**856**	**1,384**

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. The Bank has applied fair value option to premium deposits where the return is a function of the embedded derivative.

in CZK million	2023	2022
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(1,534)	(312)
Result from financial assets and liabilities designated at fair value through profit or loss	**(1,534)**	**(312)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	(208)	(109)
Gains/losses from financial instruments measured at fair value through profit or loss	**(1,742)**	**(421)**

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	2023	2022
Other operating leases	53	39
Rental income from other operating leases	**53**	**39**

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.

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	2023	2022
Personnel expenses	**(11,957)**	**(10,761)**
Wages and salaries	(8,348)	(7,586)
Compulsory social security	(2,597)	(2,382)
Other personnel expenses	(1,012)	(794)
Other administrative expenses	**(7,239)**	**(6,704)**
Deposit insurance contribution	(443)	(306)
IT expenses	(3,338)	(2,960)
Expenses for office space	(925)	(908)
Office operating expenses	(698)	(632)
Advertising / marketing	(1,029)	(1,059)
Legal and consulting costs	(196)	(212)
Sundry administrative expenses	(610)	(628)
Depreciation and amortization	**(2,761)**	**(2,666)**
Software and other intangible assets	(1,044)	(1,036)
Owner occupied real estate	(575)	(525)
Office furniture and equipment and sundry property and equipment	(410)	(418)
Right of use asset	(732)	(688)
General administrative expenses	**(21,957)**	**(20,131)**

Personnel expenses include expenses of CZK 1,677 million (2022: CZK 1,539 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	2023	2022
Remuneration	106	103

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.

Average headcount of full time employees per reporting date

in CZK million	2023	2022
Staff	9,464	9,332

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	2023	2022
Losses from sale of financial assets at amortised cost	(272)	(1,221)
Gains/losses from derecognition of financial assets measured at amortised cost	**(272)**	**(1,221)**

Due to sell of debt securities during 2023 the Bank realized loss in amount of CZK 272 million (2022: CZK 1,221 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	2023	2022
Other gains/losses from sale of financial assets at fair value through other comprehensive income	(2)	(633)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(2)**	**(633)**

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	2023	2022
Financial assets at fair value through other comprehensive income	(3)	(5)
Financial assets at amortised cost	(918)	(585)
Net allocation to risk provisions	(1,176)	(971)
Direct write-offs	(8)	(8)
Recoveries recorded directly to the income statement	266	393
Finance lease receivables	(12)	3
Net allocation to credit loss allowances	(12)	3
Net allocation of provisions for commitments and guarantees given	245	87
Impairment result from financial instruments	**(688)**	**(500)**

Development of risk provision was driven by slightly higher creation in 2023 (CZK 1,176 million) in comparison with 2022 (CZK 971 million) which reflects excellent quality of loan portfolio, the increase in risk provisions was affected by one-off initial net provision creation due to Sberbank and Hello bank acquisitions in 2023.

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 2023 a 2022

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 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)**			
Opening balance of CLA (total) as at 1 January 2023				**(20,238)**
Net impairment loss for the period	(964)			(964)
(Increase) due to passage of time (unwinding correction)		(382)		(382)
CLA decreases due to sales			125	125
CLA decreases due to write-offs			1,226	1,226
Other CLA changes		(302)		(302)
Closing balance of CLA (total) as at 31 December 2023				**(20,535)**
Impairment gain/(loss) from POCI without CLA	18			
Direct write-offs	(8)			
Recoveries of written-off amounts	266			
Net impairment loss for the period as at 31 December 2023	**(688)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase in amount of CZK 297 million, 2022: CZK 619 million) CZK 964 million (2022: CZK 984 million) was reported in Net impairment result in Profit and Loss (NIR). Other movement (decrease) in amount of CZK 667 million (2022: CZK 366 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 276 million (2022: CZK 484 million) consisting of impairment gain from POCI in amount of CZK 18 million (2022: CZK 98 million), direct write-offs in amount of CZK 8 million (2022: CZK 8 million) and decreased by recoveries of written-offs in amount of CZK 266 million (2022: CZK 393 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	2023	2022
Other operating expenses	**(1,204)**	**(965)**
Allocation to other provision	(428)	(1)
Other taxes	(15)	(2)
Recovery and resolution fund contributions	(761)	(962)
Other operating income	**276**	**227**
Release of other provision	276	227
Result from properties/movables/other intangible assets other than goodwill	**(1,110)**	**32**
Result from other operating expenses/income	**602**	**(838)**
Other operating result	**(1,436)**	**(1,543)**

In 2023 the Bank released the impairment on its investment in the subsidiary ČS NHQ, s.r.o. accounted for in 2022 of CZK 510 million (recognized in the line item „Result from other operating expenses/income“) and created the impairment related to software of CZK 786 million and buildings of CZK 313 million (recognized in the line item „Result from properties/movables/other intangible assets other than goodwill“). The Bank also created the provision of CZK 215 million for onerous contracts.

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 2023 the final annual contribution paid to resolution fund of CZK 761 million (2022: CZK 962 million) was reported within the line “Recovery and resolution fund”.

12 Taxes on income

Following Act No. 416/2023 Coll. on top-up taxes for large multinational enterprise groups and large domestic groups implementing European Directive No. 2022/2523 of 14 December 2022 the Bank expects to become a taxpayer of the top-up tax on the Act's effective date. The Bank has made an assessment of its potential exposure to the top-up tax and does not expect the top-up tax to have an impact on its total tax liability and therefore on its future results. From a top-up tax perspective, the Bank is part of Erste Group, the ultimate parent company of which is Erste Group Bank AG.

At 31 December 2023 the Bank applied the temporary exception to the requirements of IAS 12 under which a company does not recognise or disclose information about deferred tax assets and liabilities related to the proposed OECD/G20 BEPS Pillar Two model rules.

The legislation will be effective for the Bank´s financial year beginning 1 January 2024.

The Bank is in scope of the enacted or substantively enacted legislation and has performed an assessment of the Bank’s potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Bank. The Bank does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

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.

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used.

Taxes on income are made up of current taxes on income calculated in each of the Bank 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	2023	2022
Current tax expense / income	(3,372)	(3,857)
current period	(3,537)	(3,816)
prior period	165	(41)
Deferred tax expense / income (+)	314	(15)
current period	314	(15)
Total taxes on income	**(3,058)**	**(3,872)**

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	2023	2022
Pre-tax profit/loss	21,812	24,217
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(4,144)	(4,601)
Non-taxable income	2,065	1,816
Non-deductible expenses	(1,305)	(1,110)
Other	161	-
Prior period over/(under) accrual	165	24
Total	**(3,058)**	**(3,872)**
Effective tax rate	**14.02%**	**15.99%**

Tax effects relating to each component of other comprehensive income:

	2023			2022		
in CZK million	**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	1,977	(376)	1,601	(1,635)	311	(1,324)
Own credit risk reserve	(81)	-	(81)	87	-	87
Cash flow hedge reserve	4,763	(905)	3,858	1,369	(260)	1,109
Other comprehensive income	**6,659**	**(1,281)**	**5,378**	**(179)**	**51**	**(128)**

Major components of deferred tax assets and deferred tax liabilities:

	Tax assets		Tax liabilities		Net variance 2023		
in CZK million	As of Dec 2023	As of Jan 2023	As of Dec 2023	As of Jan 2023	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	-	-	(121)	(114)	(7)	(7)	-
Financial assets at FVOCI	-	304	(72)	-	(376)	-	(376)
Financial assets at AC	1,337	1,120	-	-	217	217	-
Property and equipment (useful life in tax law different)	311	151	-	-	160	160	-
Intangible assets other than goodwill	-	-	(507)	(422)	(85)	(85)	-
Hedge accounting derivatives	209	1,012	(120)	(18)	(905)	-	(905)
Other assets and liabilities	366	337	-	-	29	29	-
Total deferred taxes	**2,222**	**2,924**	**(820)**	**(555)**	**(966)**	**314**	**(1,281)**
Current taxes	**527**	**437**	**-**	**-**	**89**		
Total taxes	**2,749**	**3,361**	**(820)**	**(555)**	**(877)**		

	Tax assets		Tax liabilities		Net variance 2022		
in CZK million	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)**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 21% (2022: 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 (966) million (2022: CZK 36 million) an amount of CZK 314 million (2022: expense CZK 15 million) is reflected as net deferred tax income in the Bank's income statement for the year 2023, whilst an expense amount of CZK 1,281 million (2022: income CZK 51 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 1,402 million as of 31 December 2023 (2022: CZK 2,370 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 18,754 million under the Czech law, which increased its distributable capital accordingly (2022: CZK 20,345 million).

The equity increased accordingly.

The sole shareholder of the Bank has approved the distribution of profit in the total volume of CZK 17,314 million (out of which the dividend was CZK 16,902 million and the AT1 coupon CZK 412 million). Dividend per share was CZK 111,20.

A decision on the distribution of 2023 profit has thus not been taken before the date of issue of these financial statements.

FINANCIAL INSTRUMENTS – MATERIAL ACCOUNTING POLICIES

Accounting and measurement methods for financial instruments

Regular way (spot) purchases and sales of financial assets and of financial liabilities are recognised at the settlement date, which is the date that an asset is delivered.

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.

ii. Fair value

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.

'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:

- The business model for managing the financial assets; and
- The cash flow characteristics of the financial assets.

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 equivalents, 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 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 recorded since their initial recognition or which are subject to the 'low credit risk exemption' allowed by IFRS 9. The impairment is measured in the amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. 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 (and the 'low credit risk exemption' does not apply). Stage 2 also includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. 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 (as for Stage 1). 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. Interest income is calculated by EIR applied to the gross carrying amount of the financial asset.

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank adopted the approach of aligning it with the regulatory concept of 'default' (i.e. CRR concept) in accordance with guidelines of the European Banking Authority EBA/GL/2016/07 and Commission Delegated Regulation (EU) 2018/171. The Bank generally applies a customer view for the default definition, which leads to Stage 3 classification of all transactions with the customer 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 all the transactions with the customer cease to be impaired. The impairment of financial instruments in Stage 3 is measured in the amount of the lifetime expected credit loss. Interest income is calculated by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From a 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 reflected through the allowance account (without impacting the impairment loss).

For financial assets that are credit-impaired at initial recognition (purchased or originated credit-impaired financial assets 'POCI') 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 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. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Reimbursement assets from financial guarantees which are not considered integral are recognised 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 further information on the definition of default refer to Note 35 Measurement of Expected Credit Loss.

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 35 Measurement of Expected Credit Loss.

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

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 and thus the financial asset should be derecognised.

Commercial interest rate adjustments fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such interest rate adjustments relate to performing non-forborne financial assets for which 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 low. Such conditions introduce an implicit floating rate element to the contract. This kind of interest rate adjustments 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

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, project financing loans and interest rate adjustments based on the fulfilment of certain ESG-related targets. 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 2023 and 2022.

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.

In the last years financial assets whose interest is adjusted based on meeting certain ESG-linked targets by the borrowers (e.g. meeting specified $CO2$ emission targets) became part of the Bank's business. No specific guidance currently exists in IFRS 9 for assessing the SPPI compliance of such features. the Bank has concluded that ESG-related interest adjustments have a de minimis effect on the contractual cash flows of the existing loan portfolio. As a result, they do not affect the SPPI assessment.

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

On the balance sheet, 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 equivalents‘.

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 equivalents

Cash and cash equivalents 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 11,538 million (2022: CZK 4,984 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	**2023**	**2022**
Cash on hand	14,133	14,260
Cash balances at central banks	11,538	4,984
Other deposits on demand	1,633	1,730
Cash and cash equivalents	**27,304**	**20,974**

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 – MATERIAL 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 2023 and 2022 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	
2023									
General governments	328,258	-	-	328,258	(15)	-	-	(15)	328,244
Credit institutions	18,042	249	-	18,291	(5)	-	-	(5)	18,286
Other financial corporations	760	205	-	965	(1)	(7)	-	(8)	957
Non-financial corporations	349	3	-	352	-	-	-	-	352
Total	**347,409**	**457**	**-**	**347,866**	**(21)**	**(7)**	**-**	**(28)**	**347,839**
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**

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'.

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 2023 and 2022 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
2023									
Central banks	301,137	-	-	301,137	(2)	-	-	(2)	301,135
Credit institutions	6,697	-	-	6,697	(3)	-	-	(3)	6,694
Total	**307,834**	**-**	**-**	**307,834**	**(5)**	**-**	**-**	**(5)**	**307,829**
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**

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 POCI assets in this balance sheet item as of 31 December 2023 and 2022.

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 2023 and 2022 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
2023											
General governments	24,325	824	473	213	25,835	(10)	(15)	(109)	(5)	(139)	25,696
Other financial corporations	50,427	1,386	23	-	51,836	(43)	(24)	(21)	-	(88)	51,748
Non-financial corporations	234,843	82,299	7,648	1,207	325,998	(735)	(3,842)	(4,578)	(364)	(9,519)	316,479
Households	481,033	51,169	7,092	764	540,057	(1,119)	(2,939)	(4,836)	(191)	(9,085)	530,972
Total	**790,629**	**135,677**	**15,236**	**2,183**	**943,726**	**(1,908)**	**(6,819)**	**(9,544)**	**(560)**	**(18,831)**	**924,895**
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**

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 2023, 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 2023 amounted to CZK 1,355 million (2022: CZK 850 million).

16 Trade and other receivables

Gross carrying amounts (GCA) and credit loss allowances (CLA) per impairment buckets

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
2023									
General governments	318	1	-	318	(2)	(1)	-	(2)	316
Credit institutions	63	-	-	63	-	-	-	-	63
Other financial corporations	253	1	-	254	-	(1)	-	(1)	253
Non-financial corporations	1,123	2	253	1,378	(1)	(2)	(253)	(256)	1,122
Households	2	99	64	165	-	(95)	(63)	(158)	7
Total	**1,758**	**103**	**317**	**2,178**	**(3)**	**(99)**	**(316)**	**(417)**	**1,761**
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**

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’.

Other items consist mainly of payables to card associations in amount of CZK 2,529 million (2022: CZK 1,485 million), unbilled supplies in amount of CZK 984 million (2022: CZK 1,212 million) and received margin for futures of CZK 1,123 million (2022: CZK 639 million) and other financial liabilities of CZK 500 million (2022: CZK 483 million).

in CZK million	2023	2022
Deposits	**1,406,758**	**1,274,588**
Deposits from banks	112,090	110,233
Deposits from customers	1,294,668	1,164,355
Debt securities issued	**121,451**	**77,262**
Bonds	121,451	77,262
Other financial liabilities	**6,427**	**4,875**
Financial liabilities measured at amortised costs	**1,534,636**	**1,356,725**

Deposits from banks

in CZK million	2023	2022
Overnight deposits	4,904	13,703
Term deposits	13,322	9,967
Repurchase agreements	93,864	86,563
Deposits from banks	**112,090**	**110,233**

Deposits from customers

in CZK million	2023	2022
Current accounts/Overnight deposits	963,375	964,490
General governments	73,081	70,454
Other financial corporations	19,532	21,611
Non-financial corporations	134,436	132,117
Households	736,326	740,309
Term deposits	258,118	166,156
General governments	20,516	11,446
Other financial corporations	50,068	25,433
Non-financial corporations	61,522	50,328
Households	126,012	78,950
Repurchase agreements	73,175	33,709
General governments	19,082	278
Other financial corporations	53,693	33,431
Non-financial corporations	400	-
Deposits from customers	**1,294,668**	**1,164,355**
General governments	112,679	82,178
Other financial corporations	123,293	80,474
Non financial corporations	196,358	182,445
Households	862,338	819,258

All deposits are from customers and entities within the Czech Republic.

In repurchase agreements, the Bank uses securities that are recognised in the statement of financial position as well as assets received by the Bank as collateral not shown in the statement of financial position.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	2023	2022
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	-	1,024
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	-	5,067
Mortgage bonds	CZ0002008790	December 2022	March 2023	floating	-	12,539
Mortgage bonds	CZ0002008808	December 2022	January 2023	floating	-	30,055
SNP	XS2555412001	November 2022	November 2025	6.693%	12,453	12,131
SNP	CZ0003707291	July 2022	July 2027	7.41%	6,209	6,209
SNP	AT0000A2STV4	September 2021	September 2028	0.50%	11,174	10,237
SNP	XS2638560156	June 2023	June 2027	5.943%	12,707	-
Bonds-subordinated	CZ0003708315	June 2023	June 2029	6.750%	6,259	-
SNP	XS2676413235	September 2023	March 2028	5.737%	12,553	-
Mortgage bonds	CZ0002009160	December 2023	January 2024	6.75%	60,095	-
Bonds issued					**121,451**	**77,262**

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 bonds issuance amounted to CZK 317,528 million (2022: CZK 298,009 million).

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' (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 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 2023 and 2022 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
2023											
Debt securities											
General governments	37,257	-	-	37,257	(2)	-	-	(2)	37,255	664	37,919
Credit institutions	3,687	-	-	3,687	(1)	-	-	(1)	3,686	(115)	3,571
Other financial corporations	2,927	-	-	2,927	(2)	-	-	(2)	2,924	(10)	2,914
Non-financial corporations	3,903	4,226	-	8,129	(1)	(151)	-	(152)	7,978	(56)	7,921
Total	**47,773**	**4,226**	**-**	**51,999**	**(6)**	**(151)**	**-**	**(156)**	**51,843**	**482**	**52,325**
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**

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 POCI assets in this balance sheet item as of 31 December 2023 and 2022.

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 (except for insurance business). 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 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 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.

On the balance sheet, 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') and is calculated by applying the EIR to the amortized cost component of the financial assets. 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.

Hedge accounting derivatives are discussed in Note 25 Hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those which are not designated as hedging instruments for hedge accounting. 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.

Changes in fair value (clean price) of derivatives – held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to held for trading derivatives is presented 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 description of the treatment of derivatives – hedge accounting can be found in Note 25 Hedge accounting.

Embedded derivatives

The Bank issues certain financial liabilities which contain structured features. Structured features mean that a derivative is embedded in non-derivative host instruments.

Embedded derivatives that meet prescribed criteria are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in 'Financial assets held for trading' or 'Financial liabilities held for trading'. These relate to bonds and deposits whose payments are linked to equity prices or FX rates.

In the business of the Bank, the majority of embedded derivatives which would otherwise be separated relates to bonds issued for which fair value option has been applied. As a result, these embedded derivatives are part of the measurement of the entire hybrid instrument at FVPL.

Derivatives held for trading

	2023			2022		
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	**804,462**	**16,489**	**(15,557)**	**819,892**	**27,680**	**(26,102)**
Interest rate	402,619	10,482	(9,946)	370,862	17,281	(16,570)
Foreign exchange	401,843	6,007	(5,611)	449,030	10,399	(9,532)
Derivatives held in the Banking book	**44,937**	**154**	**(1,159)**	**95,349**	**281**	**(3,495)**
Interest rate	26,429	-	(915)	53,414	-	(3,070)
Foreign exchange	18,508	154	(244)	41,935	281	(425)
Total	**849,399**	**16,643**	**(16,716)**	**915,241**	**27,961**	**(29,597)**

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	**2023**	**2022**
Debt securities	19	48
General governments	6	9
Credit institutions	13	35
Other financial corporations	-	4
Other financial assets held for trading	**19**	**48**

22 Non-trading financial assets at fair value through profit or loss

	2023		2022	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	645	-	628
Debt securities	-	734	-	830
Other financial corporations	-	734	-	830
Loans and advances to banks	-	856	-	1,383
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**2,235**	**-**	**2,841**
Non-trading financial assets at fair value through profit or loss	**2,235**		**2,841**	

More details are described in 'Classification and subsequent measurement of financial assets' in section 'Material accounting policies'.

23 Financial liabilities at fair value through profit or loss

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 fixed interest rate financial liabilities otherwise measured at amortised cost and related derivatives measured at FVPL. The Bank assesses quantitatively that the designation actually eliminates or significantly reduces the accounting mismatch in respect of fair value changes attributable to interest rate risk; or

- the entire hybrid contract contains a non-closely related 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 ‘Own credit risk reserve’. 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	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Deposits	13,283	31,331	12,827	31,151	456	180
Financial liabilities at FVPL	**13,283**	**31,331**	**12,827**	**31,151**	**456**	**180**

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	**2023**	**2022**	**2023**	**2022**
Financial liabilities - at fair value through profit or loss				
Deposits from customers	81	(87)	(8)	(89)

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.

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, 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.

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 Bank'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 CVA-adjustments amounted to CZK (96) million (2022: CZK (84) million) and the total DVA-adjustment amounted to CZK 64 million (2022: CZK 135 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 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

	2023				2022			
in CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets - held for trading	7	16,653	2	16,662	9	27,671	329	28,009
Derivatives	-	16,641	2	16,643	-	27,633	328	27,961
Other trading assets	7	12	-	19	9	38	1	48
Non-trading financial assets - FVPL	-	-	2,235	2,235	-	-	2,841	2,841
Equity instruments	-	-	645	645	-	-	628	628
Debt securities	-	-	734	734	-	-	830	830
Loans and advances	-	-	856	856	-	-	1,383	1,383
Financial assets - FVOCI	44,354	5,623	2,348	52,325	38,701	5,406	3,126	47,233
Debt securities	44,354	5,623	2,348	52,325	38,701	5,406	3,126	47,233
Derivatives Hedge Accounting	-	3,241	-	3,241	-	3,151	84	3,235
Total assets	**44,361**	**25,517**	**4,585**	**74,463**	**38,710**	**36,228**	**6,380**	**81,319**
LIABILITIES								
Financial liabilities held for trading	-	16,716	-	16,716	-	29,597	-	29,597
Derivatives	-	16,716	-	16,716	-	29,597	-	29,597
Financial liabilities designated at fair value through profit or loss	-	13,283	-	13,283	-	31,331	-	31,331
Deposits from customers	-	13,283	-	13,283	-	31,331	-	31,331
Derivatives Hedge Accounting	-	4,534	-	4,534	-	5,870	-	5,870
Total liabilities	**-**	**34,533**	**-**	**34,533**	**-**	**66,798**	**-**	**66,798**

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

	2023		2022	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	231
Net transfer from Level 2	-	-	2	-
Purchases/sales/expiries	5,651	191	17,606	(992)
Changes in derivatives	-	(10,902)	-	14,796
Total year-to-date change	**5,651**	**(10,711)**	**17,608**	**14,035**

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 2023							**Dec 2023**
Assets								
Financial assets HfT	329	-	-	2	(1)	-	(328)	2
Derivatives	329	-	-	2	-	-	(328)	2
Other financial assets held for trading	1	-	-	-	(1)	-	-	-
Non-trading financial assets at FVPL	2,841	636	-	230	(1,471)	-	-	2,235
Equity instruments	628	(32)	-	49	-	-	-	645
Debt securities	830	(188)	-	180	(88)	-	-	734
Loans and advances	1,383	856	-	-	(1,383)	-	-	856
Financial assets at FVOCI	3,126	-	68	-	(30)	1,335	(2,150)	2,348
Debt securities	3,126	-	68	-	(30)	1,335	(2,150)	2,348
Hedge accounting derivatives	84	-	-	-	-	-	(84)	-
Total assets	**6,380**	**636**	**68**	**232**	**(1,503)**	**1,335**	**(2,562)**	**4,585**
	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**

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

in CZK million	2023 Unrealized gain/loss in profit or loss	2022 Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	2	212
Derivatives	2	212
Non-trading financial assets at fair value through profit or loss	639	1,270
Equity instruments	(32)	(201)
Debt securities	(185)	88
Loans and advances	856	1,383
Financial assets at fair value through other comprehensive income	-	(44)
Debt securities	-	(44)
Hedge accounting derivatives	-	84
Total	**641**	**1,522**

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	**2023**	**2022**	**2023**	**2022**
Derivatives	-	19	-	(24)
Income statement	-	19	-	(24)
Debt securities	29	48	(38)	(64)
Other comprehensive income	29	48	(38)	(64)
Equity instruments	68	72	(136)	(143)
Income statement	68	72	(136)	(143)
Total	**96**	**139**	**(174)**	**(231)**
Income statement	**68**	**91**	**(136)**	**(167)**
Other comprehensive income	**29**	**48**	**(38)**	**(64)**

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 2023 and for the year-end 2022. 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
2023					
ASSETS					
Cash and cash equivalents	27,304	27,304	14,133	13,171	-
Financial assets at amortised costs	1,580,563	1,512,594	315,905	5,629	1,191,060
Loans and advances to banks	307,829	307,814	-	-	307,814
Loans and advances to customers	924,895	882,631	-	-	882,631
Debt securities	347,839	322,149	315,905	5,629	615
Finance lease receivables	284	284	-	-	284
Trade and other receivables	1,761	1,738	-	-	1,738
LIABILITIES					
Financial liabilities measured at amortised costs	1,534,636	1,533,684	-	109,650	1,424,034
Deposits from banks	112,090	111,333	-	-	111,333
Deposits from customers	1,294,668	1,293,219	-	-	1,293,219
Debt securities issued	121,451	122,704	-	109,650	13,054
Other financial liabilities	6,427	6,428	-	-	6,428
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	83	-	-	83
Loan commitments	n/a	1,703	-	-	1,703
2022					
ASSETS					
Cash and cash equivalents	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	0
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

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 applies hedge accounting to hedge exposures to interest rate risk and foreign currency risk. As permitted by the transitional provisions of IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On the balance sheet, derivatives designated as hedging instruments are carried at fair value (dirty price). They are presented in the line item 'Hedge accounting derivatives' on the asset or liability side depending on whether their fair value is positive or negative.

(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'.

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.

For terminated hedges 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

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.

For terminated hedges 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.

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.

As at 31 December 2023, the loss on hedging derivatives used for fair value hedging was CZK 691 million (2022: loss CZK 2,016 million); the gain due to changes in the fair value of hedged items was CZK 741 million (2022: gain CZK 2,037 million).

Fair values of hedging instruments are disclosed in the following table:

	2023			2022		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**41,450**	**18**	**3,099**	**17,081**	**36**	**(2,254)**
Interest rate	41,450	18	3,099	17,081	36	(2,254)
Cash flow hedge	**99,517**	**3,223**	**1,435**	**113,387**	**3,199**	**(3,616)**
Interest rate	50,900	1,149	1,000	70,469	171	(3,616)
Foreign exchange	48,617	2,074	436	42,918	3,028	-
Total	**140,967**	**3,241**	**4,534**	**130,468**	**3,235**	**(5,870)**

Notional amount of hedged items:

in CZK million Assets/liabilities	Type of hedged items	2023 Hedged notional amount	2022 Hedged notional amount
Fair value hedges			
Assets	Portfolios of client loans	100	100
Assets	Single loans	-	-
Assets	Bonds at FVOCI	-	-
Assets	Bonds at AC	27,751	100
Liabilities	Issued bonds	12,363	12,058
Liabilities	Other liabilities - Loans	1,236	4,823
Liabilities	Other liabilities - REPO	-	-
Cash flow hedges (interest)			
Assets	Interbank loans / repos	16,400	28,931
Assets	Client loans (single and portfolio)	34,500	41,538
Assets	Corporate/government bonds	-	-
Cash flow hedges (fx)			
Assets	Client loans (single and portfolio)	11,327	11,165
Assets	Forecast cash flows in foreign currency	5,088	3,959
Assets	Corporate/government bonds	32,201	27,793

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 2023 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			
2023	**Assets**	**Liabilities**			**≤ 3 m**	**> 3 m and ≤ 1 y**	**> 1 y and ≤ 5 y**	**> 5 y**
Fair value hedges								
Interest rate risk	18	3,099	(691)	41,450	-	-	12,560	28,889
Cash flow hedges								
Interest rate risk	1,149	1,000	7,678	50,900	-	2,000	48,900	-
Foreign exchange risk	2,074	436	1,791	48,617	4,053	933	31,716	11,915
Total	**3,241**	**4,534**	**8,778**	**140,967**	**4,053**	**2,933**	**93,176**	**40,804**
2022								
Fair value hedges								
Interest rate risk	36	(2,254)	(2,016)	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	42,918	4,727	3,886	28,255	6,050
Total	**3,235**	**(5,870)**	**490**	**130,468**	**4,727**	**12,055**	**106,230**	**7,456**

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	Hedge adjustments Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
2023				
Financial assets at AC				
Interest rate risk	29,322	1,515	1,554	-
Financial liabilities at AC				
Interest rate risk	13,293	(215)	(813)	-
2022				
Financial assets at AC				
Interest rate risk	165	(35)	(13)	-
Financial liabilities at AC				
Interest rate risk	16,508	(373)	2,050	2

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
2023			
Interest rate risk	7,678	314	681
Foreign exchange risk	1,791	(526)	-
Total	**9,469**	**(212)**	**681**
2022			
Interest rate risk	1,401	(3)	4,995
Foreign exchange risk	1,105	3	237
Total	**2,506**	**-**	**5,232**

Effects of hedge accounting in profit or loss and other comprehensive income

in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	Cash flow hedge reclassified to profit or loss because the hedged item has affected profit or loss	Cash flow hedge reclassified to profit or loss because the hedged future cash flows are no longer expected to occur
2023				
Fair value hedges				
Interest rate risk	50	-	-	-
Cash flow hedges				
Interest rate risk	1	7,253	(3,219)	-
Foreign exchange risk	33	1,789	(1,061)	-
Total	**84**	**9,042**	**(4,280)**	**-**
2022				
Fair value hedges				
Interest rate risk	22	-	-	-
Cash flow hedges				
Interest rate risk	(4)	1,390	(2,409)	-
Foreign exchange risk	-	1,264	1,124	-
Total	**18**	**2,654**	**(1,285)**	**-**

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

The following table shows netting effects on the balance sheet of the Bank as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

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: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
2023						
Derivatives (Note 20 and 25)	19,884	19,884	11,050	2,913	-	5,921
Reverse repurchase agreements (Note 15)	283,813	283,813	-	-	283,813	-
Total	**303,697**	**303,697**	**11,050**	**2,913**	**283,813**	**5,921**
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**

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	
2023						
Derivatives (Note 20)	21,250	21,250	11,050	907	-	9,293
Repurchase agreements (Note 17)	167,039	167,039	-	-	167,039	-
Total	**188,289**	**188,289**	**11,050**	**907**	**167,039**	**9,293**
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**

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’.

	2023		2022	
in CZK million	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Repurchase agreements				
Financial assets at AC	51,898	42,573	68,573	50,521
Total - repurchase agreements	**51,898**	**42,573**	**68,573**	**50,521**
Securities lendings				
Financial assets at AC	71,178	-	20,850	-
Total - securities lendings	**71,178**	**-**	**20,850**	**-**
Total	**123,076**	**42,573**	**89,423**	**50,521**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 51,898 million (2022: CZK 68,573 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 42,573 million (2022: CZK 50,521 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	2023 Fair value of transferred assets	2023 Fair value of associated liabilities	2023 Net position	2022 Fair value of transferred assets	2022 Fair value of associated liabilities	2022 Net position
Financial assets at AC	48,262	42,803	5,459	57,757	50,775	6,982
Total	**48,262**	**42,803**	**5,459**	**57,757**	**50,775**	**6,982**

28 Financial assets pledged as collateral

in CZK million	2023	2022
Financial assets at AC	183,171	138,108
Total	**183,171**	**138,108**

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 173,835 million (2022: CZK 183,301 million).

29 Securities

	2023					2022				
			Financial assets					Financial assets		
in CZK million	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**347,839**	**19**	**734**	**-**	**52,325**	**321,912**	**48**	**830**	**-**	**47,234**
Listed	341,252	6	-	-	44,354	312,831	9	-	-	38,701
Unlisted	6,587	13	734	-	7,971	9,081	39	830	-	8,533
Equity-related securities	**-**	**-**	**645**	**-**	**-**	**-**	**-**	**628**	**-**	**-**
Unlisted	-	-	645	-	-	-	-	628	-	-
Total	**347,839**	**19**	**1,379**	**-**	**52,325**	**321,912**	**48**	**1,458**	**-**	**47,234**

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.

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;
- 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 the Bank.

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

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar 2 of the Basel framework and regulatory guides (e.g., ECB Guide to ICAAP).

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);
- capital allocation and performance management;
- 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 Bank includes risk limits set in Risk Appetite Statement and Risk Strategy, industry limits, maximum lending limits and operational limits.

The Bank Risk Appetite Statement (Bank 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 Bank 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 Bank's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The Bank 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 Bank 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 Bank risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Bank remains within its RAS.

Bank RAS is 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 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.

ESG risks are embedded in the Risk Appetite Statement and in the risk strategy and are also part of Banks's Risk Materiality Assessments. They are integrated into Bank's risk taxonomy as transversal risks (risk types that have impact and are reflected through more than one key risk category) and are included in the relevant risk categories credit, market, liquidity and operational risk. Banks's definition of ESG risk is part of the Bank ICAAP guideline and covers a wide range of risks arising from environmental, social and governance factors.

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 Bank. RMA is an annual process with the purpose of systematic identification of new and assessment of all risks for the Bank. 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.

ESG risks and their materiality keep being assessed within existing risk types. The criteria for assessing physical and transitory risks were further enhanced in the most recent RMA.

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 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 or unemployment rate) into risk parameters in order to support the stress testing process.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2023 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) describes the methodology of Pillar 2 capital adequacy calculation. In contrast to the normative (regulatory) view of Pillar 1, referring to the Bank's ability to fulfil all of its capital-related regulatory and supervisory requirements and demands, the RCC is based on an economic view of Pillar 1+ approach, assuming continuation of the Bank as expected by the ECB Guide to ICAAP. The RCC determines whether the Bank has sufficient internal capital for covering all (regulatory and economic) risks it is exposed to. Economic and normative perspectives at the Bank are set in a way to mutually inform each other and are integrated into all material business steering activities and decisions. In addition, with applied Pillar 1+ approach the Bank increases efficiency and ensures comparability with the Pillar 1 calculation. Based on the results of the RMA, the economic capital is considered for relevant risk types as approved by the management board. The economic capital requirement is then compared to internally available capital (coverage potential) to cover the Bank's risks in Pillar 2. Both economic capital and coverage potential are computed on the CRR scope of consolidation of the Group based on IFRS Accounting Standards.

Besides the Pillar 1 risk types (credit, market in trading book, FX in banking book and operational risks), concentration risk, interest rate risk in the Banking book, credit spread risk in the banking book 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%. For the calculation of the economic capital, the Bank uses, where possible, more risk sensitive/advanced methodologies tailored to its individual risk profile and specificities of the Bank's individual risk exposures. Diversification effects between risks (inter-risk diversification) are not considered, reflecting the Bank's prudent approach to maintain sufficient internal capital in times when correlations between risks may change dramatically (like in times of stress). The largest portion of economic capital requirements is coming from credit risk, which accounts for 60.7% of total economic capital requirements at the end of 2023 (2022: 57.0%).

The calculation of internal capital or coverage potential required to cover Pillar 2 risks/unexpected losses is based on Pillar 1+ approach. Namely, CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) regulatory own funds are adjusted by internal capital components, i.e. Pillar 2 adjustments, necessary to come to the internally available capital deemed as risk-bearing and loss absorbing from the economic view (e.g. exclusion of Additional Tier 1 and Tier 2 capital instruments, Pillar 2 IRB expected loss excess/ shortfall add-on, year-to-date profit, if it is not already considered in Pillar 1 capital, etc.).

The coverage potential must be sufficient to absorb Pillar 2 risks/unexpected losses resulting from the Bank's operations at any point in time (normal and stressed), as reflected in the Bank's Risk Appetite through the limits set for Bank economic capital adequacy and stressed capital adequacy utilisation. At the end of 2023, the economic capital adequacy was at 57.9%, fully in line with group RAS.

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 %	2023	2022
Credit risk	60.69%	57.03%
Market risk	29.90%	33.05%
Operational risk	4.43%	5.04%
Other risks	4.98%	4.88%

Other risks include business risk and liquidity risk.

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[27]* as of 31 December 2023 and 2022:

in CZK million	2023	2022
Tier 1 capital	115,457	110,790
Tier 1 + Tier 2 capital	124,501	113,691
Exposure to credit risk	603,538	538,441
Exposure to market risk	2,956	2,639
Exposure to operational risk	54,906	47,660
Total risk exposure	**661,400**	**588,740**
Capital adequacy ratio for the year (Tier 1 ratio)	**17.5%**	**18.8%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**18.8%**	**19.3%**

The Bank meets all capital adequacy requirements as requested by regulators as of 31 December 2023 and 2022.

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 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.

ESG Risk management

The Bank integrates ESG factors in its risk management and industry strategy framework. In the first place, the Bank ESG Factor Heatmap is used as a screening instrument to identify certain industry segments (out of the existing sub-industries) that may be exposed to ESG risk factors and determine those industries which are more vulnerable to ESG risks. The Bank establishes industry strategies and lending standards to support the steering of the portfolio under considerations of ESG risks; both are the basis for decisions, which determine which clients and transactions fit into the group's portfolio.

Secondly, the Bank has established an ESG risk framework for the assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes. In this manner, the Bank takes ESG risk criteria into account when making credit decisions.

For large corporate, commercial real estate and commercial residential real estate transactions, the Bank conducts a systemic ESG analysis via an internal digital ESG assessment questionnaire. The questionnaire is a mandatory prerequisite in the loan origination and monitoring process. By providing a comprehensive ESG risk assessment, the Bank is able to determine how certain ESG factors may have a positive or negative impact on the financial performance of clients. The questionnaire enables the group to identify clients' ESG risks or opportunities.

Particular questions in the questionnaire may also require an in-depth assessment in order to understand the nature and severity of the ESG risks to which the client is exposed. The questionnaire forms an integral part of the credit application and is updated at least annually, allowing the Bank to understand the client's business model in the context of carbon transition. In 2023, in order to support achieving the group's decarbonization targets, additional lending guidance has been introduced for large corporates, depending on their communicated strategy to align with climate science recommendations.

Furthermore, ESG relevant data is collected for certain types of collateral, as defined in the Collateral Management Policy for real estate collateral valuations, documentation and reporting purposes. Environmental aspects which affect the value

(27) *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.

of the collateral have to be included in the real estate valuations, which can lead to a higher or lower valuation result. Moreover, any risks arising from social (e.g., location and transportation, mass urbanisation – being indicators for easy accessibility for people) and governance factors (such as improper business practices such as tax fraud or bribery of the financed company being the owner of the building serving as collateral) have to be considered as well. For commercial real estate assets, the questionnaire additionally includes an assessment of the building's environmental footprint, including information on land consumption, space efficiency, and the existence of a sustainable building certificate.

With regards to credit risk measurement and internal models 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. For the LGD models, climate risk is indirectly reflected via the collateral value. In 2023, ESG factors are considered in the soft facts assessment in the corporate rating models. Additionally, the Bank is in the process of analyses how the ESG risks can be incorporated into ECL measurement. As of 31 December 2023 no overlays are deemed necessary.

For the assessment and management of physical risks, the Bank uses Munich Re's Location Risk Intelligence. Over the last year, the Bank has conducted a physical risks materiality assessment together with the University of Graz in order to identify key hazards and climate change scenarios relevant for its collateral portfolio. The results of the assessment, highlighting the importance of river flood, fire weather stress, drought stress, sea level rise and heat stress, is integrated into the collateral management, incorporating an intermediate climate change scenario of 2-3C by 2100 (Representative Concentration Pathway 4.5 / Shared Socioeconomic Pathway 2, developed by the Intergovernmental Panel on Climate Change) as a reasonable assumption. In case of the existence of very high physical risks of a location, the collateral value would be negatively affected. Stress testing of the impact of physical risks on the Bank's portfolio is now being prepared, including the implementation of other use cases in the Bank (impact of physical risks on real estate valuation, evaluation as part of green asset screening, etc.).

By year-end 2023, the Energy Performance Certificate (EPC) label of real estate collaterals has been collected for 9% of total portfolio collateralized by real estate, mainly classified in the two best categories B and C.

Among the industries presented in the table "Credit risk exposure by industry and risk category" below in this chapter, the Bank identified, as part of the strategic climate initiative for the Net Zero Banking Alliance, certain sectors (where the Bank is exposed to high greenhouse gas emissions due to either the credit risk exposure or its emission intensity) as important levers for setting interim emission targets for 2030, thereby supporting the migration of "Transition Risk" in the Bank financed portfolio. Targets are set for the following sectors: housing mortgages, commercial real estate, electricity production, heat production, cement production, auto manufacturing, oil and gas, iron, and steel.

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 Bank´s credit risk management and by Corporate Risk Management at the group level.

Credit risk related to retail and SME loan portfolios is managed at the group and at the Bank´s level 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.

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.

The Bank uses 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 and in other relevant model use areas. 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 behaviour 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 Bank ensures the availability of rating models with the best possible prediction across its core regions.

The central Model Validation department is responsible for defining the validation methodologies and standards to be applied to all credit risk models within the Bank as well as for conducting the validation activities across the whole the Bank. All Pillar 1, material Pillar 2 and IFRS 9 models are subject to an annual validation, while for non-material Pillar 2 and IFRS 9 models a regular validation cycle is implemented. Model Validation employs qualitative as well as quantitative validation methods to challenge conceptual soundness, performance and model use aspects. The validation outcomes are approved by the respective model committees and, in case of IRB models, shared with the regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of IRB models, reflecting developments in new defaults and early delinquencies.

Approvals of all new models, model changes, changes to risk parameters, changes in group-wide methodological standards and other model-related aspects are following a dual approval process within Erste Group – corresponding Holding and local model committee structures reflect joint responsibilities for decisions on Pillar 1 IRB and Pillar 2 credit risk models as well as on methodologies related to IFRS 9 parameters. Responsibilities are assigned depending on model perimeter (group-wide or locally developed model). In this context, the following committees are established: Strategic Risk Executive Committee and Strategic Risk Management Committee on the Holding level and Risk Management Model Committee on the local level.

Ultimate responsibility for all models used within Erste Group (at consolidated level) lies with the Group CRO. All model governance, development, validation, data management and monitoring activities are coordinated by the Credit Risk Methods division.

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 equivalents - 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 2022 and 31 December 2023, the credit risk exposure increased from CZK 1,814 billion to CZK 1,966 billion. This is an increase of 8,4% or CZK 152 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
2023				
Cash and cash equivalents - demand deposits to credit institutions	1,634	(1)	-	1,633
Debt instruments held for trading	16,662	-	-	16,662
Non-trading debt instruments at FVPL	1,590	-	-	1,590
Debt securities	734	-	-	734
Loans and advances to banks	856	-	-	856
Loans and advances to customers	-	-	-	-
Debt instruments at FVOCI	51,999	(156)	482	52,325
Debt securities	51,999	(156)	482	52,325
Debt instruments at AC	1,599,426	(18,864)	-	1,580,563
Debt securities	347,866	(28)	-	347,839
Loans and advances to banks	307,834	(5)	-	307,829
Loans and advances to customers	943,726	(18,831)	-	924,895
Trade and other receivables	2,178	(417)	-	1,761
Finance lease receivables	300	(17)	-	284
Positive fair value of hedge accounting derivatives	3,241	-	-	3,241
Off balance-sheet exposures	288,780	(1,137)	-	-
Financial guarantees	26,211	(230)	-	-
Loan commitments	155,076	(850)	-	-
Other commitments	107,493	(57)	-	-
Total	**1,965,810**	**(20,592)**	**482**	**1,658,059**
2022				
Cash and cash equivalents - 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)	-	-
Financial guarantees	20,035	(362)	-	-
Loan commitments	229,556	(734)	-	-
Other commitments	31,251	(352)	-	-
Total	**1,814,251**	**(20,590)**	**(1,495)**	**1,512,772**

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
2023					
I. Natural Resources & Commodities	44,821	9,991	2,030	2,669	59,510
II. Energy	54,192	5,143	5,788	373	65,495
III. Construction and building materials	43,456	14,195	2,663	812	61,126
IV. Automotive	29,117	2,955	811	289	33,172
V. Cyclical Consumer Products	23,896	11,475	2,299	1,193	38,863
VI. Non-Cyclical Consumer Products	27,524	10,216	1,359	382	39,481
VII. Machinery	16,594	5,994	755	1,446	24,790
VIII. Transportation	24,392	4,380	420	367	29,559
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	19,890	2,625	495	873	23,883
X. Healthcare & Services	16,959	3,426	1,553	353	22,291
XI. Hotels, Gaming & Leisure Industry	19,828	2,496	1,401	912	24,636
XII. Real Estate	102,323	9,347	6,327	1,379	119,376
XIII. Public Sector	705,409	847	30	818	707,104
XIV. Financial Institutions	133,699	2,999	1,279	30	138,007
XV. Private Households	492,346	71,047	7,750	7,366	578,508
XVI. Other	1	8	-	-	9
Total	**1,754,446**	**157,144**	**34,959**	**19,262**	**1,965,810**
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**

The low risk exposure has the highest proportion in total credit risk exposure, with 89.25% (2022: 89.08%), while management attention represents 7.99% (2022: 8.32%), The substandard exposure represents 1.78% (2022: 1.63%) and the non-performing 0.98% (2022: 0.97%).

From industry and financial instrument point of view, the highest exposure is represented by public sector exposure of CZK 707 billion (2022: CZK 639 billion] and private households exposure of CZK 579 billion (2022: CZK 536 billion), representing 65.4% (2022: 68.8%) from total. The increase in exposure under management attention for private households is partly attributable to newly purchased loan portfolios, but mainly due to updated internal monitoring process.

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 Bank 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 Credit Risk Management 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. 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 Bank Collateral Management Policy Part 2 defines, among other things, uniform valuation standards for treasury collateral across the entire Bank.

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
2023									
Cash and cash equivalents - demand deposits to credit institutions	1,634	-	-	-	-	1,634	1,634	-	-
Debt instruments held for trading	16,662	-	-	-	-	16,662	-	-	-
Non-trading debt instruments at FVPL	1,590	-	-	-	-	1,590	-	-	-
Debt instruments at FVOCI	51,999	-	-	-	-	51,999	51,999	-	-
Debt instruments at AC	1,599,426	817,665	25,776	501,799	290,090	781,761	1,576,977	5,514	16,935
Debt securities	347,866	2,954	2,954	-	-	344,912	347,866	-	-

			Collateralised by					Impairment IFRS 9	
Loans and advances to banks	307,834	283,497	369	-	283,128	24,337	307,834	-	-
Loans and advances to customers	943,726	531,214	22,453	501,799	6,962	412,512	921,277	5,514	16,935
Trade and other receivables	2,178	529	529	-	-	1,649	1,765	96	317
Finance lease receivables	300	-	-	-	-	300	300	-	-
Positive fair value of hedge accounting derivatives	3,241	-	-	-	-	3,241	-	-	-
Off balance-sheet exposures	288,780	18,950	773	8,399	9,777	269,830	180,160	-	1,127
Total	**1,965,810**	**837,145**	**27,079**	**510,199**	**299,867**	**1,128,666**	**1,812,836**	**5,610**	**18,379**

2022									
Cash and cash equivalents - demand deposits to credit institutions	1,731	-	-	-	-	1,731	1,731	-	-
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 instruments at 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**

The collateral attributable to exposures that are credit-impaired at 31 December 2023 amounts to CZK 6,787 million (2022: 5,713 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, as described in the chapter “Financial instruments – Significant accounting policies”, in the section “Impairment of financial instruments”.

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).

The Bank methodology allows introduction of the cure periods for migrations back to Stage 1 from Stage 2 in addition to those already established in general credit risk practices (forbearance, watch lists, default). However, for migration back to Stage 1 there are no additional cure periods applied for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Quantitative criteria. Quantitative SICR indicators include adverse changes in lifetime probability of default with significance being assessed by comparison to the 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.

SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument. 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 101% to 359% according to PD segment and rating level.

The relative thresholds

	Min	Max
Retail	101%	330%
Corporate	133%	359%
Banks	124%	128%
Public sector	219%	240%
Governments	113%	134%
Institutions	219%	240%

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.

The relative thresholds in place since the IFRS 9 implementation were kept stable as one of the most significant estimates in ECL measurement. In the fourth quarter of 2022, the process of splitting the corporate portfolio into Group (large) Corporates and Local Corporates was initiated and it triggered in 2023 thresholds' recalibration for these portfolios.

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 (identification of 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 the war in Ukraine (implemented in 2022) and related economic impacts. For more details refer to "Collective assessment" in the next chapter.

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 2023, in the Bank, the corresponding exposure amounted to CZK 400.4 billion (2022: CZK 365.3 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repos excluded) in the amount CZK 4.5 billion (2022: CZK 3.8 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 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 5 mil CZK. 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 split 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. 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 over an available history. The calculated LT PDs are extrapolated, e.g., via matrix multiplication, to ensure that the final lifetime PD covers the lifetime of the loans from initial recognition. It is assumed to be the same across all assets in the same portfolio, rating band; and the country of risk which is an additional relevant PD characteristic considered via forward looking information in case of central models for Group (Large) Corporate since the fourth quarter of 2023.

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 Accounting 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 2023 or initial recognition date) to Stages 2 or 3 at 31 December 2023 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 2023						Dec 2023
Stage 1	(28)	(13)	9	7	4	-	(21)
Stage 2	(6)	-	12	-	(13)	-	(7)
Total	**(34)**	**(13)**	**21**	**7**	**(9)**	**-**	**(28)**
	Jan 2022						Dec 2022
Stage 1	(19)	(11)	12	-	(9)	-	(28)
Stage 2	-	-	2	(23)	14	-	(6)
Total	**(19)**	**(11)**	**14**	**(23)**	**5**	**-**	**(34)**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2023 and not sold by 31 December 2023 amounts to CZK 45,761 million (2022: CZK 41,795 million). The GCA of AC debt securities that were held at 1 January 2023 and de-recognized (matured/sold) during the year 2023 amounts to CZK 9,663 million (2022: CZK 31,952 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 2023					Dec 2023
Stage 1	(4)	(142)	140	-	1	(5)
Stage 2	-	(1)	-	-	1	-
Total	**(4)**	**(143)**	**140**	**-**	**2**	**(5)**
	Jan 2022					Dec 2022
Stage 1	(3)	(151)	112	-	38	(4)
Stage 2	-	(1)	-	-	1	-
Total	**(3)**	**(152)**	**112**	**-**	**39**	**(4)**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 307,773 million (2022: CZK 264,357 million). The GCA of AC loans and advances to banks that were held at 1 January 2023 and fully de-recognized (matured) during the year 2023 amounts to CZK 262,824 million (2022: CZK 358,142 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 2023							Dec 2023
Stage 1	**(1,559)**	**(1,940)**	**369**	**2,104**	**(876)**	**-**	**(7)**	**(1,908)**
General governments	(8)	(3)	-	3	(2)	-	-	(10)
Other financial corporations	(24)	(19)	10	69	(79)	-	(1)	(43)
Non-financial corporations	(628)	(1,013)	100	587	224	-	(6)	(735)
Households	(900)	(905)	259	1,445	(1,019)	-	-	(1,119)
Stage 2	**(6,776)**	**(527)**	**663**	**(3,405)**	**3,255**	**2**	**(32)**	**(6,819)**
General governments	(147)	-	-	(3)	135	-	-	(15)
Other financial corporations	(36)	(38)	3	(19)	66	-	-	(24)
Non-financial corporations	(3,091)	(363)	365	(1,468)	746	-	(32)	(3,842)
Households	(3,502)	(126)	296	(1,916)	2,307	2	-	(2,939)
Stage 3	**(9,702)**	**(95)**	**1,050**	**(517)**	**(1,262)**	**1,023**	**(40)**	**(9,544)**
General governments	-	-	-	-	(106)	-	(3)	(109)
Other financial corporations	(1)	-	-	-	(19)	-	-	(21)
Non-financial corporations	(5,159)	(58)	716	(233)	13	179	(37)	(4,578)
Households	(4,542)	(37)	334	(285)	(1,151)	844	-	(4,836)
POCI	**(474)**	**-**	**100**	**-**	**(380)**	**197**	**(3)**	**(560)**
General governments	**-**	**-**	**-**	**-**	(5)	**-**	**-**	(5)
Non-financial corporations	(449)	-	88	-	(196)	196	(3)	(364)
Households	(25)	-	12	-	(179)	1	-	(191)
Total	**(18,511)**	**(2,561)**	**2,182**	**(1,819)**	**737**	**1,223**	**(83)**	**(18,831)**
	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)

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
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)**

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 2023 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2023 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 382 million cumulatively for the year 2023 (2022: CZK 324 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
2023								
General governments	274	270	473	-	-	-	-	-
Other financial corporations	1,283	3,461	-	-	-	-	-	-
Non-financial corporations	32,565	44,431	1,728	502	1,408	327	-	224
Households	23,138	28,469	1,628	576	1,456	244	3	91
Total	**57,260**	**76,631**	**3,829**	**1,078**	**2,864**	**571**	**3**	**315**
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**

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 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 196,010 million (2022: CZK 196,098 million). The GCA of the AC loans and advances to customers that were held at 1 January 2023 and fully de-recognized during the year 2023 amounts to CZK 76,330 million (2022: CZK 100,609 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 2023 amounted to CZK 683 million (2022: CZK 789 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 2023							Dec 2023
Stage 1	(1)	(8)	2	-	5	-	-	(3)
Stage 2	(120)	-	2	(1)	19	2	-	(99)
Stage 3	(313)	-	-	-	(3)	1	(2)	(316)
Total	**(434)**	**(8)**	**4**	**(1)**	**21**	**3**	**(2)**	**(417)**
	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)**

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 2023					Dec 2023
Stage 1	(8)	-	1	7	(5)	(6)
Stage 2	(145)	-	3	-	(9)	(151)
Total	**(153)**	**-**	**4**	**7**	**(14)**	**(156)**
	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)**

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	2023	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	-	1,937
To Stage 1 from Stage 2	2,563	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 2023					Dec 2023
Stage 1	(5)	-	-	-	(12)	(17)
Total	**(5)**	**-**	**-**	**-**	**(12)**	**(17)**
	Jan 2022					Dec 2022
Stage 1	(8)	-	-	-	3	(5)
Total	**(8)**	**-**	**-**	**-**	**3**	**(5)**

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 2023						Dec 2023
Stage 1	385	572	(347)	(326)	(22)	3	264
Stage 2	454	-	(275)	221	(112)	3	291
Stage 3	257	-	(285)	20	314	217	522
POCI	-	-	(3)	-	5	-	3
Total	**1,096**	**572**	**(910)**	**(84)**	**185**	**222**	**1,080**
	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**

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 2023 to a different stage compared to 1 January 2023 (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	2023	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	10,335	36,891
To Stage 1 from Stage 2	7,178	19,330
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	369	73
To Stage 2 from Stage 3	61	23
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	50	688
To Stage 1 from Stage 3	2	36

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2023 and not fully de-recognized by 31 December 2023 amounts to CZK 116,393 million (2022: CZK 64,943 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2023 and fully de-recognized during the year 2023 amounts to CZK 43,288 million (2022: CZK 43,623 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 several 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 through-the- cycle observations immediately in year four.

Thus, the unbiased scenario weighted ECL considering FLI is derived using the weights representing the outcome 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 selection of variables also depends on the availability of reliable forecasts for the given local market. The main indicator of the estimated economic development and basis for alternative scenario derivation is the GDP. In addition, economic effects of the ongoing war in Ukraine and the emerging conflicts in the middle east came along with the 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.

Macro-shift FLI models are recalibrated regularly to reflect the most relevant macro-variables. The recalibration is performed by the local entities (except for the central models for Group (Large) Corporate) and variables with the highest statistical relevance are included.

In case of central model for Group (Large) Corporates, the Erste Group (dedicated central units) is responsible for the PD review including FLI.

The Bank reviewed the FLI in the fourth quarter of 2023 according to the disclosed forecasts for baseline, downside, and upside scenarios. Based on the assessment of conditions (exit triggers) for applying in-model adjustments in FLI models (40% weight assigned to baseline scenarios, expertly set up weights for downside and upside scenarios, and incorporation of comprehensive stress test scenario into the downside scenario, applied in December 2022), the Bank decided to assign 50% scenario weight to baseline forecast due to more stable macroeconomic forecasts than were observed during previous year. Moreover, the higher NPL inflows observed in the second half of 2023, led to the decision to apply the modelled weights for downside and upside scenarios instead of expertly set weights applied in 2022. It relates to all local models, including Group (Large) Corporate model due to significant exposure of this portfolio. The approach with including the comprehensive stress test (CST) scenario into the downside scenario design is kept unchanged. However, the CST scenario was updated according to the assumptions considered in comprehensive stress test 2023. These model adjustments took place to address the still persisting uncertainty of the macroeconomic forecasts, higher downside risks and effects of those on ECL resulting from the unstable geopolitical situation.

The Bank is disclosing sensitivity of the staging and ECL on macro scenarios in the "Collective assessment" section below.

Baseline scenario

The Bank expects the Eurozone economy to gradually recover from the first half of 2024 onwards. The main factor supporting the constructive baseline outlook for the Eurozone in 2024 is a further slight easing of inflationary pressures on a domestic and as well as on global level. European gas and electricity prices have already dropped substantially and easing pressures from global supply chains have already eased inflationary pressures in recent months. In this environment it is forecasted real wage gains for consumers in 2024, which should be supportive for private consumption growth 2024.

The expected end of global destocking in the course of 2024 should gradually improve the order situation and order backlogs of manufacturing companies. This should be another growth supportive factor during the first half of 2024. The Bank forecasts that in this environment, a gradual acceleration of consumption and investments will be seen in the first half of 2024. In this environment the Bank expects the ECB to deliver the first rate cut in June 2024.

Although the Czech economy is likely to remain subdued at the beginning of 2024, economic development should gradually improve, which will be reflected in a recovery in both domestic and foreign demand. Domestic demand will be positively affected mainly by a rapid decline in inflation towards the inflation target and improved sentiment among households, which will also be influenced by a return to growth in real wages. For external demand, improved economic developments in Germany will be a key factor. Inflation will fall sharply at the start of 2024, with other factors contributing in addition to the impact of the base, including a continuation of the weak demand from 2023, a fall in some commodity prices, a decline in agricultural producer prices and easing inflationary pressures in the euro area. Inflation should then remain within the ČNB's tolerance band around the inflation target throughout 2024.

The ČNB started to cut interest rates already at the end of 2023 and is widely expected to continue gradually reducing interest rates towards normal levels in 2024. The main reason will be the rapid decline in inflation and weak domestic demand. On the other hand, given the risk of a possible re-intensification of inflationary pressures and pressures in the direction of a depreciation of the koruna, the ČNB is likely to remain cautious.

Risks to the baseline scenario and comprehensive stress test scenario as considerations added to downside scenario

The ongoing war in Ukraine, including emerging conflicts in the middle east, remains significant risk factor. If it escalates further this could potentially harm the sentiment of global investors vs the Eurozone with potential dampening effects on growth.

Russia could cut off gas supply to an increased number of “unfriendly” countries. Energy security becomes a priority for EU policymakers who regard the momentum to become less dependent from Russian commodities and to accelerate the transition to a low carbon economy. This goal could trigger an energy policy shock, whereby the price of CO2 emissions skyrocket in the first year, crystalizing a disorderly transition risk. The energy policy shock could exacerbate the increase in energy/consumer prices and de anchors inflation expectations; prompting the ECB to tighten monetary policy aggressively (affecting the entire yield curve) to keep inflation under control. In addition, the fast rise of green energy investments adds volatility and instability to an European power grid. Temporary pressure on the power grid from large swings in energy supply from green energy, could result in temporary price spikes for electricity which could harm industrial activity and the consumers purchasing power.

Moreover, the current turmoil in the Red Sea, which exerts pressure on container ship traffic between Europe and Asia could flare up again supply chain issues. This could translate into higher inflation than anticipated in our current base line scenario.

The fast rise of interest rates is a threat for the investment activity of companies and consumers could lead to lower investments than currently anticipated for our base case scenario.

In general, higher Harmonized Index of Consumer Prices (HICP), especially electricity/gas bills, reduces disposable income and contracts consumption. Given the high debt inherited from the pandemic, increasing military spending and expansive fiscal policies to mitigate higher energy prices/influx of refugees could make investors to question debt sustainability.

Upside risk to the baseline scenario

In case the global industry recovers faster and stronger, than it is expected in baseline scenario, this would certainly have an immediate positive impact on the German economy. In light of the tight interconnections between Germany and other major countries of the Eurozone, a stronger and faster recovery of German industry would also have an immediate positive impact on the entire industry of the Eurozone. A faster and stronger recovery of European industry would give GDP growth in 2024 and 2025 certainly a positive boost, as the recovery of investment activity would take hold faster and stronger than currently expected in our baseline scenario. The Bank would expect in this scenario that consumer sentiment would also be impacted positively. So private consumption would have a bigger contribution to growth in 2024 and 2025, when compared to our baseline scenario. The services sector of the economy would benefit from a better and higher consumer sentiment as well. However, a further gradual easing of inflationary pressure – especially in the services sector – is mandatory in this scenario in order not to endanger expected rate cuts by the ČNB in 2024.

Overview of Baseline, Upside and Downside scenarios

Below we are summarizing expected development of the GDP, all scenarios and scenario weights, as main indicator of the macro-economic situation.

Additionally, we are disclosing the most relevant variables for the macro-shift model.

Macro-shift models are calibrated for the three main sub-portfolios: private individuals, micro enterprises, and another corporate business. Models' calibration and variables disclosed below are incorporated into expected credit loss measurement as of 31 December 2023. The baseline and weighted scenario outcome for the major variables is disclosed in the tabular format for the years 2024-2026.

Baseline, upside and downside scenarios of GDP growth

		Probability weights	GDP growth in %		
	Scenario	**2024-2026**	**2024**	**2025**	**2026**
2023					
	Upside	21%	3.8	5.3	4.8
Czech Republic	Baseline	50%	1.8	3.3	2.8
	Downside	29%	(2.5)	(0.9)	0.3
2022		**2023-2025**	**2023**	**2024**	**2025**
	Upside	1%	3.4	6.2	5.9
Czech Republic	Baseline	40%	0.9	3.7	3.4
	Downside	59%	(4.9)	(0.3)	0.9

	Baseline scenario			Scenario weighted outcome		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**
2023						
Unemployment rate	3.7	4.0	4.0	3.7	4.3	4.4
Inflation (PPI)	141.8	144.3	147.2	142.2	144.7	147.6
2022	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
Unemployment rate	3.5	3.5	3.5	4	4.6	4.5
Inflation (PPI)	146.8	149.5	152.5	149.4	152.1	155.1

Collective assessment

In addition to standard SICR assessment, the Bank applied collective SICR assessment, i.e., transfer into Stage 2 based on pre-defined portfolio characteristics, due to emerging risks not covered by standard models. This approach is aligned with all affected entities and business lines and approved by the respective governance bodies of the Bank. It requires, after the assessment of the outliers from the common portfolio characteristics, to have exemptions from the collective SICR assessment, if properly documented why they would behave differently than the rest of the portfolio.

In June 2022, the Bank implemented rules for collective staging assessment 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 higher than 250 bp. The Bank has identified the portfolio of industry sectors susceptible to being hit by the macro-economic environment based on cost inflation and interest rate increases leading to decreasing confidence levels on consumer as well as production side, and consequently a decrease in consumption and investments.

In addition to cyclical industries, from September 2022 the Bank has introduced additional Energy stage overlay due to the distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were considered. Effects of energy prices and availability on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability was driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected.

Moreover, from September 2022 the additional stage overlay was introduced also for Retail. Increasing interest rates together with unprecedented increase of inflation posed 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.

The Bank evaluates, on quarterly basis, the conditions (exit triggers) for applying of collective SICR assessment. It was concluded that in case of cyclical industries the risk neither passed nor was materialized. Therefore, in December 2023, the rules for collective SICR assessment were kept the same as they were applied in 2022.

In case of Energy industries, it was concluded that conditions for exit triggers were partly fulfilled mainly on energy availability part. Electricity demand in the European Union declined for the second consecutive year in 2023, even though energy prices fell from record highs. On the other hand, in 2023, there were also signs of some permanent demand destruction, especially in the energy-intensive chemical and primary metal production sectors. These segments will remain vulnerable to energy price shocks. Moreover, all companies belonging to the Energy sector can potentially be affected by the distortions in the current energy market. However, certain business models in the energy sector rather benefit from the current situation and, thus, do not match the overall portfolio characteristics as energy sector is widely defined. Therefore, in December 2023, only selected industries (production & distribution of energy and heating) were considered within collective SICR assessment and migrated to Stage 2; except some companies excluded based on individual assessment.

Effect on Expected Credit Loss

The analysis tables below present the effects of the collective SICR assessment 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.

In December 2023, the exposure in Stage 2 due to the application of the rules for Ukraine war collective SICR assessment stood for cyclical industries at CZK 34,357 million (2022: CZK 20,531 million) and for energy (intensive) industries at CZK 28,579 million (2022: CZK 50,854 million), with additional ECL allocated in the amount of CZK 979 million (2022: CZK 807 million) for cyclical industries and CZK 207 million (2022: CZK 327 million) for energy (intensive) industries. The exposure in Stage 2 due to high inflation rate and increased interest rates collective SICR assessment stood for private individuals at CZK 25,170 million (2022: CZK 27,114 million), with additional ECL allocated in the amount of CZK 302 million (2022: CZK 332 million).

As described above, FLI were reassessed based on the latest macro-scenarios in the fourth quarter of 2023. Considering the review of in-model adjustments (change the weight assigned to baseline scenario from 40% to 50%, and application of modelled weights assigned to upside and downside scenarios for the local models and Group (Large) Corporate model central, the Stage 2 exposure triggered by FLI decreased to CZK 13,541 million as of December 2023 (2022: CZK 15,133 million). The decrease of the Stage 2 exposure and PD levels affected the level of ECL allocated in Stage 2 due to FLI CZK 2,336 million as of December 2023 versus CZK 1,985 million as of December 2022.

In 2022 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 were:

- 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.

Because the reasons still persist, override has been applied also in 2023. However, the amount of the override has been reduced by in connection with the decline of inflation.

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 weighted scenario outcome would lead to a decrease of Stage 2 exposure by CZK 884 million (2022: CZK 6,492 million), resulting in an ECL drop by CZK 72 million (2022: CZK 582 million). The lower difference between weighted scenario and baseline scenario is affected by the increase of the weight assigned to baseline scenario in 2023.

The downside scenario would lead to additional CZK 11,990 million of exposure migration to Stage 2 in comparison with scenario weighted FLI (2022: CZK 6,293 million), resulting in ECL increase of CZK 738 million (2022: CZK 494 million).

For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented sensitivities are results of internal simulations.

	Current status - parameters (FLI shifted)		Stage 2 impacted by			
in CZK million	Stage 1	Stage 2	Cyclical	Energy	Private individual	Effect of FLI shifts
2023						
CRE	1,658,652	159,301	34,357	28,579	25,170	13,541
2022						
CRE	1,462,540	185,938	20,531	50,854	27,114	15,133

	Current status - parameters (FLI shifted)		Out of which			
in CZK million	Stage 1	Stage 2	Cyclical	Energy	Private individual	Effect of FLI shifts
2023						
CLA	(2,224)	(7,367)	(979)	(207)	(302)	(2,336)
2022						
CLA	(1,990)	(7,501)	(807)	(327)	(332)	(1,985)

	Current status - parameters (FLI shifted)		Simulated impact on Stage 2		
in CZK million	Stage 1	Stage 2	Upside scenario	Baseline scenario	Downside scenario
2023					
CRE	1,658,652	159,301	(8,553)	(884)	11,990
2022					
CRE	1,462,540	185,938	(14,492)	(6,492)	6,293

in CZK million	Current status - parameters (FLI shifted)		Simulated impact on CLA		
	Stage 1	Stage 2	Upside scenario	Baseline scenario	Downside scenario
2023					
CLA	(2,224)	(7,367)	704	72	(738)
2022					
CLA	(1,990)	(7,501)	1,421	582	(494)

38 Restructuring, renegotiation and forbearance

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. 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.

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. 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.

Forbearance concession triggers the performing forbearance classification and 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;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

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.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- 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 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.

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 Bank.

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
2023					
Gross exposure	**1,254,894**	**400,600**	**155,241**	**155,075**	**1,965,810**
thereof gross forborne exposure	4,713	-	-	96	4,809
Performing exposure	1,237,642	400,600	154,234	154,072	1,946,548
thereof performing forborne exposure	1,766	-	-	10	1,776
Credit loss allowances for performing exposure	(8,860)	(184)	(169)	(387)	(9,601)
thereof credit loss allowances for performing forborne exposure	(171)	-	-	(1)	(172)
Non-performing exposure	17,252	-	1,007	1,003	19,262
thereof non-performing forborne exposure	2,947	-	-	86	3,033
Credit loss allowances for non-performing exposure	(10,409)	-	(119)	(462)	(10,991)
thereof credit loss allowances for non-performing forborne exposure	(1,772)	-	-	(6)	(1,778)
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)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2023			
Loans and advances	4,713	4,711	2
Loan commitments	96	96	-
Total	**4,809**	**4,807**	**2**
2022			
Loans and advances	5,768	5,765	3
Loan commitments	107	107	-
Total	**5,875**	**5,872**	**3**

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 “Credit risk classification”. Credit risk allowances include credit loss allowances for financial assets, credit loss allowances for loan commitments and financial guarantees (all allowances within the scope of IFRS 9) and provisions for other commitments.

Credit loss allowances (all stages combined) covered 111,7% (2022: 121.4%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2023. 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 2023, the non-performing credit risk exposure increased by CZK 1,677 billion (2022: increase by CZK 283 million), or 9,5% (2022: 1.6%). The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 297 million (2022: CZK 618 million) or 1,5,% (2022: 3.2%).

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 (all allowances within the scope of IFRS 9) divided by non-performing credit risk exposure at AC and FVOCI. Collateral is not taken into account in the NPE coverage ratio.

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 99.9%. 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 2023 and 31 December 2022 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
2023							
ČS Total	**980**	**970**	**139**	**-**	**-**	**-**	**-**
Banking book	971	961	139	-	-	-	-
Trading book	9	9	1	-	-	-	-
2022							
ČS Total	**1,492**	**1,484**	**154**	**-**	**-**	**-**	**-**
Banking book	1,486	1,478	154	-	-	-	-
Trading book	6	6	0	-	-	-	-

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 in the timing of interest rate adjustments.

The Bank has implemented and follows the latest EBA Guideline for the identification, evaluation, management, and mitigation of the risks arising from potential changes in interest rates.

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 supervisory outlier tests of economic value of equity and net interest income are monitored and limited safely within regulatory thresholds. 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 book 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.

	2024		2023	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	822	(884)	219	(132)
Other comprehensive income	(2,874)	3,024	(3,093)	3,234
EUR				
Income statement	922	(977)	(53)	73
Other comprehensive income	1,338	(1,441)	832	(882)

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. The impact on the income statement increased for both currencies, mainly due to an increase in the sensitivity of off-balance sheet items carried at fair value to an increase in interest rates (and vice versa for a decrease in interest rates). In the case of CZK, this was offset by a change in interest rate sensitivity from positive to negative (for interest rate increases). The sensitivity of other comprehensive income has changed in particular for EUR, where the sensitivity to a rise in interest rates has increased.

Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

In the Group, foreign currency exposures are primarily carried by the Bank and real estate companies. The foreign currency risk of other Group entities is limited. Foreign currency exposure is subject to regulatory and internal limits that are approved by management board.

The Bank's open foreign exchange position is managed and closed by Trading book FX desk on a daily basis. Portfolios that are allowed to keep open position are limited based on approved VaR and sensitivity limits set for single currencies and monitored on a daily basis.

Credit spread risk

Credit spread risk is the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments. 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.

In order to achieve the goals of risk management fair value and cash flow hedges are used. Interest rate swaps serve to hedge against interest rate risk, while currency risk coming from mismatch between foreign currency assets and liabilities is hedged with foreign exchange swaps and cross currency swaps.

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. 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 calculated 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

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. The regulatory indicators showed greater than usual volatility at the end of the year; however, these movements reflected primarily the short-term effect of client operations through the end of the year. The budgeted values of these indicators show a stable and significant surplus of liquidity even for the year 2024.

Liqudity coverage ratio

The LCR is used as one of the metrics for monitoring and steering of short-term liquidity position. The LCR value at the end of the year 2023 was slightly distorted downwards due to short-term client and intra-group operations over the year-end. The average monthly LCR of the Bank in year 2023 was 175%. The Bank expects LCR values to oscillate around 170% during year 2024, in line with the budget.

in CZK million	**2023**	**2022**
Hiqh-quality liquid assets	416,200	424,337
Net liquidity outflow	273,068	206,472
Liquidity coverage ratio	**152%**	**206%**

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. The NSFR value at the end of the year 2023 showed similar trend as the LCR and was affected by similar factors. The average monthly NSFR of the Bank in year 2023 was 171%. The Bank expects NSFR values to oscillate around 160% during year 2024.

in CZK million	**2023**	**2022**
Available stable funding	1,210,212	1,132,278
Required stable funding	727,236	655,679
Net stable funding ratio	**166%**	**173%**

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 2023 and 2022 are shown in the tables below:

	< 1 week	
in CZK million	**2023**	**2022**
Cash, excess reserve	18,054	14,242
Liquid assets	400,446	413,046
Counterbalancing capacity	**418,501**	**427,288**

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 2023 and 2022 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
2023						
Non-derivative liabilities	**1,547,920**	**1,562,878**	**1,371,656**	**108,206**	**68,660**	**14,356**
Deposits by banks	112,090	112,755	81,284	22,817	2,060	6,593
Customer deposits	1,307,952	1,308,940	1,223,631	82,204	1,849	1,255
Debt securities in issue	121,451	134,757	60,313	3,185	64,751	6,507
Other financial liabilities	6,427	6,427	6,427	-	-	-
Derivative liabilities	**16,716**	**16,716**	**650**	**4,311**	**7,180**	**4,575**
Contingent liabilities	**288,780**	**288,780**	**288,780**	**-**	**-**	**-**
Financial guarantees	26,211	26,211	26,211	-	-	-
Loan commitments	155,076	155,076	155,076	-	-	-
Other commitments	107,493	107,493	107,493	-	-	-
Total	**1,853,416**	**1,868,375**	**1,661,087**	**112,517**	**75,840**	**18,931**
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	-	-	-
Loan commitments	229,556	229,556	229,556	-	-	-
Other commitments	31,251	31,251	31,251	-	-	-
Total	**1,698,495**	**1,702,176**	**1,521,509**	**113,358**	**41,027**	**26,281**

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

Depreciation of property and equipment 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.

Any impairment losses including their reversals and 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) are 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 2022	**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**
Additions in current year (+)	635	223	272	1,130
Disposals (-)	(229)	(262)	(375)	(867)
Reclassification (+/-)	-	(60)	63	3
Assets held for sale (-)	(173)	-	-	(173)
Balance as of 31 Dec 2023	**14,126**	**2,339**	**2,882**	**19,347**

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 2022	**(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)**
Depreciation (-)	(575)	(99)	(312)	(986)
Disposals (+)	223	249	357	829
Impairment (-)	(313)	-	-	(313)
Assets held for sale (+)	164	-	-	164
Balance as of 31 Dec 2023	**(8,886)**	**(1,531)**	**(1,511)**	**(11,928)**

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 2022	**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**
Additions	544	53	-	597
Disposals	(68)	(37)	-	(105)
Balance as of 31 Dec 2023	**6,405**	**117**	**-**	**6,522**

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 2022	**(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)**
Amortisation and depreciation	(706)	(26)	-	(732)
Disposals	63	28	-	91
Impairment	(1)	-	-	(1)
Balance as of 31 Dec 2023	**(2,895)**	**(47)**	**-**	**(2,942)**

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 2022	5,508	757	1,366	7,631
Dec 2023	5,239	809	1,371	7,419

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 332 million (2022: CZK 367 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 2022	3,679	53	-	3,731
Dec 2023	3,510	71	-	3,581

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 2022	8,884	761	1,353	10,998
Balance as of 31 Dec 2022	9,186	809	1,366	11,362
Balance as of 31 Dec 2023	8,750	879	1,371	11,000

The balances as at 31 December 2023 shown above include CZK 677 million (2022: CZK 812 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,053 million as at 31 December 2023 (2022: CZK 4,286 million).

As at 2023, land and buildings were impaired in the amount of CZK 1,212 million (2022: CZK 982 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.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation expense 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 2022	**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**
Additions	1,726	98	1,824
Disposals (-)	(544)	(1)	(545)
Reclassification	(14)	11	(3)
Balance as of 31 Dec 2023	**18,457**	**1,468**	**19,925**

Accumulated depreciation

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2022	**(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)**
Amortisation charge (-)	(976)	(68)	(1,044)
Disposals (+)	544	1	545
Reclassification	90	(90)	-
Impairment (-)	(786)	(11)	(797)
Balance as of 31 Dec 2023	**(12,449)**	**(1,292)**	**(13,741)**

Carrying amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2022	**5,821**	**258**	**6,079**
Balance as of 31 Dec 2022	**5,968**	**236**	**6,204**
Balance as of 31 Dec 2023	**6,008**	**176**	**6,184**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,852 million as at 31 December 2023 (2022: CZK 1,215 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 3,197 million as at 31 December 2023 (2022: CZK 2,154 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	2023	2022
Prepayments	325	528
Sundry assets	536	500
Other assets	**861**	**1,028**

'Sundry assets' consist mainly of long-term advances of CZK 297 million (2022: CZK 278 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

The vast majority of lease agreements in which the Bank operates as a lessor are finance leases.

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	2023	2022
Outstanding minimum lease payments	358	220
Gross investment	**358**	**220**
Unrealised financial income	(58)	(20)
Net investment	**300**	**200**
Present value of minimum lease payments	**300**	**200**

Maturity analysis by residual maturities

in CZK million	2023		2022	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	60	54	42	39
1-2 years	58	52	40	37
2-3 years	51	46	39	36
3-4 years	51	45	33	30
4-5 years	44	39	33	29
> 5 years	94	64	33	30
Total	**358**	**300**	**220**	**200**

During 2023, the Bank recognised interest income on finance lease receivables in the amount of CZK 9 million (2022: CZK 5 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 2023 and 2022 is provided in the table below:

Gross carrying amounts (and credit loss allowances (per impairment buckets

in CZK million	GCA				CLA				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
2023									
General governments	61	-	-	61	(10)	-	-	(10)	51
Other financial corporations	98	-	-	98	-	-	-	-	98
Non-financial corporations	142	-	-	142	(7)	-	-	(7)	135
Total	**300**	**-**	**-**	**300**	**(17)**	**-**	**-**	**(17)**	**284**
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**

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	2023	2022
< 1 year	110	80
1-2 years	103	78
2-3 years	72	75
3-4 years	71	49
4-5 years	69	48
> 5 years	43	35
Total	**468**	**366**

For information about rental income please refer to Note 6 Rental income from other operating leases.

47 Leases where the Bank is a lessee

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 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. The lease payments also include 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. Extension and termination options are included in a number of real estate leases across the Bank. The use of extension and termination options gives the Bank added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

When determining the present value of lease payment the Bank typically uses the incremental borrowing rate as the discount rate. For movables it 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 43 Property, equipment and right-of-use assets.

Maturity analysis of lease liabilities on the basis of undiscounted cash flows

in CZK million	2023		2022	
	Nominal values	Present values	Nominal values	Present values
< 1 year	710	605	774	663
1-5 years	2,440	2,218	2,515	2,263
> 5 years	1,154	1,070	1,281	1,202
Total	**4,304**	**3,893**	**4,570**	**4,128**

During 2023, interest expenses on lease liabilities were recognised in the amount of CZK 129 million (2022: CZK 82 million). In 2023, expenses in the amount of CZK 70 million (2022: CZK 63 million) relating to short term leases, for which the recognition exemption of IFRS 16 applies, were recognised. In addition, expenses amounting to CZK 50 million (2022: CZK 58 million) relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, were recognized.

Gains arising from sale and leaseback transactions in the amount of CZK 19 million (2022: CZK 0 million) were recognised.

Income from subleasing right-of-use assets was recognized in the amount of CZK 59 million (2022: CZK 29 million). Total cash outflow for leases in 2023 was CZK 928 million (2022: CZK 917 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 2023.

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 2023	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%	497
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.	50.0	Czech Republic	CZK	100%	100%	191
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%	5,615
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%	610
ČS Seed Starter, a.s.	6.0	Czech Republic	CZK	100%	100%	229
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%	1,444
Subtotal						**14,238**
Investments in associates						
Procurement Services CZ, s.r.o.	0.2	Czech Republic	CZK	40%	40%	-
Total						**14,238**

On 10 October 2023 the company Czech and Slovak Property Fund B.V. was deleted from the Commercial Register. In 2023 the Bank increased its investments in Stavební spořitelna České spořitelny, a.s. by CZK 1.8 billion and in Dostupné bydlení České spořitelny, a.s. by CZK 1.1 billion. The share capital of the subsidiary Česká spořitelna - penzijní společnost,

a.s. was reduced in 2023 by CZK 300 million. On 19 December 2023 the Bank transferred its share in the associate Erste Group Shared Services (EGSS), s.r.o. to Erste Group Bank.

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.

*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	2023	2022
Deferred income	500	488
Sundry liabilities	6,051	5,333
Other liabilities	**6,551**	**5,821**

Sundry liabilities consist mainly of suspense account amounting to CZK 2,710 million (2022: CZK 2,174 million) and costs of staff bonuses for 2023 amounting to CZK 1,418 million (2022: CZK 1,509 million) of which CZK 47 million (2022: CZK 44 million) is a liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2023 includes ‘contract liabilities’ in accordance with IFRS 15 in amount of CZK 500 million (2022: CZK 488 million). Revenue recognised in the reporting year 2023 that was included in the contract liability balance at the beginning of the period amounts to CZK 488 million (2022: CZK 506 million).

50 Provisions

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.

Loan commitments and financial guarantees given in scope of IFRS 9

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.

For financial guarantees provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Loan commitments are generally not recognised in the balance sheet before they are drawn. If it is probable that the Bank will enter into the loan agreement loan commitment fees received are deferred and adjust the effective interest rate of the loan when the commitment is drawn. Loan commitments result in recognition of provisions based on the expected credit loss impairment model.

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’.

For information about development of credit loss allowances for provision for financial guarantees and loan commitments refer to Note 36 Development of Credit Loss Allowances, part ‘Loan commitments and financial guarantees’: table ‘Movement in credit loss allowances – loan commitments and financial guarantees’.

Provisions recognised in accordance with IAS 37

Expenses or income related to provisions which are in scope of IAS 37 are reported in the statement of income under the line item ‘Other operating result’.

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	2023	2022
Restructuring	305	67
Pending legal issues	1,695	1,696
Loan commitments and financial guarantees given	1,080	1,096
CLA for loan commitments and financial guarantees in Stage 1	264	385
CLA for loan commitments and financial guarantees in Stage 2	291	454
CLA for loan commitments and financial guarantees in Stage 3	522	257
CLA for loan commitments and financial guarantees POCI	3	-
Commitments and guarantees given out of scope of IFRS 9	57	-
Provision for onerous contracts	215	-
Other provisions	89	418
Provisions	**3,441**	**3,277**

The restructuring provision of CZK 252 million was created at the end of 2023 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 2025.

Under position 'Pending legal issues' 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	As of	Allocations	Use	Releases	Exchange rate and other changes (+/-)	As of
	Jan 2023					**Dec 2023**
Provision for restructuring	67	252	(67)	-	54	306
Pending legal issues and tax litigation	1,696	-	-	(1)	-	1,695
Other provisions	418	428	-	(275)	(211)	360
Provisions	**2,181**	**680**	**(67)**	**(276)**	**(157)**	**2,361**
	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**

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 2023 the aggregate balance of these allowances was CZK 1,080 million (2022: CZK 1,096 million). Refer to Note 36 Development of Credit Loss Allowances.

in CZK million	2023	2022
Amounts owed under guarantees and letters of credit	26,211	20,035
Undrawn loan and other commitments	262,569	260,807
out of which loan commitments	155,076	229,556
Total	**288,780**	**280,842**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

52 Total equity

Details on equity are provided in Section IV, Statement of Changes in Equity.

in CZK million	2023	2022
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	9,040
Retained earnings and other reserves	111,282	104,459
Total equity	**135,534**	**128,711**

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 2023, 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.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital is as follows:

	2023		2022	
	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 Board of Directors and Supervisory Board	Erste Group Bank AG	Subsidiaries	Associates	Other related parties	Members of the Board of Directors and Supervisory Board
			2023					2022		
Assets										
Cash and cash equivalents	1,206	-	-	224	-	1,233	-	-	39	-
Financial assets - held for trading	10,012	-	-	-	-	19,994	-	-	-	-
Financial assets - FVPL	856	-	-	-	-	1,383	-	-	-	-
Financial assets – amortised costs	62	31,383	-	125	46	1,355	28,899	-	150	40
Trade and other receivables	9	182	1	136	-	5	172	-	122	-
Derivatives Hedge Accounting	3,050	-	-	-	-	3,000	-	-	-	-
Other assets	-	658	-	1		-	680	-	1	-
Liabilities	-	-	-	-						
Financial liabilities held for trading	8,098	-	-	-		10,557	-	-	-	-
Financial liabilities measured at amortised costs	84,570	1,445	42	459	115	88,173	2,698	17	352	128
Debt securities in issue	60,196	-	-	17		42,703	606	-	17	-
Derivatives Hedge Accounting	3,531	-	-	-		2,839	-	-	-	-
Other Liabilities	0	81	-	(2)		-	173	-	1	-
Profit&Loss statement			01-12 2023					01-12 2022		
Net interest income	(10,268)	671	-	3	3	(10,366)	669	-	4	3
Net fee and commision income	72	762	-	1,294		33	794	-	1,120	-
Dividend income	-	2,611	2	3		-	2,520	-	12	-
Net trading result and fair value result	(856)	1	8	-		14,343	-	-	16	-
Other administrative expenses	(138)	(84)	(53)	(1,103)		(140)	(74)	(43)	(878)	-
Other operating result	16	662	11	63		33	(662)	9	661	-
Loans commitments, financial guarantees and other commitments given	7,212	31,226	8	456		12,517	18,067	8	490	-
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 2023 comprise mainly of providing long term loans to Leasing České spořitelny, a.s. of CZK 16,908 million (2022 CZK 19,501 million) and Factoring České spořitelny, a.s. of CZK 5,373 million (2022: CZK 5,460 million).

Financial assets at amortized cost to Erste Group Bank AG as at 31 December 2023 include primarily term deposits of CZK 50 million (2022: CZK 1,348 million).

The term deposits are mainly denominated in CZK, the interest rate on term deposits is 6.75% and maturity of these transactions is up to 1 month (2022: mainly denominated in EUR, the interest rates in the range of –0.1% to 2.76% and maturity up to 52 months).

Financial liabilities measured at amortized costs as at 31 December 2023 include primarily repurchase agreements with Erste Group Bank AG in CZK 82,940 million (2022: CZK 78,102 million).

The repurchase agreements are mainly denominated in CZK (CZK 55,167 million as at 31 December 2023, 2022: CZK 36,059 million) and EUR (CZK 27,773 million as at 31 December 2023, 2022: CZK 42,043 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 2023 include primarily derivatives held for trading of CZK 9,753 million (2022: CZK 19,453 million).

As at 31 December 2023 financial assets and financial liabilities held for trading include mainly derivative instruments (currency and interest rate derivatives). In 2023 and 2022, 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 České spořitelny, a.s. and Factoring České spořitelny, a.s. in amount of CZK 29,782 million as at 31 December 2023 (2022: CZK 16,771 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 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 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
2023	74	3	10	11	8	106
2022	65	2	13	16	7	103

The item Other remuneration comprises income from providing pool cars for personal use to Board of Directors members. No termination benefit was paid out in 2023 and 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 2023 was estimated at CZK 51 million (2022: CZK 51 million).

At year-end 2023 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 53 million (2022: CZK 45 million) and for non-cash part is CZK 69 million (2022: CZK 76 million) of which CZK 35 million are phantom shares (2022: CZK 36 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 2023, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2023 in the amount of EUR 33.02 (2022: EUR 29.50) 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 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 2023 Board of Directors members receive equivalent of 16,139 pcs of phantom shares (2022: 14,810 pcs) with average price 33.02 EUR (2022: EUR 29.50).

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 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, at least six months in 2022 and were still employed until the transfer of the shares to the employees in June 2023 (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 June 2023. The number of free shares, which were granted under this program for the period, is 161,118 (2022: 279,849). Personnel expenses in the amount of CZK 159 million (2022: CZK 199 million) were recorded.

In the WeShare-Participation part all employees, who have been employed by the Bank for at least six months in 2022 and were still employed until the transfer of the shares to the employees in June 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 84,201 (2022: 117,709). Based on the number of entitled employees, personnel expenses in the amount of CZK 51 million (2022: 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 - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.:

in CZK million	2023	2022
Audit fees	31	16
Other assurance services	5	8
Other services	7	1
Total	**43**	**25**

The audit fees for 2023 are presented incl. VAT 21%, whereas the audit fees for 2022 are shown excl. VAT.

56 Assets held for sale and liabilities associated with assets 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	2023	2022
Assets held for sale	10	9

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 2023 and 2022 was as follows:

	2023		2022	
in CZK million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and cash equivalents	27,304	-	20,974	-
Financial assets - held for trading	16,662	-	28,009	-
Derivatives	16,643	-	27,961	-
Other financial assets held for trading	19	-	48	-
Non-trading financial assets at fair value through profit or loss	1,590	645	2,213	628
Equity instruments	-	645	-	628
Debt securities	734	-	830	-
Loans and advances to banks	856	-	1,383	-
Financial assets at FVOCI	2,350	49,975	8,995	38,238
Debt securities	2,350	49,975	8,995	38,238
Financial assets at AC	416,522	1,164,041	368,996	1,058,929
Loans and receivables to credit institutions	306,330	1,499	265,214	947
Loans and receivables to customers	94,179	830,716	90,597	749,255
Debt securities	16,014	331,825	13,186	308,726
Finance lease receivables	-	284	-	195
Hedge accounting derivatives	-	3,241	-	3,235
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(9)	-	(17)	-
Property and equipment	-	11,000	-	11,362
Intangible assets	-	6,184	-	6,204
Investments in associates and joint ventures	-	14,238	-	11,426
Current tax assets	527	-	437	-
Deferred tax assets	-	1,402	-	2,369
Assets held for sale	10	-	9	-
Trade and other receivables	1,744	17	1,881	351
Other assets	861	-	1,028	-
Total Assets	**467,561**	**1,251,027**	**432,524**	**1,132,937**
Financial liabilities - held for trading	16,716	-	29,597	-
Financial liabilities designated at FVPL	12,308	975	31,331	-
Financial liabilities measured at AC	905,648	628,988	730,030	626,695
Deposits from banks	103,342	8,748	100,524	9,709
Deposits from customers	735,783	558,885	575,947	588,409
Debt securities issued	60,095	61,356	48,685	28,577
Other financial liabilities	6,427	-	4,875	-
Finance lease liabilities	605	3,288	663	3,466
Derivatives - hedge accounting	29	4,505	-	5,870
Provisions	-	3,441	-	3,277
Other liabilities	6,551	-	5,821	-
Total Liabilities	**941,857**	**641,197**	**797,442**	**639,308**

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	2023	2022
Opening balance of debt securities issued as of 1 January	77,262	219,986
Cash-flows reported within the cash-flow from financing activities	42,855	(142,266)
Non-cash adjustment	1,334	(458)
Closing balance of debt securities issued as of 31 December	**121,451**	**77,262**

Non-cash adjustments consist mainly of accrued interest and FX impact.

Cash-flows from lease liabilities

in CZK million	2023	2022
Opening balance of lease liabilities as of 1 January	4,129	3,817
Cash-flows reported within the cash-flow from financing activities	(808)	(796)
Non-cash adjustments	572	1,108
Closing balance of lease liabilities as of 31 December	**3,893**	**4,129**

Non-cash adjustments include the interest expense and the lease liability from the newly concluded and modified contracts in 2023 and 2022.

59 Events after the balance sheet date

As of 1 January 2024 the Corporate Income Tax rate in Czech Republic increased from 19% to 21%.

As of 15 January 2024 the subsidiary ČS NHQ, s.r.o. concluded the agreement with the general contractor for the construction of new HQ, approx. volume of CZK 8 billion.

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. 2023 to 31. 12. 2023

The Board of Directors of Česká spořitelna, a.s., 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 2023 (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 2023 to 31 December 2023.

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 2023.

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 chart 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 2023 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
Banka Sparkasse d.d.	Cesta v Kleče 15, Lublin, Slovenia
Erste & Steiermärkische Bank d.d.	Jadranski Trg 3a 51000 Rijeka, Rijeka, Croatia
Erste Asset Management GmbH	Am Belvedere 1, 1100 Vienna, Austria
Erste Bank a.d. Novi Sad	Bulevar oslobođenja 5, 21101 Novi Sad, Serbia
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 Digital GmbH	Am Belvedere 1, 1100 Vienna, Austria
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 Group Shared Services (EGSS), s.r.o.	Národní třída 44, Hodonin, Czech Republic
Erste Securities Polska S.A.	ul. Królewska 16, Warsaw, Polland
Intermarket Bank AG	Am Belvedere 1, 1100 Vienna, Austria
Omega Immorent s.r.o.	Budějovická 1518/13a, 14000 Prague 4, Czech Republic
Österreichische Sparkassenakademie Gmbh	Am Belvedere 1, 1100 Vienna, Austria
Procurement Services CZ, s.r.o.	Budějovická 1912/64b, Prague 4, Czech Republic
Slovenská sporiteľňa a.s.	Tomášikova 48, Bratislava, Slovak Republic
Sparkasse Bank AD Skopje	Makedonija br. 34, 1000 Skopje, Macedonia
Sparkasse Bank dd BiH	Zmaja od Bosne 7, Sarajevo, Bosnia and Herzegovina
Sparkasse Oberösterreich Bank AG	Promenade 11 - 13, 4020 Linz, Austria
Waldviertler Sparkasse Bank AG	Sparkassenplatz 3, Zwett, Austria
Wiener Neustädter Sparkasse	Neunkirchner Str. 4, 2700 Wiener Neustadt, 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
DINESIA a.s. v likvidaci	Střelničná 1680/8, 182 00 Prague 8, Czech Republic
Dostupné bydlení České spořitelny, a.s.	Budějovická 1518/13b, 140 00 Prague 4, Czech Republic
DBČS Černý Most, s. r. o.	Budějovická 1518/13b, 140 00 Prague 4, Czech Republic
DBČS Žďár, s. r. o.	Budějovická 1518/13b, 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
REICO investiční společnost České spořitelny, a.s.	Antala Staška 2027/79, Prague 4, Czech Republic
s Autoleasing SK, s.r.o	Vajnorská 100/A 831 04 Bratislava, Slovakia
S Servis, s.r.o.	Primátorská 296/38, Libeň, 180 00 Prague, Czech Republic
Stavební spořitelna České spořitelny, a.s.	Vinohradská 180/1632, Prague 3, Czech Republic

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.	-10,268	675
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.	72	2,056
Dividend income	Related party share distribution agreements.	-	2,615
Net trading result	Agreements on the provision of derivatives for trading, contracts for the acquisition of derivatives for trading.	-856	10
Other administrative expenses	Non-banking contracts.	-138	-1,240
Other operating result	Non-banking contracts.	16	736

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.	1,206	224
Financial assets held for trading	Agreements on the acquisition of bonds and similar securities, contracts for the acquisition of derivatives for trading.	10,012	-
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.	856	-
Financial assets at amortised costs	Loan agreement, agreement on long-term deposits, agreement on the establishing and maintenance of current accounts, overdrafts.	62	31,507
Hedge accounting derivates	Hedging derivative contracts	3,050	-
Right to use assets	Non-banking contracts.	-	659
Financial lease receivables, trade and other receivables, other assets	Non-banking contracts.	9	318

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	8,098	-
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.	144,766	1,963
Hedge accounting derivates	Derivative derivative contracts	3,531	-
Other liabilities	Non-banking contracts.	0	79

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	88	17,862
Net position of derivatives notional amount	Derivative contracts	613,513	-
Equity investments with Related Parties	Related party share distribution agreements	2,421	-
Dividends	Decision of the sole shareholder of 16 June 2023	16,902	2,653
Additional Tier 1 Notes interest	Decision of the sole shareholder of 16 June 2023	411	-

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	ESTR, SFTR, BAIL IN	GMRA (SFTR)	2021	None incurred
Erste Group Bank AG	ESTR, BAIL IN	ISDA, ISMA (1992)	2021	None incurred
Erste Group Bank AG	Process Agent - change notification	Change OO, PV without IDOP	2021	None incurred
Erste Group Bank AG	MASTER AGREEMENT ON CERTIFICATES OF DEPOSIT ČESKÁ SPOŘITELNA, A.S.	Other	2020	None incurred
Erste Group Bank AG	Clearing Framework Agreement	Other	2020	None incurred
Erste Group Bank AG	Annex to Clearing Framework Agreement ('Framework Agreement') for indirect clearing	Other	2020	None incurred
Erste Group Bank AG	EUR Agreement on Current Account	Cash Management	2020	None incurred
Erste Group Bank AG	Client Account Agreement (nostro accounts)	Cash Management	2020	None incurred
Erste Group Bank AG	Authorized persons for concluding transactions	Other	2019	None incurred
Erste Group Bank AG	Global Master Securities Lending Agreement	GMSLA	2019	None incurred
Erste Group Bank AG	CZK Agreement on Current Account	Cash Management	2019	None incurred
Erste Group Bank AG	Electronic Trading Agreement - ČS is a client	Other	2018	None incurred
Erste Group Bank AG	Electronic Trading Agreement - EGB is a client	Other	2018	None incurred
Erste Group Bank AG	Business24 - Light	Cash Management	2018	None incurred
Erste Group Bank AG	Global Master Repurchase Agreement	GMRA	2017	None incurred
Erste Group Bank AG	Variation Margin CSA	ISDA, ISMA (1992)	2017	None incurred
Erste Group Bank AG	Notification of the change of the counterparty 's registered office	ISDA, ISMA (1992)	2016	None incurred
Erste Group Bank AG	Zentai + Böwing signature patterns	Other	2015	None incurred
Erste Group Bank AG	Agent in England	Other	2013	None incurred
Erste Group Bank AG	ISDA EMIR protocol	ISDA, ISMA (1992)	2013	None incurred
Erste Group Bank AG	Amendment - change in issue. allowances	ISDA, ISMA (1992)	2013	None incurred
Erste Group Bank AG	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	Commission agreement	2011	None incurred
Erste Group Bank AG	Global Custody Agreement	Custody	2010	None incurred
Erste Group Bank AG	ISDA - Annex on Emission Allowances	ISDA, ISMA (1992)	2009	None incurred
Erste Group Bank AG	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	Commission agreement	2007	None incurred
Erste Group Bank AG	II. AGREEMENT on the issuance and use of debit cards of Česká spořitelna, a.s.	Other	2007	None incurred
Erste Group Bank AG	Framework Agreement for Handling Options & Futures	Other	2005	None incurred
Erste Group Bank AG	Pledge Agreement	Other	2003	None incurred
Erste Group Bank AG	Mandate Agreement on Entering into Derivate Transaction	Commission agreement	2003	None incurred
Erste Group Bank AG	Agreement on Fees	Other	2002	None incurred
Erste Group Bank AG	Commission Agent´s Contract on Arranging Purchase or Sale	Other	2002	None incurred
Erste Group Bank AG	Agreement on Classes of Fully Capitalized Units	Other	2002	None incurred
Erste Group Bank AG	Contract On Arranging for the Purchase Price Playments for the Transfer of Securities	Other	2001	None incurred
Erste Group Bank AG	Contract On intermediation of Sale and Purchase of Securities	Other	2001	None incurred
Erste Group Bank AG	Custody Agreement with Česká Spořitelna, a.s.	Other	2001	None incurred

CONTRACTUAL RELATIONS OF THE STANDARD NON – BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
Erste Group Bank AG	Cost Reimbursement Agreement	Other	2023	None incurred
Erste Group Bank AG	Service Level Agreement KYC4FI	Other	2023	None incurred
Erste Group Bank AG	SFTR, BAIL IN, ESTR FALL BACK	GMSLA	2021	None incurred
Erste Group Bank AG	Omnibus Reporting Agreement	Other	2021	None incurred
Erste Group Bank AG	MIFID II Indirect clearing account type selection for ETD	Other	2020	None incurred
Erste Group Bank AG	Service Level Agreement	Other	2019	None incurred
Erste Group Bank AG	Cooperation agreement-Hong Kong branch	Other	2019	None incurred
Erste Group Bank AG	Service Level Agreement MIFID II	Other	2018	None incurred
Erste Group Bank AG	Funded Subparticipation Agreement dated October 29, 2018 between Erste Group Bank AG and ČS a.s.	Syndicated financing	2018	None incurred
Erste Group Bank AG	Service Level Agreement - Amendment Nr. 7	Other	2018	None incurred
Erste Group Bank AG	Service Level Agreement - Amendment 6	Other	2018	None incurred
Erste Group Bank AG	Service Level Agreement - Amendment 5	Other	2018	None incurred
Erste Group Bank AG	Service Level Agreement - Amendment 4	Other	2018	None incurred
Erste Group Bank AG	Service Level Agreement - Appendix No. 1	Other	2017	None incurred
Erste Group Bank AG	Funded Subparticipation Agreement dated 27 October 2017 between Erste Group Bank AG and ČS a.s.	Syndicated financing	2017	None incurred
Erste Group Bank AG	Service Level Agreement for Care Order Execution	Other	2016	None incurred
Erste Group Bank AG	Distribution Agreement	Other	2013	None incurred
Erste Group Bank AG	Memorandum of understanding	Other	2013	None incurred
Erste Group Bank AG	cooperation agreement	Other	2011	None incurred
Erste Group Bank AG	Sub-Distribution Agreement	Other	2011	None incurred
Erste Group Bank AG	AML - Credit- / Fin. Ins. Working Instruction	Other	2010	None incurred
Erste Group Bank AG	Cooperation Agreement	Other	2009	None incurred
Erste Group Bank AG	Cooperation Agreement - Profit Transfer Matrix	Other	2008	None incurred
Erste Group Bank AG	service level agreement	Other	2008	None incurred
Erste Group Bank AG	notice of change of contact details	Other	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), ČS NHQ, s.r.o. (2x), Česká spořitelna - penzijní společnost, a.s. (2x), Erste Asset Management GmbH, Czech branch (1x), Factoring České spořitelny, a.s. (1x), Holding Card Service s.r.o. (1x), REICO investiční společnost České spořitelny, a.s. (1x), Stavební spořitelna České spořitelny, a.s. (4x), Leasing ČS, a.s. (1x), ČS Seed Starter, a. s. (2x), 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 České sporitelny, a.s. (2x), DBČS Žďár, s.r.o. (1x), Erste Group Shared Services (EGSS), s.r.o. (1x), Erste Bank der oesterreichischen Sparkassen AG (1x), CPDP 2003 s.r.o. (3x), Procurement Services CZ, s.r.o. (2x).

- **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), ČS NHQ, s.r.o. (1x), CPDP 2003 s.r.o. (1x), ČS Seed Starter, a. s. (1x), Dostupné bydlení České spořitelny, a.s. (1x).
- **Margin accounts** - Erste Asset Management GmbH, pobočka ČR (in respect of mutual funds).
- **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.

- **Loan or guarantee agreements** - Leasing České spořitelny a.s. (1x), 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), CPDP 2003 s.r.o. (1x).
- **Overdraft agreement** - Erste Asset Management GmbH, pobočka ČR (in respect of mutual funds 15x), Erste Group Shared Services (EGSS), 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), CPDP 2003 s.r.o. (6x).

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), Erste Asset Management GmbH, branch of the Czech Republic (3x), Česká spořitelna - penzijní společnost, a.s. (1x), ČS NHQ, s.r.o. (1x), REICO investiční společnost České spořitelny, a.s. (3x), ČS Seed Starter, a. s. (1x), Stavební spořitelna České spořitelny, a.s. (2x), Leasing České spořitelny, a.s. (1x), Czech and Slovak Property Fund B.V. (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. (2x).

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. (1x), 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), Factoring České spořitelny, a.s. (1x), Česká spořitelna - penzijní společnost, a.s., (1x), Erste Group Shared Services (EGSS), s.r.o. (1x), Czech and Slovak Property Fund B.V. (1x).

CONTRACTUAL RELATIONS OF THE STANDARD NON-BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
BP Budějovická, s. r. o.	Headquarters 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.	Headquarters 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.	Headquarters 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	Headquarters service contract	Residence	2019	None incurred
Budějovická Development, s. r. o	Cooperation agreement	Real estate transaction cooperation agreement	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)	Contract for the 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	Contract for the provision of telephone and data services	2014	None incurred
CEE Property Development Portfolio 2 a.s.	Agreement on the return of the capital part of the surcharge outside the parent company	Agreement on the return of the capital part of the surcharge outside the parent company	2023	None incurred
CPDP 2003 s.r.o.	Headquarters service contract	Residence	2017	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.	Agreement on the provision of outsourcing services for 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	Outsourcing of selected activities	2022	None incurred
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 Pilsen	2015	None incurred

Contractual party	Name	Description	Date	Detriment
Česká spořitelna - penzijní společnost, a.s.	Contract for the provision of outsourcing services for the processing of requests for cooperation and the processing of execution orders	Outsourcing of selected activities	2014	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on the provision of outsourcing services for the area of processing and payment of commissions and securing activities in product support and management of central partners	Outsourcing of selected activities	2013	None incurred
Česká spořitelna - penzijní společnost, a.s.	Agreement on providing activities in the field of information technology	Outsourcing of IT activities	2012	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 Česká spořitelna, a.s.	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.	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 ZC ČSPS	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	2019	None incurred
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 outsourcing services	Outsourcing of selected activities	2023	None incurred
ČS NHQ, s.r.o.	Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2022, 2023	None incurred
ČS NHQ, s.r.o.	Contract for the provision of IT services	Provision of IT services	2019	None incurred

Contractual party	Name	Description	Date	Detriment
ČS NHQ, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Olbrachtova	2022	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Trianon	2022	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 NHQ, s.r.o.	Contract for the lease of vehicle	Contract for the lease of vehicle	2023	None incurred
ČS NHQ, s.r.o.	Statement of Work	Statement of Work	2023	None incurred
ČS NHQ, s.r.o.	Agreement on the sublease of a parking space	Agreement on the sublease of a parking space	2022	None incurred
ČS Seed Starter, a. s.	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 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.	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 the provision of IT services	IT services provided by ČS	2023	None incurred
ČS Seed Starter, a. s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	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
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
Dostupné bydlení České spořitelny, a.s.	Contract for the provision of IT services	Contract for the provision of IT services	2023	None incurred
Dostupné bydlení České spořitelny, a.s.	4x Agreement on the provision of a surcharge outside the share capital of the company	Providing a surcharge outside the share capital	2023	None incurred
Dostupné bydlení České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	None incurred

Contractual party	Name	Description	Date	Detriment
DBČS Žďár, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	None incurred
DBČS Černý Most, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	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	Cooperation agreement (call center Prostějov)	Providing services of call centrum Prostějov	2005	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
Erste Asset Management GmbH, branch ČR	IT service agreement (including amendments)	Contract for IT services (including amendments)	2013	None incurred
Erste Asset Management GmbH, branch ČR	Storage contract	Archival storage	2015	None incurred
Erste Asset Management GmbH, branch ČR	Agreement on securing selected back-office activities (incl. Amendments)	Providing selected back-office activities - selected activities of the fund administrator	2016	None incurred
Erste Asset Management GmbH, branch ČR	Contract for sublease of premises used for business (Trianon) incl. Appendices - Lease Agreement - Trianon building	Sublease Trianon - office + parking	2016	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	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of Outsourcing Services - HR (GDPR)	2018	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	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of Outsourcing Services - HR (GDPR)	2018	None incurred
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	2019	None incurred

Contractual party	Name	Description	Date	Detriment
		for licenses (between EAM, ČS, REICO and ČSPS)		
Erste Asset Management GmbH, branch ČR	Service Level Agreement (SLA)	Sales suppot and fund distribution	2020	None incurred
Erste Asset Management GmbH, branch ČR	Rental contract - HW	Hardware rent - laptops	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	Outsourcing Services Agreement (Including Supplements)	AGREEMENT FOR THE PROVISION OF OUTSOURCING SERVICES - The subject of the agreement is the provision of outsourcing services by Česká spořitelna to Erste Asset Management GmbH, Czech Republic, in selected areas.	2023	None incurred
Erste Asset Management GmbH, branch ČR	Custody Web Portal Contract (Pilot)	Electronical service - Custody Web Portal	2023	None incurred
Erste Asset Management GmbH, branch ČR	Contract on providing activities related to the merger of funds MANAGED INCOME FUND and SPOROINVEST and on cooperation in the implementation of the merger project	Providing activities during the merger of funds (SI+FŘV)	2023	None incurred
Erste Bank der oesterreichischen Sparkassen AG	GROUP MASTER AGREEMENT Standard Software and Technical Support	Technical support	2008, 2022	None incurred
Erste Bank Hungary Zrt	Service Agreement - FASCOR (including amendments)	Provision of services	2018	None incurred
Erste Digital GmbH	67x OSOW - Operating statement of work, incl. ammendments (for various applications)	Software maintenance and operations support	2016-2022	None incurred
Erste Digital GmbH	28x PSOW - Project statement of work, incl. ammendments (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	Master service agreement	2023	None incurred
Erste Grantika Advisory, a.s.	Contract for the provision of consulting services	Agreement on the provision of	2022	None incurred

Contractual party	Name	Description	Date	Detriment
		consulting services to Česká spořitelna		
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
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 Grantika Advisory, a.s.	Contract for the provision of consulting services (ESG)	Agreement on the provision of consulting services to Česká spořitelna	2023	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 (including amendmentds)	Service of data gateway 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 ČR s.r.o.	Lease agreement for non-residential premises	Lease agreement for non-residential premises	2014, 2023	None incurred

Contractual party	Name	Description	Date	Detriment
Erste Group Immorent ČR s.r.o.	Agreement to terminate the contract	agreement to terminate the contract of outsourcing services	2023	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 Systém (including amendment)	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 (EGSS), s.r.o.	Provision of IT services (including supplements)	Operation of IT services and support	2013, 2014, 2016	None incurred
Erste Group Shared Services (EGSS), s.r.o.	Service level agreement	Providing selected services	2010	None incurred
Erste Group Shared Services (EGSS), s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	None incurred
Erste Group Shared Services (EGSS), s.r.o.	Contract for the provision of IT services - HW lease	HW rental	2020	None incurred
Erste Group Shared Services (EGSS), s.r.o.	Non-residential lease agreement (including amendments)	Rental of non-residential premises	2010, 2019	None incurred
Erste Group Shared Services (EGSS), 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 operation of telephone services and infrastructure operation	2014, 2016	None incurred
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	2018	None incurred

Contractual party	Name	Description	Date	Detriment
		- GDPR in relation to the monitoring of receivables and leases		
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.	2023	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
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
Holding Card Service s.r.o.	Agreement on the provision of a surcharge outside the share capital of the company	Providing capital contribution outside the registered capital of the company	2023	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

Contractual party	Name	Description	Date	Detriment
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 provision of IT services	Provision of HW and SW infrastructure	2014	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 software, maintenance and servers	2021	None incurred
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 provision of services related to the employee share program	Services connected with the realization of the employee share program	2022	None incurred
Leasing České spořitelny, a.s.	Vehicle purchase contract	Vehicle purchase contract	2023	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
Procurement Services CZ, s.r.o.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2023	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	2020, 2022	None incurred

Contractual party	Name	Description	Date	Detriment
		fund shares and bookkeeping of funds and related activities		
REICO investiční společnost České spořitelny, a.s.	Contract for provision of outsourcing services	Outsourcing services provided by ČS	2022	None incurred
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
REICO investiční společnost České spořitelny, a.s.	Lease agreement for non-residential premises	Lease for non-residential premises	2023	None incurred
REICO investiční společnost České spořitelny, a.s.	Purchase contract for vehicle	Purchase contract for vehicle	2023	None incurred
REICO investiční společnost České spořitelny, a.s.	Agreement on distribution of unit certificates and provision of related activities	Distribution of unit certificates and related activities	2023	None incurred
REICO investiční společnost České spořitelny, a.s.	Contract for the provision of activities related to the management and administration of funds	Services related to the management and administration of funds	2023	None incurred
Slovenská sporiteľňa, a.s.	License Agreement	Licence 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.amendments)	Core banking systems utilization	2015, 2022	None incurred
Slovenská sporiteĺňa, a.s.; Erste Group Bank AG; Banca	Marketing Alliance Agreement	Marketing cooperation	2021	None incurred

Contractual party	Name	Description	Date	Detriment
Comerciala Romana s.a.; Global Payments, s.r.o.				
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
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 agreement on the performance of internal audits in Stavební Spořitelna Česká Spořitelna, a. S. Concluded in connection with Article 5.1.1 of Part III. Holding standards No. 9 Management and control system and internal audit of the Česká spořitelna Financial Group.	2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Agency agreement (including amendments)	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

Contractual party	Name	Description	Date	Detriment
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 (including amendments)	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
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement (including amendments)	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: in the event of an insured event from the Kooperativa real estate insurance, ČS or SSČS will pay the indemnity exceeding the amount specified in the encumbrance document	2014, 2016, 2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Payment brokerage agreement	Mediation of payments that SSČS pays to authorized persons (processing of the submitted list; mediation of payment within the relevant tranche at ČS branches; processing of the list	2013	None incurred

Contractual party	Name	Description	Date	Detriment
		after the end of payments; return of unpaid funds to the SSČS account)		
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.	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
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	2001	None incurred

Contractual party	Name	Description	Date	Detriment
		to use the logo and trade name		
Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation	Agreement on cooperation in the operation of the Partner 24 servic	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 aditional capital outside of the share capital	2022	None incurred
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
Stavební spořitelna České spořitelny, a.s.	Agreement on the IT services	Providing IT services dceRA Signer	2023	None incurred
Stavební spořitelna České spořitelny, a.s.	Lease contract	Contract for the lease of vehicle	2023	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	2023	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for provision of outsourcing services (včetně dodatků)	Outsourcing services provided by ČS	2023	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 13.5%.

I Other Legal Acts

DINESIA a.s. entered to liquidation on January 1, 2023. There was a liquidation and deletion from the Commercial Register of Czech and Slovak Property Fund B. on October 10, 2023. During 2023, the companies DBČS Žďár, s. r. o. and DBČS Černý Most, s. r. o. were established. On 19 December 2023, 40% of ČS's share in Erste Group Shared Services (EGSS), s.r.o. was transferred to the majority shareholder EGB AG.

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 2023 to 31 December 2023 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 19 March 2024

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 2023, Stavební spořitelna České spořitelny had maintained approximately 128 thousand loan accounts, having lent its clients CZK 67.3 bn for obtaining better housing. It was maintaining over 565 thousand building savings accounts for its clients, with a target amount of nearly CZK 203 bn and current savings of CZK 59.0 bn.

Due to the decline in mainly mortgage lending in 2023, the entire building society market noted a 37% year-on-year decline in lending. The loan volume production of Stavební spořitelna České spořitelny was down by only 32% compared to 2022. In terms of the number of loan agreements concluded, there was a year-on-year decrease by 15%. Market-wide, the number of loan agreements concluded was down by 16% year-on-year. Buřinka, noted a year-on-year decrease of 18% in building savings products, while the market noted 16% decrease.

The year 2023 was also significant in the area of marketing and communication. Buřinka followed up the success of its TV show "Do montérek" ("To Overalls") with a second season called "Akce: rekonstrukce" ("Action: Reconstruction"), which it linked to tutorials on the website and Youtube channel of Buřinka. Stavební spořitelna České spořitelna also consolidated its role as an accelerator of the wave of cost-saving renovations in all communication and marketing activities during 2023. The innovative communication line, which Buřinka started with the "Prvok" ("Protozoan") project and a 3D printed parkour playground, also received a new impetus. In the new "Samorost" ("Sapling") project, in cooperation with experts from MYMO society, Buřinka is exploring the possibilities of using mycelium-based materials in the construction industry. This is a groundbreaking material that takes sustainability in construction to a whole new level. With its communication campaign for the Home for the Future project - a guide to reconstruction, Buřinka won second place in the Financial Services category of the Golden Semicolon competition.

In the area of corporate social responsibility, Buřinka innovated its strategy and added support for palliative care to its long-standing cooperation with "Šatník" ("Dressing room") helping single mothers and Portus on "Akce Cihla" ("Action Brick") for people with mental disabilities. In cooperation with the Mobile Hospice Forum and the Foundation of the Clinic of Palliative Medicine, it announced grant and scholarship programmes for the strategic development of home hospices.

During the energy crisis, Buřinka focused on a specialized product for financing sustainable housing – "Úvěr od Buřinky pro budoucnost" ("Loan for the Future"). Building societies have become a key partner of the state in the energy transformation of households through intensive negotiations with the Ministry of Finance and the Ministry of Environment. The discussion resulted in the signing of a memorandum of cooperation supporting the availability of energy-sustainable renovations to the general public.

The economic situation forced the government to create a savings package, which included, among other things, reduction of state support for building savings by half. The year-long debate on the final form of the savings measures and the resulting uncertainty led to a decline in interest in the building savings product in the first half of 2023. In August, Buřinka was the first to react by top up of the support (with a bonus in the amount of the state support), which it further improved for contracts negotiated digitally in mid-October. This reversed the negative trend and strengthened confidence in this type of savings.

Stavební spořitelna České spořitelny, a.s.	**2023**	**2022**	**2021**	**2020**	**2019**
Share capital (CZK m)	750	750	750	750	750
Total assets (CZK bn)	73.8	71.5	74.5	73.9	73.0
Receivables from clients (CZK bn)	68.1	63.7	56.6	50.2	45.2
Amounts owed to clients (CZK bn)	58.5	62.0	64.2	63.8	63.4
Net profit (CZK m)	921	1,268	832	746	972
Number of accounts (m)	0.7	0.7	0.7	0.7	0.7
Average headcount	171	185	184	186	189

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, managing two largest participant funds on the pension market, Balanced Fund with assets of CZK 18.2 bn and Conservative Fund with assets of CZK 15.3 bn. The Ethical Participation Fund, which is to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, reached over CZK 3.5 bn. As at the end of 2023, the Company had over 927 thousand unique participants, with a total volume of funds just under CZK 122 bn.

The year 2023 can be summarised as an exceptionally good year for investment, with both the equity and bond portfolios of pension funds managed by Česká spořitelna – penzijní společnost performing well. During the year, the mood on the financial markets was optimistic. The probability of an economic recession was becoming less likely, and thanks to falling inflation, the first central bank rate cuts were expected or realised. Both stock markets and global bond markets experienced strong growth. Czech government bonds performed very well above average in this respect. All funds managed to achieve the highest annual appreciation since their inception, for example the Conservative Fund +10.2% and the Dynamic Fund +19.3%.

Česká spořitelna - penzijní společnost, a.s.	**2023**	**2022**	**2021**	**2020**	**2019**
Share capital (CZK m)	50	350	350	350	350
Total assets (CZK bn)	2.8	3.0	3.2	2.6	2.3
Volume of funds in individual funds (CZK m)					
Transformed Fund	76,422	81,527	81,043	77,954	73,805
Conservative Participation Fund	15,270	13,632	13,140	12,199	10,376
Ethical Participation Fund (since 1. 11. 2017)	3,558	2,691	2,041	1,372	742
Balanced Participation Fund	18,232	13,249	11,055	8,442	6,285
Dynamic Participation Fund	9,033	5,871	4,559	3,083	2,112
Net profit (CZK m)	782	538	529	389	344
Number of unique participants (thousand)	927	964	970	949	936
Average headcount	66	65	65	65	64

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 2023, Leasing České spořitelny generated a profit of CZK 264 m. During the year, the Company financed new transactions, with the aggregate amount of initial debt being CZK 14,658 m. The Company covers all known risks arising from the portfolio of agreements concluded, including risks associated with an economic downturn related to the ongoing war in the Ukraine and the armed conflict in the Middle East, 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 cooperation with the parent bank.

In 2023, Leasing České spořitelny paid great attention to the development of digital sales within internet banking. It managed to successfully implement the car financing offer into the Internet banking in George. At the same time, it fully digitised the application process and the signing of contract documentation for corporate clients.

In its activities, Leasing České spořitelny also concentrated on advisory for clients. It focused its efforts on cash-flow management for car loans, for example by advising on the appropriate choice of financial product. During 2023, Leasing České spořitelny also launched a consultancy service for clients wishing to start converting their fleets to carbon-free solutions. As a novelty in this area, in cooperation with Česká spořitelna, it has brought a solution for the calculation of the cost of acquiring electric vehicles in the form of a smart comparison calculator.

In 2023, Leasing České spořitelny also focused its attention on corporate social responsibility activities, whether in the area of care for the elderly or prevention in the safety of children and youth. The funds were directed to the Children's Traffic Foundation, which helps orphaned victims of traffic accidents and children who suffer permanent health effects as a result of a traffic accident, and to the International Police Association, an international organisation that focuses on prevention in the safety of schoolchildren and preschoolers.

Leasing České spořitelny, a.s.	**2023**	**2022**	**2021**	**2020**	**2019**
Share capital (CZK m)	500	500	500	500	500
Total assets (CZK bn)	32.4	28.0	23.9	12.9	13.1
Amount of newly concluded transactions (CZK bn)	14.7	13.7	11.3	5.1	5.5
Net profit / loss (CZK m)	264	184	115	81	119
Number of newly concluded agreements	16,421	13,749	14,129	10,242	13,120
Number of POS owned	2	2	2	1	1
Average headcount	166	171	168	111	111

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 is one of the largest factoring companies on the Czech market. The company's factoring turnover amounted to CZK 83.8 billion, thus repeating the almost identical result from 2022. Despite further growth in the client portfolio, several external influences had an impact on the value of purchased and financed receivables, primarily the overall year-on-year decline in the Czech economy as measured by GDP, high interest rates on the market, stagnation in the prices of industrial producers and, last but not least, fluctuations in the prices of certain commodities.

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.

With regard to the amount of equity, Factoring České spořitelny has become a significant subsidiary company within the Financial Group of Česká spořitelna. Since 1.11.2023 the Board of Directors has been expanded to three members.

Factoring České spořitelny, a.s.	2023	2022	2021	2020	2019
Share capital (CZK m)	114	114	114	114	114
Equity (CZK m)	2,042	1,861	1,326	1,278	1,234
Total assets (CZK m)	10,228	9,506	8,482	5,831	5,228
Contracted amount (CZK m)	83,778	83,958	61,167	37,097	35,682
Net profit (CZK m)	181	135	49	44	36
Average headcount	43	41	39	41	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 2023, 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").

The Central European real estate market demonstrated resilience and adaptability to all challenges in 2023, such as the ongoing war conflict in Ukraine and the deteriorating economic situation. Most of the year was characterized by high inflation and rising European interest rates, with the last quarter seeing interest rate stabilization and a significant decrease in European inflation. This was aided by a significant reduction in energy prices, which will further lower property operating costs and provide relief to both tenants and property owners. The investment market remained subdued due to high financing costs. However, the year-end brought a major drop in interest rate hedging costs. This development signals a rebound and offers an optimistic outlook for the coming year. The rental market continued to benefit from high prices and inflation, leading to rental growth in most sectors of commercial real estate. However, rent growth began to slow down towards the end of the year in response to the fading inflation.

In 2023, the investment company REICO focused on the most efficient management of properties, liquidity optimization through sales from the fund, and renegotiating terms of external financing. At the beginning of 2023, both REICO IS ČS funds under management met the requirements for so-called "light green" financial products and are deemed as financial products according to Article 8 of SFDR. The management primarily aimed to maximize rental income through rent increases in new lease agreements, and also to secure cheaper energy and the possibility of reducing the energy intensity of buildings through the installation of photovoltaic panels, replacing lights with LEDs, or smart measurement and regulation of consumption. In February, the RČSN fund sold the Office Box building in Bratislava from its assets, which was one of the first buildings acquired into the fund and no longer met the characteristics of a premium property. In May, the Rohan building in Prague's Karlín was sold from the RČSN fund at a price exceeding the expert appraisal despite unfavourable market conditions. The RČSLL fund, thanks to available liquidity and falling property prices, actively looked for new acquisition opportunities. New acquisitions into the fund are expected to be realized in the course of 2024.

The total number of properties managed by the REICO investment company Česká spořitelna, a.s. thus stabilized at 23 commercial properties, including 19 in the portfolio of the RČSN fund and 4 in the RČSLL fund. From a regional perspective, the Investment Company managed 10 properties in the Czech Republic, 7 in Poland, and 6 in Slovakia in 2023. In 2023, the RČSN achieved a return on investor funds of 2.05%. The yield was positively influenced mainly by inflationary rental growth together with an appreciation of the liquid component, while it was negatively affected by a revaluation of the property portfolio and a full write-off of one three-year bond linked to the Ukrainian crisis. The RČSLL fund achieved a return of 4.79% in 2023. The achieved yield was mainly due to an inflationary increase in rent and an appreciation of the liquid component in deposit accounts.

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 26.3 bn at the end of December 2023. In 2023, the assets under management of the RČSLL fund amounted to CZK 1.9 bn. In 2023, REICO investiční společnost reported a net profit of CZK 91 m.

REICO investiční společnost České spořitelny, a.s.	2023	2022	2021	2020	2019
Share capital (CZK m)	25	25	25	25	25
Equity (CZK m)	31	142	251	155	160
Total assets (CZK m)	174	193	300	200	201
Net profit (CZK m)	91	111	96	93	92
Assets under management (CZK bn)	28.2	29.5	29.6	27.6	25.8
Average headcount	18	15	16	15	13

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

Alternative Performance Indicator		Financial Statement
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
Data box: wx6dkif
Swift: GIBA CZ PX
Information Line: 800 207 207; **from abroad**: +420 956 777 901
E-mail: csas@csas.cz
Internet: www.csas.cz

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