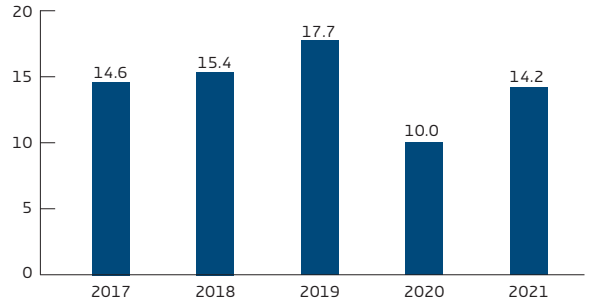


Česká spořitelna

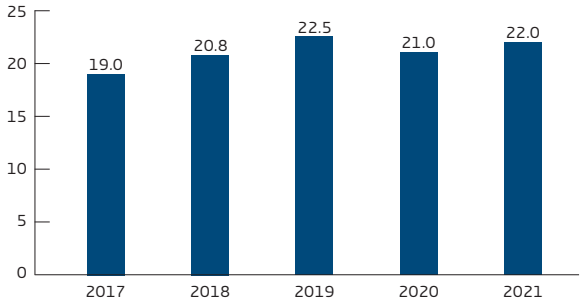
Annual Report 2021

ČESKÁ spořitelna

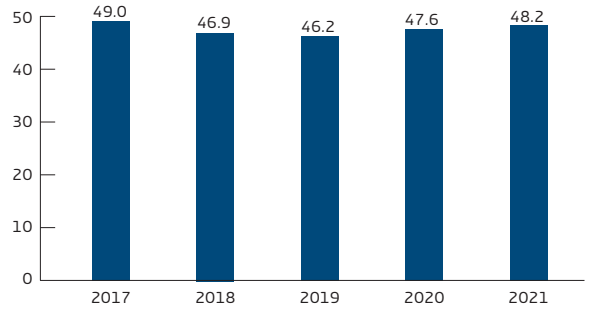
Net profit (CZK billion)



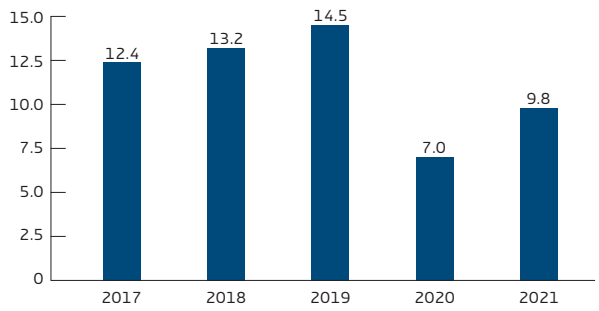
Operating result (CZK billion)



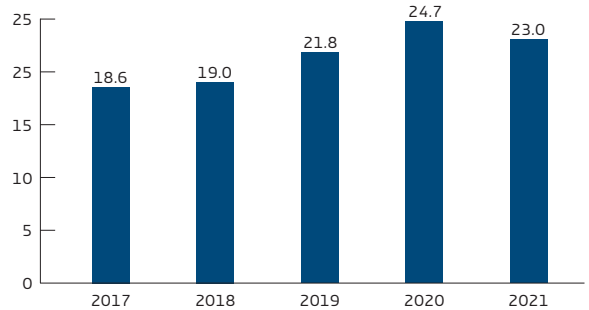
Cost/Income ratio (%)



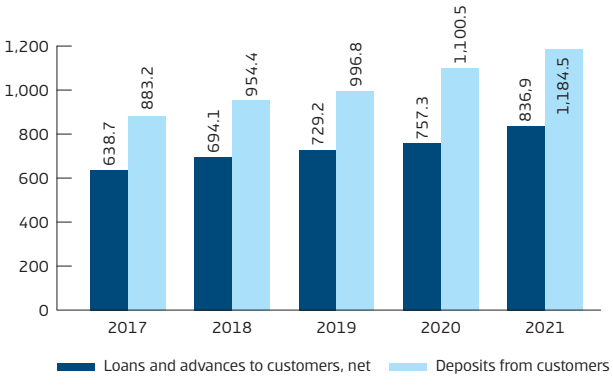
ROE (%)



Capital adequacy (unconsolidated) (%)



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



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	positive

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

Key Consolidated Figures

in accordance with International Financial Reporting Standards (IFRS)[2]

Financial Position Indicators

CZK million	2021	2020	2019	2018	2017
Total assets	1,641,741	1,537,780	1,458,650	1,426,465	1,329,223
Loans and advances to banks, net [3]	364,994	424,838	411,650	389,844	157,525
Loans and advances to customers, net	836,949	757,324	729,206	694,065	638,694
Securities [4]	358,466	277,646	242,301	246,781	219,501
Deposits from banks	49,695	91,335	292,111	318,861	295,232
Deposits from customers [5]	1,184,543	1,100,450	996,815	954,441	883,237
Equity attributable to owners of the parent	142,744	149,125	137,128	122,473	120,810

Income Statement Indicators

CZK million	2021	2020	2019	2018	2017
Net interest income	31,083	29,099	30,261	27,821	25,350
Net fee and commission income	9,186	8,243	8,591	8,540	8,803
Operating income	42,354	40,147	41,899	39,088	37,227
Operating expenses	(20,398)	(19,110)	(19,352)	(18,327)	(18,240)
Operating result	21,956	21,037	22,547	20,761	18,987
Net profit attributable to owners of the parent	14,181	10,006	17,743	15,362	14,610

Basic Ratios

	2021	2020	2019	2018	2017
ROE	9.8%	7.0%	14.5%	13.2%	12.4%
ROA	0.8%	0.6%	1.2%	1.1%	1.1%
ROA (Česká spořitelna, a.s. only)	0.8%	0.6%	1.2%	1.1%	1.2%
Cost/income ratio	48.2%	47.6%	46.2%	46.9%	49.0%
Non-interest operating income/operating income	26.6%	27.5%	27.8%	28.8%	31.9%
Net interest margin on interest-bearing assets	2.0%	1.9%	2.1%	2.2%	2.6%
Loan/deposit ratio	70.7%	68.8%	73.2%	72.7%	72.2%
Capital adequacy (unconsolidated)	23.0%	24.7%	21.8%	19.0%	18.6%

Key Operating Indicators

Number of:	2021	2020	2019	2018	2017
staff (average FTE)	9,741	9,892	9,873	10,224	10,248
branches	418	438	483	501	517
clients	4,492,801	4,474,198	4,597,170	4,634,337	4,674,173
private accounts	2,981,443	2,819,346	2,760,815	2,700,629	2,679,015
active cards	3,145,650	2,988,906	2,919,381	2,867,262	2,828,439
of which: credit cards	177,552	167,677	170,964	177,349	185,242
ATMs and payment machines	1,783	1,825	1,832	1,783	1,704

(2) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 332.
(3) In 2019-2021 "Loans and advances to banks at amortised cost".
(4) Calculation for 2017 equals to "Other trading assets" + "Financial assets–designated at fair value through profit or loss" + "Financial assets–available for sale" + "Financial assets-held to maturity". Calculation for 2018-2021 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".
(5) Since 2021 includes "Deposits from customers at amortised cost" and "Deposits from customers at FV through profit or loss". Previous figures were restated.

Content

Key Consolidated Figures 3
Profile of Česká spořitelna 6
The Year 2021 in Review 7
Foreword by the Chairman of the Board of Directors 14
Board of Directors of Česká spořitelna 16
Supervisory Board and Audit Committee of Česká spořitelna 20
Macroeconomic Development of the Czech Republic in 2021 26
Report of the Board of Directors on the Company's Business Activities and Financial Position for 2021 28
- Consolidated Financial Results 29
- Business Activities 31
- Česká spořitelna Believes in Good Causes 42
- Non-commercial Activities 44

Strategic Objectives and Plans for the Future 46
Risk Management 51
Other Information for Shareholders 56
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 64
Organizational Structure 70
Supervisory Board Report 72
Report of the Audit Committee 73
Financial Section 74
- Independent Auditor's Report to the Shareholders of Česká republika, a.s. 75
- The Consolidated Financial Statements for the Year Ended 31 December 2021 82
- Separate Financial Statements for the Year Ended 31 December 2021 201
- Report on Relations between Related Parties 306

Česká spořitelna Financial Group 326
Definitions of Alternative Performance Indicators 332

Profile of Česká spořitelna

Česká spořitelna is the bank with the longest tradition on the Czech market. It has been one of the fundamental pillars of the Czech banking system for 197 years. Currently, the Bank provides services to 4.5 million clients. Since 2000, Česká spořitelna has been part of Erste Group Bank, a multinational financial group.

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

The Bank is also active in the introduction and expansion of digital services. During the lockdown of the economy due to the anti-COVID-19 measures, Česká spořitelna offered households and corporate clients comprehensive digital services which enabled the Bank to provide customers a truly efficient remote support. 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.

Česká spořitelna has been significantly involved in supporting the transformation of Czech industry and the economy. In 2021, the Bank was among the initiators of the call for the 2nd transformation of the domestic economy, which was supported by 32 personalities of Czech industry on the eve of the 32nd anniversary of the Velvet Revolution. Spořitelna was among the initiators and signatories of the Czech Banking Association's Memorandum for Sustainable Finance to strengthen ecological and socially responsible business (ESG) in the Czech Republic.

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

Building the Prosperity of the Country

Česká spořitelna has been historically involved in building and strengthening the country's prosperity. Traditionally, the Bank ranks among the largest and most awarded employers in the domestic market. At the same time, it is one of the largest taxpayers in the Czech Republic. In 2021, the Bank received an award from the Ministry of Finance for the largest corporate taxpayer in the Czech Republic for 2020.

Česká spořitelna responded promptly to the crisis caused by the COVID-19 pandemic. It was the first bank on the domestic market to offer its clients postponement of loan instalments in order to ease their financial situation. Naturally, the Bank was also actively participating in the distribution of state-guaranteed funding within the COVID programmes.

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

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

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

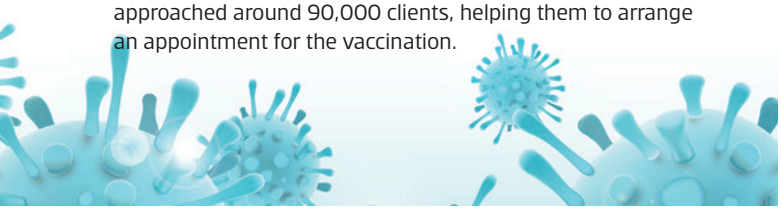
The Bank is also active in promoting innovation. Česká spořitelna is setting a trend in the introduction of modern technologies in the local banking market. It partners with many business talent pools focused on innovation and supports corporate and public sector co-operation in the field of innovation. In 2021, Česká spořitelna was the first bank to enable its customers to use their bank identity also to prove their identity in online communication with the state and later with private companies.

THE YEAR 2021 IN REVIEW



JANUARY 2021

In an effort to contribute to the fight against the COVID-19 pandemic, Česká spořitelna set up a special client line to **help seniors register for the COVID-19 vaccination**. Operators approached around 90,000 clients, helping them to arrange an appointment for the vaccination.



EUROPEAN INVESTMENT FUND

Spořitelna's new agreement with the European Investment Fund (EIF) made financing even more accessible to social enterprises and non-profit organisations. **Česká spořitelna's social banking clients can obtain higher loans with longer repayment terms.**

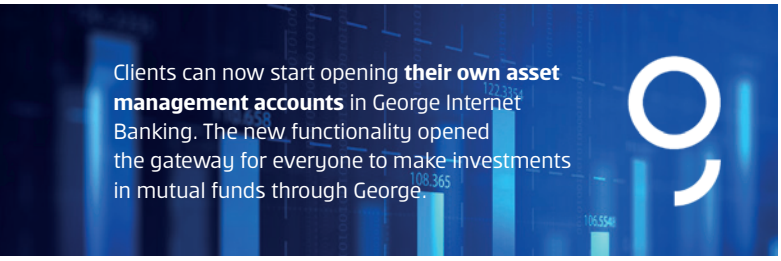


Česká spořitelna was the first bank in the country to enable its clients to use their **bank identity also to prove their identity in online communication with the state.**



Following successful completion of the purchase of **Waldviertler Sparkasse (WSPK), Česká spořitelna took over servicing of WSPK clients**. This had been the first acquisition of a competing bank in Spořitelna's modern history.

FEBRUARY 2021



Clients can now start opening **their own asset management accounts** in George Internet Banking. The new functionality opened the gateway for everyone to make investments in mutual funds through George.

The Chairman of the Board of Directors of Česká spořitelna, Tomáš Salomon, received the Finparáda Award for his accessible and professional presentation of the banking sector. The competition jury appreciated the way Tomáš Salomon presented the availability of financial and banking services during the COVID-19 pandemic. First place in the Financial Product of 2020 category was awarded to Supplementary Pension Savings from Česká spořitelna – penzijní společnost (pension company).

PENZIJNÍ

In the TOP Employers survey, in which over 12,000 university students participated, **Česká spořitelna won awards in two categories: it came 2nd as an Employer in the Banking and Investment Sector and, furthermore**, it became the first career choice among employers in the field of economics for university students.

TOP ZAMĚSTNAVATELÉ



After a long time, Česká spořitelna was involved in the first PPP project (Public Private Partnership) involving both the public and private sectors. **Spořitelna acted as the main financial advisor in the preparation of the pilot road project for the completion of the D4 motorway.**



Together with its partner Global Payments and the Visa and Mastercard card associations, **Česká spořitelna launched a new application that makes it possible to turn a mobile phone into a payment terminal** for accepting payment cards. Czech retailers had been the first in Central Europe to get this option.

For NET4GAS, Česká spořitelna organised, as **the coordinator and active co-manager, the largest ever corporate bond issue, in an aggregate volume of CZK 11 bn**. The subscription consisted of two tranches – **a seven-year tranche with a total volume of CZK 4 bn and a ten-year tranche with a total volume of CZK 7 bn**. The ten-year tranche had represented the longest achieved maturity of a corporate bond on the CZK market in the last ten years.

NET4GAS

MARCH 2021

In the 19th edition of the Bank of the Year competition, Česká spořitelna won the Bank of the Year 2020 trophy. The Banker of the Year award went to the Chairman of the Board of Directors of Česká spořitelna, Tomáš Salomon. Based on the vote of an expert jury, Spořitelna took **3rd place in the Mortgage of the Year category**. For its approach to disabled citizens, the jury also awarded Spořitelna **2nd place in the Bank without Barriers category**. Furthermore, Česká spořitelna received the **extraordinary Mastercard Special Award for stabilising the Czech banking sector during the corona-crisis**.

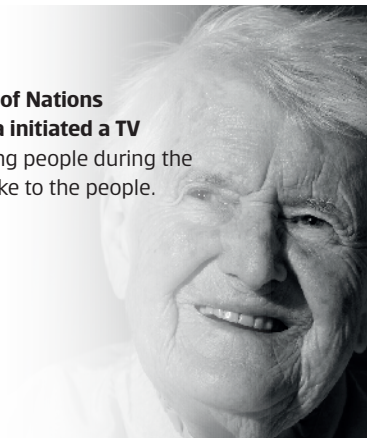
Banka roku 2020

ERSTE BANK Private Banking

Česká spořitelna's Erste Private Banking (EPB) was named **the Best Private Banking in the Czech Republic**, in a global survey by the prestigious Euromoney magazine. In addition to the first place in the main category**, the EPB service also took first place in the category of High Net-worth Clients**, Data Management, and Data Security.



In co-operation with Memory of Nations organisation, Česká spořitelna initiated a TV campaign aimed at encouraging people during the lockdown. National heroes spoke to the people.



memory of nations

The loan portfolio of Stavební spořitelna České spořitelny (building society) – **Buřinka surpassed the magic threshold of CZK 50 bn.**





STAVEBNÍ spořitelna České spořitelny

APRIL 2021



The slogan **"You Are Stronger than You Think"** and the related #stronger became a part of **Česká spořitelna's new campaign aimed at encouraging Czech society and boosting the self-confidence of Czechs. The campaign was launched with a unique drone show**, during which hundred drones flew over Prague, forming glowing symbols of national pride – the national flag, a linden-tree leaf, a double-tailed lion, and the outline of the country's border in the colours of the tricolour. At the end, one distinctive word appeared in the sky – **#stronger.**



Česko.Digital, a partner organisation of the Česká Spořitelna Foundation, distributed seventy laptops donated by Spořitelna to at-risk children, among families and children's homes in which children were unable to join online education for various reasons. Spořitelna has pledged to donate another 200 computers to the computer collection and donated another 800 computers by the end of 2021.

Česká spořitelna established a co-operation with the popular TV series Ulice, to raise the profile of the ČS brand and to educate viewers. As part of marketing **co-operation with TV Nova** extending over several months, **Spořitelna also highlighted topics such as phishing, counselling, healthy lending, ePIN, and bank identity.**

nova

MAY 2021



ČS´s subsidiary REICO launched a new real estate fund REICO ČS LONG LEASE. The first property in the new fund are the premises of the ELCOM research and development centre in Ostrava. The value of the acquisition amounted to approximately CZK 180 m.

Česká spořitelna´s mortgages defended its first place in the Golden Crown competition for the fourth successive year. The Golden Crown also went to ČS penzijní společnost (building society), which triumphed in the Pension Savings category. **The Česká spořitelna´s Money Alphabet**, which won in the Social Responsibility category, and the building savings from Buřinka in George, also celebrated gold awards. A **Silver Crown went to the Mastercard World Elite Metal payment card. Česká spořitelna won three Bronze Crowns – thanks to the Stock Small Caps mutual fund, the Česká spořitelna´s Online Loan, and also thanks to the Česká spořitelna´s New Blood Start-up Corporate Loan.**

Česká spořitelna launched the largest **mobilisation project for its employees. The "Spořka through the Czech Republic" stage march**, from the westernmost to the easternmost branch, took 48 days, during which employees walked more than 1,000 km. **As part of the march, people also took part in picking up rubbish and cleaning up the Czech Republic.**



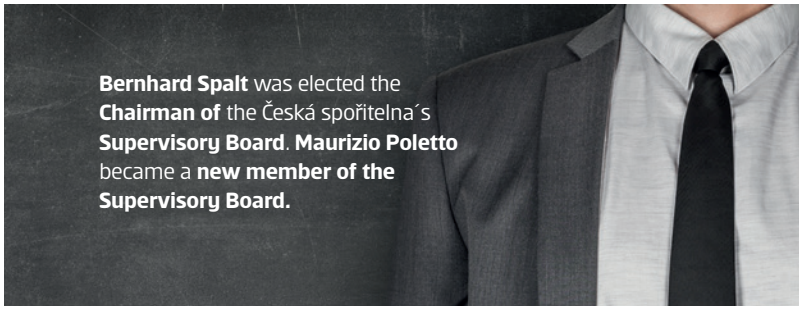
Česká spořitelna was among ten banks in the country to openly declare their commitment to **strengthening ecological and socially responsible business in the Czech Republic**, which will lead to the sustainable development of the country. At the Czech Banking Association, the banks **signed a Memorandum for Sustainable Finance.**



JUNE 2021

The volume of newly issued mortgages surpassed a historical record: in June, **Spořitelna granted 5,277 new mortgages with an aggregate volume of CZK 17.3 bn**. This has been the **largest amount** ever lent by Spořitelna to clients for housing in one month. The June figures only confirmed the record mortgage half-year, when **Spořitelna granted over 20,000 mortgages to clients, with a total volume of almost CZK 64 bn.**

The Ministry of Finance has honoured Česká spořitelna as the largest corporate taxpayer in the Czech Republic for 2020. Spořitelna paid CZK 4.38 bn in income tax to the state budget, making a significant contribution to financing the state, at a time when it was struggling with the COVID-19 pandemic.



Bernhard Spalt was elected the **Chairman of** the Česká spořitelna´s **Supervisory Board**. **Maurizio Poletto** became a **new member of the Supervisory Board.**



Stavební spořitelna České spořitelny – **Buřinka (the "Bowler Hat") celebrated success with the project of the first 3D printed house in the Czech Republic (the "Prvok" – "Protozoan" project)**. Together with the AMI Communications PR agency, Spořitelna **won the first prize for the best communication campaign in Central and Eastern Europe (the EMEA region) in the largest international PR competition, The SABRE Awards.**



Česká spořitelna became the first bank to **extend the use of bank identity for online proof of identity to companies.** Until then, this had been possible only in online communication with the state.

JULY 2021

Česká spořitelna successfully completed the largest-ever programme of co-operation between the European Investment Bank (EIB) and the Czech banking sector. Over the course of two years, Spořitelna delivered the required new corporate loans in accordance with EIB's strict criteria, totalling to CZK 8 bn.



Ivan Vondra replaced **Wolfgang Schopf** on the Board of Directors of Česká spořitelna, taking over from him the position of the Board member responsible for financial management. **Ivan Vondra returned to Spořitelna after six years** when he was on the Board of Directors of Erste Bank Hungary.

The Spořka through the Czech Republic stage march successfully arrived to Jablunkov. **1,649 employees** took part in the event, covering a total of **26,834 kilometres** and collecting **453 bags of rubbish** along the way.



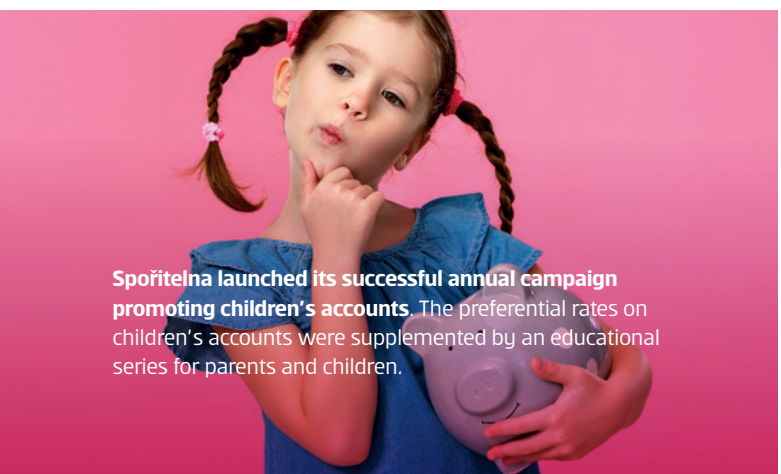
The ČS nemovitostní fond acquired Panattoni Park Tychy DC1 in Poland. The value of the new **acquisition reached CZK 1.1 bn**. The Fund thus increased **the number of properties it owns to 19** and **increased the share** of the industrial sector **to 10%**.

AUGUST 2021

The Top Stocks equity mutual fund managed by **Erste Asset Management Česká republika celebrated 15 years on the market**. Since its inception, **the Fund had** achieved **appreciation on the initial investment of 281.12%**, which translates into an average **annual return of 9.33%**. The Fund's assets had grown to almost **CZK 23 bn**, making Top Stocks **the largest equity fund in the Czech Republic.**



Česká spořitelna provided the Neratov Association with a **new donor "totem"** – a portable **payment terminal for cashless transactions** which can be easily operated via a touch screen. Payments can be made by a card, mobile phone, or smart watch.



Spořitelna launched its successful annual campaign promoting children's accounts. The preferential rates on children's accounts were supplemented by an educational series for parents and children.

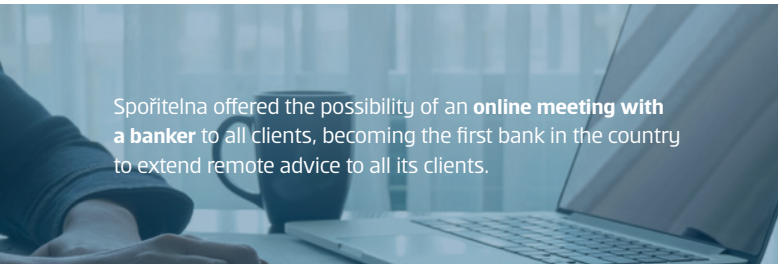


George Internet Banking introduced a new functionality that will facilitate **easier communication between clients and bankers**: clients can communicate with their bankers directly through **George.**

SEPTEMBER 2021

Česká spořitelna became the main partner of the prestigious **EY Entrepreneur of the Year Czech Republic** competition. Spořitelna's CEO Tomáš Salomon also became a member of the competition's board of advisors.

EY Podnikatel roku



Spořitelna offered the possibility of an **online meeting with a banker** to all clients, becoming the first bank in the country to extend remote advice to all its clients.

The ČS nemovitostní fond, which is managed by Spořitelna's subsidiary REICO, reached a significant milestone in September: **the number of its investors surpassed the magical threshold of 100,000.**

REICO České spořitelny



Česká spořitelna made the largest-ever issue of green bonds among financial institutions operating on the Czech market, offering international investors bonds worth of EUR 500 m. **The proceeds will finance projects focused on sustainability and environment.**

Česká spořitelna was **among the first 16 European banks enabling their clients to actively use the we.trade digital platform**. In September, the Bank observed first-ever transactions of its clients made via this unique platform.

Česká spořitelna's Customer Care scored in the prestigious international **European Customer Centricity Awards competition. Spořitelna won the main prize – Overall Winner 2021** in the competition, which attracted 210 projects from 86 companies from 26 countries.

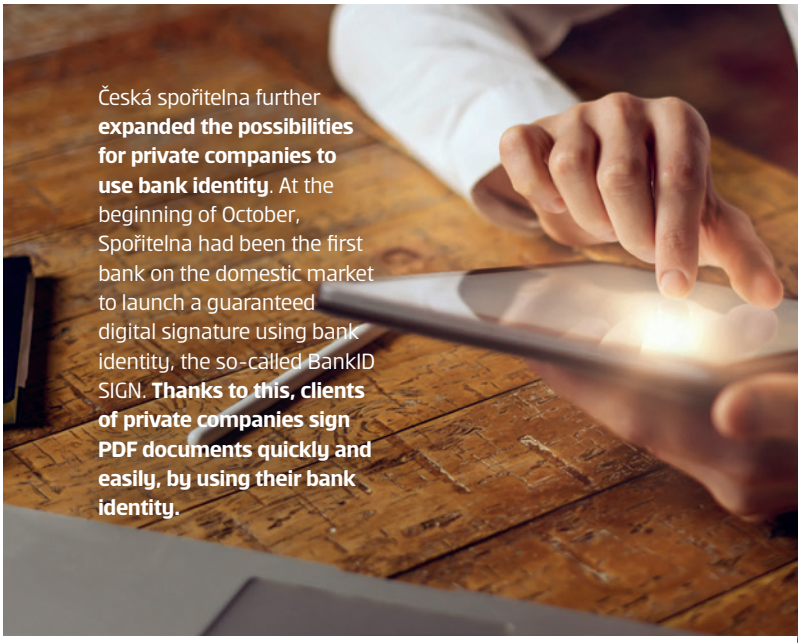
EUROPEAN CUSTOMER CENTRICITY AWARDS

OCTOBER 2021

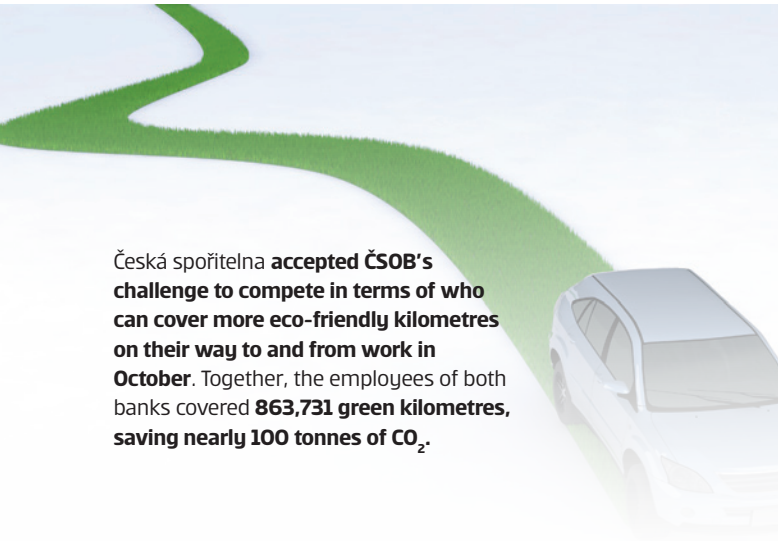


NADACE České spořitelny

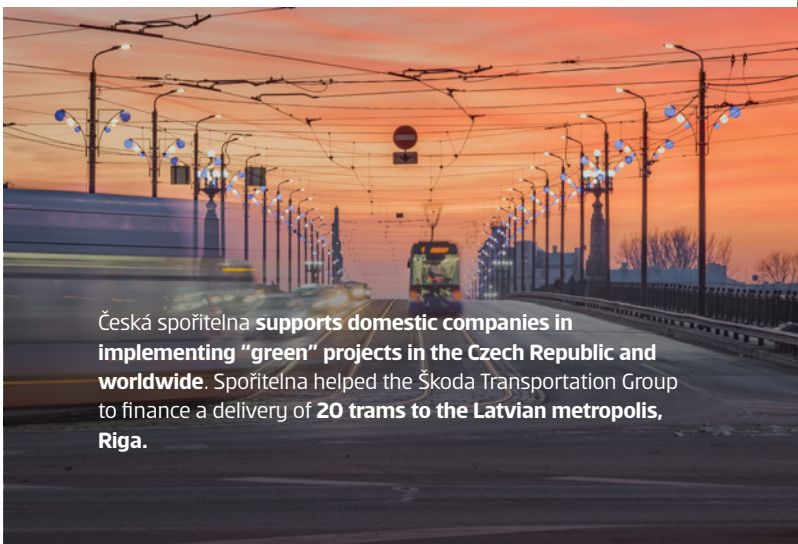
Dana Petrova took over the management of the Česká spořitelna Foundation.



Česká spořitelna further **expanded the possibilities for private companies to use bank identity**. At the beginning of October, Spořitelna had been the first bank on the domestic market to launch a guaranteed digital signature using bank identity, the so-called BankID SIGN. **Thanks to this, clients of private companies sign PDF documents quickly and easily, by using their bank identity.**



Česká spořitelna **accepted ČSOB's challenge to compete in terms of who can cover more eco-friendly kilometres on their way to and from work in October**. Together, the employees of both banks covered **863,731 green kilometres, saving nearly 100 tonnes of CO_2.**



Česká spořitelna **supports domestic companies in implementing "green" projects in the Czech Republic and worldwide**. Spořitelna helped the Škoda Transportation Group to finance a delivery of **20 trams to the Latvian metropolis, Riga.**

NOVEMBER 2021

Česká spořitelna won for **the second time in a row in the main category** of the 20th edition **of the Bank of the Year awards**. The jury especially appreciated Spořitelna's response to the unprecedented situation after the outbreak of the COVID-19 pandemic, as well as many innovative solutions that had a direct impact on customers.

Banka roku



Česká spořitelna joined the so-called **"Merciful Summer" ("Milostivé léto")** campaign that enabled people in execution to quickly get rid of their debt. **The volume of overall debt payments that Česká spořitelna agreed to forgive by the end of the year 2021 reached CZK 35.5 million.**

Česká spořitelna was among the initiators of the call for the 2nd transformation of the Czech economy. The transformation should lead towards increasing the added value of the Czech economy.



For the first time ever, the overall **volume of Česká spořitelna's corporate loans** grew over **CZK 300 billion**. The Bank reached the milestone mainly thanks to the continuous rise of financing provided to large corporations and also to SMEs.



Česká spořitelna launched a new stock fund Erste Stock Value. One month before, the Bank had introduced three mixed mutual funds - ESG Mix 10, ESG Mix 30, ESG Mix 50.

DECEMBER 2021



Česká spořitelna signed a deal with the Czech Republic's Football Association to become the main **bank for Czech football**.



Almost 310,000 unique users had already used Česká spořitelna's Bank IDentity **for online communications with the state administration and 25,000 with private companies**. Altogether, the Bank's clients had already handled more than 1.5 million requests.

Two leasing subsidiaries Leasing České spořitelny and Erste Leasing merged into one company – **Leasing České spořitelny.**

LEASING České spořitelny

Česká spořitelna placed in its branches special Christmas stickers with QR codes that promoted local manufacturers and gift makers.



Foreword by the Chairman of the Board of Directors



Tomáš Salomon

Chairman of the Board of Directors

Dear Ladies and Gentlemen,

Looking back at 2021 should fill us with optimism. Although we and also our clients had to deal with various obstacles during the year, together we have managed to overcome most of them and are gradually returning to "normal".

But it is evident that the new "normal" will differ significantly from the previous one: the economic and social environments have changed by leaps and bounds and all of us need to adapt as rapidly as possible. The way how we do this will determine our future success. It is not only the form by which traditional banking services are provided and their rapid digitalisation that are undergoing fast transformation, but also their content.

In 2021 Česká spořitelna continued its own strategic transformation. We are again a step further along on our journey, from being a commodity-based financial services provider to being a trusted partner for our clients. We were able to provide personalised advice to more clients in our branches and corporate centres. We have been improving our online advisory services and developing our digital platform George, which is already used by more than 1.8 million clients. In co-operation with partner firms, we also launched a unique application that allows you to turn your mobile phone into a payment terminal to accept credit cards. Czech retailers had been the first in Central Europe to obtain this option. We offered our clients the option to use banking identity for online communication with the state and companies. Česká spořitelna's banking identity has become the most used banking identity for communication with the state and has real potential to "drive" the much-needed digitalisation of the Czech Republic.

We sailed through 2021 on a "green wave". Česká spořitelna made the largest-ever issue of green bonds among financial institutions operating on the domestic market, offering international investors bonds worth EUR 500 million. The proceeds will finance projects focused on sustainability and environment. We also opened three new ESG mixed mutual funds.

2021 was also successful in terms of financing: We confirmed our position as the market leader in new mortgage financing – we provided new mortgages of CZK 124 billion and our mortgage portfolio exceeded CZK 350 billion at the year end. We have also strengthened our position as the largest corporate bank on the market, in terms of the volume of financing provided – in 2021 for the first time in history we surpassed the CZK 300 billion mark in the volume of corporate loans provided.

In 2021, we continued to help the Czech Republic where it was needed. At the beginning of the year, for example, we set up a special client line to help seniors to register for COVID-19 vaccination. We supported communities with our traditional grant programme, helped tornado-devasted Moravia, and continued to support dozens of our partners in the non-profit sector.

A tremendous amount of employee work and dedication stands behind these activities and accomplishments. Thanks to their efforts, we earned number of significant awards in 2021: we defended our victory in the Bank of the Year competition and won four Golden Crowns for our products. Česká spořitelna's customer care scored in the prestigious international competition European Customer Centricity Awards, in which Spořitelna won the top prize among 210 projects of 86 companies from 26 countries.

I would like to thank our employees for their successful work in 2021 and our clients and shareholders for their trust.

Good luck!



Tomáš Salomon
Chairman of the Board of Directors, Česká spořitelna



Board of Directors

From the left: Pavel Kráčmar, Ivan Vondra, Tomáš Salomon, Daniela Pešková, Karel Mourek, Martin Kobza



Board of Directors of Česká spořitelna

in the Year 2021



Tomáš Salomon

Chairman of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. 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 and participated in the establishment of MOPET CZ, where he worked as a member of the Board of Directors and the CEO. 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, Mr. Salomon was the member of the Board of Directors of Česká spořitelna responsible for retail banking.

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

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



Karel Mourek

Vice-Chairman of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Mourek is a graduate of the Czech Technical University in Prague and 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.

Mr. Mourek has been the member of the Board of Directors of Česká spořitelna responsible for the Risk Management Division since August 2013. Since August 2021 he has been the Vice-Chairman of the Board of Directors.

Membership in other companies: Erste Reinsurance S.A.



Martin Kobza

Member of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Kobza studied information technology at the Faculty of Economic Informatics, 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.

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

Membership in other companies: none



Pavel Kráčmar

Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

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

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

Membership in other companies: none



Daniela Pešková

Member of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs. 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 Mrs. 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.

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

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



Ivan Vondra

Member of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

After graduating in finance and economics in 1989, Mr. 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.

Mr. 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



Wolfgang Schopf

Vice-Chairman of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

In 1980, after graduation at the high school and the Business College, Mr. Schopf started his career in Girocentrale and Bank der oesterreichischen Sparkassen AG where he was responsible for accounting and reporting. From 1997 he worked in Erste Bank as the Director of Accounting. In 2004, he became the Director of the Controlling Division of Erste Group Bank, later responsible also for Performance Management Program. He held these positions until July 2013.

Mr. Schopf was the Vice-Chairman of the Board of Directors of Česká spořitelna responsible for Financial Division between 2013–2021. His mandate ended in August 2021.

Membership in other entities: Nadace České spořitelny



Petr Brávek

Member of the Board of Directors
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Brávek is a graduate of the Czech Technical University in Prague, where he specialised on Automated Control Systems in Electrical Engineering and Project Management. He began his banking career in 1993 in Creditanstalt/Bank Austria as the Head of Operations Division responsible for IT management and was also responsible for the merger project of Bank Austria and Creditanstalt in the Czech Republic. In 2001-2005, he worked as the Chief Financial Officer and later a member of the Board in HVB Czech Republic. Between 2005 and 2007, he worked as the Chief Financial Officer of the Prague Airport. Mr. Brávek started to work in Česká spořitelna in 2007 as the Chief Information Officer. After 5 years he became the Chairman of the Board of Directors and Executive Officer of s IT Solutions Holding. Between 2012 and 2015 he was the member of the Board of Directors in Slovenská sporiteľňa again responsible for IT. From 2015 to 2019 he worked in the Erste Group Bank AG as the member of the Board of Directors responsible for Group organization & IT and Group banking operations.

From February 2020 Mr. Brávek was the member of the Board of Directors of Česká spořitelna responsible for IT and Operations Division and resigned upon the position of the member of the Board of Directors as of June 2021.

Membership in other companies: Erste Group Card Processor d.o.o.



Supervisory Board


ČESKEM
#SILNEJSI
ek letí z Alfrédova až do Jablunkova
epiš se a přispěješ na dobrou věc.

Supervisory Board and Audit Commitee of Česká spořitelna

in the Year 2021

Supervisory Board of Česká spořitelna 2021



Bernhard Spalt
Chairman of the Supervisory Board
Reference address: Am Belvedere 1, 1100 Vienna, Austria

Bernhard Spalt graduated from the Law Faculty of the University of Vienna. Already during his studies in 1991 he joined the Erste österreichische Spar-Casse Bank AG, where he worked in the Legal Department. From 1994 to 1997 he held various positions in the Restructuring Department. He then moved to the Secretariat of the Board of Directors and the Supervisory Board, where he was appointed the Head of the Office in June 1998. In 1999 he was sent to Erste Group Bank's subsidiary in the Czech Republic – Erste Bank Sparkassen (CR) where he was the Head of the Restructuring Department. Following the sale of Česká spořitelna to Erste Bank Sparkassen (CR), a.s., he took over responsibility for the Department of Restructuring and Debt Recovery in Česká spořitelna, a.s. After three years in the Czech Republic in June 2002 Mr. Spalt returned to Erste Group Bank in Vienna, where he worked as the Head of the Group's Strategic Risk Management until October 2006. From 2006 to 2011, he was the member of the Board of Directors of Erste Group Bank AG with responsibility for Group risk management, and from 2012 to 2015 he held the position of the Chief Risk Officer and the member of the Board of Directors in Erste Bank Hungary. He was the Chief Risk Officer and the member of the Board of Directors of Slovenská sporiteľňa between 2015 and 2016 and subsequently held the same position in the Romanian Banca Comercială Română (BCR) for one year. From 2016 to 2018, he was also the Chairman of the ERSTE Foundation. From 2018 to June 2019, he served as the Risk Director at Erste Bank Oesterreich and was also responsible for strategic risk management at Erste Group Bank, after which he was the Deputy CEO of Erste Group Bank. Since 1 January 2020, he has been the Chairman of the Board of Directors of Erste Group Bank.

Mr. Spalt has been the member of the Supervisory Board of Česká spořitelna since 1 November 2019 and was elected the Chairman of the Supervisory Board in June 2021.

Membership in other entities: Erste Group Bank AG, Banca Comercială Română SA, Erste Social Financial Holding GmbH, Haftungsverbund GmbH, Erste Mitarbeiterbeteiligung Privatstiftung, Österreichischer Sparkassenverband, Wiener Städtische Wechselseitiger Versicherungsverein - Vermögensverwaltung - Vienna Insurance Group, Erste Campus Immobilien AG & Co KG



Štefan Máj
Vice-Chairman of the Supervisory Board
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

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

Mr. Máj has been the 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.



Petr Brázda

Member of the Supervisory Board
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. 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.

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

Membership in other companies: none



Helena Černá

Member of the Supervisory Board
Reference address: Tř. Svobody 401/19, Olomouc, Czech Republic

Mrs. 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. Mrs. 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.

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

Membership in other companies: none



Stefan Dörfler

Member of the Supervisory Board
Reference address: Am Belvedere 1, 1100 Vienna, Austria

Mr 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 Bank AG in 1997 he has been working in Erste Bank. In the period 1999–2000 he was the Head of Interest Rates and Foreign Exchange, later between 2000 and 2004 the Head of Fixed Income department. Then between 2004 and 2007 he continued as the Head of Capital Markets Trading & Sales, later till 2009 as the Head of GCM Sales & Equity Markets. Between 2009 and 2016 Mr. Dörfler was the Head of Erste Group Bank Capital Markets and from 2016 till 2019 was the Chairman of the Board of Directors in Erste Bank Öesterreich. Since June 2019 Mr. Dörfler has been the member of the Board of Directors of Erste Group Bank AG responsible for financial management.

Mr. Dörfler has been the 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, Slovenská sporiteľňa, a.s., Banca Comercială Română SA, Erste Digital GmbH. Procurement Services GmbH, OM Objektmanagement GmbH, EB-Restaurantsbetriebe GmbH, Sparkassen-Haftungs GmbH, Haftungsverbund GmbH, Erste Campus Immobilien AG & Co KG



Zlata Gröningerová

Member of the Supervisory Board
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs. 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.

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

Membership in other companies: Prisko, a.s.



Maximilian Hardegg

Member of the Supervisory Board
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. 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.

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

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



Maurizio Poletto

Member of the Supervisory Board
Reference address: Am Belvedere 1, 1100 Vienna, Austria

Mr. 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, specializing 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, Mr. 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.

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

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



Aleš Veverka

Member of the Supervisory Board
Reference address: Národních hrdinů 3127/7, Břeclav, Czech Republic

Mr. 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.

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

Membership in other companies: none



John James Stack

Chairman of the Supervisory Board
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Stack is an American citizen. He studied at Iona College majoring in Mathematics and Economics (BA, 1968) and the Harvard Graduate School of Business Administration specializing in Finance and Management (MBA, 1970). From 1970 until 1976 Mr. Stack worked in municipal government in New York. From 1977 until 1999 he served at Chemical Bank, which merged into Chase Manhattan Bank, in a variety of increasingly important positions including the Executive Vice-President of Chase Manhattan Bank. Between 2000 and 2007 Mr. Stack held the position of the Chairman of the Board of Directors and the CEO in Česká spořitelna. In 2005–2007 he was a member of the Presidium of Czech Banking Association. Since 2008 Mr. Stack has been a member of the Supervisory Board of Erste Group Bank.

Mr. Stack was the Chairman of the Supervisory Board of Česká spořitelna between 2013 and 2021. Mr Stack's mandate ended in April 2021.

Membership in other entities: Erste Group Bank AG, Ally Bank, Ally Financial Inc., Mutual of America Capital Management Corp., Nadace České spořitelny, The Václav Havel Library Foundation

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 2021

Štefan Máj
Chairman of the Audit Committee
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2021, page 20.

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

Maximilian Hardegg
Vice-Chairman of the Audit Committee
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2021, page 20.

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

Mario Catasta
Member of the Audit Committee
Reference address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation work was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He has worked at Erste Group Bank since 1987, at first as an internal auditor and then, from 1993 as the Head of Compliance. In 1994 he accepted the position of the Internal Audit department Head. After the merger of Erste Bank der Österreichischen Sparkassen and GiroCredit he became the Head of the Corporate Client department. Between 2003 and 2018 he held the position of the Director of Internal Audit in Erste Group Bank AG. He is now an advisor to the Board of Directors of Erste Group Bank AG. He is a member of the Board of Directors of Erste Stiftung Foundation.

Mr. Catasta has been the member of the Audit Committee of Česká spořitelna since 2009.

Zlata Gröningerová
Member of the Audit Committee
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2021, page 20.

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

Pavel Závitkovský
Member of the Audit Committee
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. 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). Mr. 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 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.

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

John James Stack
Chairman of the Audit Committee
Reference address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2021, page 20.

Mr. Stack was the Chairman of the Audit Committee of Česká spořitelna between 2014 and 2021. He resigned upon the function in April 2021.

Macroeconomic Development of the Czech Republic

in 2021

The development of the Czech economy in 2021 was influenced by several external factors. Especially at the beginning of the year, economic development was significantly subdued, due to the impact of the COVID-19 pandemic. However, along with the improvement in the pandemic situation, demand has recovered significantly since the second quarter, also thanks to the contribution of the considerable savings that households had accumulated in 2020. In the second half of 2021, problems in international supply chains began to intensify. The worst situation was in the automotive industry due to the lack of semiconductors, but many other sectors also faced problems. The reason behind this development was a significant worldwide increase in demand, for which neither world production capacities nor international logistics were sufficiently prepared. The labour market not only remained strong in 2021, but also strengthened during the year, as demand for new available employees increased again. Strong domestic demand, together with expansionary fiscal policy on the one hand and external factors linked to international logistics problems and rising energy prices, on the other hand, began to increase inflationary pressures, especially in the second half of 2021. Thus, headline inflation began to rise rapidly. The ČNB responded with a significant rise in interest rates.

In 2021, GDP arrived at 3.3%[6]. Compared to original expectations, this was a relatively low number that was negatively affected not only by the pandemic at the beginning of 2021, but especially by the shortage of semiconductors within the automotive industry in the second half of the year. The main driver of growth was household consumption, which recovered significantly during the spring and remained strong for the rest of 2021, although rising energy prices at the end of 2021 began to have an adverse effect on it. Household consumption was driven by favorable developments in the labour market and the high savings that households still had from 2020. Investment also made a significant contribution to GDP growth. This was caused by both fixed investment, which reflected a recovery in domestic and foreign demand, and improvements in inventories. On the other hand, the growth of the Czech economy was dampened by the development of foreign trade. The problems in the automotive industry significantly affected the volume of exports, which was thus lower than would have resulted from the development of foreign demand. In addition, strong household consumption and private investment increased the volume of imports into the Czech economy.

GDP y/y growth[7]

2021	2020	2019	2018	2017
3.3%[8]	-5.8%	3.0%	3.2%	5.2%

Along with the economic recovery, inflationary pressures began to intensify over 2021. On the one hand, there was a set of pro-inflationary demand factors, among them strong household demand, favorable labour market developments and expansionary fiscal policy were among the most important. However, mainly in the second half of the year, inflation was also affected by several external factors. The rise in energy prices significantly moved the headline price level upwards, but also the problems in international supply chains and logistics had a pro-inflationary effect. Moreover, food prices also increased at the end of 2021. Overall, average inflation reached 3.8%[9] in 2021. In December, headline inflation reached 6.6%[10].

Price growth (CPI inflation)[11]

2021	2020	2019	2018	2017
3.8%	3.2%	2.8%	2.1%	2.5%

Despite the subdued development of economic activity at the beginning of 2021, there was no significant deterioration in the labour market. The unemployment rate remained low and real wages rose[12]. During the year, along with rising domestic and foreign

(6) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4-quarter-of-2021
(7) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/hmu_ts
(8) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4-quarter-of-2021
(9) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2021
(10) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2021
(11) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/inflation_rate
(12) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/average-wages-1-quarter-of-2021

demand, the labour market improved as the unemployment rate fell and real wages continued to rise. A slight weakening occurred at the end of the year. Although the unemployment rate remained low at 2.2%[13] in December, high inflation spilled over into real wages developments.

Unemployment rate[14]

2021	2020	2019	2018	2017
2.9%	2.6%	2.0%	2.3%	2.9%

Due to rising inflation and fears of a possible longer-term increase in inflation expectations, the Czech National Bank began raising interest rates as early as in June 2021[15]. In the second half of the year, when inflation began to accelerate significantly, the pace at which the ČNB was increasing interest rates also intensified. At the December meeting, the ČNB's main rate reached 3.75%[16].

The koruna was significantly influenced by overall market sentiment for most of 2021. It reflected the risks of the COVID-19 pandemic, semiconductor shortage problems and the risk of an energy crisis in Europe at the end of the year. Therefore, the koruna remained relatively weak for most of the year. The ČNB's tightening monetary policy in the second half of 2021 counteracted this effect, as the growing interest rate differential with the euro area either dampened the koruna's weakening pressures during periods in which market sentiment was worsening, or implied strengthening of the koruna in periods when market sentiment did not change.

The same factors as in the case of the koruna also affected the yield curve. At the beginning of 2021, the ČNB's monetary policy remained loose and market sentiment was negative due to unfavorable pandemic developments, and thus the curve stayed low. Along with the economic recovery, market sentiment improved, and the yield curve began to move upwards. Upward movements were supported also by monetary policy tightening. Moreover, market expectations that the ČNB could continue to raise rates also in 2022 affected the position of the yield curve at the end of 2021.

(13) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-december-2021
(14) Source: Czech Statistical Office, 9. 2. 2022, https://www.czso.cz/csu/czso/zam_cr
(15) Source: Czech National Bank, 9. 2. 2022, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1624459680000/
(16) Source: Czech National Bank, 9. 2. 2022, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1640188080000/



Report of the Board of Directors

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

for 2021

Consolidated Financial Results[17]

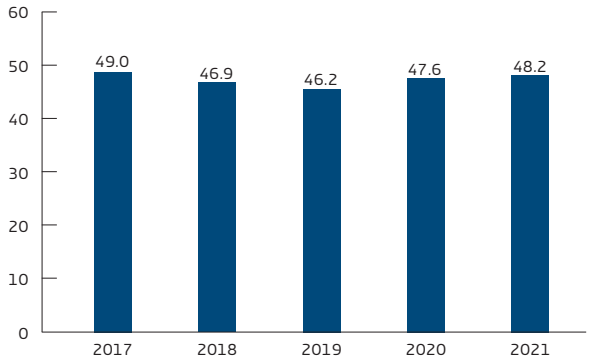
Consolidated Statement of Income

Česká spořitelna reported a consolidated net profit after taxes and minority interests of CZK 14.2 bn as at 31 December 2021 (in compliance with International Financial Reporting Standards). In 2020, net profit amounted to CZK 10.0 bn, it thus increased by 41.7% in a year-on-year comparison reflecting considerably lower risk provision creation in 2021 and overall post-COVID recovery. The return on equity was positively affected by the higher net profit and reached 9.8% at the end of 2021, compared to 7.0% at the end of 2020.

> Česká spořitelna reported a consolidated net profit of CZK 14.2 bn reflecting considerably lower risk provision creation in 2021 and overall post-COVID recovery.

Operating income increased by 5.5%, compared to the end of 2020, to CZK 42.4 bn, driven by improvement in net interest income and net fee and commission income. Operating expenses increased in a year-on-year comparison by 6.7% to CZK 20.4 bn. Operating result therefore reached CZK 22.0 bn, which meant growth of 4.4% compared to 2020. The development in operating income and operating expenses also led to worsening of cost/income ratio which increased from 47.6% in 2020 to 48.2% in 2021.

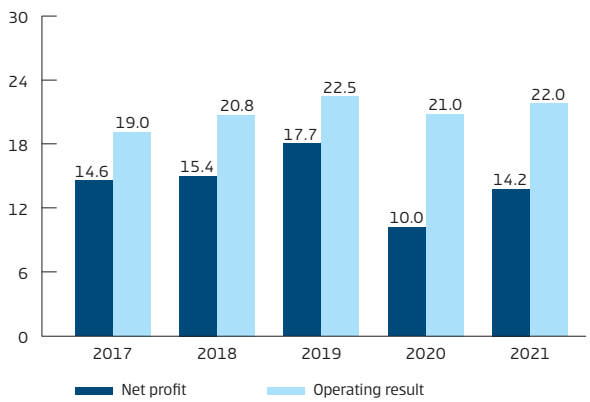
Cost/Income (%)



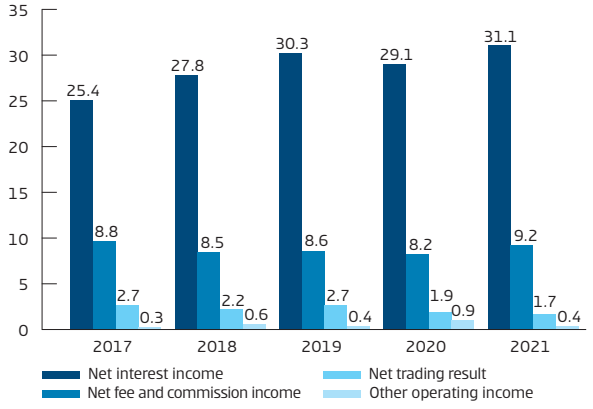
Net interest income traditionally represents the largest share of operating income. Compared to 2020, net interest income increased by 6.8% to CZK 31.1 bn. The development of net interest income was affected by growth of customer loans and deposits, supported by investments into government bonds. Net interest income was further positively influenced by interest rate hikes by ČNB (5 hikes during 2021 to 3.75%). Net interest margin related to interest bearing assets changed trajectory and slightly increased to 1.95% in 2021.

Net fee and commission income increased by 11.4% year-on-year to CZK 9.2 bn which was caused mainly by double-digit growth of mutual funds volumes driven by substantial new sales and positive development of pension funds. Furthermore, net fee and commission income was positively influenced by higher fees from insurance products and card transactions.

Net profit and operating result (CZK billion)



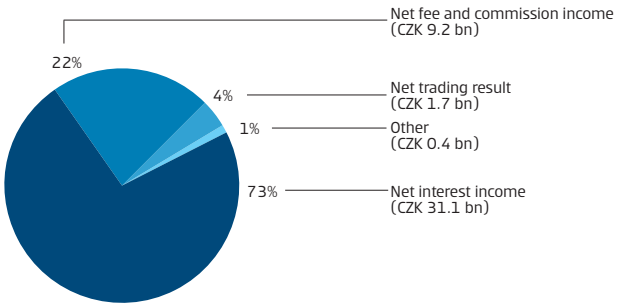
Composition of operating income (CZK billion)



(17) Definitions of the below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 332

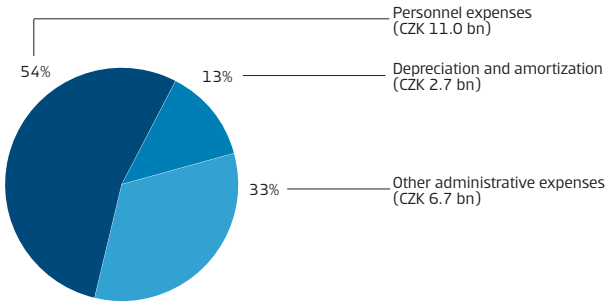
Net trading result went down by 9.1% to CZK 1.7 bn, compared to 2020 which was mainly caused by hedging derivatives. Other operating income was negatively influenced by development of gains and losses from financial instruments measured at fair value through profit or loss.

Structure of operating income



Total operating expenses increased by 6.7% y/y to CZK 20.4 bn in 2021 mainly influenced by growth of personnel expenses and other administrative expenses. Increase in personnel expenses (+11.3% y/y) was driven by bonus reduction in 2020, booking of accrual for newly introduced employee share programme and impact of salary increase. Higher costs for IT, marketing and property management led to rise in other administrative expenses (+3.1% y/y) which nevertheless remained below the inflation rate. Depreciation slightly declined by 1.1% y/y.

Structure of operating expenses



Impairment result from financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) reached CZK –1.8 bn in 2021. It meant a year-on-year creation lower by 77.6% as impact of COVID-19 on loan portfolio of retail as well as corporate is gradually fading away.

The quality of the loan portfolio experienced slight improvement in 2021; the share of non-performing loans over total loans decreased to 2.1% compared to 2.2% in 2020. This result was caused by improving retail portfolio combined with stable corporate portfolio quality.

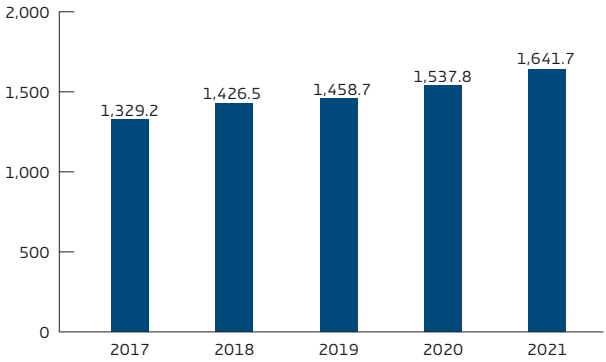
Coverage of non-performing loans by impairment provisions slightly decreased in a year-on-year comparison and reached solid 111%; the total coverage of non-performing loans (including collaterals) remained stable at 140%. In 2020, these figures were 115% and 141% respectively.

Other operating result of CZK –1.7 bn consisted mainly of other income and costs not directly related to main operating activities of the Group. Worsening of other result in a year-on-year comparison was attributed mainly to non-recurring one-offs in 2020, booking of impairment on buildings and loss from sale of financial instruments in 2021.

Consolidated Balance Sheet Analysis

As at 31 December 2021, total consolidated assets amounted to CZK 1,641.7 bn, which meant 6.8% increase compared to 31 December 2020. On the assets side, the growth was driven by loans to customers and financial assets reflecting investments into Czech government bonds which was partly compensated by decrease in loans to banks. The dominant driver of growth on the liability side of the balance sheet were customer deposits.

Total assets (CZK billion)

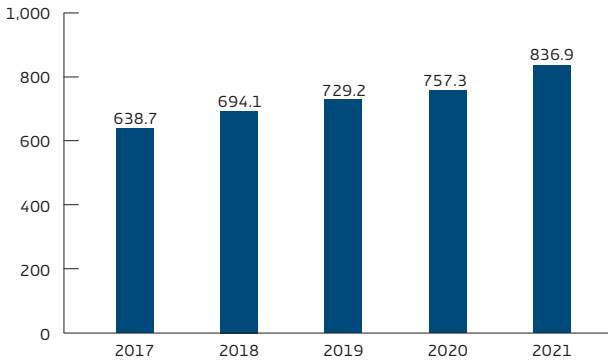


Assets

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 757.3 bn at the end of 2020 to CZK 836.9 bn at the end of 2021, which meant a 10.5% increase. The proportion of net client loans to client deposits (Loans/Deposits ratio) went up from 68.8% at the end of 2020 to 70.7% at the end of 2021.

> The total net volume of loans and advances to customers grew to CZK 836.9 bn.

Net loans and advances to customers (CZK billion)



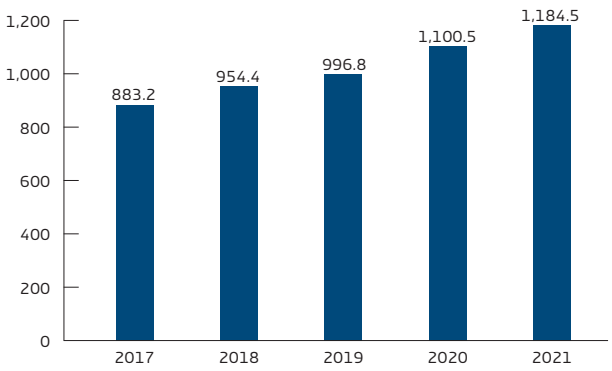
The gross volume of ČS Group customer loans increased by 10.3% y/y to CZK 856.9 bn. The portfolio of retail loans amounted to CZK 549.4 bn, representing a year-on-year increase of 12.7%, driven mainly by private mortgages (+16.5% y/y). Consumer loans rose by 1.6% y/y to CZK 74.8 bn. The volume of corporate loans grew by 6.4% year-on-year to CZK 305.8 bn attributed to increase in large corporates (+11.6%), subsidiaries (+13.4%) and SME (+3.2%)[18].

Balance sheet development in 2021 also reflected growth of debt securities by CZK 70.8 bn (or 27.8%) to CZK 325.5 bn. Loans and advances to banks at amortised cost decreased by CZK 59.8 bn to CZK 365.0 bn driven by lower reverse repo operations with the ČNB.

Liabilities

In comparison with 31 December 2020, Group deposits from customers grew by 7.6% y/y to CZK 1,184.5 bn attributed mainly to households (retail) deposits which rose by 11.9% y/y to CZK 900.0 bn. Group corporate deposits declined by 7.5% y/y to CZK 212.4 bn which was caused by other financial corporations, while public sector deposits increased by 8.5% y/y to CZK 72.2 bn.

Deposits from customers (CZK billion)



The development in deposits from banks reflected a decline of repo operations in 2021. For this reason, deposits from banks declined to CZK 49.7 bn compensated by increase in debt securities issued to CZK 213.4 bn reflecting steering of short-term intragroup liquidity.

Equity attributable to owners of the parent stood at CZK 142.7 bn as at 31 December 2021, which was 4.3% less than at the end of 2020. The total capital ratio for Česká spořitelna Group as at 31 December 2021 reached 23.8%, well above minimum regulatory capital requirement (14.4%).

Additionally, to strong capital and liquidity position, resilience of Česká spořitelna was supported by senior non-preferred bond issuance eligible for the regulatory MREL requirement. These bonds were issued in green format in the amount of EUR 500 m and the proceeds will be used for financing of projects focused on sustainability and positive effect on the environment.

Business Activities

Retail Banking

As at the end of 2021, 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 (418) as well as ATMs and transactional terminals (1,783). It ranks the first in the consumer loans market, including credit cards and overdraft facilities, in total deposits, and in the distribution of mutual funds. It is also a leader in the provision of new mortgages to customers and in life insurance brokerage.

My Healthy Finances

Advisory services within the framework of My Healthy Finances (MHF) help to ensure a healthy budget and the correct set up of financial products, and also help to meet the various needs of the client on the basis of their current life situation. The concept of MHF advisory is based on the professionalism and support of personal bankers in combination with the digital environment.

The Bank provides MHF advisory services to all its clients, regardless of the products they have from Česká spořitelna or how long they have been the Bank's client.

That this is the right direction to head has long been confirmed by all customer experience indicators. The Net Promoter Score (NPS) has risen to 32. 97% of clients even express satisfaction with their visit to a Česká spořitelna branch.

As part of the MHF service, the banker meets with the client on a regular basis, to address their current financial needs. Not only the situation related to the COVID-19 pandemic, but also the general trend, have inspired Česká spořitelna to be the first bank in the Czech

(18) Source: ČS 2021 results, p. 42, 28. 02. 2022, https://www.csas.cz/static_internet/cs/Redakce/EMIL/EMIL/Prilohy/cs_results_fy_2021-final.pdf

Republic to offer clients an alternative to meeting with a banker at a branch – instead they can have an online meeting via a secure path through the George online platform. The Bank had tested this innovation throughout 2021 and commenced full roll out in the autumn. 1,400 clients have already tried an advisory meeting in the online environment, and 98% of them would recommend it to their friends.

The advisory tool – the Financial Health application, which Česká spořitelna implemented at its branches in the summer 2020, has become a popular working tool for bankers and clients. In 2021, 863 thousand clients tried advisory services with the Financial Health application, and they rate it very positively. 70% of those clients rate their appointment as very beneficial, and in school grading terms, they rate Česká spořitelna bankers and the benefits of the tool with an average grade of 1.19. Half of those clients say that the appointment using the application has improved their financial health, and 95% of those clients will be happy to contact their banker again.

With the growing influence of technology, the role of the experienced personal banker is again confirmed as indispensable. In 2020, Česká spořitelna became the only bank on the market to provide personal consulting services to mass market clients. By the end of 2021, it had managed to establish this personal relationship with more than 655 thousand clients. The correctness of this path has been confirmed in Česká spořitelna's client satisfaction figures: clients who have their own personal banker and regularly use their services show an NPS value of 72.

Improving the services and experiences in the digital environment means continuous work. Clients receive personalised advice and tips from the Bank in their George internet or mobile banking, on how to use the Bank's products and services more intelligently or, for example, news and tips on how to use internet and mobile banking conveniently. In 2021, 83% of clients who have George, i.e., 1.18 million clients, received a specific tip or good personalised advice. With this comprehensive care, the Bank helps clients while teaching them how to be more in control of their finances. In the long term, Spořitelna helps its clients to do better and better.

News:
Portfolios – i.e., the number of clients who have their own banker, mass market / mass affluent:

- Number of clients in the My Banker portfolio: 655 thousand;
- Number of clients in the MA portfolio: 230 thousand;
- NPS for clients who have a banker.

Good advice and news
Remote – online meetings:

- News – launched in autumn 2021;
- A total of 1,400 meetings, including the pilot;
- 98% of clients recommend them.

Financial Health - number of appointments, satisfaction:

- 863 thousand clients – FH advisory;
- 70% absolutely beneficial;
- The average solution score was 1.19, i.e., 92% of clients rated it as very good or good;
- The NPS for appointments with a tablet is 53;
- 50% of clients say their tablet appointment improved their financial health;
- 95% of clients would contact their banker again.

Digital Banking

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

BankID
In 2021, Česká spořitelna completed and launched the BankID project, which enables the use of Česká spořitelna's Banking Identity for the verification of identity in the digital environments of e-government and of private companies. Česká spořitelna had provided the service to more than 2 million clients and is thus making a major contribution to the digitalisation of the Czech economy, which ranks 19th in Europe in terms of digitalisation, which is below the average.

Since January 2021, more than 300 thousand Česká spořitelna´s clients had used the BankID service for e-government logins and had made more than 1.7 million logins. With a 27% share of digital identity, Česká spořitelna is the number one provider of e-government logins. The most frequently, clients logged in to the COVID-19 vaccination and testing portal, the Citizen Portal, the Czech Social Security Administration, and for the Census. Thanks to the Banking Identity, clients could easily pick up a test or vaccination certificate, apply for a new driver's license, calculate their pension, or complete the census online.

The BankID service for private companies was launched in June 2021. Since then, 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 bricks-and-mortar branch with their ID document. Aside from identity verification, the BankID service also offers digital signatures for electronic documents. In 2021, 100 thousand Česká spořitelna´s clients used the service to verify their identity. The most frequently, clients used identity verification at betting shops, utility companies, insurance companies and financial institutions.

Use of George
Česká spořitelna achieved excellent results in the use of internet and especially mobile banking in 2021. An average George mobile banking client logs into the application daily (30 times a month).

The number of transactions entered on mobiles increased by 62% year-on-year, and the volume of payment transactions was up by 87%. George has thus become the most broadly used banking application on the market, both in terms of the number of users and the volume of transactions.

Approximately 2,340,000 unique users had already visited George at least once, and around 2 million clients are active in George (either mobile or web).

The total number of instant payments sent from ČS increased by 36% in 2021 compared to 2020, amounting to a total of nearly 50 million transactions.

In the area of foreign payments, Česká spořitelna noted unprecedented growth in the number of transactions in 2021, which reached 26% compared to 2020. And in SEPA payments alone, which the Bank launched on the George mobile application at the beginning of 2021, it can be observed a prevailing trend in the use of the mobile application, where by June (6 months after the launch) more SEPA payments had been sent than from the desktop version, and by the end of 2021 the ratio was up to 58% in favour of the mobile application.

News in George

George Mobile Banking enriched its portfolio of products supported with a complete set of insurance products. For car insurance, property insurance, or travel insurance, it offers an easily accessible overview of the scope of insurance, insurance limits, and direct contact to the helpline.

The growing trend of servicing products directly in George has been confirmed. Its share in the total number of servicing operations increased by 20% compared to 2020, mainly due to the availability of the services in the George mobile application, and accounts for nearly half of the total production. The new features used most frequently by clients include the downloading of account statements, lodging card payment claims and changing the amount of loan instalments.

In the field of mobile investing, active trading of mutual funds was launched, including a graphical representation of their performance, and it was confirmed that investing via mobile devices is very popular among clients.

Further innovations that were created in response to excellent suggestions from Česká spořitelna´s clients, and which contributed to the increased user-friendliness of the application, include the dark mode function and updating balances and transaction history by "swiping" the screen from top to bottom.

In 2021, George Internet Banking offered two innovations of strategic importance that enable remote provision of financial and advisory services to clients. The first is an Online Appointment, where the client signs up for a video meeting with a banker via George, conducted in the environment of the Microsoft Teams communications platform. The second one allows clients and the Bank to communicate with each other via instant messaging in George: almost 20 thousand clients used it in the first 3 months after its launch.

Virtual Card

In December 2020, the George Virtual Card product was introduced. It 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. More than 105 thousand virtual cards were issued in 2021. Clients can choose from a range of designs, with the entire set-up process taking just 30 seconds. Furthermore, it is possible to use the one-time virtual card functionality for even faster and more secure online payments.

Payments via Smart Devices

The acceptance of smart device payments continues to expand. More than 600 thousand ČS´s clients use payments via smart devices with Apple Pay, Google Pay, Garmin Pay, or Fitbit Pay, which represents a year-on-year increase of 54.6%. This confirms the trend of a transition to virtual payments, which is expected to yet intensify in the future.

George Key

The George Key application is the main security method of Česká spořitelna´s Banking Identity. It enables more secure and convenient logging in and sending of payments, as well as authentication during a phone call with a banker. The application started 2021 with 880 thousand users, and by the last day of the year, George Key had been used by 1,555 thousand clients. The total annual growth was a record 675 thousand clients. The acceleration in the use of the George Key application is due to the gradual requirement for greater security of online card payments and George mobile banking, which can now be used only with the George Key application.

In December 2020, Česká spořitelna launched the authentication of card payments on the Internet via the George Key. In 2021, the George Key became the standard for confirming card payments online, and for the year as a whole, more than 70% of online card payments were verified by the George Key (nearly 30 million payments). For those clients who have not yet switched to George Key, the Bank introduced a 2nd factor for online payment verification – an ePIN and unique behavioural biometrics that evaluate dozens of different attributes, such as IP address, browser, and the way the user enters the security code to confirm that the transaction is indeed being made by the authorised cardholder.

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

- **GEORGE IN MOBILE** – state-of-the-art personalised internet banking that enables real-time management of family finances;

- **APPLE PAY** – since February 2019, Česká spořitelna´s clients have been able to pay with their iPhones or Apple Watches;
- **GOOGLE PAY** – to activate Google Pay, all a client needs is to have a mobile device that supports NFC technology and Android 5.0 or higher operating system, and then add their ČS payment card to the Google Pay application;
- **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 2021, the mortgage market broke all previous records, as the total volume of mortgages exceeded CZK 450 bn, thus surpassing the previous record year of 2020. In 2021, Česká spořitelna prospered and became the market leader in newly granted mortgages.

In 2021, Česká spořitelna provided 38,493 new mortgage loans with a total volume of CZK 124 bn. The mortgage portfolio volume exceeded CZK 350 bn, which meant an increase by CZK 50 bn compared to 2020.

Financing the Needs of Private Individuals

The start of 2021 was marked by another wave of the COVID-19 pandemic, which translated into a lower number of client visits to branches, resulting in weaker business results. Spořitelna continued to support its clients during this wave, and the Bank continued to offer COVID-19 restructuring without a negative entry in the Bank Register. During the second quarter, the market in consumer loans grew, due to positive developments in the domestic economy and optimistic household expectations.

Česká spořitelna continued to support its clients in difficult situations in 2021. The Bank flexibly offered assistance to the region affected by the tornado and offered low-interest loans to those affected. Spořitelna also took part in the Merciful Summer project. During the autumn energy crisis, the Bank came up with an extraordinary Money a Click Away offer for former Bohemia Energy clients, to help them bridge the difficult period of high advance payments from "Suppliers of Last Resort" (SLR).

Česká spořitelna reflects its responsible approach to the financing of its clients' needs, 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 sound loan. The possibility to flexibly set up loans even during the repayment process (reduction, increase, postponement of instalments and change of instalment payment date free of charge) has already become a standard and proved to be very important for clients in 2021.

During the coronavirus crisis, digital channels became more important than ever. Clients were less likely to visit branches and shifted their purchases online. The options for arranging a loan are wide, and in addition to branches, Spořitelna also offers their arrangement through its website or client centre. Increasingly, clients are using George mobile or internet banking to arrange a loan. In this indicator, the Bank noted a year-on-year increase by 70%. Česká spořitelna is also able to provide loans online to non-customers and newly also with the use of BankID.

Demand for consumer finance combined with comprehensive advisory services remains very strong. That is also why Spořitelna will pay increased attention to consumer loans in 2022. It will continue to develop digital channels and tools for bankers in the branch network.

The Distribution Network

In 2021, the transformation of branches continued, in order to create the optimal environment to support the provision of financial advice and digitalisation of services. Emphasis was placed on creating discreet spaces for physical meetings with clients in branches, as well as on creating conditions for bankers to conduct online meetings with clients.

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

As part of the new concept, all 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 2021, the Bank renovated another 20 branches to the new format, and by the end of the year, it had completed 161 branches – meaning 8 flagship branches, 89 medium-sized branches and 64 small branches (60 of them operating on a cashless basis).

In connection with the situation at hand (the COVID-19 pandemic and quarantine), Spořitelna continued to transform its branches into the cashless mode in 2021. At the end of 2021, there were a total of 194 branches in the branch network operating in the cashless mode – clients can make cash and non-cash transactions through ATMs (especially the new recycling ATM) or the George service (a cash desk as such is no longer available).

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.

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 85 branches already) have voice navigation for blind clients installed. Clients with disabilities can make an appointment at a branch with so-called assistance.

In order to optimally cover customer demand, Česká spořitelna continued to adjust the location of its branches throughout the country in 2021, which is why branches were closed or relocated to locations with a higher concentration of demand.

The non-standard situation (COVID-19) had a partial impact on the opening hours of branches in 2021. Despite all quarantine measures, Česká spořitelna managed to keep all of its branches open throughout most of 2021. Depending on the quarantine developments, only the scope of opening hours changed (a lunch break was introduced uniformly across the network and afternoon opening hours were shortened). Opening hours and hygiene measures in branches were aimed at ensuring the health of clients and bankers.

A response to the shortened opening hours of branches and the limited possibilities of visiting branches due to coronavirus measures are the so-called remote advisory services – since 2021, the new Online Meeting with a Banker service has been available to clients.

Investment Products for Retail Clients in 2021

When creating investment products for retail clients, Česká spořitelna has long focused on delivering investment solutions that will bring its clients added value and will meet their needs, requirements, and expectations. 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.

Traditionally, conservative investment products were very popular with clients, as they prefer lower market risk to the maximum possible return. This trend is evidenced by the volume of premium structured bonds and debt securities sold – in excess of CZK 2 bn. The rise in interest rates enabled a renewed offer of premium currency deposits in Czech crowns, with their volume reaching CZK 9.47 bn. At the same time, Česká spořitelna established premium currency deposits in foreign currencies, with a total volume of more than USD 26.5 m.

Stock markets provided an interesting investment opportunity in 2021 for more dynamic investors, and hence, direct investments in equities, ETFs and investment certificates were also of interest to them. The total turnover of these transactions exceeded CZK 7.7 bn in 2021.

The sale of physical gold was significantly more popular with clients than in previous years, and in 2021 clients purchased investment gold bullions through Česká spořitelna in the volume of more than 550 kg, worth more than CZK 740 m, which is roughly triple of the amount in 2020.

Erste Asset Management GmbH Mutual Funds, the Czech Republic Branch

In terms of stock market performance, 2021 had been one of the most successful years ever. Stock markets strengthened significantly – for example, the broad US S&P 500 stock index rose by 27%, achieving the seventh strongest annual appreciation since 1980. There were many moments throughout the year, however, when investors were genuinely concerned that the markets already had seen their best days: such as the attack on the US Capitol, the rise in inflation, the ongoing COVID-19 pandemic despite the deployment of vaccines, problems in supply chains, etc.

In 2021, total net sales of the mutual funds of the Czech branch of Erste Asset Management reached CZK 13.27 bn, which was more than four times better than in 2020. 2021 was a year of dynamic stock investors who were not deterred even by the continued coronavirus restrictions and rising inflation, and who gained very interesting appreciation for the entire year.

Česká spořitelna's equity funds also did well. After an excellent start to 2021, Top Stocks, the largest equity fund in the country, corrected slightly at the end of the year, yet ended the year with a performance growth of +10.02%. The Fund recorded net sales of more than CZK 997 million in 2021. The Stock Small Caps equity fund, which targets companies with lower market capitalisation, was very popular among investors, with more than CZK 2 bn flowing into the Fund. Its unit certificates were up by 18.10% in 2021. The highest growth among Česká spořitelna's equity funds, of 27.16% in 2021, was recorded by the Sporotrend fund, which invests in stock mainly in Central and Eastern Europe.

2021 was mainly marked by a strong increase in inflationary pressures. On the domestic market, the Czech National Bank therefore proceeded to increase interest rates sharply, which was also reflected in a significant rise in the yields of Czech government bonds. Given that this scenario had been largely anticipated, the negative impact of the rise in yields on the performance of bond funds was significantly reduced; nevertheless, the funds still ended 2021 with negative performance (Sporoinvest –1.14% and Sporobond –5.65%). Credit markets, on the other hand, were stable for most of 2021, and hence, higher yields helped absorb the negative impact of the slight rise in the euro yield curve (ČS korporátní dluhopisový –0.57% and High Yield dluhopisový +1.30%).

Despite the negative developments on the domestic bond market, investors did not lose interest in Česká spořitelna's bond funds, especially the corporate ones. In 2021, more than CZK 4 bn flowed into the ČS korporátní dluhopisový fund and more than CZK 1 bn into the High Yield dluhopisový fund.

In mixed funds, the trend of previous years was finally reversed. The strong performance of mixed funds in 2021 has also helped to drive better trading results for these funds. The mixed fund that was most popular among investors was the Universum fund, which has alternative and real estate investments represented in its portfolio and which

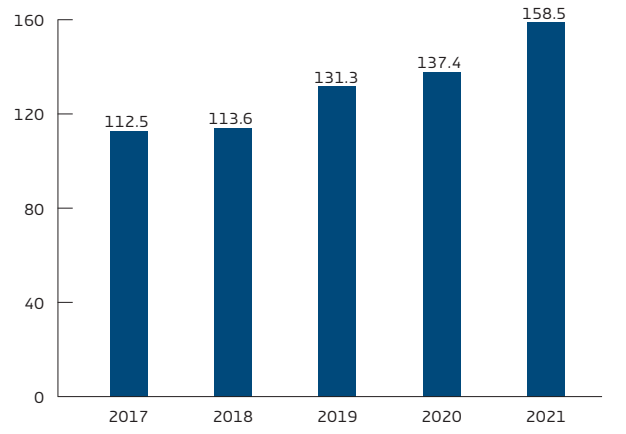
attracted more than CZK 1.56 bn of new investments. The Optimum fund also did well, noting net positive sales of nearly CZK 1 bn.

Of mixed funds, only the Konzervativní mix had negative net sales, even though its performance at the end of 2021 was positive. The other funds in the "Mixed" product line had positive inflows and performed also well, for example, the unit certificates of the riskiest, Akciový Mix, appreciated by 13.81% in 2021.

In 2021, 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. Through regular investment, clients invested more than CZK 8.2 bn in open-end mutual funds in 2021.

The total volume of assets of the funds managed by the Czech branch of Erste Asset Management as at the end of 2021 amounted to more than CZK 158.5 bn, which represented a year-on-year increase of almost 15.36%. This strong increase in assets under management was mainly due to the rise in the market prices of risk assets, supported by interest among investors in these investments. For risk assets, 2022 will probably be a more difficult year than 2021, not only because of the tightening monetary policy of central banks.

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



ČS nemovitostní fond

Česká spořitelna, in co-operation with its subsidiary REICO investiční společnost České spořitelny, offers retail clients the opportunity to invest in commercial real estate through the ČS nemovitostní fond (hereinafter also referred to as the "ČSNF") and newly also through the REICO ČS Long Lease fond (hereinafter also referred to as the "RČSLL"). Both are open-end mutual funds, with ČSNF being one of the largest Czech mutual funds, with an equity value of CZK 28.7 bn; and with a history of almost 15 years, it is also the longest-operating and largest domestic real estate fund.

In 2021, the administrator focused mainly on income optimisation, active management of properties in the ČSNF portfolio, and the establishment of a new fund, REICO ČS Long Lease, focused on long-term leased properties. Acquisition activities of the ČS nemovitostní fond were naturally lower given the market situation, yet the purchases of the first and second phases of an industrial park near the Polish city of Tychy, in a total value of CZK 2.5 bn, were completed in July and December 2021, respectively (CZK 1.1 bn for the first building; CZK 1.4 bn for the second building). ČSNF also completed the divestment of an older property in Brno, the Platinium building. The REICO ČS Long Lease fund was established in January 2021 and the trading of unit certificates was launched in mid-May of that year. In the same month, the RČSLL completed its first acquisition – the ELCOM research and development centre in Ostrava, with a contractually secured 10-year lease.

Although the real estate markets were still affected by a number of negative factors associated with the COVID-19 pandemic in 2021, the premium nature and significant diversification of the portfolio of the ČS nemovitostní fond proved to be quality assets despite some adverse factors in the retail portion of the Fund. In 2021, the Fund thus continued to achieve a positive appreciation of the funds invested by investors, of 2.5%. The REICO ČS Long Lease fund is being gradually fully invested in such as to achieve a target return of 3–5% p.a. in 2022.

From the financial point of view, the ČSNF and RČSLL portfolios are sound, more than 90% of most properties are 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.

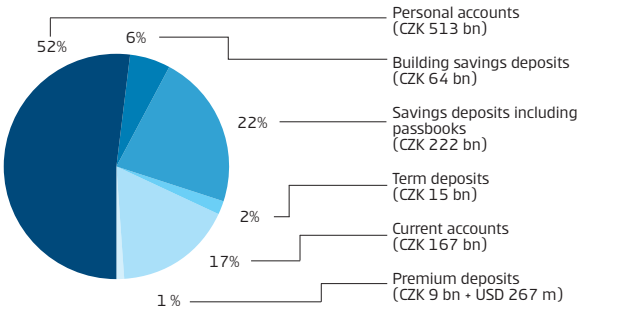
REICO investiční společnost České spořitelny, a.s. was incorporated on 13 June 2006. Its sole shareholder since its establishment has been Česká spořitelna, a.s.

Savings

Another popular retail product is the 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 the client at all times. The total amount saved with ČS Savings and other savings products amounted to CZK 236.8 bn at the end of 2021. Clients prefer demand deposits and save more for the future. On the other hand, demand for term deposits is growing among more creditworthy clients. The interest rate on ČS Savings was increased at the end of 2021, causing a twofold increase in newly opened accounts.

Building savings with Stavební spořitelna České spořitelny (also known as Buřinka – the "Bowler Hat") has long been the most popular savings product on the market. The 2021 result was positively impacted by the increase in rates announced by the ČNB in Q4 2021 and the associated increase in the guaranteed interest rate on deposits to 1.5% per annum from 1 December 2021.

Household savings



The number of new building savings agreements (including increased target amounts) was therefore up by 12% year-on-year in 2021, with 97,094 agreements concluded. Even better was the result in the volume of the target amounts negotiated in the new agreements, including increases, which grew by 33% year-on-year and reached CZK 36 bn in 2021.

In total, Buřinka manages over 578 thousand building savings accounts with savings of CZK 64.4 bn and target amounts of CZK 181 bn. All three parameters strengthened in 2021.

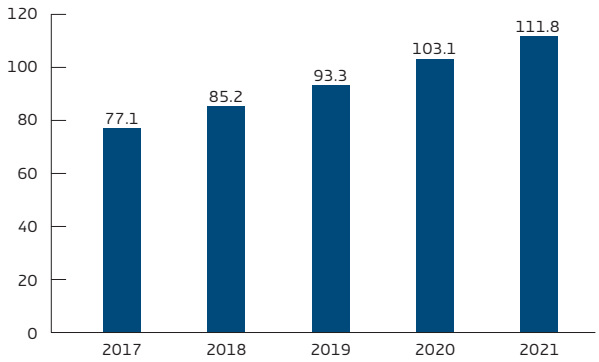
Buřinka bet on arranging building savings agreements online. The process of arrangement for regular clients was expanded in 2021 with the addition of the process of arranging building savings in the George internet banking.

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

Česká spořitelna – penzijní společnost is the long-standing market leader in supplementary pension savings, administrating the largest ever conservative participants fund on the market, with assets of almost CZK 13.1 bn. The Ethical Participation Fund, which is the only one in the Czech Republic to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, already reached a size of more than CZK 2 bn. As at the end of 2021, the Pension Company had over 970 thousand unique participants, with total assets of CZK 111.8 bn. In 2021, bonds experienced a significant decline due to the increase in market interest rates, which was negatively reflected in the appreciation achieved by both the Conserative and Ethical Participation funds. On the other hand, equity investments in the Dynamic and Balanced Participation funds performed very well again in 2021. In the last three years, the Pension Company has delivered one of the highest appreciations for clients among pension companies on the market, which, especially in the dynamic strategies, significantly exceeds the possibilities of other savings products.

Česká spořitelna – penzijní společnost is the first pension company on the market to use Banking Identity for arranging pension savings online. Thanks to this, clients can arrange their pension savings even faster, more easily, and without uploading documents. Furthermore, Česká spořitelna – penzijní společnost newly makes it possible to sign an agreement directly via Banking Identity, with an electronic signature that is at the level of a guaranteed electronic signature. The Pension Company has also added the possibility of arranging pension savings in the George mobile application. In it, a client can make even the most important adjustments to the setup of their savings within several seconds. During 2021, the Pension Company was awarded gold in the Pension Savings category of the Golden Crown (Zlatá koruna) competition.

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



Payment Cards

Česká spořitelna's payment card business again noted significant growth in 2021, driven mainly by the continued accelerated change in consumer behaviour caused by COVID-19.

The annual volume of purchases made with payment cards significantly exceeded the volume of cash dispensed. Payment cards thus confirmed their position as a strong means of payment, which is very important for Česká spořitelna's clients.

The great success of the Moneyback rewards programme continued in 2021. By the end of 2021, 520 thousand clients were registered in the programme representing an increase by more than 73% year-on-year. In 2021, clients saved over CZK 80 million on card purchases, with the average monthly cashback per client being CZK 88. In the Moneyback programme, enhancements were introduced, such as an advanced search for deals, retailers, and discount coupons.

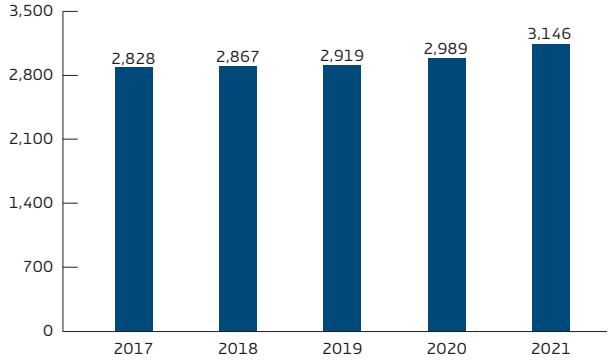
Česká spořitelna also noted substantial growth in the area of e-commerce, which increased by 36% year-on-year, to 68 million card payments on the Internet, with a total volume of CZK 63.7 bn.

At the end of 2021, the total number of active Česká spořitelna payment cards amounted to 3.15 million, which represents a year-on-year increase by 5.2%. The total volume of payments made with Česká spořitelna cards at retailers continued to grow and

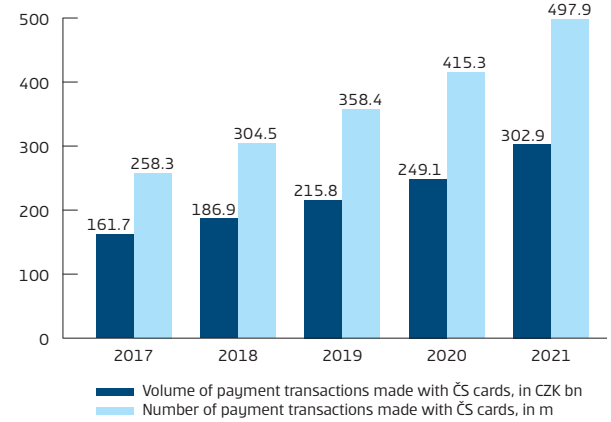
increased by a significant 21.6% in a year-on-year comparison, to CZK 302.9 bn. The average expenditure made at a POS was CZK 557. The number of transactions using client cards copied the growth in payment volumes, growing by 20% year-on-year, to 497.9 million.

In terms of cash, Česká spořitelna cards were used to make 48.5 million cash withdrawals in 2021, with a total volume of CZK 242.7 bn, which is an increase in volume by 4.6% compared to 2020.

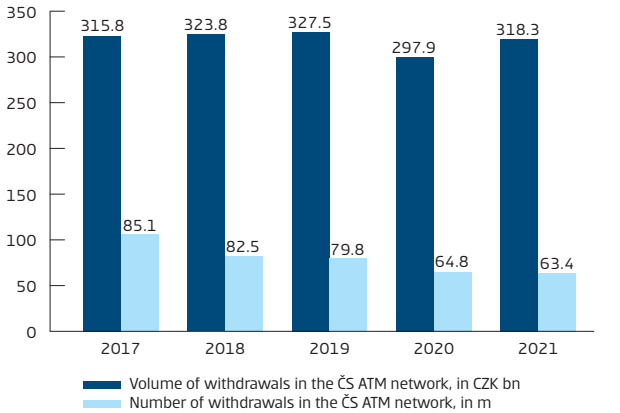
Number of active cards (thousand)



Card transactions made with ČS cards at merchants (issuing)



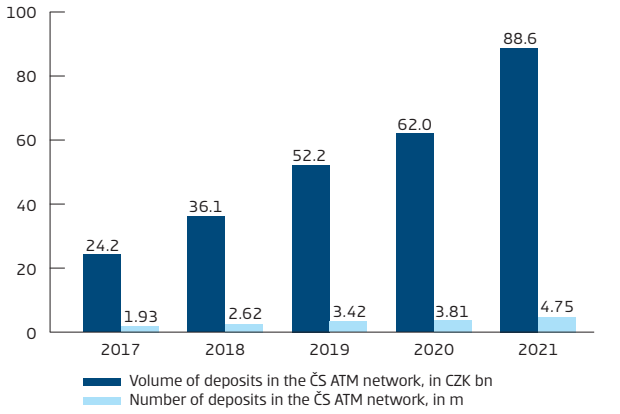
Cash withdrawals in the ČS ATM network



In terms of its ATM network, Česká spořitelna has long maintained a leading position on the Czech market. At the end of 2021, it operated a total of 1,783 self-service devices (ATMs, transactional terminals). In all of 2021, cardholders made 63.4 million cash withdrawals from Česká spořitelna´s ATMs, amounting to CZK 318.3 bn. The average withdrawal amount was CZK 5,035.

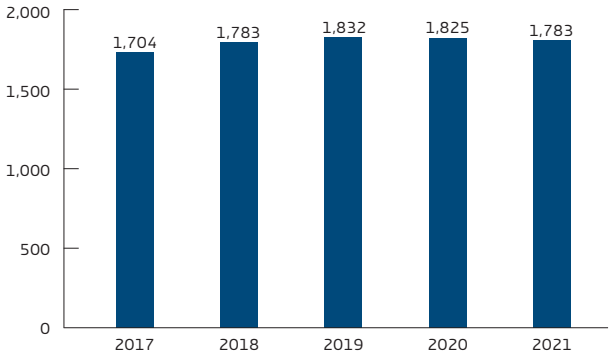
Česká spořitelna again expanded its network of ATMs that are equipped with the deposit function, which allow clients to deposit cash into an account or on a passbook with Česká spořitelna, but also into accounts maintained by other banks in the Czech Republic. A total of 385 deposit, dual, and recycling ATMs are in operation, in which clients made 4.75 million deposits in the amount of CZK 88.6 bn. The average deposit amount was CZK 18,543.

Cash deposits in the ČS ATM network



In 2021, Česká spořitelna also put into operation another 223 contactless ATMs, which now make a total of 1,491.

Number of withdrawal, deposit and dual ATMs and transactional terminals (payment machines)



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

Česká spořitelna's strategy for the development of its corporate banking is based on three main pillars: leveraging its position as a major player on the corporate market, to grow its business; portfolio granularity, achieved through increased focus on the small business segment (SE); and automation and digitalisation of the client management process.

Similar to 2020, the situation on the market in 2021 was affected by the ongoing global COVID-19 pandemic. This situation, which often put entire industries in a completely new and difficult position, affected both the activities of Česká spořitelna and its strategic direction. The pandemic has shifted client perceptions and they are now ready to take the digital route.

In general, the established trend for digitalisation was confirmed, especially in the area of basic services, where the Bank significantly expanded, for example, document signing with use of an electric signature without the need for a personal meeting; development of a digital credit application, which allows it to be more efficient and structured and is a part of the strategy to move to full digitalisation of the lending process; and further improvements to the CRM system, which brings together information on clients from internal systems and external sources and, based thereon, gives a better overview of the client's existing products and allows for the identification of their further needs (the advantage is the online availability of this tool and therefore its use via tablets directly in the field).

Unceasing effort to satisfy client needs in the best possible way, to deal with unexpected situations, not only at times of crisis (pandemic), and also to improve the overall client care, is not only rewarded by client satisfaction but also appreciated by the professional public. In 2021, Česká spořitelna won the highest award for Customer Experience, as the Overall Winner 2021 in the European ECCA competition, where the Bank received the highest jury rating out of all the projects entered in the competition (210 projects from 86 companies from 26 countries).

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

Small and Medium-sized Enterprises

Česká spořitelna serves its small and medium-sized enterprise (SME) clients through fifteen regional corporate centres. In each sub-segment – SEs and MEs – the Bank offers individualised service and specific products. Despite the difficult market conditions in 2021, thanks to a well-adjusted corporate banking development strategy and rapid adaptation to the new environment, Spořitelna managed to further strengthen its position as a key financial partner for clients.

Aside from the use of specialised programmes, Česká spořitelna has focused on a one-on-one client approach, client advisory services, and the financing of needs related to the current situation regarding the COVID-19 pandemic, as well as their long-term development. With an eye to the long-term horizon, the Bank relies on advisory services to improve the financial health and overall sustainability of clients' businesses.

Although personal contact was sometimes limited due to government regulations, Česká spořitelna's bankers stood by their clients and provided them with the utmost care.

Corporate Clientele

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

From a business point of view, the pandemic situation in 2021 also affected the large corporate client segment, especially in the first few months of the year. Nevertheless, it can be said that there was growth, which confirms the good condition of the Czech economy and the optimistic mood of Czech companies for the future. Aside from standard operating and investment financing, companies actively sought products in the area of capital markets and club and export financing, which was significantly reflected in solid lending during 2021. Česká spořitelna is in a very good position to respond to these developments and to assist companies in their development plans with debt or capital market financing, as well as to provide advisory services.

Structured, Trade, and Export Financing

Despite 2021 being a difficult year, when especially in the spring months the Bank experienced a slowdown in some business activities (including acquisition financing) on the market, Česká spořitelna's results and full-year balance sheet on the structured transactions market again exceeded the original expectations to some extent.

In 2021, as in previous years, the Bank was able to be part of virtually all major syndicated (club) and acquisition financing transactions and successfully completed a number of deals for both private and institutional clients. The Bank's stable and irreplaceable position on the domestic market, as well as its transparency, credibility, and positive references from many previously executed cases, were reflected in a further increase in the volume and number of structured transactions in 2021.

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

The complexity of today's world and the higher level of uncertainty also translated into higher demand for hedging instruments in 2021, with the Bank recording a significant year-on-year increase in both the number of units and volumes, particularly in guarantees and letters of credit. Spořitelna continued to build a comprehensive solution for financing and other financial services within the framework of supplier-customer relationships.

Not only through the above-mentioned transactions and services, but also through active involvement in the negotiation of emergency support programmes and their offer, the Bank has confirmed its position as a systemic and trustworthy financial partner.

Public and Non-profit Sector

Česká spořitelna provides comprehensive banking services to a significant part 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 2021, Česká spořitelna continued to actively support clients who were at risk of not completing planned investments, projects supported from EU subsidies or from national programmes, due to a shortfall in tax revenues. Thanks to operating loans, public sector clients were able to bridge critical months and many non-profit organisations did not have to reduce their services, thanks to operating loans or overdraft facilities from Česká spořitelna.

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

Real Estate Financing

Česká spořitelna has long been one of the leaders in senior financing of commercial properties in the Czech Republic. As in other segments, 2021 was marked by intensive communication with all existing clients. Projects in the retail and hotel sectors, in particular, required increased attention and a one-on-one approach. Despite the negative aspects associated with the pandemic, however, there was no shortfall in debt service or the need to create risk provisions. 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 provided continue to maintain the required granularity in terms of the type of the real estate assets financed, as well as a strong dominance of income properties, which account for 80% of the loan portfolio in this segment. The concentration profile of real estate financing has been successful in targeting 20% of corporate loan exposure over the long term.

Trading in Financial Instruments for Corporate Clients

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

Trading in Debt Securities and Equity Instruments

In 2021, 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.

Česká spořitelna was once again one of the most active traders in CZK bonds on the primary market and one of the most important primary dealers in Czech government bonds.

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, for whom it has already managed nearly CZK 140 bn in total.

Financial Institutions, Depositary, and Custody Services

In 2021, Česká spořitelna continued to develop and deepen its co-operation with insurance companies, pension funds, investment companies, payment institutions, banks, and other regulated and registered financial market entities.

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

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

Social Banking

Česká spořitelna continued to support non-profit and social enterprises on the Czech market in 2021. 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.

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 co-operation 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 2021, Česká spořitelna continued to develop its co-operation with domestic, foreign, and international financial institutions.

In addition to the national programme of bank guarantees, Spořitelna also successfully co-operates with the National Development Bank on the Expansion Loan programme. The Bank's clients can thus receive a contribution for the payment of the interest on loans provided by Česká spořitelna. Spořitelna has also expanded the use of financial instruments of this development bank in the Expansion Guarantee programme, which aims to further increase the availability of financing for small and medium-sized Czech enterprises. Given the impact of the COVID-19 pandemic on the Czech economy, the government proposed several programmes to support entrepreneurs. The programmes operated on a decentralised basis, with the Bank taking care of most of the administration and being the single point of contact. The programmes thus significantly increased the availability of financing and became one of the main instruments of assistance for the business sector.

In 2021, Česká spořitelna also continued to provide loans with concessional interest rates (including to companies employing young workers under 30 years of age) on the basis of the "Global Loan for SMEs and MidCaps II" loan signed and drawn down in 2018. The volume of concessional loans has reached approximately CZK 40 bn over the course of the co-operation, which places Česká spořitelna among the leaders in their providing in Central Europe.

Aside from the ongoing allocation of the global loan, the programme for supporting small and medium-sized enterprises in the form of a Portfolio Guarantee continued in co-operation with the European Investment Bank, with a positive impact on the freed-up capital. A bilateral agreement enabled the provision of an additional CZK 8 bn in concessional loans to Česká spořitelna´s clients over the course of two years. The loans were offered under the title "Concessional Loan" and their volume has been fully drawn down.

Co-operation with the European Investment Fund continued at a high level within the InnovFin programme of guarantees for innovative small and medium-sized enterprises, guarantees for start-up companies, and guarantees for social enterprises. All of these programmes have fulfilled their objective of increasing the volume of loans in these segments, and in particular the programmes for the financing of start-ups and social enterprises are exceptional on the Czech market.

New calls for the new programming period are expected to be published in 2022. Česká spořitelna is prepared to build on its experience, to continue using European programmes, and to bring their benefits to its clients.

Selected Awards in 2021

Česká spořitelna and its subsidiaries received many awards in 2021 which confirm the quality of the products and services provided:

International Awards

Euromoney Awards

- Erste Private Banking was named the best private banking in the Czech Republic, in a global survey conducted by the prestigious Euromoney magazine;
- In addition to the first place in the main category, EPB was also ranked first in the High Net-worth Clients category, as well as in the Data Management and Data Security category.

European Customer Experience Awards

- Česká spořitelna's Customer Care won the main prize – Overall Winner 2021 – in a competition in which 210 projects from 86 companies from 26 countries were judged.

Domestic Awards

Bank of the Year 2021

- Česká spořitelna won the main category of the 20th edition of the Bank of the Year competition. The jury particularly appreciated Česká spořitelna's response to the unprecedented situation after the outbreak of the COVID-19 pandemic and the many innovative solutions that had a direct impact on an end customer;
- The Banker of the Year award was bestowed on Tomáš Salomon, the Chairman of Česká spořitelna's Board of Directors, for his contribution to the banking sector during the crisis caused by COVID-19;
- Erste Private Banking won in the Private Bank of the Year category, and Spořitelna also took 3rd place in the Corporate Bank category and in the Sustainability category;
- Česká spořitelna also received a Special Award for its assistance to municipalities and towns during the coronavirus crisis.

Golden Crown (Zlatá koruna) 2021

Česká spořitelna was the most successful bank and won the most awards (4 Golden Crowns, 2 Silver Crowns, 3 Bronze Crowns):

- Mortgages – the Česká spořitelna mortgage triumphed for the fourth year in a row;
- Pension Savings – the winner of the category was ČS penzijní společnost;
- Building Savings – the Golden Crown was awarded to the building savings from Buřinka in George;
- Corporate Social Responsibility – the triumph in this category was celebrated by Česká spořitelna's "Money Alphabet" education programme.

Česká spořitelna Believes in Good Causes

2021 was affected by the continuing COVID-19 pandemic, and furthermore the country had to cope with a devastating tornado. Thus, in the area of good causes, the Bank once again responded to the current needs while maintaining all its corporate social responsibility programmes. It significantly benefited from deciding to rely on its consistent digitalisation and online programmes in 2020; however, no digital environment can fully replace social ties, which is why the Bank made every effort to support programmes in an "offline", natural environment. This was particularly evidenced by the "Spořka through the Czech Republic" event, during which Bank employees were not only able to meet each other in person during the stage march crossing of the country, but also became significantly involved in helping those in need or in activities benefitting the environment.

The Bank reacted immediately to the devastating tornado that hit Southern Moravia and then the Ústí nad Labem region. Immediately after the launch of the VIA Foundation donation appeal, Česká spořitelna and Buřinka joined in with CZK 2 m in support. The Bank also made a financial contribution to its employees mostly affected by the natural disaster, and they were also supported by their colleagues in an internal collection. Naturally, Česká spořitelna assisted its clients, whether by a deferral of payments, forgiveness of fees, free insurance for a year, or priority handling by the Bank's Client Centre, etc.

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 has cast a far sharper light on the problems in education. Spořitelna supports programmes leading to quality education, in particular through its Česká spořitelna Foundation.

The Bank has nourished lasting co-operation with universities and supports interesting discussion forums and organisations, which however have shifted mainly to the online environment due to the pandemic. Among those supported in 2021, there were Aspen Institute CE and the Moonshot by Aspen conference series.

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

The Money Alphabet

The Money Alphabet is currently the largest financial education programme in the Czech Republic. Through it, the Bank co-operated with more than 700 schools in 2021. Česká spořitelna prepares the programme in co-operation with education professionals and implements it under the auspices of the Ministry of Finance.

With the Money Alphabet, kindergarten and primary school children as well as teenagers at secondary schools can take part in an entertaining, interactive programme in which they learn the basics of money management in a way that is appropriate to their age and abilities. To the youngest ones the world of money is introduced through educational audio stories. Older children can play an exciting game, of being a treasurer and an entrepreneur, while secondary school students learn about finance in the strategic computer game Mysterious Journey. The Money Alphabet also offers a special programme tailored to the needs of children from children's homes, and it also continues to organise courses to teach seniors how to use smartphones (and more).

Since 2020, in a response to the pandemic, the Money Alphabet has been fully available in an online version. Aside from fun for children, it also offers a full range of sophisticated materials that are available for download for teachers and parents free of charge, from worksheets to methodological tools and an overview of financial literacy standards, to practical advice and tips on how to talk with children about money. For more, see www.abecedapenez.cz.

Česká spořitelna Is a Good Neighbour

The Good Neighbour initiative is the Bank's contribution to improving the country's social capital. 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 "Festival Svobody" ("Freedom Festival") platform, which in 2021 focused in particular on raising awareness of non-profit organisations with the "Such We Are" campaign. To celebrate the anniversary of 17 November, among other things, Spořitelna enlighted its headquarters by the colours of the tricolour and organised a thematic drone show in Prague and Brno.

There are many people at the Bank who do not hesitate to help the needy, by donating their time, their knowledge, and also their money. In 2021, 1,636 employees took advantage of the Day Differently volunteer programme, and the Bank donated a total of 1,650 days to good causes. More than 230 additional volunteers participate in the Money Alphabet financial literacy programme. Other volunteers are involved as trainers in the new Česká spořitelna Foundation's "Day for School" project.

An example of the engagement of the Bank's employees is the unique project "Spořka through the Czech Republic", in which 1,649 ČSFG employees participated in May and June 2021. In 48 days, they covered a total of 26,834 kilometres, during which they worked more than 7,000 hours for a good cause – thus taking advantage of more than 900 Days Differently, dedicated to volunteerism. Among other things, they collected 453 bags of trash and fulfilled nearly 200 wishes from the wish lists of 25 non-profit organizations across the country!

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

"We Can Do More" Community Grant Programme

The Bank supports projects of active people who have ideas on how to improve their surroundings. They set up associations, improve village squares, restore benches, springs, or vanished paths, plant trees, build gazebos for neighbourhood events, and organise such events themselves. Applications can be made at any time for grants of up to CZK 100,000 at www.dokazemevic.cz. Spořitelna co-operates on the programme with the VIA Foundation. The Česká spořitelna Foundation then doubles the donation appeals announced within the programme on the darujme.cz portal. In 2021, the Bank supported 48 projects across the Czech Republic and distributed almost CZK 3.4 m.

Also in 2021, the Bank announced a microgrant programme, in which it grants contributions ranging from CZK 5,000 to CZK 10,000 for neighbourhood activities. The #StrongerRegions programme supported 75 projects by CZK 715,400.

In 2021, the Bank also launched "Over the Fence" podcast, in a co-operation with the VIA Foundation. Listeners on all podcast platforms can be inspired by guests from the world of communities and neighbourhood relations – people who have experienced first-hand that even a small action can generate a lot of positive energy and set in motion bigger changes.

Green and Sustainable

The Bank also wants to play a key part in shaping sustainable development in the Czech Republic. In 2021, it set a new sustainability strategy centred around the promotion of clients' financial health, affordable housing, start-ups, and sustainable transformation of the Czech economy. At the Czech Banking Association, the Bank, in co-operation with another nine banks, initiated the establishment of the Committee for Sustainable Finance and signed the Memorandum for Sustainable Finance. Spořitelna is also a member of the "Change for the Better" initiative.

In 2021, the Bank made the largest ever issue of "green bonds" among financial institutions operating on the domestic market, offering EUR 500 m worth of bonds to international investors. It will use the proceeds to finance projects focused on sustainability and environment. The Bank is gradually expanding its ESG investment product offering, including a new product line of ESG Mix mutual funds in 2021.

Erste Group was the first bank in the Central and Eastern Europe to join the United Nations Net-Zero Banking Alliance (NZBA). The banking group is thus committing itself to realising a net-zero-emission loan and investment portfolio by 2050 at the latest. As the first step, Erste Group measured the carbon footprint of its loan portfolio, and the results are available in the Annual Report of Erste Group Bank AG.

A Bank without Barriers

Česká spořitelna has the widest network of wheelchair-accessible branches and ATMs and is among the best on the market in terms of the complexity and accessibility of services for people with various types of disabilities. Of a total of 418 buildings, 323 (or 77%) are wheelchair-accessible, and the Bank has 278 fully or partially wheelchair-accessible ATMs. Bankers in all branches use the DeafCom application and the Silent Line service for sign language interpretation or online transcription of spoken word. Furthermore, the Bank can be contacted via these applications, including Infoline – a special team is designated in the Client Centre to support deaf clients. 85 branches offer voice navigation for the visually impaired, and 1,422 of the total of 1,782 ATMs have a connection for headphones and a voice sound system for blind customers. The Bank has for long operated the special website www.bankabezbarier.cz.

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

Non-commercial Activities

Employees are the key to the Bank heading in the right direction and achieving success in a competitive environment. Česká spořitelna sees a significant competitive advantage in having qualified, motivated, and fairly remunerated employees, and it therefore continuously works to create and improve their working environment and opportunities for their training and development, both professionally and personally. To that end, Spořitelna implements 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 satisfied partnership between employees and Česká spořitelna as their employer.

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

Employees and their family members have an opportunity to use modern online mental health and legal counselling free of charge and anonymously; they can take advantage of subsidised flu vaccinations directly at the workplace; and they receive vitamins. They have the possibility to obtain massages by blind masseurs directly at the workplace and receive a discounted offer of healthy meals with the delivery of boxes anywhere in the country, including free services of a nutritional counsellor. According to an internal survey, 91% of employees agree that great emphasis is placed on health care at ČS. In the context of the COVID-19 pandemic, ČS continued the much-used, dedicated, internal COVID line, where trained ČS operators helped employees address all pandemic-related questions and situations. As in 2020, Česká spořitelna provided its own Smart Quarantine for rapid tracing and prevention of the spread of the disease at the workplace, offered all employees personal protective equipment with direct protection for its wearer, even when they were not mandated by government rules, ensured testing by field teams at its workplaces throughout the country, again beyond the scope of government measures, as well as extensive self-testing opportunities paid for by ČS, using gentle sampling methods.

A comprehensive offer of development for employees helps them to be more successful not only in what they do today, but also prepares them for what lies ahead for the Bank and the market as whole in the future. Employees have at their disposal a broad range of training courses, electronic courses, and increasingly also interactive learning methods provided in a digital environment. The digitisation and the ability to apply it within particular specialisations (expertise) supported by the digitisation of development paths and their interconnection with career growth principles became one of the training priorities for 2021. Česká spořitelna continued to define the individual crafts/expertise at Spořitelna, and for selected ones defined development paths. The ongoing activities in the form of the Data and CX Academy were supplemented by others, focused on the key craft of Product Owners.

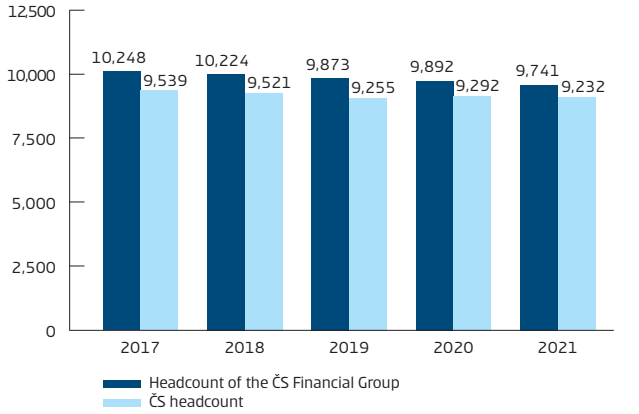
Česká spořitelna continues to strive to be an attractive employer for talented candidates. Given the development of the employment market in 2021, the Bank has expanded its portfolio of tools for reaching potential new colleagues. Building on the activities implemented in 2020, a series of employee interviews #Spořkajenejelepsimistopropraci (#Spořkathebestplaceforwork) was added in 2021, a ČS profile was created on the Welcome to the Jungle job board, and a bank-wide recruitment campaign was organised, using new communication channels. Intensive co-operation with students continued in 2021. The Bank's representatives took part in several job fairs and orientation courses, both online and in person. In order to promote communication with young people, the Trainee Programme and the IT Resource Pool Department were newly presented on the careers page of Spořitelna´s website. Through its posts with HR content, Česká spořitelna reached 500,000 users per month on the social networks

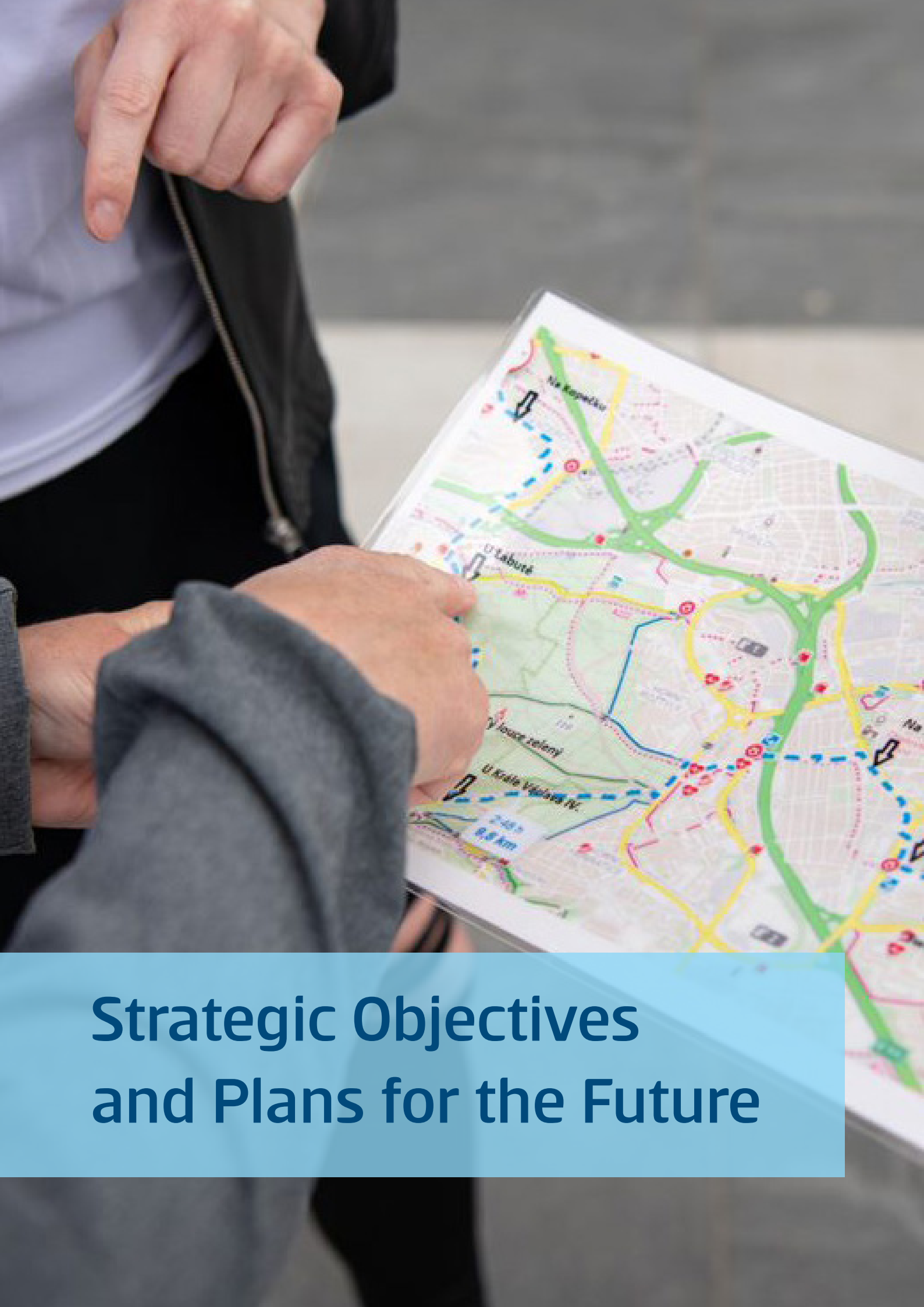
Instagram, LinkedIn and Facebook. In terms of working with candidates, ČS has started to actively measure NPS and actively seeks feedback from candidates on the selection process.

In 2021, Česká spořitelna developed the EMMA employee portal, both in terms of minor developments of core functionalities, but, above all, by implementing new modules and functionalities. What registered most greatly with employees was the launch of the new Onboarding module and the associated simplified process of recruiting new employees. In terms of the day-to-day agenda, employees can appreciate the launch of the mobile application, which they use most for entering/approving absences. In the HR data area, a target platform has been defined to provide a unified view of HR data from various sources, over which development and then full roll-out will take place in 2022.

The average headcount of the consolidated entity decreased by 1.53% to 9,741. For Česká spořitelna alone, the average headcount was 9,232. Women accounted for 67% of all employees. 8.5% of employees worked part-time. The Bank successfully integrated 145 employees who had returned from parental leave. The average length of employment remained at 10 years and the average age increased to 41 years. Employees over 50 years of age represented 25.4% of Česká spořitelna's population.

Average headcount





Strategic Objectives and Plans for the Future

Strategic Plans for the Future

Strategic Objectives

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

As in the previous years, Česká spořitelna's main market in 2022 will be its home country, the Czech Republic, with a traditional outreach, especially in the corporate area, to the whole Central and Eastern Europe. In this region, Česká spořitelna will take full advantage of the synergistic potential within Erste Group Bank, of which Česká spořitelna is a member. In terms of the product portfolio, Česká spořitelna will in particular focus on the continuous development of its digital banking platform called George: in addition to the possibility of purchasing new products through it, Česká spořitelna will continue to improve the platform's so-called service capabilities, so that clients can adjust product parameters without having to visit a branch or call the information line. The great emphasis will also be placed on George's advisory capabilities, such that it would be able to advise clients wherever they are, thereby opening advisory services to everyone.

Macroeconomic Assumptions

The development of the Czech economy will continue to be affected by number of external factors in 2022 and will be burdened by considerable uncertainty. The main factor that will have a significant effect on economic development in 2022 will be the ongoing war in the Ukraine. Another uncertainty is related to the COVID-19 pandemic, the adverse impact of high energy prices on economic development, or the continuing shortage of semiconductors. The overall effects of the Russian invasion of the Ukraine will have a very strong impact on the Czech economy, as reflected in low GDP growth and high inflation. On the other hand, impacts on the unemployment rate will be relatively small.

For 2022, Česká spořitelna counts on the following macroeconomic assumptions:

- Real GDP growth will reach 0.6% [19], which will be affected by several factors that are influenced by the current geopolitical situation. Firstly, there will be a decline in exports to Russia, Belarus and the Ukraine, both direct and indirect, via exports of intermediate goods to Germany. Secondly, the economy will be affected by problems with imports of materials and components from the Ukraine and Russia (metals, components for the automotive industry, etc.). Moreover, household consumption will be dampened by falling real wages reflecting high energy prices and investment growth will be low, due to uncertainty and high ČNB rates;
- Headline inflation will be very high in 2022, as the average figure could exceed 10%. Although several demand factors (tight labour market, high saving of households or expansionary fiscal policy) contribute to inflation figures, the most important part of inflationary pressures will be predominantly driven by energy, fuel and food prices. These factors will be affecting inflation directly as a part of households' consumption spending, as well as indirectly, when entrepreneurs and firm will have to spill over increased costs into final prices of goods and services. Thus, throughout the year, inflation will remain well above the inflation target;

(19) Česká spořitelna, a.s. forecast, dated 8 March 2022
https://cz.products.erstegroup.com/modules/res/FileDownload.php?hash=8552a654ec93b4f2056f66808d76f64bbdc482381bf405421f85d345db013d28&idfile=56044&stat=ebg.cz%2FRetail%2Fcs%2FFiles%2FResearch%2F56044%2F2022-03-08%2FM__si__ni%2Bpredikce&stath=67f74d93301bdc4a0&time=1646928371&tool=RSC

- The labour market will deteriorate in 2022, mainly due to the decline of real wages, which will be affected by high inflation. On the contrary, the unemployment rate will stay low and, although it could slightly increase, it will remain very favourable overall. This is mainly due to the state of the Czech labour market, which is characterized by a lack of new available workers, and therefore, even with temporarily low GDP growth and subdued developments in some sectors, labour demand will remain relatively high;
- Due to high inflation, the ČNB plans to further increase interest rates in 2022, peaking at 4.50–5.00%. However, the current conflict in the Ukraine significantly increases uncertainty, as it may lead the Czech economy to stagflation. Thus, the ČNB will be in a very difficult situation with its decisions and will set policy rates in line with the latest development. In the second half of the year, the ČNB will leave interest rates unchanged, mainly due to the elevated inflation;
- Czech koruna will remain weaker due to significant uncertainty in 2022, reflecting market concerns about the impact of the situation in the Ukraine on the European economy. In the second half of the year, unless there is a further escalation, the koruna should return to a gradually strengthening trajectory, in which, in addition to calming market sentiment, a high interest rate differential with the euro area will be reflected.

Outline of Business Policy, Expected Economic and Financial Situation in 2022, and an Outlook for Upcoming Years

Retail Banking

After the previous "COVID" year, 2021 presented a new reality. Classic banking, as we know it, in the form of the Česká spořitelna branch network, found its way to clients not only through face-to-face meetings in masks, but also through business banking (resolution of client problems via e-mail and telephone with signing via a digital application), and in the second half of the year primarily through full-fledged online advisory meetings.

In 2022, Česká spořitelna will carry on in fulfilling its key strategic priorities:

- Expanding its fan base;
- Growing client satisfaction;
- Enhancing Česká spořitelna's image as a friendly, safe, smart, digital, high-quality, and easily accessible partner for addressing a broad range of its clients' needs.

In particular through the following activities:

- More than one million clients experience their own personal financial advisor in practice in an absolutely unique and the ever-developing concept of Financial Health (evolving from My Healthy Finances);
- More interactive advisory services, through tablets in the hands of clients;
- Expansion of business and service operations in George and in the self-serving George store.

The relationship with the client is the alpha and omega of all that happens at Česká spořitelna: not only communication and client service, but also the product and service offering are subject to it.

In personal finance management, Spořitelna offers attractive current accounts. Apple Pay, Google Pay, and other payment applications are now an integral standard. Spořitelna keeps expanding and extending the options in George, adding convenient foreign currency accounts and transposing the concept of Healthy Finances to the accounts of small businesses, and it will continue to focus on expanding the base of its clients who actively use transaction banking.

In consumer financing, Česká spořitelna, as the Czech market leader, stands by and supports its clients, thanks to whom it maintains its market shares. A third of clients already request their consumer loan via a digital channel, and the extensive branch network makes it possible to provide flexible and financially sound offers to clients, even in person.

Housing financing noted an immense boom in 2021, and Česká spořitelna, with its partners' support, provided the greatest number of new mortgages on the market. In 2022, it will support the fulfilment of its clients' dreams through patient and mutually beneficial co-operation with partner networks, including an acceleration of service and complementation of the client experience. Spořitelna's ambition is to become the new leader of the market in mortgage products.

The unusually high inflation rate in the second half of 2021 is a key impulse for the offer of investments. Among financial instruments, practically only investments offer appreciation at the level of inflation and Česká spořitelna's clients are taking advantage of such appreciation, in particular in the risk-prudent Premium Deposits. The topic of wealth appreciation will remain the most dynamically developing product area in the years to come. And not only a product area. The tradition and professionalism of bankers in premium (Erste Premier) and private banking (Erste Private Banking) appeals to those clients who require very specific needs to be addressed with professionalism, and they appreciate a long-term open relationship. The expanding network of investment advisors and personal bankers builds on the professionalism of the premium brands.

In life insurance in 2021, Spořitelna built on its success in 2020, continuing to improve its network of insurance advisors. In non-life insurance, it integrated its offer in Financial Health, which was presented to its clients through tablets. In 2022, it will offer specialised advisors to entrepreneurs, as well.

In November 2021, Česká spořitelna adorned its 150th branch in the new Erste Group concept. Throughout 2022, it will continue

to modernise its branches, in which customers appreciate the friendly environment and discretion, together with the advisory skills of employees. The abilities of Česká spořitelna's advisors are growing with their satisfaction, which Spořitelna strives to ensure by offering a friendly work environment, fair pay, and attractive employee benefits, as well as quality professional training, including certification.

In 2021, Spořitelna launched the #stronger campaign, highlighting Spořitelna's tradition of nearly 200 years, its life story being primarily about helping people, through financial services and contributing to their prosperity. Česká spořitelna sees that, today, perhaps more than ever, it is the key for our society to be encouraged to be more confident. Not only by this campaign, Česká spořitelna will continue the legacy begun by the past generations. Česká spořitelna believes that the values it professes are timeless, such as mutual respect, respect for the work and success of others, as well as respect for social responsibility and usefulness, and Spořitelna likes to share them with its clients and will be honoured to stand by its clients in 2022 and beyond.

Corporate Banking

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

Česká spořitelna strives to be a partner for corporate clients on their way to growth and prosperity. The related strategy includes an emphasis on advice in areas such as financial health, sustainability, and transformation to higher added value (in the sense of "Transformation 2.0"). The goal of continued transformation is to build the ability to quickly respond to client feedback. The Bank aims to optimise its service channels, which is why process digitisation and automation in an intuitive and client-oriented environment are becoming Bank´s 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.

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

In the area of open banking, Česká spořitelna is building new business models over its banking processes and data. Thanks to this, it is able to improve digital sales processes for companies, for example, through digital banking identity. In co-operation with other major players on the market, Spořitelna also offers the "we.trade" blockchain platform.

In the SME segment, Česká spořitelna's main goal for 2022 and beyond is to become the partner of first choice in all aspects of client interaction. The principal theme in this respect is Financial Health Advisory, which aims to focus on clients' financial health and their comparison on the relevant market. Related to this is the deepening of the competencies of corporate bankers, in order that they are partners for the client's day-to-day operational requirements, as well as for their future development and prosperity. The digitisation of processes and the building of an online platform for both advisory and financing activities remains a priority. 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 a client's needs. Spořitelna wants to provide special care to clients affected by the COVID-19 situation.

Česká spořitelna, a key bank for large corporations operating in the Czech Republic, will carry on in its strategic efforts to be a long-term and reliable business partner for large corporations in 2022. Better understanding of client needs and a higher level of expertise will be facilitated by a deepening of the sectoral specialisation of bankers. In financial advisory for large corporate companies, Spořitelna wants to focus on an individualised approach to client service, on ways to improve their financial health, and on assistance with green transformation, as well as to look for ways to support the transformation of the Czech economy towards higher added value. When serving multinational corporations, it will provide, with the support of Erste Group Bank, banking products and financial services that enable clients to manage their needs across the CEE region in which Erste Group Bank operates.

In the sphere of structured financing, Česká spořitelna will continue to fully profile itself in 2022, so as to continue providing 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 the key product solutions where, thanks to its long-term experience and unique expertise, Česká spořitelna is able to offer its partners the 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, to continue to play a leading role in supporting exporters through export and trade financing instruments and products, and to play a major role in the creation of support programmes, solutions, and tools that will, in an era affected by the global pandemic, help Czech entrepreneurs and manufacturers bridge difficult times and ensure their future prosperity. One of the

important initiatives, especially at this time, is to actively offer and participate in the use of the international "we.trade" digital platform, to facilitate business-to-business trade, ensuring transparency, swiftness, security, and attainability in complex supplier-customer relationships.

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. In terms of the type of assets financed, it will focus primarily on the logistics sector, which is becoming a very promising type of property, both in terms of returns for investors and increased demand from tenants. In the sphere of residential development financing, the financing of rental housing is taking off successfully. At the same time, Spořitelna is strengthening its expertise in the financing of cooperative housing, which is a potentially interesting segment, not only for corporate clients but also for the municipal segment.

In the public and non-profit sector, Česká spořitelna's main priority will be to actively support clients in the sphere of operational and investment financing, so that investment does not have to be cut back due to shortfalls in tax revenue, that subsidies can be drawn, and the cash-flow of local governments can be stabilised. At the same time, Spořitelna intends to focus on debt financing of major investment projects in the areas of health, transport, housing, and key infrastructure, including through the National Development Fund. In co-operation with relevant government institutions and the Czech Banking Association, cashless payment systems will be developed in critical public administration segments and online communication between citizens and authorities through the Banking Identity project.

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 in financing those organisations is 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 2022 will be to strengthen their market share in all key financial market areas and products. The FM&FI department will focus primarily on the development of financial services for financial institutions, development of an online trading platform for corporate clients, and reinforcing its position as the regional leader on currency, interest rate, and derivative markets.

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

On capital markets, FM's objective is to remain the primary bank for the subscription and distribution of new corporate bond issues throughout 2022, 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 of its institutional clients, and it will build on those pillars in the future.

The sale of financial market products in 2022 will decisively concentrate around individual client needs related to the impact of the COVID-19 pandemic, in particular shortfalls in companies' planned cash-flows. Business-wise, Česká spořitelna will focus on selling products hedging medium and longer-term risks associated with currency rate and interest rate fluctuations.

Expected Economic and Financial Situation

The uncertain economic development expected in 2022 will be reflected accordingly in Česká spořitelna's financial performance. Expected growth of operating revenues will be driven primarily by a higher net interest income due to a significant increase in the two-week repo rate in 2021 and the continuing growth of the volume of loans and deposits. Operating income will be supported by net fee and commission income, in particular in the area of card fees and insurance and should return to the pre-COVID level. Only slow growth is expected in the sphere of operating expenses; however, there is a risk stemming from significantly higher inflation. The above indicates an expected improvement in the cost/income ratio, which should end up below the 45% level. Overall, Česká spořitelna's operating results in 2022 should significantly exceed those of 2021.

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

Risk Management

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

The following units participate in managing risk at Česká spořitelna:

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

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

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

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

and further Committees at the Top Management level:

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

Credit Risk

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

The credit management policy includes:

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

Collection of Necessary Risk Management Information

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

Internal Rating Tools

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

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

Structure of Approval Authorities

The structure of approval authorities is based on the principle of materiality of the impact of potential loss from a provided loan on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Risk Committee and 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 the 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 a 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.

Impacts of the COVID-19 Pandemic

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

In addition to standard tools and reports, the Bank closely monitors the development of the portfolio of clients who have requested a deferral of payments and thus prudently manages its portfolio. Loans and advances to customers, for which the negative impact of the COVID-19 pandemic is expected, were reclassified to stage 2 in 2020 and 2021. Impairment loss allowances created for receivables classified in stage 1 and 2 were increased by the expected impact of economic development.

Credit risk management has been complemented by a sectoral sensitivity analysis that takes into account the impact of the COVID-19 pandemic on individual economic sectors. According to this criterion, the Bank divides economic sectors into four categories. These categories are used in the approval process, in the calculation of risk indicators and in the classification of receivables into stages. The structure of the portfolio, where individual exposures are classified into individual categories, is part of regular reports for the Bank's management. The categorization of economic sectors is regularly reassessed.

More details on credit risk and the effects of the COVID-19 pandemic on its management can be found in the notes to financial statements.

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 a 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 a monthly basis to the responsible members of the Board of Directors via the Asset and Liability Management Committee and 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 the structural changes in Česká spořitelna´s financial position.

Liquidity Risk

Liquidity risk is defined as the 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 the 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). Adjusted LCR pursuant to the European Commission Regulation no. 2015/61 (The LCR Delegated Act) 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 the 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 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).

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 quarterly 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.

Standard stress testing was extended in 2020 to include additional scenarios modelling the various impacts of the COVID-19 pandemic on the economy.

Capital Management

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

All significant risks are quantified and covered by internal capital within ICAAP. Economic capital is calculated for a one-year period with a confidence level of 99.92%. Market, operational and liquidity risks are quantified using the complex advanced approaches based on VaR methodology. Credit risk is calculated using the risk-weighted assets method with the IRB approach. Česká spořitelna has also developed models for other risks (business, strategic, reputation or concentration risk). The overall risk of the Group is the sum of the individual risks, i.e., the diversification effect is not used due to the preference of a more conservative approach. Total risk is then compared to capital funds derived from the regulatory capital.

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

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

The capital position of the Bank in 2020 was affected by the ČNB's requirement not to pay a dividend. Part of this dividend was paid out in 2021. The Bank had a capital reserve, which enabled it to cover losses even in very unfavourable stress scenarios.

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*

2021	2020	2019	2018	2017
22.98%	24.73%	21.77%	19.03.%	18.61%

*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 82 and 201 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 64 of the Annual Report).

Shareholder Structure of Česká spořitelna as at 31 December 2021

	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 64 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 306 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 2021, 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 1,846 thousand shares with an aggregate purchase price of CZK 1,582 million and sold 1,846 thousand shares with an aggregate selling price of CZK 1,582 million. In 2021, the minimum price for the purchase and sale of one share was CZK 645.80 and CZK 647.00 respectively, the maximum price for the purchase and sale of one share in 2021 was CZK 1,075.57 and CZK 1,075.57 respectively. Neither at the beginning nor at the end of 2021 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2021.

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 2021 was CZK 2,662.2 million. The contribution itself amounted to CZK 53.2 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 45 million in 2021.

Information on Obligatory Published Figures

Česká spořitelna publishes figures according to Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, Act on Banks, Act on Savings and Credit Co-operatives No. 87/1995 Coll., Act on Capital Market Undertakings and Ordinance No. 8/2021 Coll. in Czech language in the part "Obligatory Published Figures" on its internet website at: https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB, in the form of unprotected data files suitable for downloading in xls/xlsx format.

Supplementary Information on Debt Securities Issued

Debt securities ISIN CZ0002001191, CZ0002001407 and CZ0002001415 have been traded on the regulated market of the Prague Stock Exchange (Burza cenných papírů Praha, a.s.) since their issue date. Issuance of debt securities ISIN AT0000A2STV4 has been traded on the Vienna Stock Exchange Wiener Börse since their issue date and was assigned an issuance rating by rating agencies Standard & Poor's and Fitch. Other securities are not traded on any regulated market. Issued debt securities are summarised in the separate financial statements. Except for the above mentioned, the debt securities have not been assigned any rating. 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 minimum capital adequacy requirements and recognizes the need to also hold internal capital buffer for both anticipated and unforeseen economic and/or regulatory developments. Therefore, when calculating the dividend to be paid out for a given accounting period, Česká spořitelna considers all relevant internal and external restrictions with the aim to provide sustainable profit pay-outs.

Fees Invoiced by the Audit Company PricewaterhouseCoopers Audit, s.r.o. and PwC Network in 2021

§ 118, paragraph 4 letter k)

CZK million without VAT	Audit services	Other assurance services	Other services	Total
Česká spořitelna	18	7	0	25
Other consolidated companies	8	2	1	11
Total	**26**	**9**	**1**	**36**

Services in Addition to the Statutory Audit Provided by the Statutory Auditor and Its Network in 2021

PwC company	Recipient of the service	Service description	Price without VAT (CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of the half-year consolidation package of Erste Group Bank AG as per requirements of the EGB group auditor	4,212,624
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)	327,072
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated annual and half-year financial statement for Czech regulatory purposes	297,216
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Agreed-upon-procedures on fee calculation for guarantee for loans received from European Investment Bank	179,568
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Comfort letter preparation for EUR SNP issue on EU market (MREL)	1,463,663
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Long Form Report related to AML process for the Czech National Bank	693,240
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor's confirmations for insolvency proceedings	36,000
PricewaterhouseCoopers Audit, s.r.o.	Stavební spořitelna České spořitelny, a.s.	Long Form Report related to AML process for the Czech National Bank	400,000
PricewaterhouseCoopers Česká republika, s.r.o.	Stavební spořitelna České spořitelny, a.s.	Economic analysis of the principles of the building savings and comparison with neighbouring countries	700,000
PricewaterhouseCoopers Audit, s.r.o.	Procurement Services CZ, s.r.o.	Voluntary audit for the year ended 31 December 2021	210,198
PricewaterhouseCoopers Audit, s.r.o.	ČS NHQ, s.r.o.	Voluntary audit for the year ended 31 December 2021	176,000
PricewaterhouseCoopers Audit, s.r.o.	CEE Property Development Portfolio 2 a.s.	Voluntary audit for the year ended 31 December 2021	157,896
PricewaterhouseCoopers Audit, s.r.o.	Budějovická Development, s. r. o.	Voluntary audit for the year ended 31 December 2021	62,746
PricewaterhouseCoopers Audit, s.r.o.	BP Budějovická, s. r. o.	Voluntary audit for the year ended 31 December 2021	78,432
PricewaterhouseCoopers Audit, s.r.o.	BP Poláčkova, s. r. o.	Voluntary audit for the year ended 31 December 2021	78,432
PricewaterhouseCoopers Audit, s.r.o.	BP Olbrachtova, s. r. o.	Voluntary audit for the year ended 31 December 2021	78,432
Total			**9,151,519**

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's 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 15–100% 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 2021 included the operating result of the Česká spořitelna Financial Group (ČS Financial Group) reduced by risk costs, Cost/Income ratio, and client satisfaction measured according to the CXI (Customer Experience Index) indicator.

Managers

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

Detailed curricula vitae of Board members, attesting to their competence, professional skills, and practical experience and describing their activities are published on page 16 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: [20]

- Financial remuneration for statutory body members of CZK 58.355 m;
- Bonuses for managing a division (cash part), of CZK 18.243 m;
- Bonuses for managing a division (non-financial part – certificates and phantom EGB shares), of CZK 20.250 m; and
- In-kind income for Board members of CZK 1.512 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 Strategy and Business part (evaluation of set performance parameters; total weight 75%) and the Leadership part (total weight 25%). Normally, annual variable remuneration of Board members as managers accounts for less than 4% of the aggregate volume of variable remuneration in all of Česká spořitelna.

Performance criteria for individual Board members are set for a calendar year and are subject to approval and subsequent evaluation by the Supervisory Board, including the expected/target value of

the indicator and its weight in all performance criteria, and hence also in the Board member's annual bonus, if any. In formulating objectives for the Company's Board of Directors, relevant regulatory requirements, with which the resulting target structure must be compliant, are always taken into account. In evaluating performance, financial performance criteria are adjusted of related existing and future risks and costs.

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

For 2021, the Supervisory Board set and evaluated the following key performance indicators for Board members (part "Strategy and Business" with a weight of 75% in the overall evaluation):

- The Chairman of the Board of Directors: operational objectives – operating result, return on allocated capital; strategic and business-specific objectives – Group strategic priorities including the dimension of diversity, brand, development of financial health advisory, digitization and efficiency;
- The Board member responsible for financial management: operational objectives – operating result, return on allocated capital, data management; strategic and business-specific objectives – preparation of acquisition strategy, implementation of strategic resource reallocation, optimization of capital structure, new ČS headquarters project, development of financial health advisory, digitization and efficiency;
- The Board member responsible for retail banking: operational objectives – operating result of the Retail division, return on allocated capital, Customer Experience Index of retail customers; strategic and business-specific objectives – development of prosperity advisory services, retail strategy update, development of financial health advisory, digitization and efficiency;
- The Board member responsible for corporate banking: operational objectives – operating result of the Corporate Banking division, return on allocated capital, Customer Experience Index of SME customers; strategic and business-specific objectives – development of digital group strategic initiatives of the Corporate division, priorities of the Corporate division, development of financial health advisory, digitization and efficiency;
- The Board member responsible for operations and IT: operational objectives – operating result, return on allocated capital, data management; strategic and business-specific objectives –progressive modernisation of IT and IT security, digitization of E2E operations, development of financial health advisory, digitization and efficiency;
- The Vice-Chairman of the Board of Directors responsible for risk management: operational objectives – ratio of non-performing loans to total loans, share of risk costs in total loans, data management; strategic and business-specific objectives – Compliance, cyber risk, ESG, COVID-19 risk management, development of financial health advisory, digitization and efficiency.

Each of the indicators specified above had a target value set to be achieved in 2021, and a weight in the overall evaluation for the "Strategy and Business" area.

The management results achieved, qualitative evaluation by the Chairman of the Board of Directors, and an evaluation of future potential, form the "Leadership" part, with a weight of 25% in the overall evaluation.

Deferred Variable Remuneration and Payment Method

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

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

In particular, in cases under i) and iv), 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:

a) 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);
b) Whether the Company and/or the business unit subsequently suffers a major drop in its financial performance (e.g., specific business indicators);
c) Whether the Company and/or the business unit in which the identified person works suffers a serious risk management failure;
d) A major increase in the economic or regulatory capital base of the Company or business unit;
e) 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 2021, all members of the Supervisory Board received a total of: [20]

- Financial remuneration for being members of the Supervisory Board of CZK 6.069 m;
- In-kind income for being members of the Supervisory Board of CZK 0 m; and
- Supervisory Board members – Česká spořitelna's employees – received financial income from their employment relationships of CZK 1.944 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, John James Stack/Štefan Máj, Stefan Dörfler and Aleš Veverka) who do not hold any executive position in the Company. The Committee met four times in 2021. The competences of the Committee include, above all, preparing draft opinions concerning remuneration in the Company, including those that have an impact on risks and risk management at the Company, to be adopted by the Supervisory Board. In drafting such decisions, the Committee takes into account the long-term interests of shareholders, investors, and other entities with a capital interest in the Company. Among other things, the Committee presents to the Supervisory Board proposals concerning remuneration of Board members, oversees remuneration of directors of those departments that carry out internal control functions, and oversees fundamental principles of remuneration and their application. It has access to relevant information from the Supervisory Board, the Board of Directors, and internal control functions. In exercising its activities, it co-operates with HR and other relevant departments of the Bank. It fulfils obligations entrusted to it by the Supervisory Board in the sphere of remuneration. In overseeing fundamental principles of remuneration and their application, the Committee focuses on the mechanism taking into account any and all risks, liquidity, and capital and compliance of the remuneration system with the long-term prudential management of Česká spořitelna. Committee members receive a fixed remuneration per meeting and the Committee Chairman also receives a regular monthly amount.

Agreements of Members of the Management and Supervisory Bodies

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

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

Each Agreement includes the following fundamental particulars:

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

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

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

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

Board of Directors	
Tomáš Salomon, Chairman	2. 1. 2019–1. 1. 2023
Wolfgang Schopf, Vice-Chairman	1. 8. 2017–31. 7. 2021 properly terminated
Pavel Kráčmar, member	2. 2. 2020–1. 2. 2024
Karel Mourek, Vice-Chairman	1. 8. 2021–31. 7. 2025
Daniela Pešková, member	2. 2. 2020–1. 2. 2024
Ivan Vondra, member	2. 8. 2021–1. 8. 2025
Martin Kobza, member	1. 11. 2021–31. 10. 2024
Petr Brávek, member	1. 2. 2020–31. 1. 2023 resigned 30. 6. 2021

Supervisory Board	
John James Stack, Chairman	26. 4. 2017–25. 4. 2021 properly terminated
Bernhard Spalt, Chairman	1. 11. 2019–31. 10. 2023
Štefan Máj, Vice-Chairman	1. 11. 2019–31. 10. 2023
Stefan Dörfler, member	1. 11. 2019–31. 10. 2023
Maurizio Poletto, member	14. 6. 2021–13. 6. 2025
Petr Brázda, member	15. 1. 2019–14. 1. 2023
Helena Černá, member	15. 1. 2019–14. 1. 2023
Zlata Gröningerová, member	27. 4. 2021–26. 4. 2025
Maximilian Hardegg, member	26. 5. 2020–25. 5. 2024
Aleš Veverka, member	15. 1. 2019–14. 1. 2023

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, March 29, 2022



Tomáš Salomon
Chairman of the Board of Directors

Ivan Vondra
Member of the Board of Directors

(20) - 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: (i) Company car with chauffeur; Board members are entitled to use Company cars without the service of a chauffeur for private purposes, as well; (ii) 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; (iii) 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; (iv) supplementary pension insurance contribution, in line with an internal regulation approved by the Supervisory Board, (v) contribution for private life insurance, in an amount agreed in an agreement concluded with the Company and approved by the Supervisory Board; (vi) contribution for cultural and sports activities, in the amount of CZK 15,000 per calendar year; (vii) 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 (viii) 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).

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 2021. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be accessed on either the Česká spořitelna's website (https://www.csas.cz/static_internet/cs/Obecne_informace/FSCS/CS/Prilohy/kodex-spravy-a-rizeni-spolecnosti-cr-2018.pdf), or the Czech Ministry of Finance website (https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812). The principles of the Bank's governance standards are set out below.

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

Česká spořitelna also follows the Group Diversity and Inclusion Policy, which defines the basic principles and direction of applying Diversity and Inclusion policy within the entire Bank. Based on this policy, 21% of the positions on the Supervisory Board and in the top management of ČS (Board of Directors and B-1 Management) should be staffed by women by 2023. One of the six seats in the Board of Directors had been occupied by a woman and further ten women were members of the top management positions out of a total of 60 positions (level B-1) as at 31 December 2021. In subsidiaries of the Česká spořitelna Financial Group is another woman. As part of its transformation into agile management, the Bank has also created new positions at lower management levels (especially B-2 and B-3) as well as in expert non-managerial positions, where many women have found employment.

In order to move closer to the Group Policy's commitment, Česká spořitelna has put in place action steps in the main areas of work with employees, which will continue in 2022.

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 2022 so that both sexes are equally represented. For Board of Directors and B-1 top management positions, a list of potential eligible candidates is prepared and regularly updated, which must always include female representatives, at least in one third of cases. In addition, for positions where the Bank generally has a shortage of women, especially IT, it says that the positions are suitable for both gender and conducts campaigns and educational activities with female employees on social networks to reach more women. Although the Bank regularly makes sure that both sexes are equally represented in the assessment centres for B-1 positions and tries to reach the same number of women and men, the B-1 level ratio is only 16.7%.

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 with regard to 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 at least three women shall be represented on the Supervisory Board of Česká spořitelna. Out of nine, only two women are currently on the Supervisory Board of Česká spořitelna. The representation of employees in the Supervisory Board is one of the pillars of the long-term concept of the Supervisory Board's activities. This brings into the activities of the Supervisory Board another view of the Bank's key interest groups on its activities, strategic direction and risks.

In the area of education and talent management, the Bank continues with major successful mentoring programmes and conferences for women such as Equilibrium, Satori, "Všem ženám" ("To All Women")

and "Byznys ženské kruhy" ("Business Women Circles"). Almost one hundred women participate in these programmes throughout a year. During 2021, Česká spořitelna has established 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. It will also continue in 2022.

As part of the adaptation of new managers, the Bank introduced a new module on diversity and inclusion and revised the "Čáp" ("Stork") Programme, 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 this Programme.

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

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

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

A. 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 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 2021, the Board of Directors held 46 ordinary meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. Board of Directors meetings are chaired by the Chairman and, in the Chairman's absence, by the Vice-Chairman. Should both the Chairman and Vice-Chairman be absent, a delegated Board member shall chair the meeting. 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 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 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 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 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 16 of the Annual Report.

The Supervisory Board of the Bank has nine members. The details of changes in the composition of the Supervisory Board are published in the section Report of the Supervisory Board on page 72 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 the members of the Supervisory Board are elected by the Sole Shareholder's decision as 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 20 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 2021, the Supervisory Board convened in four 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 Audit Committee members, including their professional biographies, is published on page 25 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 2021. 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, Supervisory Board and the Audit Committee are kept up-to-date at all times; 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 great 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 the 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 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 the 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 part of the exercise of the competence of the General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Bank's corporate governance process. The Bank´s Secretary ensures mutual co-operation among the Bank's bodies. The Secretary is appointed by the Bank's Board of Directors and reports directly to the Chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Bank's Board of Directors, Supervisory Board and Audit Committee. The Bank has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board, the Board of Directors and the Audit Committee, which stipulate the basic rules for the preparation and submission of materials, procedures for making comments prior to the submission of materials and conditions for the archiving of materials. The Secretary takes minutes of all meetings of the Board of Directors, the Supervisory Board and the Audit Committee. The Bank maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Bank's internal archiving system.

The Bank´s Secretary is a member, inter alia, of the CGI (Corporate Governance Institute) and its steering committee.

B. Bank's Relations with Shareholders

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

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

The Bank's shares are held in book-entry form. A list of shareholders is maintained by the Central Securities Depository. The Bank currently has only common shares. The Bank complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout a year via the media and the Bank's website. The Bank posts information on its current financial results, shareholder structure, planned events and more on a web page designed specifically for shareholders and investors (https://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.

C. 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. Compliance unit ensures that all employees of the Bank are informed about accepted rules of conduct and regulatory requirements by means of thematic trainings having form of either e-learnings obligatory for all employees or specific trainings focused on specified groups of employees. The Compliance unit 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, 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 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 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 acceptance of such measures that eliminate or prevent identified conflicts of interests.

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

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

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

One of the main objectives of the Compliance unit in 2021 was 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 the 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 the area of prevention money laundering and financing of terrorism and controls compliance of the Bank's business and activities with the applicable sanctioning regimes announced by the Czech Republic, EU, UN and OFAC. The AML and International Sanctions unit is responsible for the proper performance of these activities in the Bank or its compliance with legal requirements and sanction regimes.

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

The Bank regularly publishes annual and semi-annual reports. The annual report includes especially the audited financial statements, the audited consolidated financial statements and provides the true and fair view of the Bank's financial position, business activities and financial results. The annual report also provides information on the Board of Directors and the Supervisory Board member´s remuneration policy in compliance with the legislation. The Bank has no option scheme for remuneration either for the 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 2021 on the Erste Group Bank´s website under Investor Relations/Reports/Financial Reporting (https://www.erstegroup.com/en/investors/reports/financial-reports).

D. 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, Zlata Gröningerová and Stefan Dörfler.

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 a Aleš Veverka.

Nomination Committee

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

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

E. Bank's Stakeholder Policy

Information on this topic is available in the section Report of the Board of Directors (see page 28).

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

Česká spořitelna processes its financial accounts via SAP system, which meets the high requirements for the security and quality of accounts preparation. System inputs are entered both manually and automatically from other transaction systems.

Česká spořitelna complies with all statutory and legislative requirements. Procedures pertaining to accounting documents and their circulation have been put in place as required by the Accounting Act and in a manner that serves the needs of the controlling and management accounting functions. The Bank has established separate internal regulations for accounting documents and their circulation and these are subject to regular review, particularly regulation on accounting document circulation, which requires the "four-eyes" control principle and 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. Manual and automatic controls of the completeness and correctness of SAP system inputs are performed in respect of automatic accounting between SAP and the transaction accounting systems. Accounting documents are archived both in the system and manually and the archiving process has been set up to comply with statutory requirements (the Accounting Act and Archiving and Records Service Act).

Česká spořitelna fulfils 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 instituted several separate internal regulations for this area that comply 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 amortisation, disposal, stock-taking and related tax requirements. 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, with an exception of the definition of basic features required, inter alia, for clarity. Česká spořitelna established management accounting based on historical developments while respecting current requirements for bookkeeping 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. Bookkeeping operations on analytical accounts are controlled for accuracy on an ongoing basis.

The accounting entity primarily recognises provisions pursuant to the basic principles stipulated by statutory accounting and tax regulations. The accounting procedures are additionally regulated by internal rules that, in addition to the foregoing, reflect the needs of key units in relation to the accounting system in this area (audit, reporting, controlling, etc.) in relation to the functionalities of the supporting systems. The methodology and accounting for the creation and release of provisions in the Bank is concentrated in 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 operations. Given the impact on financial results, the total creation of provisions is not monitored only by individual accounting item, 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 on hand at every one of its meetings. The consolidated and separate financial statements of the Bank are tested at an irregular interval by the internal audit. 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. The Audit Committee additionally monitors the process of the statutory audit of the consolidated and separate financial statements, which are subject to a standard external audit once a year; the interim work is done first and this is followed by the final audit work on both the consolidated and separate financial statements and the annual report.



Organizational Structure

Organizational Structure

as at 31 December 2021

Chairman of the Board	Member of the Board	Vice-Chairman of the Board	Member of the Board	Member of the Board		Member of the Board
Tomáš Salomon	Ivan Vondra	Karel Mourek	Pavel Kráčmar	Martin Kobza		Daniela Pešková
Company Office	Accounting, Controlling and IR	Legal Services	Fin. Markets and Fin. Institutions	Corporate Daily Banking and Lending (IT part)	Retail Daily Banking (IT part)	Back Office WSPK
Economic and Strategic Research	Property Management	Strategic Risk Management	Funding & Advisory Group	Wealth Management (IT part)	Digi Sales and Unsecured Financing (IT part)	Sales Planning & Performance Management
Communication	Group Balance Management – ALM	Credit Risk Management Corporate Banking	Corporate Centres	Branch Applications	Protection (IT part)	Cash and ATM Back Office
Ombudsman & Customer Experience	Capital Participations	Security	Public Sector and Real Estate	Assisted Channels (IT part)	Housing (IT part)	Small Business Centres
Internal Audit	Regul. & Fin. Reporting a DQ & DG	Credit Risk Management Retail Banking	Large Corporates	Open Banking (IT part)	Personalization (IT part)	Distribution
Human Resources	Steering Data Preparation	Non-financial Risk Management and Compliance	Engagement Corporate Banking	Payments (IT part)	Core Systems	Support and Development
Brand			Corporate Daily Banking and Lending	Data	Enterprise Architecture (CoE)	Retail Daily Banking
			Wealth Management	Engineering (CoE)	IT Technology & Operations (CoE)	Digi Sales and Unsecured Financing
				IT Finance & Vendor Management (CoE)	Administration of Accounts and Client Documentation (CoE)	Assisted Channels
				Fin.Mark.,Cards and Non-cash P.Back Off.		Open Banking
						Protection
						Housing
						Personalization
						Payments

Units in stable organizational structure

Units in agile organizational structure

Supervisory Board Report

for the Year 2021



Bernhard Spalt

Chairman of the Supervisory Board

In 2021 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 2021 financial statements and discussed regularly the financial and business results of the Česká spořitelna Financial Group, macroeconomic development in the Czech Republic, the development of the loan portfolio, Group strategy and asset management. Furthermore, the Supervisory Board discussed the organization of IT activities in the Bank, revised principles of remuneration and approved the 2022 budget. In particular, the year 2021 will be remembered in connection with the continuation of the COVID-19 pandemic throughout the world. The Bank's response to the pandemic's impact on clients, employees and the country was both immediate and impactful. The Board of Directors provided the needed leadership to protect employees, to help its clients survive the economic crisis, and to coordinate its activities with government authorities and the financial sector. The Supervisory Board worked closely with the Board of Directors. COVID-19 continues to threaten the Czech Republic and the world. The Board of Directors continues to be vigilant and responding in a most effective manner to this threat.

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 strategy implementation.

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 2021 the Board of Directors duly fulfilled its tasks arising mainly from the law, the Articles of Association and decisions of the Supervisory Board and decision of the sole shareholder within performance of scope of authority of the General Meeting.

In 2021 the Supervisory Board held four meetings; besides these meetings, the Supervisory Board also took "per rollam" resolutions.

During 2021, the Supervisory Board discussed the results of activities of the individual committees – Risk Committee, Remuneration Committee and Nomination Committee. The Supervisory Board was also regularly informed about the activities of the Audit Committee, which is an independent body of the Bank.

During 2021, changes took place in the composition of the Supervisory Board. In April, the term of office of the Chairman of the Supervisory Board Mr. John James Stack ended. Mr. Bernhard Spalt (Vice-Chairman until then) became the new Chairman. In April, Ms. Zlata Gröningerová was re-elected as a member of the Supervisory Board and in June Mr. Maurizio Poletto was elected as a new member of the Supervisory Board by the sole shareholder within performance of the scope of authority of the General Meeting.

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. 2021 and came to conclusion that the books and accounting records were kept in a transparent manner in accordance with the accounting 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. 2021. 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. 2021, of their financial performance and their cash flows for the year that ended 31. 12. 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The Supervisory Board took this auditor's opinion into account.

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



Bernhard Spalt
Chairman of the Supervisory Board

Report of the Audit Committee

In 2021, 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 annual financial statements for 2021, assessed the independence of the auditor and approved the non-audit services provided by the auditor. It 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 2021, the Audit Committee discussed the internal audit plan and its changes as well as the updated audit strategy and its statute, which ensures the independent performance of internal audit. It also monitored the fulfillment of the annual internal audit objectives and the implementation of the recommendations for the external assessment of compliance with international auditing standards.

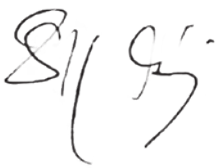
It also discussed regular reports on the activities of internal audit, incl. fulfillment of the audit plan and information on the fulfillment of important actions from audits and controls of the ČNB accepted by the Bank's management. The Audit Committee also focused its attention on the system of the risk management, activities of the Compliance department, prevention of frauds in the Bank, the issue of anti-money laundering and international sanctions, conflict of interests' assessment, anti-bribery and anti-corruption rules, implementation of risk models, IS/IT security strategy, business continuity management and the impact of COVID-19 on the Bank.



Štefan Máj

Chairman of the Audit Committee

The Audit Committee elaborated the report, in which it assessed its activities and submitted it to the Public Audit Oversight Board.



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 2021 and of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the separate financial statements give a true and fair view of the separate financial position of the Bank as at 31 December 2021 and of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2021;
- the consolidated statement of other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021; and
- the notes to the consolidated financial statements including significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2021;
- the separate statement of other comprehensive income for the year ended 31 December 2021;
- the separate statement of financial position as at 31 December 2021;
- the separate statement of changes in equity for the year ended 31 December 2021;
- the separate statement of cash flows for the year ended 31 December 2021; and
- the notes to the separate financial statements including significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview



The overall materiality for the Group and the Bank is determined as 5% of the three-year average of the profit before tax in the separate financial statements for the years 2019 – 2021, which represents CZK 805 million.

Our audit covered 97.4% of the total assets and 93.8% of the net profits of the Group. We reviewed further 2.4% of the total assets and 6.1% of the net profits of the Group at the level of smaller subsidiaries.

Calculation of credit risk in loans and advances to customers in a situation of the ongoing COVID-19 pandemic

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on each set of financial statements as a whole.

Overall Group and Bank materiality	CZK 805 million
How we determined it	Materiality for the Group and the Bank was determined as 5% of the three-year average of the profit before tax in the separate financial statements for the years 2019 - 2021.
Rationale for the materiality benchmark applied	We chose the three-year average of the profit before tax in the separate financial statements, as the goal of the Group and the Bank is to achieve profits and the users of the financial statements focus on this performance measure. The ongoing COVID-19 pandemic has a significant impact on the profitability of the Group and the Bank and therefore we have eliminated the consequential high volatility of materiality using the three-year average. 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 in a situation of the ongoing COVID-19 pandemic	
In the consolidated statement of financial position as at 31 December 2021 and in Note 16 of the consolidated financial statements, the Group presents its customer loan portfolio of CZK 821,840 million, of which CZK 770,084 million (94%) is held by the Bank (Note 15 of the separate financial statements). The risk of loan irrecoverability is an inherent part of banking activities and the quantification of the impairment loss allowances is the largest 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	When assessing credit risk and loan impairment during the current year, we specifically focused on the continuous impact of the COVID-19 pandemic, in order to evaluate its impact on the valuation of the loan portfolio and the quantification of impairment loss allowances. Our approach was based on validation of the control system that the Group 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 impairment loss allowances, including the procedures for collateral valuation, their

loans to customers is described in Note 33 of the consolidated financial statements and in Note 32 of the separate financial statements.

The Group follows the provisions of IFRS 9, Financial Instruments, that requires recognition of not only incurred, but also expected credit losses. Key parameters for quantification of these losses 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. A more significant role is played by the forward-looking information and future development scenarios derived from it.

The ongoing COVID-19 pandemic continued to have a major impact on credit risk and the Group's performance in 2021. Despite the positive development of the market and the resumed growth of the Czech gross domestic product, uncertainty remains in some of the impacted industries. This includes for example transportation services or the risk of significant disruption of supply chains in the automotive industry. The increase of inflation, consequential increase of interest rates by the Czech National Bank and dynamic development of the energy market during the year have also contributed to increased uncertainty. As this uncertainty has not proven itself in significant clients' defaults in 2021 yet, the Bank expects them to crystallise in the future and hence the impairment allowances have not been decreased significantly.

The Bank responded to the situation by updating credit risk models, identification of industries and borrowers at risk and applying a more prudent approach to identification of significant increase in credit risk. Due to the uniqueness of the current situation, back-testing of the credit risk models had a limited impact this year.

compliance with IFRS 9 and the control system ensuring that they are adhered to.

We continued with verification of the changes to the models used for the expected credit loss calculation due to the impact of the ongoing COVID-19 pandemic and of the validations and sensitivity of the most significant models, where we used our credit risk modelling experts. We also assessed the approach applied to the classification of borrowers that was based on risk assessment of the industry the borrower operated in, the rating process and the identification of significant increase in credit risk, taking into account the regulatory recommendations and best practices. 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 identification of significant increase in credit risk 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 impairment loss 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 impairment loss allowances to these loans. We also assessed the identification of a significant increase in credit risk and calculation of probability of default, exposure at default and loss given default, including the identification of industries and borrowers at risk and application of expected development scenarios and forward-looking information, as these factors have fundamental impact on the calculation of credit losses, both incurred and expected.

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



How we tailored our group audit scope

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

For the audit of the consolidated financial statements, we performed full scope audits of the Bank and Stavební spořitelna České spořitelny, a.s. These banks generate 93.8% of the Group net profits. Additionally, we reviewed financial information of other Group companies, thus increasing our coverage of the Group's total assets to 99.8% and of the Group's total net profits to 99.9%. This approach allowed us to reasonably exclude significant misrepresentations of the Group results.

Other information

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

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Bank obtained in the audit or otherwise appears to be materially misstated.

In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 2021 by the general meeting of shareholders of the Bank on 27 April 2021. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 5 years.

Provided non-audit services

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

The non-audit services that we have provided to the Bank and its subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in Section "Other information for Shareholders" of the Annual Report.

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

29 March 2022

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



Petr Kříž
Statutory Auditor, Licence No. 1140

The Consolidated Financial Statements

for the Year Ended 31 December 2021

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

The Consolidated Statement of Income for the year ended 31 December 2021	**83**
The Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2021	**84**
The Consolidated Statement of Financial Position as at 31 December 2021	**85**
The Consolidated Statement of Changes in Equity for the year ended 31 December 2021	**87**
The Consolidated Statement of Cash Flows for the year ended 31 December 2021	**88**
Notes to the Consolidated Financial Statements for the the year ended 31 December 2021	**90**

The Consolidated Statement of Income

for the Year Ended 31 December 2021

in CZK million	Notes	2021	2020
Net interest income	2	31,083	29,099
Interest income		33,778	32,256
Other similar income		3,282	5,278
Interest expenses		(3,672)	(3,944)
Other similar expenses		(2,305)	(4,491)
Net fee and commission income	3	9,186	8,243
Fee and commission income		11,085	9,967
Fee and commission expense		(1,899)	(1,724)
Dividend income	4	167	57
Net trading result	5	1,732	1,906
Gains/losses from financial instruments measured at fair value through profit or loss	6	(103)	598
Net result from equity method investments		76	31
Rental income from investment properties & other operating leases	7	213	213
Personnel expenses	8	(11,010)	(9,892)
Other administrative expenses	8	(6,668)	(6,469)
Depreciation and amortisation	8	(2,720)	(2,749)
Gains/losses from derecognition of financial assets measured at amortised cost	9	(238)	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	(4)	(1)
Impairment result from financial instruments	11	(1,780)	(7,930)
Other operating result	12	(1,705)	(611)
Pre-tax result from continuing operations		**18,229**	**12,495**
Taxes on income	13	(4,021)	(2,478)
Net result for the period		**14,208**	**10,017**
Net result attributable to non-controlling interests		27	11
Net result attributable to owners of the parent		**14,181**	**10,006**

The Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2021

in CZK million	Notes	2021	2020
Net result for the period		**14,208**	**10,017**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(1)**	**(1)**
Own credit risk reserve	13	(1)	(1)
Items that may be reclassified to profit or loss		**(6,459)**	**3,051**
Fair Value reserve of debt instruments	13	(470)	72
Gain/(loss) during the period		(492)	6
Credit loss allowances	11	22	66
Cash flow hedge reserve		(7,664)	3,675
Gain/(loss) during the period	13, 26	(7,664)	3,675
Net investment hedge		(32)	-
Currency reserve		156	16
Gain/(loss) during the period		156	16
Deferred taxes relating to items that may be reclassified	13	1,551	(712)
Gain/(loss) during the period		1,545	(712)
Reclassification adjustments		6	-
Total other comprehensive income / (loss)	13	**(6,460)**	**3,050**
Total comprehensive income		**7,748**	**13,067**
Total comprehensive income attributable to non-controlling interests		27	11
Total comprehensive income attributable to owners of the parent		**7,721**	**13,056**

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 2021

in CZK million	Notes	2021	2020
Assets			
Cash and cash balances	15	37,472	38,075
Financial assets held for trading		15,561	11,382
Derivatives	20	15,508	11,281
Other financial assets held for trading	21	53	101
Non-trading financial assets at fair value through profit or loss	22	2,511	2,490
Equity instruments		862	982
Debt securities		905	1,025
Loans and advances to banks		744	443
Loans and advances to customers		-	40
Financial assets at fair value through other comprehensive income	24	31,132	20,838
Debt securities		31,132	20,838
Financial assets at amortised cost	16	1,512,348	1,428,953
Thereof pledged as collateral		79,881	57,783
Debt securities		325,514	254,700
Loans and advances to banks		364,994	424,838
Loans and advances to customers		821,840	749,415
Finance lease receivables	40	1,083	1,411
Hedge accounting derivatives	26	607	2,654
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(9)	12
Property, equipment and right-of-use asset	37	12,201	12,735
Investment property	37	2,221	2,282
Intangible assets	38	6,301	6,083
Investments in associates	47	1,357	981
Current tax assets	13	1,042	1,417
Deferred tax assets	13	2,732	1,020
Assets held for sale	51	20	24
Trade and other receivables	18	14,025	6,458
Other assets	39	1,137	965
Total assets		**1,641,741**	**1,537,780**

in CZK million	Notes	2021	2020
Liabilities and equity			
Financial liabilities held for trading	20	15,392	12,895
Derivatives		15,392	12,895
Financial liabilities at fair value through profit or loss	23	10,653	3,784
Deposits from customers		10,653	3,784
Financial liabilities at amortised cost	19	1,455,056	1,360,570
Deposits from banks		49,695	91,335
Deposits from customers		1,173,890	1,096,666
Debt securities issued		213,357	169,498
Other financial liabilities		18,114	3,071
Lease liabilities	40	3,121	3,361
Hedge accounting derivatives		4,718	267
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	1
Provisions	42	3,655	3,120
Current tax liabilities	13	117	60
Deferred tax liabilities	13	126	167
Other liabilities	41	5,707	4,209
Total equity	44	**143,196**	**149,346**
Equity attributable to non-controlling interests		452	221
Equity attributable to owners of the parent		142,744	149,125
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	17,147
Retained earnings and other reserves		118,492	116,766
Total liabilities and equity		**1,641,741**	**1,537,780**

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 15 March 2022 and are subject to approval at the General Meeting.



Tomáš Salomon
Chairman of the Board of Directors



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

The Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

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 at 1 January 2020	**15,200**	**12**	**106,373**	**17,147**	**387**	**(2,128)**	**332**	**5**	**(199)**	**137,129**	**210**	**137,339**
AT1 distribution	-	-	(1,068)	-	-	-	-	-	-	(1,068)	-	(1,068)
Other changes	-	-	8	-	-	-	-	-	-	8	-	8
Total comprehensive income	-	-	10,006	-	-	2,977	58	(1)	16	13,056	11	13,067
Net result for the period	-	-	10,006	-	-	-	-	-	-	10,006	11	10,017
Other comprehensive income	-	-	-	-	-	2,977	58	(1)	16	3,050	-	3,050
Change in fair value reserve	-	-	-	-	-	-	72	-	-	72	-	72
Changes in tax	-	-	-	-	-	(698)	(14)	-	-	(712)	-	(712)
Change in cash flow hedge reserve	-	-	-	-	-	3,675	-	-	-	3,675	-	3,675
Change in currency translation reserve	-	-	-	-	-	-	-	-	16	16	-	16
Change in own credit risk reserve	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
As at 31 December 2020	**15,200**	**12**	**115,319**	**17,147**	**387**	**849**	**390**	**4**	**(183)**	**149,125**	**221**	**149,346**
As at 1 January 2021	**15,200**	**12**	**115,319**	**17,147**	**387**	**849**	**390**	**4**	**(183)**	**149,125**	**221**	**149,346**
Dividends paid/AT1 distribution	-	-	(6,336)	-	-	-	-	-	-	(6,336)	-	(6,336)
Capital increases	-	-	-	-	-	-	-	-	-	-	104	104
Changes in scope of consolidation and ownership interest	-	-	(84)	-	-	-	-	-	-	(84)	100	16
AT1 call	-	-	484	(8,107)	-	-	-	-	-	(7,623)	-	(7,623)
Other changes	-	-	(59)	-	-	1	-	(1)	-	(59)	-	(59)
Total comprehensive income	-	-	14,181	-	-	(6,235)	(380)	(1)	156	7,721	27	7,748
Net result for the period	-	-	14,181	-	-	-	-	-	-	14,181	27	14,208
Other comprehensive income	-	-	-	-	-	(6,235)	(380)	(1)	156	(6,460)	-	(6,460)
Change in fair value reserve	-	-	-	-	-	-	(470)	-	-	(470)	-	(470)
Changes in tax	-	-	-	-	-	1,461	90	-	-	1,551	-	1,551
Change in cash flow hedge reserve	-	-	-	-	-	(7,696)	-	-	-	(7,696)	-	(7,696)
Change in currency translation reserve	-	-	-	-	-	-	-	-	156	156	-	156
Change in own credit risk reserve	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
As at 31 December 2021	**15,200**	**12**	**123,505**	**9,040**	**387**	**(5,385)**	**10**	**2**	**(27)**	**142,744**	**452**	**143,196**

The Consolidated Statement of Cash Flows

for the year ended 31 December 2021

in CZK million	Notes	2021	2020
Pre-tax result from continuing operations		**18,229**	**12,495**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		3,329	2,756
Net allocation to provisions (including risk provisions)		1,701	7,788
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		390	30
Gains/(losses) from the sale of non-financial assets		(277)	(66)
Change in fair values of derivatives		(1,724)	1,391
Accrued interest, amortisation of discount and premium		(2,943)	779
Other adjustments		(33)	18
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		23	124
Non-trading financial assets at fair value through profit or loss			
Equity instruments		120	(238)
Debt securities		120	322
Loans and advances to customers		(261)	957
Financial assets – at fair value through other comprehensive income: debt instruments		(11,086)	446
Financial assets at amortized cost			
Debt securities		(71,841)	(34,832)
Loans and advances to banks		62,586	(13,865)
Loans and advances to customers		(78,455)	(32,009)
Finance lease receivables		357	477
Hedge accounting derivatives		(1,198)	88
Other assets from operating activities		(7,835)	(466)
Financial liabilities at amortised cost			
Deposits from banks		(39,057)	(203,594)
Deposits from customers		78,030	102,960
Financial liabilities at fair value through profit or loss		6,719	260
Other liabilities from operating activities		15,388	163
Other operating cash flows			
Payments for taxes on income		(3,686)	(4,799)
Cash flow from operating activities		**(31,404)**	**(158,815)**
Proceeds of disposal			
Property, equipment and intangible assets		390	1,600
Acquisition of			
Property and equipment, intangible assets and investment properties		(2,581)	(4,028)
Disposal of joint ventures and associates		(376)	(52)
Cash flow from investing activities		**(2,567)**	**(2,480)**
AT1 call	44	(8,107)	-
Dividends paid/AT1 distribution	14	(6,336)	(1,068)
Other financing activities		20	
Payments of lease liability	53	(644)	(629)
Repayments of bonds in issue		-	(11)
Proceeds from bonds issued	53	44,100	163,864
Changes in non-controlling interest	45	231	-
Cash flow from financing activities		**29,264**	**162,156**
Cash and cash equivalents at beginning of period	15	**38,075**	**40,526**
Cash flow from operating activities		(31,404)	(158,815)
Cash flow from investing activities		(2,567)	(2,480)
Cash flow from financing activities		29,264	162,156
Effect of currency translation		4,104	(3,312)
Cash and cash equivalents at end of period	15	**37,472**	**38,075**

in CZK million	Notes	2021	2020
Operating cash flows from interest			
Interest received		33,956	38,042
Interest paid		(5,816)	(8,984)

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

A. 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 2021 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.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of the Group for the financial year ending 31 December 2021 and related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002 under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below or in individual Notes to which they relate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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

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

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

The financial statements have been prepared in Czech and English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

b) COVID-19 disclosures

In the consolidated financial statements of the Group, considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

- The chapter 'c) Accounting and measurement methods' discusses the accounting and measurement methods used for state moratoria and payment holidays, public guarantees including significant effects of those topics on the consolidated financial statements.
- The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 outbreak.
- Note 33 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the expected credit losses (ECL) measurement, sensitivity anal-

yses and information on credit exposures subject to certain COVID-19 measures.

c) Accounting and measurements methods

Foreign currency translation

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

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

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

(i) Transactions and balances in foreign currency

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

(ii) Translation of the statements of Group companies

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

Accounting treatment of issues related to COVID-19

Since the beginning of 2020, there has been a significant spread of the disease COVID-19 caused by a new type of coronavirus, which disrupted many business and economic activities. In view of the expected clients' cash-flow shortfalls the Group offered in March 2020 its clients, who experienced difficulties with repayment as a result of the coronavirus pandemic, a voluntary (individual) deferral of repayments for 3 months in the case of a housing loans, i.e. mortgage and consumer loans and loans from building society (hereinafter also referred to as „internal moratorium").

Subsequently, this programme was replaced by a state moratorium under the Act 177/2020 Coll. on Certain Measures for Repayment of Loans in Connection with the COVID-19 Pandemic (hereinafter also referred to as „state moratorium"). Under the state moratorium, clients who were in financial difficulties with direct connection with the COVID-19 epidemic could request a deferral of payments and could choose from two options of the protection period duration (deferral period until 31 July 2020 or 31 October 2020). Interest on loans was not discontinued during the state moratorium. In case of the retail loans for consumers the nominal amount of interest accrued during the period was repaid after the original principal repayment and the interest must not exceed the interest rate determined by the interest rate in the amount of the repo rate announced by the ČNB increased by 8 percentage points. In case of the loans to other subjects the interest has to be repaid also during the moratorium according to the contractual terms.

Following the expiration of the state moratorium at the end of October 2020, the Group offered its clients, who further experienced economic difficulties caused by COVID-19, several options to ease the repayment requirements. Retail clients could choose to postpone loan instalments for 3 months or to decrease instalments payments for 6 months. The corporate clients are closely monitored and if any relieve was needed and justified by the Group, the conditions were modified to suit clients' needs.

In cooperation with Národní rozvojová banka, a.s. (former Českomoravská záruční a rozvojová banka, a.s., "NRB"), the Group also enabled entrepreneurs to quickly draw bridging loans supported by the NRB's guarantee (COVID II., COVID Prague, COVID III.) and in cooperation with the state Exportní garanční a pojišťovací společnost, a.s. ("EGAP"), the Group also offers its clients loans supported by the EGAP's guarantee (COVID Plus).

Due to the different levels of impacts on individual sectors, the Group adjusted its policy for classifying receivables into the impairment levels, depending on the client's industry, internal rating, days past due and whether the client requested a deferral of payments due to the COVID-19 epidemic.

For loans with deferred instalments (i.e. internal and state moratoria), the Group recognized an modification loss on the gross carrying amount of the asset in the amount of the difference between the

pre-contractual gross carrying amount and the present value of cash flows based on adjusted terms discounted at the original effective interest rate (in compliance with IFRS 9.5.4.3). The Group recognized this loss in the statement of income under "Net interest income" (line "Interest income" or "Interest expense") in the case of financial assets classified in Stage 1 or in the item "Impairment of financial instruments" in the case of financial assets classified as to Stage 2 or 3.

Interest on loans impacted by the modification has not been suspended, however the interest is then earned from the adjusted gross carrying amount.

In 2020 the Group recognized the modification loss of CZK 374 million, no further modification losses were accounted for in the year 2021. Out of the total amount the Group has recognized CZK 287 million in the statement of income under „Net interest income", remaining CZK 87 million has been recognized under „Impairment of financial instruments" in 2020.

The Group regularly reviews impairment indicators on Property, equipment and right-of-use assets, Intangible assets, no significant impact on the level of impairment due to the COVID-19 has been identified.

The Group also adjusted forward looking information (FLI) in the calculation of expected credit losses (ECL), which was reflected in portfolio allowances for credit losses. The parameters are set to reflect the baseline forecast as well as alternative macroeconomic scenarios. Alternative scenarios, together with the probability of occurrence, are derived as a deviation from the baseline forecast.

The probability-weighted ECL is derived using weights representing the probability of occurrence of each macroeconomic scenario. The main indicator of estimated economic development is the development of GDP.

The following factors, which occured at the end of 2021, led to a 40% probability of a baseline forecast:

- new variant of COVID-19 (omicron),
- rising inflation connected with rising interest rates,
- the unstable development of the geopolitical situation in Ukraine / Russia, which may lead to a further rise in energy prices.

The Group took into account the higher volatility of macroeconomic variable estimates and the significantly higher risk of macroeconomic downturns due to the current development of the COVID-19 pandemic and introduced a conservative downward scenario with a probability of 49%.

In addition, the specific pandemic situation and extensive support measures lead to delays in the macroeconomic impact on credit risk parameters. The macroeconomic variables 2020 and 2021 were therefore included as another predictor of future parameter values.

At the same time, the Group adjusted individual allowances for credit losses for selected exposures to significant clients in default in Level 3.

For detailed description related to COVID-19 situation, FLI and ECL see Note 33 Credit risk.

d) Significant accounting judgements, assumptions and estimates

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

- Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 33 Credit risk), Provisions (Note 42 Provisions, credit part)
- SPPI assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Business model assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect the Group's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and potential goodwill and other non-financial assets impairment assessments. All negative effects that could be reasonable estimated were recognised by 2021 year-end. The Group will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2021. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below. None of the standards have been adopted by the Group before the effective date.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2021 and have been endorsed by the EU:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2;
- Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021;
- Amendment to IFRS 4 – deferral of IFRS 9.

Application of the above mentioned amendments in 2021 did not have a significant impact on the Group's financial statements and for details related to Interest Rate Benchmark Reform ("IBOR reform") are disclosed in Note 26 Hedge accounting and section "Application of the Interest Rate Benchmark Reform IAS 39 amendments".

Standards and interpretations not yet effective

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

Following amendments to standards and interpretations are already endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle;
- IFRS 17: Insurance contracts;
- Amendments to IFRS 17 and an amendment to IFRS 4;
- Amendments to IFRS 16: Covid-19-Related Rent Concessions.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 18 February 2022:

- Amendments to IAS 1: Disclosure of Accounting Policies;
- Amendments to IAS 1: Classification of liabilities as current or non-current;
- Amendments to IAS 1: Classification of liabilities as current or non-current - deferral of effective date;
- Amendments to IAS 8: Definition of Accounting Estimates;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IFRS 17: Transition option to insurers applying IFRS 17.

Annual Improvements to IFRSs 2018-2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 3, IFRS 9, IFRS 16, IAS 16, IAS 37 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 9 clarifies that only fees paid or received between the entity (the borrower) and the lender are included in applying the '10 per cent' test for derecognition of a financial liability. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

Amendments to IFRS 17 and an amendment to IFRS 4. The amendments to IFRS 17 and IFRS 4 were issued on 25 June 2020 and are effective for annual periods beginning on or after 1 January 2023. The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

Amendments to IFRS 16: Covid-19-Related Rent Concessions. The amendments to IFRS 16 were issued on 31 March 2021 and are effective for annual periods beginning on or after 1 April 2021. In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

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

Amendments to IAS 1: Classification of liabilities as current or non-current. The amendments to IAS 1 were issued in on 23 January 2020 and are effective for annual periods beginning on or after 1 January 2022. These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1: Classification of liabilities as current or non-current – deferral of effective date. The amendments to IAS 1 were issued in on 15 July 2020 and are effective for annual periods beginning on or after 1 January 2023. The amendment to

IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

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

Amendments to IFRS 17: Transition option to insurers applying IFRS 17. The amendments to IFRS 17 were issued on 9 December 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

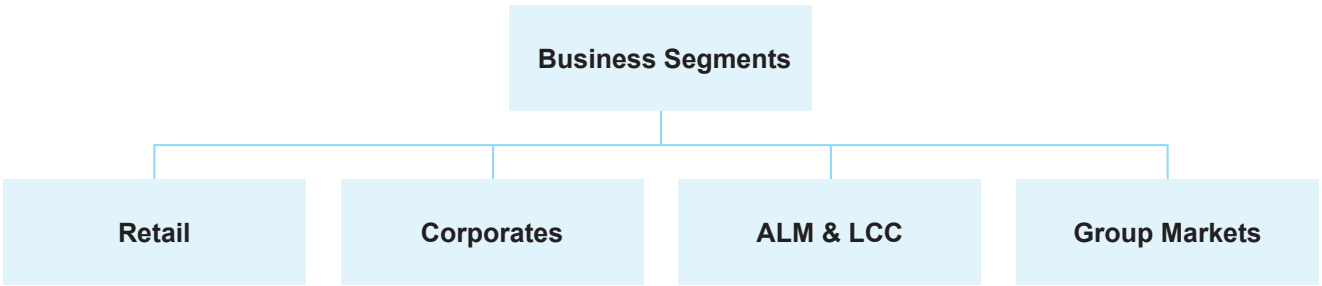
PERFORMANCE / RETURN

1. Segment reporting

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

Structure of Business Segments

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



Retail

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

In addition, the retail segment contains the results of the subsidiaries Stavební spořitelna České spořitelny, a.s., Česká spořitelna penzijní společnost, a.s., CS Seed Starter, a.s. and MOPET CZ, 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., Leasing České spořitelny, a.s., s Autoleasing SK, s.r.o. and Erste Grantika Advisory, a.s and real estate funds.

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

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

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

Corporate center also includes results of the subsidiaries brokerjet České spořitelny, a.s. v likvidaci, Bankovní identita, a.s. and Czech TOP Venture Fund B.V. for 2020, ČS NHQ, s.r.o., Global Payments, s.r.o., Budějovická Development, s.r.o., BP Budějovická, s.r.o., BP Poláčkova, s.r.o., BP Olbrachtova, 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 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

in CZK million	Retail		Corporates		ALM & LCC		Group Markets		Total Group	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	19,907	18,565	6,462	6,452	4,241	3,611	474	471	31,083	29,099
Net fee and commission income	6,324	5,931	1,633	1,419	(530)	(440)	1,758	1,333	9,186	8,243
Dividend income	-	-	-	-	167	57	-	-	167	57
Net trading result	1,278	1,000	813	629	(1,231)	(209)	872	486	1,732	1,906
Gains/losses from financial instruments at FVPL	18	11	-	-	(121)	587	-	-	(103)	598
Net result from equity method investments	-	-	-	-	76	31	-	-	76	31
Rental income from investment properties & other operating leases	8	7	181	174	25	32	-	-	213	213
General administrative expenses	(15,739)	(15,200)	(3,087)	(2,922)	(915)	(413)	(657)	(575)	(20,398)	(19,110)
thereof: depreciation and amortization	(2,506)	(2,413)	(276)	(269)	115	(10)	(53)	(57)	(2,720)	(2,749)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	(238)	-	-	-	(238)	-
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	(4)	(1)	-	-	(4)	(1)
Impairment result from financial instruments	(884)	(4,357)	(733)	(3,521)	(79)	25	(84)	(77)	(1,780)	(7,930)
Other operating result	(149)	42	(438)	(282)	(802)	(71)	(316)	(300)	(1,705)	(611)
Pre-tax result from continuing operations	**10,762**	**5,999**	**4,829**	**1,949**	**590**	**3,209**	**2,048**	**1,338**	**18,229**	**12,495**
Taxes on income	(2,032)	(1,117)	(951)	(421)	(649)	(686)	(389)	(254)	(4,021)	(2,478)
Net result for the period	**8,729**	**4,882**	**3,879**	**1,528**	**(59)**	**2,523**	**1,659**	**1,084**	**14,208**	**10,017**
Net result attributable to non-controlling interests	-	-	-	-	(27)	(11)	-	-	(27)	(11)
Net result attributable to owners of the parent	**8,729**	**4,882**	**3,879**	**1,528**	**(86)**	**2,512**	**1,659**	**1,084**	**14,181**	**10,006**
Operating income	27,534	25,514	9,088	8,674	2,628	3,669	3,104	2,290	42,354	40,147
Operating expenses	(15,739)	(15,200)	(3,087)	(2,922)	(915)	(413)	(657)	(575)	(20,398)	(19,110)
Operating result	**11,795**	**10,314**	**6,001**	**5,752**	**1,713**	**3,256**	**2,448**	**1,715**	**21,957**	**21,037**
Risk-weighted assets (credit risk, pillar 1, eop)	158,034	152,733	292,011	289,409	18,894	17,199	8,158	6,042	477,096	465,383
Average allocated capital	25,834	23,422	28,761	27,224	94,181	92,044	2,231	2,751	151,007	145,441
Cost/income ratio	57.20%	59.60%	34.00%	33.70%	34.80%	11.30%	21.20%	25.10%	48.20%	47.60%
Return on allocated capital	33.80%	20.80%	13.50%	5.60%	-0.10%	2.70%	74.40%	39.40%	9.40%	6.90%
Total assets (eop)	577,025	525,541	315,176	294,870	729,159	702,130	20,380	15,239	1,641,741	1,537,780
Total liabilities excluding equity (eop)	946,382	846,902	227,086	209,555	55,955	52,277	269,122	279,700	1,498,545	1,388,434

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

2. Net interest income

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

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

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

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

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

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

other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities.

Net interest income also includes interest on derivative financial instruments.

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

in CZK million	2021	2020
Interest and other similar income		
Financial assets at fair value through other comprehensive income	424	390
Financial assets at amortised costs	33,354	31,866
Interest income	**33,778**	**32,256**
Financial assets held for trading	2,392	4,798
Non-trading financial assets at fair value through profit or loss	-	13
Derivatives – Hedge accounting, interest rate risk	696	182
Other assets	29	71
Negative interest from financial liabilities	165	214
Other similar income	**3,282**	**5,278**
Total interest and other similar income	**37,060**	**37,534**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(3,672)	(3,944)
Interest expenses	**(3,672)**	**(3,944)**
Financial liabilities at fair value through profit or loss	(14)	(5)
Financial liabilities held for trading	(2,120)	(4,310)
Derivatives – Hedge accounting, interest rate risk	10	18
Other liabilities	(40)	(49)
Negative Interest from financial assets	(141)	(145)
Other similar expenses	**(2,305)**	**(4,491)**
Total interest and other similar expense	**(5,977)**	**(8,435)**
Net interest income	**31,083**	**29,099**

Interest income on impaired financial assets amounted to CZK 348 million (2020: CZK 408 million). No modification gains or losses were accounted for in the year 2021, modification loss of financial instruments allocated to Stage 1 of CZK 287 million is reported in line item 'Financial assets at amortised costs' in 2020. The amounts disclosed in the line items 'Negative interest from financial liabilities' and 'Negative interest from financial assets' relate to the interbank business, deposits and refinancing with central banks only.

3. Net fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees 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.

	2021		2020	
in CZK million	**Income**	**Expenses**	**Income**	**Expenses**
Securities	676	(111)	245	(117)
Clearing and settlement	-	(4)	-	(4)
Asset management	1,383	(53)	1,307	(33)
Custody	422	(50)	274	(41)
Payment services	3,746	(678)	3,602	(545)
Customer resources distributed but not managed	2,954	(3)	2,796	(10)
Collective investment	1,355	-	1,322	-
Insurance products	1,599	(3)	1,474	(10)
Lending business	1,255	(507)	1,135	(371)
Other	649	(493)	608	(603)
Total fee and commission income and expenses	**11,085**	**(1,899)**	**9,967**	**(1,724)**
Net Fee and commission income	**9,186**		**8,243**	

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

Asset management, custody and fiduciary transactions fees relate to fees earned by the Group on trust and other fiduciary activities in which the Group holds or invests assets on behalf of its customers. The assets hold by the Group on behalf of its customers amount to CZK 1,958 billion as at 31 December 2021 (2020: CZK 1,125 billion).

The Group introduced new category for reporting of asset management fees (i.e. commission fee received for arranging the sale of the Group funds) starting 1 January 2021 and consequently changed their classification also for the comparable period. As a result of this change, fee income in the line 'Securities' decreased by CZK 1,322 million and fee income in the line 'Customer resources distributed but not managed' (sub-item 'Collective investment') increased by CZK 1,322 million in 2020 with no impact to total 'Fee and commission income' for 2020.

Net fee and commission income above include income of CZK 3,118 million (2020: CZK 3,217 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	**2021**	**2020**
Non-trading financial assets at fair value through profit or loss	166	54
Financial assets at cost	1	-
Financial assets at fair value through other comprehensive income	-	3
Dividend income	**167**	**57**

5. Net trading result

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

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, c) Accounting and measurement methods, 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	2021	2020
Securities and derivatives trading	84	133
Foreign exchange transactions	1,875	1,725
Gains or losses from hedge accounting	(227)	48
Net trading result	**1,732**	**1,906**

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	2021	2020
Realised and unrealised gains on trading assets	500	270
Foreign exchange trading	244	173
Total	**744**	**443**

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

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

in CZK million	2021	2020
Result from measurement/sale of financial assets designated at fair value through profit or loss	-	14
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(140)	(28)
Result from financial assets and liabilities designated at fair value through profit or loss	**(140)**	**(14)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	37	612
Gains/losses from financial instruments measured at fair value through profit or loss	**(103)**	**598**

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 straight-line basis over the lease term. Operating expenses for investment properties are reported in line 'Other operating result' (within Note 12).

in CZK million	2021	2020
Investment properties	180	174
Other operating leases	33	39
Rental income from investment properties & other operating leases	**213**	**213**

8. General administrative expenses

Personnel expenses

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

According to the remuneration policy of the Group Board of Directors receive cash-settled performance-linked certificates and cash settled share-based bonuses. Total effect of these cash-settled bonuses on personnel expenses is CZK 33 million (2020: CZK 31 million). Description and further information about remuneration of Board members including performance-linked remuneration can be found in Note 49 Related-party transactions and principal shareholders.

All employees with an active employment as at 31 December 2021 and at the same time at least 6 months active employment within the Group will receive shares of Erste Group Bank AG in the equivalent of EUR 350 net. This Employee Share Program is awarded when Erste Group Bank, including local Banks and subsidiaries, meets all capital and liquidity requirements and pays dividends. The Group is the grantor, who is responsible to settle this transaction, therefore, this share-based payment is cash settled and vested immediately. Therefore, based on the number of the entitled employees, personnel expenses in the amount of CZK 159 million as well as the corresponding other liabilities were recognized.

The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes, jubilee benefits and 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	2021	2020
Personnel expenses	**(11,010)**	**(9,892)**
Wages and salaries	(7,711)	(6,992)
Compulsory social security	(2,516)	(2,249)
Other personnel expenses	(783)	(651)
Other administrative expenses	**(6,668)**	**(6,469)**
Deposit insurance contribution	(278)	(268)
IT expenses	(3,192)	(3,097)
Expenses for office space	(806)	(750)
Office operating expenses	(620)	(665)
Advertising / marketing	(950)	(834)
Legal and consulting costs	(227)	(268)
Sundry administrative expenses	(595)	(587)
Depreciation and amortization	**(2,720)**	**(2,749)**
Software and other intangible assets	(1,113)	(1,042)
Owner occupied real estate	(538)	(656)
Investment property	(68)	(61)
Office furniture and equipment and sundry property and equipment	(421)	(427)
Right of use asset	(580)	(563)
General administrative expenses	**(20,398)**	**(19,110)**

Personnel expenses include expenses of CZK 2,516 million (2020: CZK 2,249 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	2021	2020
Remuneration	106	106

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short – term employee benefits, and part of variable remuneration as long-term benefit. The description of remuneration model is described in more detail in Note 49 Related-party transactions and principal shareholders.

Average headcount of full time employees per reporting date

in CZK million	2021	2020
Staff	9,738	9,892

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	2021	2020
Gains from sale of financial assets at amortised cost	5	-
Losses from sale of financial assets at amortised cost	(243)	-
Gains/losses from derecognition of financial assets measured at amortised cost	**(238)**	**-**

Due to sell of debt securities during 2021 the Group realized loss in amount of CZK 243 million. Any derecognition of financial assets measured at AC does not breach the business 'Hold to collect' model.

10. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL.

in CZK million	2021	2020
Other gains from sale of financial assets at fair value through other comprehensive income	(4)	(1)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(4)**	**(1)**

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	2021	2020
Financial assets at fair value through other comprehensive income	(23)	(66)
Financial assets at amortised cost	(1,475)	(7,425)
Net allocation to risk provisions	(1,893)	(7,898)
Direct write-offs	(14)	(9)
Recoveries recorded directly to the income statement	432	569
Modification losses	-	(87)
Finance lease receivables	29	13
Net allocation to credit loss allowances	29	13
Net allocation of provisions for commitments and guarantees given	(311)	(452)
Impairment result from financial instruments	**(1,780)**	**(7,930)**

Development of risk provision was driven by considerably lower creation in 2021 (CZK 1,893 million) in comparison with 2020 (CZK 7,898 million). Impact of COVID-19 on loan portfolio of retail as well as wholesale is gradually fading away, bringing risk costs back to standard level.

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year 2021 and 2020

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 2020				**(13,567)**
Net impairment loss for the period	(8,013)			(8,013)
(Increase) due to passage of time (unwinding correction)		(220)		(220)
CLA decreases due to sales			219	219
CLA decreases due to write-offs			550	550
Other CLA changes		(30)		(30)
Closing balance of CLA (total) as at 31 December 2020				**(21,061)**
Impairment gain/(loss) from POCI without CLA	(390)			
Direct write-offs	(10)			
Recoveries of written-off amounts	570			
Modification gains and losses attributable to financial assets in Stages 2, 3, POCI	(87)			
Net impairment loss for the period as at 31 December 2020	**(7,930)**			
Opening balance of CLA (total) as at 1 January 2021				**(21,061)**
Net impairment loss for the period	(1,747)			(1,747)
(Increase) due to passage of time (unwinding correction)		(327)		(327)
CLA decreases due to sales			494	494
CLA decreases due to write-offs			880	880
CLA changes due to changes in Group's structure			(131)	(131)
CLA changes due to foreign exchange differences		217		217
Other CLA changes		286		286
Closing balance of CLA (total) as at 31 December 2021				**(21,389)**
Impairment gain/(loss) from POCI without CLA	(451)			
Direct write-offs	(14)			
Recoveries of written-off amounts	432			
Net impairment loss for the period as at 31 December 2021	**(1,780)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase in amount of CZK 328 million) CZK 1,747 million was reported in Net impairment result in Profit and Loss (NIR). Other movement (decrease) in amount of CZK 1,419 million represents impact of changes due to sales, write-offs or unwinding correction recognized in other items in Profit and Loss (e.g. net interest income) or outside Profit and Loss. Beside the CLA movements the NIR was increased by another CZK 33 million consisting of impairment loss from POCI in amount of CZK 451 million, direct write-offs in amount of CZK 14 million and decreased by recoveries of written-offs in amount of 432 CZK 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	2021	2020
Other operating expenses	**(1,097)**	**(791)**
Allocation to other provision	(265)	(3)
Other taxes	(14)	(18)
Recovery and resolution fund contributions	(818)	(770)
Other operating income	**2**	**48**
Release of other provision	2	48
Result from properties/movables/other intangible assets other than goodwill	**(412)**	**107**
Result from other operating expenses/income	**(198)**	**25**
Other operating result	**(1,705)**	**(611)**

In 2021 the Group accounted for the impairment of the buildings in Prague of CZK 407 million (2020: released CZK 166 million) due to expected building utilization after movement into new HQ. Impairment is reported within the line "Result from properties/movables/other intangible assets other than goodwill".

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 2021 the final annual contributions paid to Resolution Fund of CZK 818 million (2020: CZK 770 million) was reported within the line "Recovery and resolution fund contributions".

In 2021 the Group accounted for the provision for legal issues and litigation of CZK 226 million.

Result from other operating expenses/ income in 2020 includes sales of electricity and gas by former subsidiary Energie ČS, a.s. of CZK 3,242 million, the related cost of sales for 2020 were CZK 3,130 million.

13. Taxes

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets

are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2021	2020
Current tax expense / income	(4,223)	(3,124)
current period	(3,946)	(3,076)
prior period	(277)	(48)
Deferred tax expense / income (+)	202	646
current period	202	646
Total taxes on income	**(4,021)**	**(2,478)**

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	2021	2020
Pre-tax profit/loss	18,229	12,495
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,464)	(2,374)
Non-taxable income	1,128	1,061
Non-deductible expenses	(1,389)	(1,143)
Other	1	(35)
Prior period over/(under) accrual	248	17
Total	**(4,021)**	**(2,478)**
Effective tax rate	**22.06%**	**19.83%**

The Group has accounted for the additional tax expense related to transfer of means to Depositum Bonum Foundation of CZK 204 million in 2021.

Tax effects relating to each component of other comprehensive income:

	2021			2020		
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	(470)	90	(380)	72	(14)	58
Own credit risk reserve	(1)	-	(1)	(1)	-	(1)
Cash flow hedge reserve	(7,696)	1,461	(6,235)	3,675	(698)	2,977
Currency translation	156	-	156	16	-	16
Other comprehensive income	**(8,011)**	**1,551**	**(6,460)**	**3,762**	**(712)**	**3,050**

Major components of deferred tax assets and deferred tax liabilities

	Tax assets		Tax liabilities		Net variance 2021		
in CZK million	**Dec 2021**	**Jan 2021**	**Dec 2021**	**Jan 2021**	**Total**	**Through P&L**	**Through OCI**
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	-	-	(115)	(95)	(20)	(20)	-
Financial assets at FVOCI	25	-	(7)	(72)	90	-	90
Financial assets at AC	1,409	1,337	(50)	(78)	100	100	-
Property and equipment (useful life in tax law different)	122	180	(98)	(111)	(45)	(45)	-
Intangible assets other than goodwill	-	-	(398)	(406)	8	8	-
Hedge accounting derivatives	1,262	165	(8)	(367)	1,456	(6)	1,462
Other assets and liabilities	464	295	-	-	169	169	-
Recognized Deferred tax position from accumulated tax loss carried forward, after recoverability considerations	2	5	-	-	(3)	(2)	(1)
Effect of netting according IAS 12.71	(552)	(962)	550	962	(2)	(2)	-
Total deferred taxes	**2,732**	**1,020**	**(126)**	**(167)**	**1,753**	**202**	**1,551**
Current taxes	**1,042**	**1,417**	**(117)**	**(60)**	**(432)**		
Total taxes	**3,774**	**2,439**	**(243)**	**(227)**	**1,319**		

	Tax assets		Tax liabilities		Net variance 2020		
In CZK million	**Dec 2020**	**Jan 2020**	**Dec 2020**	**Jan 2020**	**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	-	4	(95)	(71)	(28)	24	(52)
Financial assets at FVOCI	-	69	(72)	(132)	(9)	(47)	38
Financial assets at AC	1,337	398	(78)	(165)	1,026	1,026	-
Property and equipment (useful life in tax law different)	180	310	(111)	(76)	(165)	(165)	-
Intangible assets other than goodwill	-	-	(406)	(367)	(39)	(39)	-
Hedge accounting derivatives	165	521	(367)	(26)	(698)	-	(698)
Other assets and liabilities	295	449	-	-	(154)	(154)	-
Recognized Deferred tax position from accumulated tax loss carried forward, after recoverability considerations	5	4	-	-	1	1	-
Effect of netting according IAS 12.71	(962)	(645)	962	645	-	-	-
Total deferred taxes	**1,020**	**1,110**	**(167)**	**(192)**	**(66)**	**646**	**(712)**
Current taxes	**1,417**	**9**	**(60)**	**(327)**	**1,675**		
Total taxes	**2,437**	**1,119**	**(227)**	**(519)**	**1,609**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

Out of the total net deferred tax variance of CZK 1,753 million (2020: CZK 66 million) an amount of CZK 202 million (2020: CZK 646 million) is reflected as net deferred tax income in the Group's income statement for the year 2021, whilst an income amount of CZK 1,551 million (2020: expense CZK 712 million) represents the impact in the Group's other comprehensive income for the year.

The Group's net deferred tax asset position in amount of CZK 2,606 million as of 31 December 2021 (2020: CZK 853 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.

14. Appropriation of profit

In the reporting period, the Group posted a post-tax profit of CZK 14,208 million under the Czech accounting regulations, which increased its distributable capital accordingly (2020: CZK 10,017 million). The equity increased accordingly.

Due to high uncertainty in 2020 and stabilising measures adopted by the ČNB in connection with the COVID-19 epidemic, no dividend was paid for 2019 except for payment of coupons on AT1 instruments in the amount of CZK 1,068 million.

In 2021, the sole shareholder of the Group has approved distributions (dividends and AT1 coupons) in the total volume of CZK 6,336 million (out of which distribution of dividend of CZK 5,360 million and AT1 coupons of CZK 976 million). Dividend per share was CZK 35.26. These were in line with recommendations received from the ČNB, regarding limiting distributions due to ongoing economic uncertainties. The currently valid ČNB's recommendation will cease to apply after financial results for the year 2021 are audited. A decision on the distribution of 2021 profit has thus not been taken before the date of issue of these financial statements.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset was sold or paid, if a liability was transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 25 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant

inputs based on observable markets data, the Group immediately recognises the difference between the transaction price and the fair value as a gain or loss (also referred to as Day 1 gain or loss).

In all other cases, the difference between the fair value at initial recognition and the transaction price is recognized in the carrying amount of the instrument, but the recognition of gains / losses is deferred. After initial recognition, an entity recognizes this deferred difference as a gain / loss only if it results from a change in certain factors (including time) that market participants would consider in determining the price of the instrument. In other words, a deferred difference would only be recognized if the underlying factors are observable and can be confirmed by the market.

Classification and subsequent measurement of financial assets

Financial assets – Debt securities

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

(i) the business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Application of these criteria leads to classification of financial assets into three measurement categories.

Financial assets – Equity instruments

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group.

Application of these criteria leads to classification of financial assets into three measurement categories described in the respective notes.
_Financial assets at amortised cost
_Financial assets at fair value through other comprehensive income
_Financial assets at fair value through profit or loss

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss. Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Note 19 Financial liabilities at amortised costs and Note 23 Financial liabilities at fair value through profit or loss.

Impairment of financial instruments

The Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its cash and cash balances, its finance lease receivables, its trade and other receivables, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending exposures (see details in Note 33 Credit Risk). The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income is recognised in the allowance account (without impacting the impairment loss).

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.

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'.

For financial assets which are credit-impaired at initial recognition (purchased or originated credit-impaired ('POCI') – financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

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'.

In order to maximise collection opportunities and minimise the number of defaults, the Group renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Group's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to meet the obligations according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, if the renegotiation can be qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows, the loan is derecognised and the renegotiated loan is recognized as a new loan initially recognised at fair value.

Write-offs

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'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic 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.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently

competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. As a result, the Group renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

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 unamortized 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 effective interest rate. In the statement of income the modification gain or loss is presented in the line 'Net interest income' (sub-item 'Interest income').

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Significant accounting judgements, assumptions and estimates

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Group, significant areas of judgement are prepayment fees and project financing loans. The benchmark test for loans with interest mismatches features does not represent area of SPPI judgement since the Group does not provide such products to its customers. Assets failing the SPPI test are classified as mandatorily at FVPL. The Group has no loan failing SPPI test as of 31 December 2021 and 2020.

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.

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.

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 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. The development of loan loss provisions is described in Note 24 Financial assets at fair value through other comprehensive income, Note 16 Financial assets at amortised cost, Note 42 Provisions, Note 40 Leases, part Finance lease receivables and Note 18 Trade and other receivables.

FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial assets are classified as measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are solely payment of principal and interest ('SPPI') compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables', 'Finance lease receivables' and 'Cash and cash balances'.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (sub-item 'Interest income') in the income statement. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Group, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any), interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables.

15. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to CZK 18,446 million (2020: CZK 9,449 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	2021	2020
Cash on hand	16,824	20,021
Cash balances at central banks	19,069	16,276
Other deposits on demand	1,579	1,778
Cash and cash balances	**37,472**	**38,075**

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

16. Financial assets at amortised cost

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the Board of Directors, initiation and fostering of client relationship, substitution of loan business or other yield generating activities). Their common attribute is that significant and/or frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the paragraph "Business model assessment" in chapter Financial instruments – Significant accounting policies.

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of the Group's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2021 and 2020 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**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2021									
General governments	313,771	-	-	313,771	(14)	-	-	(14)	313,757
Credit institutions	11,755	-	-	11,755	(5)	-	-	(5)	11,750
Non-financial corporations	-	7	-	7	-	-	-	-	7
Total	**325,526**	**7**	**-**	**325,533**	**(19)**	**-**	**-**	**(19)**	**325,514**
2020									
General governments	243,969	-	-	243,969	(12)	-	-	(12)	243,957
Credit institutions	10,290	453	-	10,743	(6)	(1)	-	(7)	10,736
Non-financial corporations	4	3	-	7	-	-	-	-	7
Total	**254,263**	**456**	**-**	**254,719**	**(18)**	**(1)**	**-**	**(19)**	**254,700**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2021 and 2020.

The movement in the credit loss allowances for debt securities at AC in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2021						**Dec 2021**
Stage 1	(18)	(3)	1	1	(1)	1	(19)
Stage 2	(1)	-	-	-	1	-	-
Total	**(19)**	**(3)**	**1**	**1**	**0**	**1**	**(19)**
	Jan 2020						**Dec 2020**
Stage 1	(17)	(1)	2	85	(86)	(1)	(18)
Stage 2	-	(85)	1	(2)	85	-	(1)
Total	**(17)**	**(86)**	**3**	**83**	**(1)**	**(1)**	**(19)**

In column 'Additions' increases of CLA due to the initial recognition of debt securities at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities 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 debt securities from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

One significant driver of the CLA movements for the current year has been the transfer of the related instruments across different stages. The year-end GCAs of AC debt securities 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 in the table below:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	4	456
To Stage 1 from Stage 2	454	659

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2021 and not sold by 31 December 2021 amounts to CZK 107,294 million (2020: CZK 42,194 million). The GCA of AC debt securities that were held at 1 January 2021 and de-recognized (matured/sold) during the year 2021 amounts to CZK 36,480 million (2020: CZK 16,421 million).

Loans and advances to banks at amortised cost

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 2021 and 2020 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**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
2021									
Central banks	360,255	-	-	360,255	(2)	-	-	(2)	360,253
Credit institutions	4,742	-	-	4,742	(1)	-	-	(1)	4,741
Total	**364,997**	**-**	**-**	**364,997**	**(3)**	**-**	**-**	**(3)**	**364,994**
2020									
Central banks	413,449	-	-	413,449	(2)	-	-	(2)	413,447
Credit institutions	11,396	-	-	11,396	(5)	-	-	(5)	11,391
Total	**424,845**	**-**	**-**	**424,845**	**(7)**	**-**	**-**	**(7)**	**424,838**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021 and 2020.

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2021					**Dec 2021**
Stage 1	(7)	(75)	77	-	2	(3)
Total	**(7)**	**(75)**	**77**	**-**	**2**	**(3)**
	Jan 2020					**Dec 2020**
Stage 1	(10)	(311)	115	-	199	(7)
Stage 2	-	(3)	-	(2)	5	-
Stage 3	-	-	60	-	(60)	-
Total	**(10)**	**(314)**	**175**	**(2)**	**144**	**(7)**

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to banks at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to banks 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 banks from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 1 from Stage 2	3	-

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 363,240 million (2020: CZK 435,285 million). The GCA of AC loans and advances to banks that were held at 1 January 2021 and fully de-recognized (matured) during the year 2021 amounts to CZK 421,344 million (2020: CZK 403,717 million).

Loans and advances to customers at amortized cost

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 2021 and 2020 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**
2021											
General governments	15,480	8,181	-	-	23,661	(10)	(98)	-	-	(108)	23,553
Other financial corporations	16,095	1,691	2	-	17,788	(36)	(32)	(1)	-	(68)	17,720
Non-financial corporations	218,092	54,522	7,964	1,174	281,752	(1,105)	(2,879)	(4,597)	(466)	(9,047)	272,705
Households	465,303	44,298	7,965	109	517,674	(1,189)	(3,404)	(5,195)	(25)	(9,812)	507,862
Total	**714,970**	**108,693**	**15,930**	**1,282**	**840,875**	**(2,339)**	**(6,413)**	**(9,793)**	**(490)**	**(19,035)**	**821,840**
2020											
General governments	21,025	1,334	7	-	22,366	(15)	(10)	(1)	-	(26)	22,340
Other financial corporations	16,405	311	1	-	16,717	(56)	(4)	(1)	-	(61)	16,656
Non-financial corporations	197,357	64,129	7,787	1,137	270,410	(1,112)	(3,192)	(5,286)	(541)	(10,131)	260,279
Households	414,423	36,807	7,839	92	459,161	(949)	(2,763)	(5,284)	(25)	(9,021)	450,140
Total	**649,210**	**102,581**	**15,634**	**1,229**	**768,654**	**(2,132)**	**(5,969)**	**(10,572)**	**(566)**	**(19,239)**	**749,415**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2021							Dec 2021
Stage 1	**(2,132)**	**(1,554)**	**590**	**2,531**	**(1,768)**	**3**	**(10)**	**(2,339)**
General governments	(15)	(5)	2	1	7	-	-	(10)
Other financial corporations	(56)	(63)	46	51	(15)	-	1	(36)
Non-financial corporations	(1,112)	(874)	259	895	(272)	3	(2)	(1,105)
Households	(949)	(613)	284	1,585	(1,487)	-	(9)	(1,189)
Stage 2	**(5,969)**	**(507)**	**865**	**(3,324)**	**2,568**	**4**	**(50)**	**(6,413)**
General governments	(10)	(8)	-	(72)	(9)	-	1	(98)
Other financial corporations	(5)	(10)	16	(38)	4	-	1	(32)
Non-financial corporations	(3,192)	(287)	527	(1,046)	1,138	-	(20)	(2,879)
Households	(2,763)	(202)	322	(2,169)	1,435	4	(32)	(3,404)
Stage 3	**(10,571)**	**(71)**	**1,259**	**(816)**	**(1,061)**	**855**	**612**	**(9,793)**
General governments	(1)	-	-	-	(1)	-	2	-
Other financial corporations	(1)	-	-	-	(2)	1	1	(1)
Non-financial corporations	(5,286)	(21)	675	(402)	(342)	164	613	(4,597)
Households	(5,284)	(50)	584	(415)	(717)	690	(3)	(5,195)
POCI	**(566)**	**-**	**106**	**-**	**(104)**	**13**	**61**	**(490)**
Non-financial corporations	(541)	-	105	-	(101)	11	61	(466)
Households	(25)	-	1	-	(4)	3	-	(25)
Total	**(19,239)**	**(2,132)**	**2,822**	**(1,609)**	**(365)**	**875**	**613**	**(19,035)**
	Jan 2020							**Dec 2020**
Stage 1	**(1,709)**	**(1,239)**	**432**	**1,377**	**(992)**	**2**	**(3)**	**(2,132)**
General governments	(13)	(6)	1	3	-	-	-	(15)
Other financial corporations	(26)	(64)	72	85	(123)	-	-	(56)
Non-financial corporations	(954)	(941)	229	567	(10)	-	(3)	(1,112)
Households	(716)	(228)	130	722	(859)	2	-	(949)
Stage 2	**(1,843)**	**(924)**	**469**	**(4,995)**	**1,317**	**15**	**(8)**	**(5,969)**
General governments	(11)	-	1	(8)	8	-	-	(10)
Other financial corporations	(1)	(41)	1	(79)	114	2	-	(4)
Non-financial corporations	(783)	(183)	342	(2,548)	(18)	6	(8)	(3,192)
Households	(1,048)	(700)	125	(2,360)	1,213	7	-	(2,763)
Stage 3	**(8,131)**	**(32)**	**825**	**(1,010)**	**(2,654)**	**529**	**(99)**	**(10,572)**
General governments	-	-	-	(1)	-	-	-	(1)
Other financial corporations	(2)	-	19	-	(23)	5	-	(1)
Non-financial corporations	(4,130)	(3)	452	(417)	(1,486)	396	(98)	(5,286)
Households	(3,999)	(29)	354	(592)	(1,145)	128	(1)	(5,284)
POCI	**(487)**	**-**	**42**	**-**	**(125)**	**5**	**(1)**	**(566)**
Non-financial corporations	(466)	-	41	-	(120)	5	(1)	(541)
Households	(21)	-	1	-	(5)	-	-	(25)
Total	**(12,170)**	**(2,195)**	**1,768**	**(4,628)**	**(2,454)**	**551**	**(111)**	**(19,239)**

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 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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

favourable (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 327 million cumulatively for the year 2021 (2020: CZK 220 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'.

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:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in CZK million	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
2021								
General governments	7,395	75	-	4	-	1	-	-
Other financial corporations	2,117	1,373	-	-	-	-	-	-
Non-financial corporations	15,554	20,547	2,118	115	1,403	32	-	16
Households	28,896	16,409	1,941	747	1,407	598	1	25
Total	**53,963**	**38,404**	**4,058**	**866**	**2,810**	**631**	**1**	**41**
2020								
General governments	710	160	-	-	7	-	-	-
Other financial corporations	311	89	-	-	-	-	-	-
Non-financial corporations	49,072	3,987	930	78	2,556	38	6	111
Households	28,356	7,804	877	440	2,795	257	-	8
Total	**78,449**	**12,040**	**1,807**	**518**	**5,358**	**295**	**6**	**119**

Detailed information on stage transfers due to COVID-19 measures are described in Note 33 Credit risk.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 255,812 million (2020: CZK 192,981 million). The GCA of the AC loans and advances to customers that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to CZK 130,889 million (2020: CZK 108,868 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 2021 amounted to CZK 901 million (2020: CZK 497 million).

17. Debt instruments subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

	2021		2020	
in CZK million	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modification	Net modification gains/losses
Loans and advances				
Non-financial corporations	-	-	1	-
Households	-	-	6,525	(87)
Total	**-**	**-**	**6,526**	**(87)**

As at 31 December 2021, 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 2021 amounted to CZK 2,476 million (2020: CZK 0 million).

18. Trade and other receivables

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

	GCA				GLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	656	1	-	658	(1)	(1)	-	(2)	656
Credit institutions	7	12	61	81	(1)	(12)	(30)	(44)	37
Other financial corporations	103	1	-	104	-	(1)	-	(1)	103
Non-financial corporations	11,980	1,167	717	13,864	(89)	(25)	(616)	(731)	13,133
Households	74	130	34	237	(1)	(109)	(30)	(141)	96
Total	**12,821**	**1,312**	**811**	**14,944**	**(92)**	**(150)**	**(677)**	**(919)**	**14,025**
2020									
General governments	52	2	-	54	-	(2)	-	(2)	52
Credit institutions	13	12	6	31	-	(12)	(6)	(18)	13
Other financial corporations	291	2	-	293	-	(2)	-	(2)	291
Non-financial corporations	4,915	1,078	221	6,214	(36)	(16)	(133)	(185)	6,029
Households	67	114	23	204	(1)	(108)	(22)	(131)	73
Total	**5,338**	**1,208**	**250**	**6,796**	**(37)**	**(140)**	**(161)**	**(338)**	**6,458**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2021							**Dec 2021**
Stage 1	(36)	(124)	45	-	24	-	-	(92)
Stage 2	(140)	-	28	-	(67)	3	28	(150)
Stage 3	(161)	-	46	(6)	(2)	3	(556)	(677)
Total	**(338)**	**(124)**	**119**	**(6)**	**(46)**	**5**	**(529)**	**(918)**
	Jan 2020							**Dec 2020**
Stage 1	(21)	(7)	1	2	(12)	-	-	(37)
Stage 2	(134)	(5)	-	(2)	-	1	-	(140)
Stage 3	(257)	(4)	17	-	(1)	4	80	(161)
Total	**(412)**	**(16)**	**18**	**-**	**(13)**	**5**	**80**	**(338)**

Year-on-year increase in Trade and other receivables is attributable to factoring receivables.

19. Financial liabilities at amortised cost

The line item 'Financial liabilities at amortised cost' is further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are calculated using effective interest method and reported in the line item 'Net interest income' (sub-item 'Interest expenses') in the statement of income. Gains and losses from de-recognition are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

in CZK million	2021	2020
Deposits	**1,223,585**	**1,188,001**
Deposits from banks	49,695	91,335
Deposits from customers	1,173,890	1,096,666
Debt securities issued	**213,357**	**169,498**
Bonds	213,357	169,498
Other financial liabilities	**18,114**	**3,071**
Financial liabilities measured at amortised costs	**1,455,056**	**1,360,570**

The significant year-on-year increase in Other financial liabilities was attributable to the high demand for inflation-linked government bonds issued by the Czech state, which were available only till the year-end 2021. As a result, the balance of Other financial liabilities as at 31 December 2021 consisted mainly of temporary payments from customers for purchase of inflation-linked government bonds in amount of CZK 13,368 million. Other items consist mainly of payables to card associations of CZK 685 million (2020: CZK 484 million), unbilled supplies of CZK 1,219 million (2020: CZK 843 million) and received margin for futures of CZK 823 million (2020: CZK 724 million).

Deposits from banks

in CZK million	2021	2020
Overnight deposits	2,568	4,338
Term deposits	10,671	20,785
Repurchase agreements	36,456	66,212
Deposits from banks	**49,695**	**91,335**

Deposits from customers

in CZK million	2021	2020
Current accounts/Overnight deposits	1,037,386	956,093
General governments	70,983	65,723
Other financial corporations	24,659	24,434
Non-financial corporations	149,202	151,033
Households	792,542	714,903
Term deposits	124,922	107,285
General governments	1,174	768
Other financial corporations	12,661	17,407
Non-financial corporations	13,798	3,247
Households	97,289	85,863
Repurchase agreements	11,582	33,288
General governments	20	62
Other financial corporations	11,562	33,066
Non-financial corporations	-	160
Deposits from customers	**1,173,890**	**1,096,666**
General governments	72,177	66,553
Other financial corporations	48,882	74,907
Non financial corporations	163,000	154,440
Households	889,831	800,766

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

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	2021	2020
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	443	438
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	39	41
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	512	408
Mortgage bonds	CZ0002008006	October 2021	January 2022	floating	No	97,056	-
Mortgage bonds	CZ0002008279	December 2021	March 2022	floating	No	45,062	-
Mortgage bonds	CZ0002008261	December 2021	January 2022	floating	No	58,072	-
Subordinated bonds (SNP)	AT0000A2STV4	September 2021	September 2028	floating	Yes	12,173	-
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	-	5,002
Public covered bonds	CZ0003705667	December 2020	February 2021	floating	No	-	26,529
Public covered bonds	CZ0003705733	December 2020	January 2021	floating	No	-	137,080
Bonds issued						**213,357**	**169,498**

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 252,768 million (2020: CZK 157,615 million).

FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

A) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to debt instruments financial assets.

FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Group, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by the Group since they are managed and their performance is evaluated on a fair value basis. Another reason for the FVPL measurement are financial assets whose contractual cash flows are not considered as SPPI. At the Group, this concerns certain debt securities and loans to customers.

The Group also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities'). Non-trading financial assets at FVPL consist of two sub-categories disclosed in Note 22 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.

From IFRS 9 perspective all derivatives which are not designated as hedging instruments are considered as held for trading. As a result, they are measured at FVPL. They are described more detail in the Note 20 Derivative financial instruments.

In the income statement, the profit or loss effects of non-derivative financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item 'Other similar income'). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. On the balance sheet, financial liabilities at FVPL are presented as 'Financial liabilities held for trading', sub-items 'Derivatives' and 'Other financial liabilities held for trading' and as 'Financial liabilities at fair value through profit or loss' which are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Accounting policy related to financial liabilities at FVPL can be found in Note 20 Derivative financial instrument and Note 23 Financial liabilities at fair value through profit or loss.

20. Derivative financial instruments

Derivatives used by the Group include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Hedge accounting derivatives are discussed in Note 26 Hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the Trading book and Banking book according to CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated OCI is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Embedded derivatives

The Group is involved in business with own debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host own debt instruments if:

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the definition of derivative; and
- the hybrid instrument is not a financial liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in 'Financial assets held for trading' or 'Financial liabilities held for trading'.

Derivatives that are not closely related and are separated relate to issued bonds and deposits whose payments are linked to equity prices or FX rates. From 2018, instead of separating the embedded derivatives, the Group largely uses the possibility to designate the entire financial liability as measured at FVPL.

Derivatives held for trading

in CZK million	2021 Notional value	2021 Positive fair value	2021 Negative fair value	2020 Notional value	2020 Positive fair value	2020 Negative fair value
Derivatives held in the Trading book	**703,899**	**14,989**	**(14,242)**	**781,688**	**10,738**	**(10,274)**
Interest rate	370,501	10,784	(10,300)	447,128	6,912	(6,611)
Foreign exchange	333,398	4,205	(3,942)	334,560	3,826	(3,663)
Derivatives held in the Banking book	**42,858**	**519**	**(1,151)**	**90,753**	**543**	**(2,621)**
Interest rate	26,408	-	(935)	20,763	321	(17)
Foreign exchange	16,450	519	(216)	69,990	222	(2,604)
Total	**746,757**	**15,508**	**(15,392)**	**872,441**	**11,281**	**(12,895)**

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	2021	2020
Debt securities	53	101
General governments	22	24
Credit institutions	30	74
Other financial corporations	1	3
Other financial assets held for trading	**53**	**101**

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

in CZK million	2021 Designated	2021 Mandatorily	2020 Designated	2020 Mandatorily
Equity instruments	-	862	-	982
Debt securities	-	905	-	1,025
Other financial corporations	-	905	-	1,025
Loans and advances to banks	-	744	-	443
Loans and advances to customers	-	-	-	40
Non-financial corporations	-	-	-	40
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**2,511**	**-**	**2,490**
Non-trading financial assets at fair value through profit or loss	**2,511**		**2,490**	

Financial assets classified as mandatorily at FVPL comprise of equities and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in 'Classification and subsequent measurement of financial assets' in section 'Significant accounting policies'.

23. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

In the business of the Group non-derivative held-for-trading liabilities comprise of short sales. Such business arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item 'Deposits from customers'.

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item 'Other similar expenses').

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and the beginning of the period. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
in CZK million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Deposits	10,653	3,784	9,943	3,637	710	147
Financial liabilities at FVPL	**10,653**	**3,784**	**9,943**	**3,637**	**710**	**147**

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	**2021**	**2020**	**2021**	**2020**
Financial liabilities – at fair value through profit or loss				
Deposits from customers	1	1	(2)	(3)

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.

B) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

24. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income – Debt securities

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 asset 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'.

Financial assets at fair value through other comprehensive income – Equity instruments

For certain investments in equity instruments which are not held for trading, the Group makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve of equity instruments' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

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 2021 and 2020 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
2021											
Debt securities											
General governments	17,486	-	-	17,486	(1)	-	-	(1)	17,486	(32)	17,454
Credit institutions	1,614	-	-	1,614	(1)	-	-	(1)	1,613	(29)	1,584
Other financial corporations	1,161	1,975	-	3,136	-	(44)	-	(45)	3,091	105	3,196
Non-financial corporations	1,343	7,689	-	9,032	(1)	(102)	-	(103)	8,929	(31)	8,898
Total	**21,605**	**9,664**	**-**	**31,268**	**(3)**	**(146)**	**-**	**(149)**	**31,120**	**12**	**31,132**
2020											
Debt securities											
General governments	6,863	-	-	6,863	-	-	-	-	6,863	131	6,994
Credit institutions	2,834	-	-	2,834	(2)	-	-	(2)	2,832	13	2,845
Other financial corporations	517	1,388	-	1,905	(1)	(48)	-	(49)	1,856	100	1,956
Non-financial corporations	2,573	6,306	-	8,879	(4)	(71)	-	(75)	8,804	239	9,043
Total	**12,787**	**7,694**	**-**	**20,481**	**(7)**	**(119)**	**-**	**(126)**	**20,355**	**483**	**20,838**

The accumulated OCI changes combine the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income, as required by IFRS 9 in respect of debt instruments measured at FVOCI. There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2021 and 2020.

The movement in the credit loss allowances for debt securities at FVOCI in the reporting period is provided in the table below:

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2021					**Dec 2021**
Stage 1	(7)	(1)	2	26	(23)	(3)
Stage 2	(119)	(22)	-	(29)	24	(146)
Total	**(126)**	**(23)**	**2**	**(3)**	**1**	**(149)**
	Jan 2020					**Dec 2020**
Stage 1	(12)	(2)	1	-	6	(7)
Stage 2	(47)	-	-	(74)	2	(119)
Total	**(59)**	**(2)**	**1**	**(74)**	**8**	**(126)**

In the column 'Additions' increases of Credit Loss Allowances (CLA) due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI 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 FVOCI debt securities from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

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:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	1,916	5,264
To Stage 1 from Stage 2	598	-

C) FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

25. Fair value of financial instruments

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

All financial instruments at fair value are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

Description of valuation models and parameters

The Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. As a consequence of the negative interest environment, shifted Black Scholes valuation model is used for interest rate options for the respective currencies. For this model negative interest rates are no restriction.

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 effective discount rate incorporating other risk/cost components. The complex interest rate assets are valued by Monte Carlo simulation approach to include convexity correction and time value of embedded options.

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.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

As a result of the IBOR reform it has been decided that the so far used EONIA (Euro Over Night Index Average) will be replaced by €STR (Euro Short-Term Rate) with a transition phase until 31 December 2021. In Group all contracts with CCP's (Central Counter Parties), LCH (London Clearing House) and EUREX have been converted in 2020 and for the respective collaterals €STR is used as interest rate. More details to IBOR reform is described in Note 26 Hedging.

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 (67) million (2020: CZK -103 million) and the total DVA-adjustment amounted to CZK 43 million (2020: CZK 27 million).

Based on an analysis carried out by the Group it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent from the trading units. In addition, The Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. The evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurements include exchange traded derivatives (options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurements include OTC derivatives, less liquid shares, bonds and funds as well as own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. Typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

The volume of Level 3 financial assets can be allocated to the following categories:

- Derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares, participations and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Loans which do not comply with the contractual cash flow criteria.
- Fund units issued by investment funds fully consolidated by Erste Group as well as own issues, if price updates are not provided on a regular basis
- Collateralized mortgage obligation (CMO)

The allocation of the appropriate level of positions is determined at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

	2021				2020			
In CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets – held for trading	21	15,413	127	15,561	19	11,263	100	11,382
Derivatives	-	15,381	127	15,508	-	11,182	99	11,281
Other trading assets	21	32	-	53	19	81	1	101
Non-trading financial assets – FVPL	93	-	2,418	2,511	81	-	2,409	2,490
Equity instruments	-	-	862	862	-	-	982	982
Debt securities	93	-	812	905	81	-	944	1,025
Loans and advances	-	-	744	744	-	-	483	483
Financial assets – FVOCI	21,414	7,141	2,577	31,132	11,564	7,018	2,256	20,838
Debt securities	21,414	7,141	2,577	31,132	11,564	7,018	2,256	20,838
Derivatives Hedge Accounting	-	607	-	607	-	2,654	-	2,654
Total assets	**21,528**	**23,161**	**5,122**	**49,811**	**11,664**	**20,935**	**4,765**	**37,364**
LIABILITIES								
Financial liabilities held for trading	-	15,160	232	15,392	-	12,836	59	12,895
Derivatives	-	15,160	232	15,392	-	12,836	59	12,895
Financial liabilities designated at fair value through profit or loss	-	10,653	-	10,653	-	3,784	-	3,784
Deposits from customers	-	10,653	-	10,653	-	3,784	-	3,784
Derivatives Hedge Accounting	-	4,659	59	4,718	-	267	-	267
Total liabilities	**-**	**30,472**	**291**	**30,763**	**-**	**16,887**	**59**	**16,946**

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.

	2021		2020	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	2,135	-	5,264
Net transfer from Level 2	136	-	(5,264)	-
Purchases/sales/expiries	9,728	(2,061)	4,171	(5,654)
Changes in derivatives	-	2,152	-	3,478
Total year-to-date change	**9,864**	**2,226**	**(1,093)**	**3,088**

The relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements 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 2021							**Dec 2021**
Assets								
Financial assets HfT	100	42	-	-	(1)	-	(15)	127
Derivatives	99	42	-	-	-	-	(15)	127
Other financial assets held for trading	1	-	-	-	(1)	-	-	-
Non-trading financial assets at FVPL	2,409	743	-	70	(862)	58	-	2,418
Equity instruments	982	(180)	-	2	-	58	-	862
Debt securities	944	175	-	68	(376)	-	-	812
Loans and advances	483	747	-	-	(486)	-	-	744
Financial assets at FVOCI	2,256	(43)	40	2	-	1,764	(1,441)	2,577
Debt securities	2,256	(43)	40	2	-	1,764	(1,441)	2,577
Total assets	**4,765**	**741**	**40**	**72**	**(862)**	**1,822**	**(1,456)**	**5,122**
	Jan 2020							**Dec 2020**
Assets								
Financial assets HfT	171	(57)	-	5	-	11	(30)	100
Derivatives	171	(57)	-	4	-	11	(30)	99
Other financial assets held for trading	-	-	-	1	-	-	-	1
Non-trading financial assets at FVPL	3,227	940	-	85	(1,823)	-	(20)	2,409
Equity instruments	744	259	-	-	(1)	-	(20)	982
Debt securities	1,043	199	-	85	(383)	-	-	944
Loans and advances	1,440	483	-	-	(1,440)	-	-	483
Financial assets at FVOCI	1,361	0	13	1,036	(2)	-	(152)	2,256
Debt securities	1,361	0	13	1,036	(2)	-	(152)	2,256
Hedge accounting derivatives	19	(19)	-	-	-	-	-	-
Total assets	**4,778**	**864**	**13**	**1,126**	**(1,825)**	**11**	**(202)**	**4,765**

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 reporting period's end and which are included in profit or loss are as follow:

in CZK million	2021 Unrealized gain/ loss in profit or loss	2020 Unrealized gain/ loss in profit or loss
ASSETS		
Financial assets – held for trading	42	(57)
Derivatives	42	(57)
Non-trading financial assets at fair value through profit or loss	757	906
Equity instruments	(180)	259
Debt securities	190	164
Loans and advances	747	483
Financial assets at fair value through other comprehensive income	(43)	6
Debt securities	(43)	6
Hedge accounting derivatives	-	(18)
Total	**756**	**837**

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	**2021**	**2020**	**2021**	**2020**
Derivatives	3	9	(7)	(3)
Income statement	3	9	(7)	(3)
Debt securities	34	22	(46)	(29)
Other comprehensive income	34	22	(46)	(29)
Equity instruments	82	96	(164)	(191)
Income statement	82	96	(164)	(191)
Total	**119**	**127**	**(217)**	**(224)**
Income statement	**85**	**105**	**(171)**	**(195)**
Other comprehensive income	**34**	**22**	**(46)**	**(29)**

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 2021 and for the year-end 2020. 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
2021					
ASSETS					
Cash and cash balances	37,472	37,472	16,824	20,648	-
Financial assets at amortised costs	1,512,348	1,506,607	269,281	34,664	1,202,663
Loans and advances to banks	364,994	372,378	-	-	372,378
Loans and advances to customers	821,840	830,280	-	-	830,280
Debt securities	325,514	303,949	269,281	34,664	5
Finance lease receivables	1,083	1,083	-	-	1,083
Trade and other receivables	14,025	14,025	-	-	14,025
LIABILITIES					
Financial liabilities measured at amortised costs	1,455,056	1,447,686	-	213,204	1,234,482
Deposits from banks	49,695	49,630	-	-	49,630
Deposits from customers	1,173,890	1,166,728	-	-	1,166,728
Debt securities issued	213,357	213,204	-	213,204	-
Other financial liabilities	18,114	18,124	-	-	18,124
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(9)	-	-	(9)
Irrevocable commitments	n/a	640	-	-	640
2020					
ASSETS					
Cash and cash balances	38,075	38,075	20,021	18,054	-
Financial assets at amortised costs	1,428,953	1,470,392	245,354	18,987	1,206,051
Loans and advances to banks	424,838	425,036	-	-	425,036
Loans and advances to customers	749,415	780,552	-	-	780,552
Debt securities	254,700	264,804	245,354	18,987	463
Finance lease receivables	1,412	1,493	-	-	1,493
Trade and other receivables	6,458	6,458	-	-	6,458
LIABILITIES					
Financial liabilities measured at amortised costs	1,360,568	1,363,814	-	169,676	1,194,138
Deposits from banks	91,335	95,209	-	-	95,209
Deposits from customers	1,096,665	1,095,865	-	-	1,095,865
Debt securities issued	169,498	169,676	-	169,676	-
Other financial liabilities	3,070	3,064	-	-	3,064
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(32)	-	-	(32)
Irrevocable commitments	n/a	2,826	-	-	2,826

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign. The calculation of fair values of financial guarantees and commitments is based on the coefficient, which is calculated by the Market risk using the Erste Group Bank algorithms.

The fair value of loans and advances to customers and credit institutions, finance lease receivables and trade and other receivables has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost – debt securities are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

26. Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Group elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

The Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, the Group makes use of the relaxation provided by the EU-carve out for so called bottom layer amount. More details are discussed in part 'Hedges of interest rate risk' below. The change in the fair value of the hedged items attributable to the hedged interest risk in portfolio fair value hedges is presented on the balance sheet under the line item 'Fair value changes of hedged items in portfolio hedge of interest rate risk'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under 'Net interest income' in the line item 'Interest income' if the hedged item was a financial asset or in the line item 'Interest expenses' if the hedged item was a financial liability.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; sub-items 'Other similar income' or 'Other similar expenses'). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

The interest rate and FX risk of the Banking book is managed by the Group's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IAS 39. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by the Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Group statement of financial position. In general, the Group policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets. By using cross currency interest rate swaps, the Group hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, income of CZK 182 million (2020: income of CZK 129 million) was taken from the cash flow hedge reserve and recognised in the income statement; while loss of CZK 6,600 million (2020: gain CZK 1,064 million) was recognised directly in other comprehensive income.

As at 31 December 2021, the loss on hedging derivatives used for fair value hedging was CZK 326 million (2020: loss CZK 97 million); the gain due to changes in the fair value of hedged items was CZK 281 million (2020: gain CZK 16 million).

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

	2021			2020		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**17,602**	**92**	**(312)**	**6,661**	**160**	**(12)**
Interest rate	17,602	92	(312)	6,661	160	(12)
Cash flow hedge	**111,754**	**515**	**(4,407)**	**107,037**	**2,494**	**(255)**
Interest rate	77,084	33	(3,521)	72,024	2,237	(22)
Foreign exchange	34,670	482	(886)	35,013	257	(233)
Total	**129,356**	**607**	**(4,718)**	**113,698**	**2,654**	**(267)**

At the end of 2021 the Bank/Group had 234 cash flow hedge structures with maturity from 2022 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	**Nominal hedged In CZK million**	**Nominal hedged In EUR million**	**Nominal hedged In USD million**
2022	4,000	182	-
2023	29,252	357	50
2024	12,100	168	-
2025	24,100	148	-
2026	1,300	245	-
2027	3,200	148	-
2028	-	10	-
2029	-	59	-
2030	-	97	-
2031	-	5	-
Total	**73,952**	**1,419**	**50**

At the end of 2020 the Bank/Group had 235 cash flow hedge structures with maturity from 2021 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2021	3,550	308	-
2022	5,000	157	-
2023	19,550	357	50
2024	12,100	168	-
2025	24,100	68	-
2026	1,300	187	-
2027	3,200	73	-
2028	-	10	-
2029	200	24	-
2030	-	40	-
2031	-	5	-
Total	**69,000**	**1,397**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges as of 31 December 2021 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.

Hedging instruments

	Carrying amount		Change in FV for the period used for calculating hedge ineffec-tivness		Timing of the nominal amounts of the instruments			
in CZK million	Assets	Liabilities		Notional	≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
2021								
Fair value hedges								
Interest rate risk	92	312	-	17,602	-	-	3,729	13,873
Cash flow hedges								
Interest rate risk	33	3,521	(5,419)	77,084	4,534	1,500	67,850	3,200
Foreign exchange risk	482	885	(1,853)	34,670	1,051	943	24,341	8,334
Total	**607**	**4,718**	**(7,272)**	**129,356**	**5,586**	**2,443**	**95,920**	**25,407**
2020								
Fair value hedges								
Interest rate risk	160	(12)	-	6,762	-	2,625	3,937	200
Cash flow hedges								
Interest rate risk	2,237	(22)	(2,952)	72,024	500	3,050	63,974	4,500
Foreign exchange risk	257	(233)	(3)	33,742	4,021	2,935	17,817	8,969
Total	**2,654**	**(267)**	**(2,955)**	**112,528**	**4,521**	**8,610**	**85,728**	**13,669**

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
2021				
Financial assets at AC				
Interest rate risk	179	(21)	(31)	-
Financial liabilities at AC				
Interest rate risk	17,475	73	312	4
2020				
Financial assets at AC				
Interest rate risk	105	5	4	-
Financial liabilities at AC				
Interest rate risk	6,750	(188)	-	(6)

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
2021			
Interest rate risk	(5,419)	3,676	295
Foreign exchange risk	(1,853)	2,628	-
Total	**(7,272)**	**6,305**	**295**
2020			
Interest rate risk	(2,952)	(1,720)	(32)
Foreign exchange risk	(3)	656	11
Total	**(2,955)**	**(1,064)**	**(21)**

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	the hedged future cash flows are no longer expected to occur
2021				
Fair value hedges				
Interest rate risk	(45)	-	-	-
Cash flow hedges				
Interest rate risk	(171)	(5,692)	659	-
Foreign exchange risk	(11)	(1,972)	1,775	-
Total	**(227)**	**(7,664)**	**2,434**	**-**
2020				
Fair value hedges				
Interest rate risk	(81)	-	-	-
Cash flow hedges				
Interest rate risk	115	3,187	13	1
Foreign exchange risk	14	488	-	(7)
Total	**48**	**3,675**	**13**	**(6)**

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.

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Group closely monitors, assesses, and applies changes of IBOR reform and follow the EUR Benchmark regulation.

Based on the EU Benchmark Regulation 2016/1011 ('BMR') effective from 1 January 2018, BMR prohibits EU-supervised users from using a benchmark unless its administrator is approved by a national regulator in one of the EU Member States and appears on the benchmarks register maintained by the European Securities and Markets authority ('ESMA'), an EU supranational supervisory authority.

The Group's main currency is CZK where PRIBORs benchmarks are authorized by ČNB (authorization provided in 2018 to the Czech Financial Benchmark Facility ('CFBF')) for further usage in contracts, so there is no impact in CZK currency as PRIBOR continues. This is also valid for WIBOR (authorization by the Polish Financial Supervision Authority to GPW Benchmark as administrator) and EURIBOR, that was authorized by the The Financial Services and Markets Authority ('FSMA') of Belgium, on 2 July 2019.

The Group has majority floating exposure in EUR currency with reference to EURIBORs. So there is no major impact of BMR also in EUR currency. Contracts (over 3,200) on EONIA were already transposed into €STR during 2021 (see table below).

There is no impact on the exposures of CZEONIA, BUBOR and ROBOR as the national banks are responsible for the administration and production of those rates.

The Group had negligible exposure (approx. 0.003% of total assets) with reference to LIBOR authorized till 31 December 2021. All opened contracts (mostly commercial loans, overdrafts, current accounts) as at 31 December 2021 were already switched to Official ON fallback rate or official term rates based on negotiations with the clients or automatically.

Process of alignment to the new official fallback rates was mixture of decision: to stop offering the ending benchmark rates, followed by focus to change the contracts based on prioritization (active contracts first) under bilateral negotiation and communication to clients in case of automatic switch. Currently also no new business is executed with reference to USD LIBOR.

There were no contracts with EUR LIBOR reference as at 31 December 2021. There were 2 accounts in total amount of CHF 313 thousand with CHF LIBOR reference that were switched to SARON. There were 16 accounts with GBP LIBOR reference from which one account was closed and the rest in amount of GBP 329 thousand was switched to SONIA. There was 1 account with JPY LIBOR reference of JPY 30 million which was switched to TONA.

There were no opened derivative contracts and also no hedging contracts with EUR LIBOR reference as at 31 December 2021. There were opened hedging instruments with nominal amount of USD 50 million (equivalent of CZK 1,098 million) with USD LIBOR reference as at 31 December 2021. Their hedging period reaches beyond the cessation date of the respective LIBOR rates (30 June 2023 for USD LIBOR 1M, 3M, 6M and 12M tenors). For details see also Note 26 Hedge accounting.

Table below shows the Group's exposures with LIBOR reference subject to cessation as at 31 December 2021 in comparison with balances as at 31 December 2020:

in CZK million Ending Benchmarks	Exposure to Ending Benchmarks in Dec 2020	Ccy	Authorized by	Official Fall Back rate	Exposure to Official fall back rates Dec 2021
EONIA	266	EUR	No	€STR	2,551
EUR LIBOR	-	EUR	FCA till 12/2021		
GBP LIBOR	22	GBP	FCA till 12/2021	SONIA/TSRR	6
CHF LIBOR	8	CHF	FCA till 12/2021	SARON	8
JPY LIBOR	3	JPY	FCA till 12/2021	TONA/TORF	9

27. Offsetting of financial instruments

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

Financial assets subject to offsetting and potential offsetting agreements

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
2021						
Derivatives (Note 20 and Note 26)	16,114	16,114	9,747	2,127	-	4,240
Reverse repurchase agreements (Note 16)	357,197	357,197	-	-	350,936	6,261
Total	**373,311**	**373,311**	**9,747**	**2,127**	**350,936**	**10,501**
2020						
Derivatives (Note 20 and Note 26)	13,935	13,935	8,650	2,372	-	2,913
Reverse repurchase agreements (Note 16)	407,654	407,654	-	-	405,386	2,268
Total	**421,589**	**421,589**	**8,650**	**2,372**	**405,386**	**5,181**

Financial liabilities subject to offsetting and potential offsetting agreements

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
2021						
Derivatives (Note 20)	20,110	20,110	9,747	605	-	9,758
Repurchase agreements (Note 19)	48,039	48,039	-	-	48,039	-
Total	**68,149**	**68,149**	**9,747**	**605**	**48,039**	**9,758**
2020						
Derivatives (Note 20)	13,162	13,162	8,650	2,464	-	2,048
Repurchase agreements (Note 19)	99,500	99,500	-	-	99,500	-
Total	**112,662**	**112,662**	**8,650**	**2,464**	**99,500**	**2,048**

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.

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'.

	2021		2020	
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	38,183	32,223	38,114	36,088
Total - repurchase agreements	**38,183**	**32,223**	**38,114**	**36,088**
Securities lendings				
Financial assets at AC	41,698	-	19,669	-
Total - securities lendings	**41,698**	**-**	**19,669**	**-**
Total	**79,881**	**32,223**	**57,783**	**36,088**

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

The total amount of CZK 38,183 million (2020: CZK 38,114 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 32,223 million (2020: CZK 36,088 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.

	2021			2020		
in CZK million	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	35,485	32,201	3,285	39,732	36,095	3,637
Total	**35,485**	**32,201**	**3,285**	**39,732**	**36,095**	**3,637**

29. Collateral

Carrying amount of financial assets pledged as collaterals

in CZK million	2021	2020
Financial assets at AC	287,693	70,302
Total	**287,693**	**70,302**

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 386,513 million (2020: CZK 199,034 million). Collateral with fair value of CZK 15,563 million (2020: CZK 63,450 million) was resold. Collateral with fair value of CZK 9,720 million (2020: CZK 171,861 million) was repledged. The Group is obliged to return the resold and repledged collateral.

30. Securities

	2021					2020				
			Financial assets					Financial assets		
in CZK million	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI	At AC	Trading assets	Mandatorilyat FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**325,514**	**53**	**905**	**-**	**31,132**	**254,700**	**101**	**1,025**	**-**	**20,838**
Listed	288,627	21	93	-	21,414	235,406	19	81	-	11,564
Unlisted	36,887	32	812	-	9,718	19,294	82	944	-	9,274
Equity-related securities	**-**	**-**	**862**	**-**	**-**	**-**	**-**	**982**	**-**	**-**
Unlisted	-	-	862	-	-	-	-	982	-	-
Total	**325,514**	**53**	**1,767**	**-**	**31,132**	**254,700**	**101**	**2,007**	**-**	**20,838**

RISK AND CAPITAL MANAGEMENT

31. Risk management

Risk policy and strategy

A core function of a Group is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to a Group's fundamental financial health and operational business success.

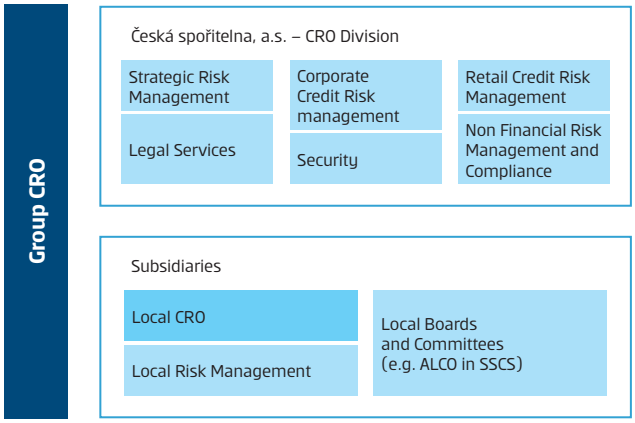
The Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

In 2020, when the COVID-19 pandemic has been the central topic worldwide – and hence also in our core markets, management has continued to steer credit portfolio, including active management of non-performing exposures to further strengthen the risk profile. A forward-looking approach was implemented in the Group and significant provisions were set aside to reflect the expected deterioration in asset quality as a result of worsening in the macroeconomic outlook due to COVID-19.

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 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.

Risk management structure

The management board and in particular the Bank's Chief Risk Officer (Group CRO) perform the oversight function within the Group's risk management structure. Risk control and risk steering within the Group are performed based on the business strategy and risk appetite approved by the management board. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within the Group.

At group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Group CRO:

- Strategic Risk Management;
- Corporate Credit Risk Management;
- Retail Credit Risk Management;
- Legal Services;
- Security;
- Non-Financial Risk Management and Compliance;
- Local Chief Risk Officers.

Strategic Risk Management

Strategic Risk Management (SRM) focuses on holistic risk management and ensures comprehensive cross-risk group-wide risk portfolio steering, monitoring, analysis, and reporting. SRM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. Furthermore, SRM works together with all risk functions and key divisions to strengthen oversight group-wide risk to cover capital, credit, liquidity, market, operational, and business risk. The Strategic Risk Management division consists of the departments Financial Market Risk Management, Enterprisewide Risk Management, Collateral Management and Model and Infrastructure of Credit Risk.

Financial Market Risk Management department is responsible for identification, monitoring, measuring and management of market risk from financial market transactions. It's further responsible for methodology of market-based valuation of financial market products, evaluation of transaction positions, monitoring of market compliance of financial market transactions, calculation and development of market VAR for the Group, administration and documentation of won model for calculation of capital requirement from market risks and monitoring and reporting of the limits.

Enterprisewide Risk Management department ensures reporting for the Group exposure to risk, monitoring of exposure to sectoral limits, measuring of concentration risk, development and validation of the LLP model according the IFRS 9 methodology. It's responsible for RWA calculation and reconciliation, forecasting and stress-testing of risk parameters. It ensures forecasting and planning of credit risk, management of capital requirement within Pillar 2 (ICAAP), methodology and infrastructure of model risk management.

Collateral Management department is responsible for administration of the collateral catalogue, for methodology, rule and procedures in collateral area, methodology of collateral valuation. It ensures valuation and revaluation of collaterals and support of collateral management in subsidiaries.

Model and Infrastructure of Credit Risk is responsible for development of models for credit risk management, cooperation during validation and back-testing of these models, development of concept for implementation of rating tools, monitoring and management of processes for determining the client ratings and defaults. It ensures development of methodology and calculation of IRB and IFRS 9 risk parameters, communication with Erste Group Bank validation unit, analysis of validation results. It administrates scoring tools for retail and corporate lending and is responsible for development of the concept for implementation of rating tools in the lending process.

Corporate and Retail Credit Risk Management units

The Corporate and Retail Group Credit Risk Management units manage operative risk in underwriting and workout activities for retail resp. non-retail portfolios (medium-sized enterprises, large corporate, municipalities and real estate customers, as well as institutional clients and counterparties). In addition, the units are responsible for setting standards and steering the non-retail and retail lending portfolios. They ensure that only credit risk which is in line with the risk appetite, risk strategy, and limits set by ERM are taken on the books of the Group.

Legal Services

Legal Services acts as the central legal department of the Group. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Non-financial Risk management and Compliance

Non-financial Risk Management and Compliance department if responsible for management of operational, compliance and reputation risk of the Group, coordination for processes of incident management and crisis management and management of non-financial risks, including regular analyses, monitoring methodologies and proposals for measure to mitigate the operational, compliance and reputation risk of the Group.

Head of the unit is also the Group's crisis manager. The unit provides a function of data protection in the Bank and subsidiaries.

Data Protection Officer checks and monitors compliance of personal data processing in the Group with GDPR.

AML and International Sanction is responsible for implementation and fulfilment of the Group obligations which arise from legislation in the areas of preventing legitimisation of proceeds from crime and financing of terrorism and application of international sanctions, defining the rules for acceptability of clients and risk countries from the AML perspective that can be utilised also by other Group units.

Compliance is responsible for defining and monitoring adherence to the compliance policy in the Group, methodology management, definition of processes and work procedures for executing the compliance function in the Group; further for checking of regulations issued by the Group as regards mutual concord of internal regulations and compliance of activities with legal and internal regulations and with recognised standards.

Operational Risk Management ensures methodology for monitoring of measurement and management of operational risks (OR); is responsible for providing for recording the OR events, with subsequent reconciliation and data checks and for development and maintenance of tools for preventing occurrence of operational risk events. The unit is also responsible for Outsourcing and PAP (Product Approval Process) framework (including assessment of all retail product changes).

Prevention and Detection ensures and is responsible for overall fraud prevention concept, internal and credit fraud detection, verification of loan applications, verification of entities cooperating with the Group in the lending area, including assignees (natural persons

and also legal entities), further for approval and monitoring of the Group external sales persons and for personal security and process of screening prospective employees of the Group.

Investigations ensures and is responsible for investigation and analyses of fraudulent and corruption conduct as well as financial crimes, including risk of fraudulent conduct committed by external sales persons, further for investigation of manipulation and cash differences in case of suspected frauds, investigation of frauds committed with the Bank payment cards, investigation of clients complaints on unauthorised viewing and on breach of banking secrecy or personal data protection.

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.

Risk and capital management

Overview

Enterprisewide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the Group's management in managing the risk portfolios as well as the coverage potential to ensure that the Group and the Bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the Group's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within the Group as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk Appetite Statement (RAS), limits and risk strategy;
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC);
- planning of key risk indicators;
- recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the Group's and Bank's management in pursuing its strategy.

Risk appetite

The Group defines the maximum level of risk it is willing to accept in order to meet its business objectives within the Group's risk appetite (Group RAS). 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 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 Group RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Group remains within its RAS.

Group RAS was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The group further developed an aggregated and consolidated risk appetite dashboard (Risk report) illustrating the Group's and Bank's risk profile developments by comparing the risk exposure and risk limits. The Risk report is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Portfolio and risk analytics

The Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across the Group and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing material risks for the Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as input for the design and definition of the group's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

The Group has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of the Group, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at the Group is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/ calibration of limit system.

Stress testing

Modelling sensitivities of the group's assets, liabilities and profit or loss provide management steering information and help to optimise the Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

The Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned. The Group has developed specific tools to translate macroeconomic variables (e.g. GDP) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2021 indicated no breach of stressed RAS triggers after the application of scenario contingent measures in the last year of adverse scenario.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the level of capital adequacy required by the ICAAP. In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view assuming continuation of the Group (as expected by ECB Guide to ICAAP) and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the management board. The aggregated capital requirements are then compared to internally available capital, as reflected by the coverage potential.

The management board, risk management committees and supervisory board are briefed quarterly on the results of the ICAAP capital adequacy through the ICAAP report. The report includes risks movements, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation, the overall status of capital adequacy and risk profile development in relation to risk appetite.

Besides the Pillar 1 risk types (credit, market and operational risks), interest rate risk in the Banking book, liquidity risk, as well as business risk are explicitly considered within the economic capital calculated over a horizon of one year and at a confidence level of 99.92%. At the end of 2021, the economic capital adequacy was at 53.5% (2020: 40.8%). The methodologies applied to the different risk types are diverse and range from value at risk approaches to the regulatory approach. Moreover, calculations for most of the portfolios under the standardised approach for credit risk are extended by risk parameters from the internal ratings-based approach in order to provide a more risk sensitive economic view.

The largest portion of economic capital requirements is coming from credit risk, which accounts for 54.6% of total economic capital requirements at the end of 2021 (2020: 65.1%). Reflecting conservative risk management policy and strategy, the group does not offset diversification effects between the risk types.

The internal capital or coverage potential required to cover Pillar 2 risks and unexpected losses is based on CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) fully loaded regulatory own funds adjusted by Pillar 2 add-ons (e.g. year-to-date profit (if not already considered in Pillar 1 capital), exclusion of Tier 2 capital instruments, IRB expected loss excess/shortfall add-on, etc.). The coverage potential must be sufficient to absorb unexpected losses resulting from the group's operations at any point in time, as reflected in the Group's Risk Appetite through the limits set for utilisation of coverage potential.

Risk planning

Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.

Methods and instruments applied

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the group´s overall process and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

The Group's aggregate capital requirements by risk type

The following table presents the composition of the economic capital requirements according to type of risk:

Economic capital allocation in %	2021	2020
Credit risk	54.59%	65.10%
Market risk	34.57%	21.50%
Operational risk	5.70%	7.70%
Other risks	5.13%	5.70%

Other risks include business risk, liquidity risk and for 2020 also reputational risk.

Recovery and resolution plans

In compliance with the Czech Banking Recovery and Resolution Act (No. 374/2015 "Zákon o ozdravných postupech a řešení krize na finančním trhu"), the Group submits an updated Group Recovery Plan to the ČNB at least annually.

The Group Recovery Plan identifies options for restoring financial strength and viability in case the Group comes under severe stress (measured by a comprehensive set of indicators). The plan specifies potential options for the replenishment of capital and liquidity of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress. Governance/escalation procedures described in the plan ensure a timely identification of, and proper reaction to such situations. The plan also serves to demonstrate that in stress, the bank has sufficient recovery capacity, i.e. is able to restore capital adequacy and liquidity on its own. Furthermore, the assessment of the Group Recovery Plan is part of the Supervisory Review and Evaluation Process (SREP).

The Group also collaborates with the resolution authorities in the drawing up of resolution plans based on the relevant legislation. Erste Group Bank is subject to the Multiple Point of Entry (MPE) resolution strategy, meaning that the Group would be resolved separately from Erste Group Bank.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL has to be met at any time once it is a binding requirement. MREL is expressed as the ratio of own funds and eligible liabilities to the total risk exposure, or the total liabilities and own funds (TLOF) of the institution. As of December 2020, the Bank has received its binding target of 18.8 % RWA (excluding combined buffer requirement), applicable from 1 January 2024. The issuance strategy to fulfil this requirement was incorporated into the Group's long-term budgeting process.

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law (Act 374/2015 Coll. On Recovery Procedures and Resolution of the Financial Market Crisis "ZOPRK") has been done in August 2021 in amendment no. 298/2021 Coll. Beside the introduction of concept of internal MREL, further criteria for bail-in eligible liabilities and MREL eligible liabilities are set.

32. Own Funds and capital requirements

Statement of capital for the Bank's capital adequacy calculation on a stand-alone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2021 and 2020:

in CZK million	2021	2020
Tier 1 capital	121,736	127,854
Tier 1 + Tier 2 capital	124,382	130,446
Exposure to credit risk	483,089	471,047
Exposure to market risk	11,169	4,943
Exposure to operational risk	47,053	51,482
Total risk exposure	**541,311**	**527,472**
Capital adequacy ratio for the year (Tier 1 ratio)	**22.5%**	**24.2%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**23.0%**	**24.7%**

*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.

The Group meets all capital adequacy requirements as requested by regulators as of 31 December 2021 and 2020.

33. Credit risk

Credit risk arises in the Group's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses apply to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward-looking information is also recognised in the calculation of credit risk.

Operative credit decisions are made by the credit risk management units. An explanation of the role and responsibilities of Corporate and Retail Credit Risk Management is covered in the section 'Corporate and Retail Credit Risk Management units'.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management, and determination of risk-weighted assets and regulatory capital requirements is regularly loaded into this database. Relevant subsidiaries not yet integrated into the data pool regularly deliver reporting packages.

The Enterprisewide risk management department uses the BI-DWH in particular for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the Group as a whole. Credit risk reporting comprises regular reports on the Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

The Group has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Group assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed more frequently.

The main purpose of the internal ratings is to support the 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. 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).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this

way, the Group ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality the Group assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the Group, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short-term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. The Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

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 Group are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances – demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);
- debt instruments at amortised cost (AC), other than trade and other receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- finance lease receivables;

- debt instruments held for sale in disposal groups;
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2020 and 31 December 2021, the credit risk exposure increased from CZK 1,645 billion to CZK 1,783 billion. This is an increase of 8.4% or CZK 138 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
2021				
Cash and cash balances – demand deposits to credit institutions	1,579	-	-	1,579
Debt instruments held for trading	15,561	-	-	15,561
Non-trading debt instruments at FVPL	1,649	-	-	1,649
Debt securities	905	-	-	905
Loans and advances to banks	744	-	-	744
Debt instruments at FVOCI	31,268	(149)	(136)	31,132
Debt securities	31,268	(149)	(136)	31,132
Debt instruments at AC	1,531,405	(19,057)	-	1,512,348
Debt securities	325,533	(19)	-	325,514
Loans and advances to banks	364,997	(3)	-	364,994
Loans and advances to customers	840,876	(19,036)	-	821,840
Trade and other receivables	14,944	(918)	-	14,025
Finance lease receivables	1,150	(67)	-	1,083
Positive fair value of hedge accounting derivatives	607	-	-	607
Off balance-sheet exposures	185,094	(1,564)	-	-
Total	**1,783,257**	**(21,756)**	**(136)**	**1,577,983**
2020				
Cash and cash balances – demand deposits to credit institutions	1,779	(1)	-	1,778
Debt instruments held for trading	11,382	-	-	11,382
Non-trading debt instruments at FVPL	1,508	-	-	1,508
Debt securities	1,025	-	-	1,025
Loans and advances to banks	443	-	-	443
Loans and advances to customers	40	-	-	40
Debt instruments at FVOCI	20,482	(126)	356	20,838
Debt securities	20,482	(126)	356	20,838
Debt instruments at AC	1,448,218	(19,265)	-	1,428,953
Debt securities	254,719	(19)	-	254,700
Loans and advances to banks	424,845	(7)	-	424,838
Loans and advances to customers	768,654	(19,239)	-	749,415
Trade and other receivables	6,795	(337)	-	6,458
Finance lease receivables	1,529	(118)	-	1,411
Positive fair value of hedge accounting derivatives	2,654	-	-	2,654
Off balance-sheet exposures	150,373	(1,254)	-	-
Total	**1,644,720**	**(21,101)**	**356**	**1,474,982**

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 next pages the credit risk volume is categorized in the following way:

- counterparty sector and financial instrument;
- off-balance sheet exposure by product;
- industry and IFRS 9 treatment;
- risk category;
- industry and risk category;
- business segment and risk category;
- business segment and IFRS 9 treatment;
- non-performing credit risk exposure by business segment and credit loss allowances;
- forbearance exposure and credit loss allowances;
- types of forbearance exposure;
- business segment and collateral;
- financial instrument and collateral;

Credit risk exposure by counterparty sector and financial instrument

in CZK million	Cash and cash balances – demand deposits to credit institutions	Financial assets held for trading	Non-trading financial assets at FVPL	Financial assets at FVOCI	At amortised cost			Trade and other receivables	Finance lease receivables	Positive fair value of derivatives	Off balance-sheet exposures	Gross exposure
					Debt securities	Loans and advances to banks	Loans and advances to customers					
2021												
Central banks	-	-	-	-	-	360,255	-	-	-	-	-	360,255
General governments	-	1,039	-	17,486	313,771	-	23,661	658	6	-	15,056	371,677
Credit institutions	1,579	12,863	744	1,614	11,755	4,741	-	81	-	597	3,441	37,415
Other financial corporations	-	395	905	3,136	-	-	17,788	105	2	10	4,405	26,745
Non-financial corporations	-	1,262	-	9,032	7	-	281,752	13,864	1,039	-	85,038	391,994
Households	-	2	-	-	-	-	517,675	237	104	-	77,154	595,171
Total	**1,579**	**15,561**	**1,649**	**31,268**	**325,533**	**364,997**	**840,876**	**14,944**	**1,150**	**607**	**185,094**	**1,783,257**
2020												
Central banks	-	-	-	-	-	413,449	-	-	-	-	-	413,449
General governments	-	1,804	-	6,864	243,969	-	22,366	53	2	-	15,843	290,901
Credit institutions	1,779	7,110	443	2,834	10,743	11,396	-	31	-	2,653	1,674	38,663
Other financial corporations	-	386	1,025	1,905	-	-	16,717	293	4	-	4,199	24,529
Non-financial corporations	-	2,080	40	8,879	7	-	269,623	6,214	1,348	1	78,982	367,174
Households	-	2	-	-	-	-	459,948	204	175	-	49,675	510,004
Total	**1,779**	**11,382**	**1,508**	**20,482**	**254,719**	**424,845**	**768,654**	**6,795**	**1,529**	**2,654**	**150,373**	**1,644,720**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	2021	2020
Financial guarantees	8,230	25,129
Loan commitments	151,491	124,573
Other commitments	25,373	671
Total	**185,094**	**150,373**

Credit risk exposure by industry and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Agriculture and forestry	21,228	3,723	817	24	25,791	158	25,949
Mining	636	101	6	-	742	1	744
Manufacturing	60,234	17,138	2,949	408	80,730	5,484	86,214
Energy and water supply	16,909	5,177	96	72	22,254	313	22,567
Construction	15,505	1,631	539	75	17,751	13,192	30,944
Development of building projects	6,926	788	271	71	8,055	7,995	16,050
Trade	53,016	8,903	2,433	227	64,579	2,296	66,875
Transport and communication	22,250	10,183	336	160	32,929	924	33,853
Hotels and restaurants	1,577	6,042	557	21	8,197	71	8,268
Financial and insurance services	401,502	4,049	65	-	405,616	18,494	424,110
Holding companies	8,626	1,977	-	-	10,604	533	11,137
Real estate and housing	105,776	17,529	898	42	124,246	210	124,456
Services	19,038	7,572	1,384	175	28,168	667	28,835
Public administration	351,154	17,593	-	-	368,747	1,039	369,786
Education, health and art	5,734	1,732	152	2	7,620	338	7,957
Households	506,677	38,093	7,093	88	551,951	-	551,951
Other	747	-	-	-	747	-	747
Total	**1,581,983**	**139,466**	**17,325**	**1,294**	**1,740,068**	**43,189**	**1,783,257**
2020							
Agriculture and forestry	17,578	3,861	423	26	21,888	51	21,939
Mining	830	6	6	-	842	1	843
Manufacturing	54,688	24,942	2,972	639	83,241	659	83,900
Energy and water supply	23,425	5,062	325	117	28,929	250	29,179
Construction	26,142	2,854	604	180	29,780	33	29,813
Development of building projects	10,283	1,635	166	111	12,195	5	12,200
Trade	47,250	12,234	2,182	164	61,830	821	62,651
Transport and communication	19,286	9,620	298	22	29,226	225	29,451
Hotels and restaurants	1,733	7,271	578	2	9,584	61	9,645
Financial and insurance services	462,684	2,369	11	-	465,064	11,520	476,584
Holding companies	7,509	1,696	-	-	9,205	320	9,525
Real estate and housing	92,077	16,849	547	8	109,481	687	110,168
Services	18,605	4,785	1,379	15	24,784	48	24,832
Public administration	286,382	1,003	7	-	287,392	1,805	289,197
Education, health and art	5,114	2,125	433	2	7,674	54	7,728
Households	428,850	32,809	7,070	61	468,790	-	468,790
Total	**1,484,644**	**125,790**	**16,835**	**1,236**	**1,628,505**	**16,215**	**1,644,720**

From industry and financial instrument point of view, the highest exposure is represented by household in loans and advances to customers – exposure of CZK 552 billion (2020: CZK 469 billion), representing 31.0% (2020: 28.5%) from total, followed by financing and insurance services – exposure of CZK 424 billion (2020: CZK 477 billion), representing 23.8% (2020: 29.0%) from total.

Stage 1 and Stage 2 comprise not impaired credit risks exposure while Stage 3 includes impaired credit risks exposure. POCI (purchased or originated credit impaired) consists of credit risks exposure already impaired when purchased or originated.

Column "Not subject to impairment" represents exposures measured at fair values.

The defaulted part of POCI amounted to CZK 1,188 million (2020: CZK 1,067 million), the non-defaulted part to CZK 106 million (2020: CZK 170 million).

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
2021					
Agriculture and forestry	14,481	8,816	1,814	838	25,949
Mining	630	14	94	6	745
Manufacturing	57,074	20,470	5,156	3,514	86,214
Energy and water supply	16,245	5,564	588	170	22,567
Construction	20,931	7,845	1,320	848	30,944
Development of building projects	10,728	4,401	433	489	16,049
Trade	46,399	14,056	3,773	2,648	66,875
Transport and communication	24,456	7,885	1,017	495	33,852
Hotels and restaurants	4,866	1,780	1,044	578	8,268
Financial and insurance services	418,738	4,489	818	65	424,110
Holding companies	8,757	2,111	269	-	11,137
Real estate and housing	94,319	23,975	5,220	942	124,456
Services	18,419	7,121	1,688	1,607	28,835
Public administration	367,610	1,323	853	-	369,786
Education, health and art	6,575	867	263	252	7,957
Households	521,450	16,461	6,926	7,114	551,951
Other	-	747	-	-	747
Total	**1,612,192**	**121,412**	**30,575**	**19,078**	**1,783,257**
2020					
Agriculture and forestry	10,934	9,075	1,480	450	21,939
Mining	783	49	5	6	843
Manufacturing	39,102	36,268	4,925	3,605	83,900
Energy and water supply	19,706	4,974	4,053	446	29,179
Construction	18,115	8,464	2,545	689	29,813
Development of building projects	7,563	3,089	1,364	184	12,200
Trade	32,242	24,078	3,959	2,372	62,651
Transport and communication	17,054	10,372	1,705	320	29,451
Hotels and restaurants	3,867	4,210	987	581	9,645
Financial and insurance services	469,407	6,683	483	11	476,584
Holding companies	5,553	3,963	9	-	9,525
Real estate and housing	75,343	27,214	7,056	555	110,168
Services	13,720	8,196	1,524	1,392	24,832
Public administration	287,938	1,235	17	7	289,197
Education, health and art	5,874	860	559	435	7,728
Households	437,455	16,659	7,586	7,090	468,790
Total	**1,431,540**	**158,337**	**36,884**	**17,959**	**1,644,720**

The low risk exposure has the highest proportion in total credit risk exposure, with 90.41% (2020: 87.04%), while management attention represents 6.81% (2020: 9.63%), The substandard exposure represents 1.71% (2020: 2.24%) and the non-performing 1.07% (2020: 1.09%).

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
2021					
Retail	589,729	29,874	16,740	9,504	645,846
Corporates	300,605	90,257	13,126	9,499	413,487
Group Markets	20,997	404	75	61	21,537
ALM & LCC	700,861	877	634	14	702,387
Total	**1,612,192**	**121,412**	**30,575**	**19,078**	**1,783,257**
2020					
Retail	500,005	30,803	19,468	9,042	559,318
Corporates	239,120	125,836	16,850	8,880	390,686
Group Markets	13,883	264	451	-	14,598
ALM & LCC	678,532	1,434	115	37	680,118
Total	**1,431,540**	**158,337**	**36,884**	**17,959**	**1,644,720**

Credit risk exposure by business segment and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2021							
Retail	577,459	58,688	9,419	163	645,729	117	645,846
Corporates	299,568	80,487	7,831	1,131	389,017	24,470	413,487
Group Markets	6,753	279	61	-	7,093	14,444	21,537
ALM & LCC	698,203	12	14	-	698,229	4,158	702,387
Total	**1,581,983**	**139,466**	**17,325**	**1,294**	**1,740,068**	**43,189**	**1,783,257**
2020							
Retail	498,809	51,346	8,971	122	559,248	70	559,318
Corporates	303,911	73,442	7,826	1,114	386,293	4,393	390,686
Group Markets	6,466	162	1	-	6,629	7,969	14,598
ALM & LCC	675,458	840	37	-	676,335	3,783	680,118
Total	**1,484,644**	**125,790**	**16,835**	**1,236**	**1,628,505**	**16,215**	**1,644,720**

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk allowances include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 115.5% (2020: 117.6%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2021. 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 2021, the non-performing credit risk exposure increased by CZK 1,119 million (2020: increase by 3,833 million), or 6.2% (2020: 27.1%). The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 328 million (2020: increased by CZK 7,496 million), or 1.6% (2020: 55.3%).

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2021 and 31 December 2020. The differences in the credit allowance levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and coverage by credit loss allowances and collateral

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)	NPE collateralization ratio	
in CZK million	**Total**	**AC and FVOCI**	**Total**	**AC and FVOCI**	**AC and FVOCI**	**Total**	**AC and FVOCI**	**Total**	**AC and FVOCI**	**AC and FVOCI**	**Total**	**AC and FVOCI**
2021												
Retail	9,504	9,503	645,846	645,729	(12,294)	2,385	2,385	1.5%	1.5%	129.4%	25.1%	25.1%
Corporates	9,499	8,935	413,487	389,017	(8,786)	3,024	3,024	2.3%	2.3%	98.3%	31.8%	33.8%
Group Markets	61	61	21,537	7,093	(262)	55	55	0.3%	0.9%	431.4%	90.1%	90.1%
ALM & LCC	14	14	702,387	698,229	(47)	-	-	0.0%	0.0%	336.1%	0.0%	0.0%
Total	**19,078**	**18,513**	**1,783,257**	**1,740,068**	**(21,389)**	**5,464**	**5,464**	**1.1%**	**1.1%**	**115.5%**	**28.6%**	**29.5%**
2020												
Retail	9,042	9,042	559,318	559,249	(11,457)	2,396	2,396	1.6%	1.6%	126.7%	26.5%	26.5%
Corporates	8,880	8,822	390,686	386,293	(9,315)	2,360	2,360	2.3%	2.3%	105.6%	26.6%	26.8%
Group Markets	-	-	14,598	6,628	(6)	-	-	0.0%	0.0%	3257.8%	0.0%	0.0%
ALM & LCC	37	37	680,118	676,335	(283)	-	-	0.0%	0.0%	759.2%	0.0%	0.0%
Total	**17,959**	**17,901**	**1,644,720**	**1,628,505**	**(21,061)**	**4,756**	**4,756**	**1.1%**	**1.1%**	**117.6%**	**26.5%**	**26.6%**

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In Stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Group has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Group generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In Stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition) and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria. Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The Group has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation. The relative thresholds can vary from 110% to 359% according to PD segment and rating level.

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

Qualitative criteria. Qualitative SICR indicators include forbearance-type flags (i.e. threshold is set up to level of performing regulatory forbearance), information from the early-warning system (if it is not sufficiently considered in the rating), fraud indicators and 30 days past due. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. We have introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see COVID-19 disclosures in the next chapter.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop. A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption. The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is applied only to debt security exposures (reverse repo excluded). The Group considered that low credit risk is still appropriate since potential increase of riskiness is already incorporated in 1Y PD due to FLI.

As of 31 December 2021, in the Group, the corresponding exposure amounted to CZK 352.2 billion (2020: CZK 271.2 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repo excluded) of CZK 9.8 billion (2020: CZK 11.5 billion) with 1Y PD higher than 0.5% does not qualify for low credit risk exemption.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in the Group's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band. There are credit listed groups for calculation of collective allowance: MSE by product type, Private Individual by product type, in case of PI Mortgages the group is splited according to LTV (<20%, 20-60%, 60-80%, >80%, LTV is missing). Recovery curves depends also on repayments type (cooperative versus noncooperative client).

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Group applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts Group expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Group's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate,

inflation rate, production index as well as market interest rates. The main indication of estimated economic development is the GDP development. Sensitivity disclosure of the staging and ECL on macro scenarios is provided in the COVID-19 section below.

As the future outlook was still not stable, the baseline scenario was assigned with 40% probability of occurrence. Following factors, materializing at the end of 2021 were considered:

- new variant (omicron),
- increasing inflation through-the region with potential effect on the increasing interest rates and
- unstable development of the geo-political situation in Ukraine/Russia – that can as well effect energy prices.

The specific situation of the COVID-19 pandemic and extensive supporting measures additionally lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, GDP growth of 2020 and 2021 were taken as a prediction for year 2022 and 2023. And the expected GDP growth for 2022 was taken as a prediction for year 2024 for the purposes of the ECL calculation. Variables of crisis year 2020 have the same values across all three scenarios. They were updated during 2021 according to the latest statistical offices' updates and publications.

The GDP development is predicted by internal macroeconomists of the Group. The impact of FLI effect on exposures and on credit loss allowances by Stages is summarised in tables in the chapter Effect on Expected Credit Loss.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth forecasts.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
2021	**Scenario**	**2021**	**2022–23**	**2020**	**2021**	**2022**	**2023**
	Upside	11%	11%		4.1	5.7	6.4
Czech Republic	Baseline	40%	40%	(5.8)	2.4	4.0	4.7
	Downside	49%	49%		(2.3)	0.5	1.8
2020		**2021**	**2022–23**	**2020**	**2021**	**2022**	**2023**
	Upside	4%	4%		5.5	7.3	6.4
Czech Republic	Baseline	40%	40%	(7.7)	3.9	5.7	4.8
	Downside	56%	56%		(1.7)	1.2	1.7

The table above shows used scenarios in YE 2021 and for previous year (YE 2020). Scenario approach for 2021 was kept due to late realization of the baseline forecast risk and possibility of re-visions of the final values within next 12 month. Such development was witnessed with 2020 values during year 2021.

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the COVID-19 pandemics we have introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

The Group recognizes additional challenges caused by the ESG (environmental, social and governance) risks. The Group is in the process of analyses how to incorporate these risks into ECL measurement. We have not included additional overlays for ESG risks for year-end 2021. However, due to our considerate approach to the current situation we believe that ECL represents the best estimate of the expected credit losses as of 31 December 2021.

COVID-19

The COVID-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programmes were introduced to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support the Group´s clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of the Group towards all stakeholders in mind.

Measures like short-term deferrals were applied and financial support schemes with state guarantees were offered. In addition to

programmes with standard parameters that were defined at a very early stage of the crisis and should support an efficient processing, also individual solutions were agreed with clients that did not meet all predefined requirements. In the meantime, significant majority of the (governmental) support measures expired without resulting in a severe negative effect on the portfolio quality.

As at 31 December, the Bank provided CZK 12,017 million (2020: CZK 4,636 million) loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis and received CZK 10,054 million public guarantees in the context of the COVID-19 crisis (2020: CZK 4,489 million).

Effect on business

In March 2020, Risk and Business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within the Group, reflecting the changed economic environment. Industries and sub-industries were categorised into critical, high, medium and low expected impacts due to COVID-19 based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

Main driver for assigning an industry classification was the assessment of impacts of the crisis on the specific (sub)industry. The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. Recently, the economic development and the ability of many industries to adapt to new conditions resulted in some upgrades into lower risk categories. However, the Group keeps cautious view on the several, mostly affected industries (mainly hotels and leisure, air transportation). In light of this, the respective business and risk strategies for the (sub)industries were also adapted accordingly.

In the course of the year 2021, challenges on top of COVID-19-impacts had to be addressed by corporate clients: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry heatmap and the industry strategies.

Exposures in particular industries that belong to critical and high sub-industries are referred to as "significant risk" in the following tables.

Credit risk exposure and credit loss allowances by industry and IFRS 9 treatment – industry heatmap

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2021								
Agriculture and forestry	21,228	3,723	817	24	25,791	158	25,949	(893)
Mining	636	101	6	-	742	1	744	(13)
Manufacturing	60,234	17,138	2,949	408	80,730	5,484	86,214	(3,272)
of which significant risk	3,079	3,381	1,132	188	7,780	94	7,874	(1,193)
Energy and water supply	16,909	5,177	96	72	22,254	313	22,567	(325)
Construction	15,505	1,631	539	75	17,751	13,192	30,944	(803)
Trade	53,016	8,903	2,433	227	64,579	2,296	66,875	(2,665)
of which significant risk	5,953	3,527	500	94	10,074	500	10,574	(616)
Transport and communication	22,250	10,183	336	160	32,929	924	33,853	(545)
of which significant risk	5,587	4,929	21	159	10,696	325	11,020	(171)
Hotels and restaurants	1,577	6,042	557	21	8,197	71	8,268	(546)
of which significant risk	383	5,567	536	-	6,486	71	6,557	(545)
Financial and insurance services	401,502	4,049	65	-	405,616	18,494	424,110	(388)
Real estate and housing	105,776	17,529	898	42	124,246	210	124,456	(1,733)
of which significant risk	9,744	475		20	10,240	45	10,285	(33)
Services	19,038	7,572	1,384	175	28,168	667	28,835	(1,444)
of which significant risk	7,035	2,846	557	68	10,506	37	10,542	(583)
Public administration	351,154	17,593	-	-	368,747	1,039	369,786	(234)
Education, health and art	5,734	1,732	152	2	7,620	338	7,957	(237)
of which significant risk	3,100	1,310	67	2	4,479	338	4,817	(118)
Private households	506,677	38,093	7,093	88	551,951	-	551,951	(8,654)
Other	747	-	-	-	747	-	747	(5)
Total	**1,581,983**	**139,466**	**17,325**	**1,294**	**1,740,068**	**43,189**	**1,783,257**	**(21,756)**
of which significant risk	**34,881**	**22,037**	**2,812**	**531**	**60,260**	**1,410**	**61,671**	**(3,259)**
2020								
Agriculture and forestry	17,578	3,861	423	26	21,888	51	21,939	(640)
Mining	830	6	6	-	842	1	843	(8)
of which significant risk	434	5	6	-	445	-	445	(6)
Manufacturing	54,688	24,942	2,972	639	83,241	659	83,900	(3,277)
of which significant risk	15,666	16,562	1,936	408	34,572	560	35,132	(2,075)
Energy and water supply	23,425	5,062	325	117	28,929	250	29,179	(625)
Construction	26,142	2,854	604	180	29,780	33	29,813	(1,014)
Trade	47,250	12,234	2,182	164	61,830	821	62,651	(2,572)
of which significant risk	9,044	6,069	1,102	64	16,279	567	16,846	(1,275)
Transport and communication	19,286	9,620	298	22	29,226	225	29,451	(597)
of which significant risk	5,058	6,202	141	1	11,402	113	11,515	(278)
Hotels and restaurants	1,733	7,271	578	2	9,584	61	9,645	(568)
of which significant risk	729	7,248	547	-	8,524	61	8,585	(509)
Financial and insurance services	462,684	2,369	11	-	465,064	11,520	476,584	(229)
Real estate and housing	92,077	16,849	547	8	109,481	687	110,168	(1,678)
Services	18,605	4,785	1,379	15	24,784	48	24,832	(1,466)
of which significant risk	8,085	715	787	12	9,599	101	9,700	(796)
Public administration	286,382	1,003	7	-	287,392	1,805	289,197	(47)
Education, health and art	5,114	2,125	433	2	7,674	54	7,728	(372)
of which significant risk	3,052	1,775	316	-	5,143	49	5,192	(250)
Private households	428,850	32,809	7,070	61	468,790	-	468,790	(7,967)
Total	**1,484,644**	**125,790**	**16,835**	**1,236**	**1,628,505**	**16,215**	**1,644,720**	**(21,060)**
of which significant risk	**42,068**	**38,576**	**4,835**	**485**	**85,964**	**1,451**	**87,415**	**(5,189)**

The most visible change in significant risk is decrease in manufacturing industry (by 76%) followed by increase in real estate and housing category. The movements are driven by update in industry heatmap deployed in 2021. Subsectors machinery, energy (oil & gas) and metals have been shifted from subcategories with significant risk into subcategories with moderate risk. On the other hand real estate and housing category has been moved to significant risk.

Effect on Expected Credit Loss

We have re-assessed credit risk parameters based on the new macro-scenarios FLI overlay in December 2021. Specifics of the COVID pandemics (support measures) led to lagging of macroeconomic variables. Late materialization of the baseline forecast risks in the end of 2021 (mainly new variant Omicron) led to keeping probability of occurrence of baseline scenario on 40%. GDP scenarios and weights are shown in the table displayed within Incorporation of forward-looking information section above. The effect of the FLI in the ECL calculation as of 31 December 2021 amounted to CZK 2.7 bn, similarly as at the end of 2020 (CZK 2.6 bn).

The Group has additionally addressed expected SICR by introducing Covid-19 portfolio overlays. We divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by considering any COVID-19 related relief measure granted (even if expired) as well as the internal industry heat-map and corresponding customer-specific one-year IFRS PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. lifetime ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews. The effect of COVID-19 portfolio overlays in the ECL calculation as of 31 December 2021 amounted to CZK 0.4 bn (2020: 0.8 bn). Majority of the overlays for PIs were released at the end of 2021. They were mainly driven by moratoria that expired at the beginning of 2021. We concluded that sufficient time has passed to capture potential negative developments via regular behavioural scoring. Decrease of the overlay can be additionally attributed to the moderate upgrades of the heat-map.

The Group expects a moderate increase in defaults and portfolio deterioration in 2022.

The analysis tables below present effects of the portfolio overlays and FLI macro overlays both on exposure migration to stage 2 and resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated.

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 particular 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.

Analysis shows that out of CZK 139,466 million exposure in Stage 2, CZK 17,806 million were migrated to Stage 2 due to COVID-19 overlays, resulting in an increase of ECL of CZK 446 million (in 2020 out of CZK 125,794 million exposure in Stage 2, CZK 41,688 million were migrated to Stage 2 due to COVID-19 overlays, resulting in an increase of ECL of CZK 787 million).

Further CZK 21,684 million were migrated to Stage 2 due to FLI overlay, resulting in ECL increase of CZK 2,684 million (in 2020 CZK 14,130 million were migrated to Stage 2 due to FLI overlay, resulting in ECL increase of CZK 2,570 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.

Forward looking information (FLI) and stage overlays due to the COVID-19 pandemic

Impact of FLI and stage overlays on credit risk exposure (CRE)

	Current status – arameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of FLI shifts	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021						
CRE	1,581,983	139,466	(17,806)	17,806	(21,684)	21,684
2020						
CRE	1,484,644	125,794	(41,689)	41,689	(14,130)	14,130

Impact of FLI and stage overlays on credit loss allowances (CLA)

	Current status – arameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of FLI shifts	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021						
CLA	(2,441)	(6,555)	219	(665)	(594)	(2,100)
2020						
CLA	(2,172)	(6,101)	546	(1,333)	(1,082)	(1,489)

Scenario analysis – Different probabilities of default (PD)

The tables show the impact of FLI: If FLI has not been applied, total exposure in Stage 2 would decrease by CZK 21.7 billion to the benefit of Stage 1. The second table shows the impact on credit loss allowance. Total CLA would improve by CZK 2.7 billion (CLA in Stage 1 would be improved by CZK 0.6 billion and Stage 2 by CZK 2.1 billion). Upside, baseline and downside scenario show potential impact if probability of weights for given scenario was 100%.

Impact of different scenarios on credit risk exposure (CRE)

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021								
Probability of default	21,684	(21,684)	10,332	(10,332)	8,029	(8,029)	(8,788)	8,788
2020								
Probability of default	14,130	(14,130)	8,069	(8,069)	4,342	(4,342)	(4,340)	4,340

Impact of different scenarios on credit loss allowances (CLA)

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021								
Probability of default	594	2,100	(97)	651	(64)	461	75	(555)
2020								
Probability of default	1,082	1,489	41	672	28	460	(4)	(431)

Composition of credit loss allowances

in CZK million	**2021**	**2020**
Credit loss allowances	(20,192)	(19,848)
Loss allowances for loan commitments and financial guarantees	(1,197)	(1,213)
Provisions for other commitments	(367)	(40)
Total	**(21,756)**	**(21,101)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for any other commitments are subject to IAS 37.

Risk Costs

Impairment result from financial instruments by industry

in CZK million	On-balance	Off-balance	Total
2021			
Agriculture and forestry	220	16	236
Mining	4	-	4
Manufacturing	143	78	221
Energy and water supply	(117)	(12)	(129)
Construction	(86)	(192)	(278)
Development of building projects	(58)	(265)	(323)
Trade	328	16	344
Transport and communication	(11)	4	(7)
Hotels and restaurants	5	2	7
Financial and insurance services	(58)	142	84
Holding companies	(26)	(4)	(30)
Real estate and housing	(41)	16	(25)
Services	215	53	268
Public administration	85	105	190
Education, health and art	(77)	6	(71)
Households	854	77	931
Other	4	1	5
Total	**1,468**	**312**	**1,780**
2020			
Agriculture and forestry	183	9	192
Mining	(6)	-	(6)
Manufacturing	829	152	981
Energy and water supply	215	16	231
Construction	177	(18)	159
Development of building projects	(5)	14	9
Trade	662	55	717
Transport and communication	398	24	422
Hotels and restaurants	314	9	323
Financial and insurance services	80	23	103
Holding companies	11	1	12
Real estate and housing	894	27	921
Services	1,021	23	1,044
Public administration	(2)	13	11
Education, health and art	211	71	282
Households	2,502	48	2,550
Total	**7,478**	**452**	**7,930**

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. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Group's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments.

A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- early warning signals for this customer identified;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the Group or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:

- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- granting the forbearance has not led to classifying the exposure as non-performing/default.

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

- an additional forbearance measure is extended;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

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

- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
- the moment of extending the restructuring measure;
- the end of the grace period included in the restructuring agreement;
- the moment when the exposure has been classified as defaulted.
- the forbearance has not led the exposure to be classified as non-performing;
- the customer is not classified as defaulted according to the definition of default;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
- the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
- the customer has repaid the full past due amount or the written-off amount (if there was any).

- corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Group.

Default definition

Default definitions complies with the EBA 'Guidelines on the application of the definition of default under Art.178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'.

The definitions of non-performing and default are aligned within the Group.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of CZK 2,500 and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of CZK 12,600 and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in CZK million	Loans and advances	Debt securities	Other positions	Loan commitments	Total
2021					
Gross exposure	**1,222,711**	**357,706**	**51,350**	**151,491**	**1,783,257**
thereof gross forborne exposure	6,790	-	-	49	6,839
Performing exposure	1,204,705	357,706	50,718	151,051	1,764,179
thereof performing forborne exposure	1,278	-	-	1	1,279
Credit loss allowances for performing exposure	(9,016)	(168)	(272)	(646)	(10,103)
thereof credit loss allowances for performing forborne exposure	(127)	-	-	-	(127)
Non-performing exposure	18,005	-	632	441	19,078
thereof non-performing forborne exposure	5,512	-	-	48	5,560
Credit loss allowances for non-performing exposure	(11,007)	-	(398)	(247)	(11,653)
thereof credit loss allowances for non-performing forborne exposure	(3,014)	-	-	(43)	(3,057)
2020					
Gross exposure	**1,202,305**	**276,226**	**41,615**	**124,574**	**1,644,720**
thereof gross forborne exposure	31,350	-	-	185	31,535
Performing exposure	1,185,206	276,226	41,033	124,296	1,626,761
thereof performing forborne exposure	27,108	-	-	125	27,233
Credit loss allowances for performing exposure	(8,360)	(145)	(330)	(472)	(9,307)
thereof credit loss allowances for performing forborne exposure	(566)	-	-	-	(566)
Non-performing exposure	17,099	-	582	278	17,959
thereof non-performing forborne exposure	4,242	-	-	60	4,302
Credit loss allowances for non-performing exposure	(11,341)	-	(325)	(128)	(11,794)
thereof credit loss allowances for non-performing forborne exposure	(2,435)	-	-	(52)	(2,487)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2021			
Loans and advances	6,790	6,763	27
Loan commitments	49	49	-
Total	**6,839**	**6,812**	**27**
2020			
Loans and advances	31,350	31,303	47
Loan commitments	185	185	-
Total	**31,535**	**31,488**	**47**

Loans and advances also include lease, trade and other receivables.

Collateral

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 things, 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 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

in CZK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2021									
Cash and cash balances – demand deposits to credit institutions	1,579	-	-	-	-	1,579	1,579	-	-
Debt instruments held for trading	15,561	-	-	-	-	15,561	-	-	-
Non-trading debt instruments at FVPL	1,649	-	-	-	-	1,649	-	-	-
Debt instruments at FVOCI	31,268	-	-	-	-	31,268	31,268	-	-
Debt instruments at AC	1,531,406	788,819	25,732	399,658	363,430	742,586	1,510,624	3,664	17,118
Debt securities	325,533	4,226	4,226	-	-	321,306	325,533	-	-
Loans and advances to banks	364,997	354,707	1,118	-	353,590	10,289	364,997	-	-
Loans and advances to customers	840,876	429,886	20,388	399,658	9,840	410,991	820,094	3,664	17,118
Trade and other receivables	14,944	1,482	1,478	-	4	13,462	13,304	828	811
Finance lease receivables	1,150	-	-	-	-	1,150	1,035	40	76
Positive fair value of hedge accounting derivatives	607	-	-	-	-	607	-	-	-
Off balance-sheet exposures	185,094	12,521	666	7,610	4,244	172,573	159,154	60	508
Total	**1,783,257**	**802,821**	**27,876**	**407,268**	**367,677**	**980,436**	**1,716,964**	**4,591**	**18,513**
2020									
Cash and cash balances – demand deposits to credit institutions	1,779	-	-	-	-	1,779	1,779	-	-
Debt instruments held for trading	11,382	-	-	-	-	11,382	-	-	-
Non-trading debt instruments at FVPL	1,508	-	-	-	-	1,508	-	-	-
Debt instruments at FVOCI	20,482	1,940	1,940	-	-	18,542	20,482	-	-
Debt instruments at AC	1,448,218	815,536	24,639	375,563	415,334	632,682	1,427,870	3,653	16,695
Debt securities	254,719	4,042	4,042	-	-	250,677	254,719	-	-
Loans and advances to banks	424,845	406,828	789	-	406,039	18,017	424,838	7	-
Loans and advances to customers	768,654	404,666	19,808	375,563	9,295	363,988	748,313	3,646	16,695
Trade and other receivables	6,795	-	-	-	-	6,795	5,858	688	250
Finance lease receivables	1,529	-	-	-	-	1,529	1,329	45	155
Positive fair value of hedge accounting derivatives	2,654	-	-	-	-	2,654	-	-	-
Off balance-sheet exposures	150,373	8,920	2,000	5,518	1,402	141,453	148,856	44	802
Total	**1,644,720**	**826,396**	**28,579**	**381,081**	**416,736**	**818,324**	**1,606,174**	**4,430**	**17,901**

The collateral attributable to exposures that are credit-impaired at 31 December 2021 amounts to CZK 5,464 million (2020: 4,756 million).

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
2021					
Retail	496,918	26,815	15,615	9,416	548,765
Corporates	215,860	68,332	11,148	8,514	303,855
Group Markets	2,680	89	19	-	2,787
ALM&LCC	901	562	6	14	1,483
Total	**716,359**	**95,799**	**26,787**	**17,945**	**856,889**
2020					
Retail	432,449	27,772	18,108	8,948	487,277
Corporates	165,217	96,610	15,244	8,114	285,185
Group Markets	2,806	45	9	-	2,860
ALM&LCC	749	777	109	31	1,666
Total	**601,221**	**125,204**	**33,470**	**17,093**	**776,988**

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 1,188 million (2020: 1,060 million), the non-defaulted part to CZK 94 million (2020: 168 million).

In the following tables, the non-performing loans and advances to customers divided by reporting segment are contrasted with allowances for customer loans (all allowances for loans and advances to customers within the scope of IFRS 9) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excluding collateral), and the NPL collateralisation ratio are also included.

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
in CZK million	**Total**	**AC**	**Total**	**AC**	**AC**	**Total**	**AC**	**Total**	**AC**	**AC**	**Total**	**AC**
2021												
Retail	9,416	9,416	548,765	548,765	(11,874)	2,379	2,379	1.72%	1.72%	126.10%	25.27%	25.27%
Corporates	8,514	8,514	303,855	303,855	(8,074)	2,911	2,911	2.80%	2.80%	94.82%	34.19%	34.19%
Group Markets	-	-	2,787	2,787	(5)	-	-	0.00%	0.00%	-	-	-
ALM&LCC	14	14	1,483	1,483	(25)	-	-	0.95%	0.95%	177.81%	0.00%	0.00%
Total	**17,945**	**17,945**	**856,889**	**856,889**	**(19,978)**	**5,290**	**5,290**	**2.09%**	**2.09%**	**111.3%**	**29.5%**	**29.5%**
2020												
Retail	8,948	8,948	487,278	487,278	(11,085)	2,385	2,385	1.84%	1.84%	123.88%	26.65%	26.65%
Corporates	8,114	8,114	285,145	285,145	(8,434)	2,285	2,285	2.85%	2.85%	103.94%	28.16%	28.16%
Group Markets	-	-	2,859	2,859	(3)	-	-	0.00%	0.00%	-	-	-
ALM&LCC	31	31	1,666	1,666	(154)	-	-	1.86%	1.86%	496.77%	0.00%	0.00%
Total	**17,093**	**17,093**	**776,948**	**776,948**	**(19,676)**	**4,670**	**4,670**	**2.20%**	**2.20%**	**115.1%**	**27.3%**	**27.3%**

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'.

The NPL coverage ratio is calculated by dividing total loss allowances by the gross carrying amount of the non-performing loans and advances to customers. Collateral is not taken into account.

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

	Loans to customers					Loan loss allowances						
in CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Not IFRS 9 impairment relevant**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 2 coverage ratio**	**Stage 3 coverage ratio**	**POCI coverage ratio**
2021												
Retail	485,550	53,730	9,333	151	-	1,530	4,676	5,627	41	8.70%	60.29%	27.00%
Corporates	239,257	56,057	7,410	1,131	-	898	1,876	4,851	449	3.35%	65.47%	39.72%
Group Markets	2,521	267	-	-	-	3	2	-	-	0.66%	-	-
ALM&LCC	1,463	6	14	-	-	10	1	14	-	18.33%	100.00%	-
Total	**728,791**	**110,060**	**16,757**	**1,282**	**-**	**2,441**	**6,555**	**10,492**	**490**	**5.96%**	**62.61%**	**38.22%**
2020												
Retail	431,205	47,076	8,882	115	-	1,234	4,112	5,698	39	8.73%	64.15%	34.58%
Corporates	220,479	56,432	7,120	1,114	40	927	1,872	5,107	527	3.32%	71.74%	47.28%
Group Markets	2,704	155	-	-	-	3	1	-	-	0.83%	-	-
ALM&LCC	1,436	199	31	-	-	8	116	31	-	58.20%	97.88%	-
Total	**655,824**	**103,862**	**16,033**	**1,229**	**40**	**2,172**	**6,101**	**10,836**	**566**	**5.87%**	**67.59%**	**46.09%**

34. Market Risk

The Group is exposed to the impact of market risks. The group market risks arise from open positions in interest rate, currency, equity, volatility of financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Group is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread risk is included:

1) The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor;
2) A more precise calculation of security prices; and
3) To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Derivative market quotations (market making); and
- Managing open positions in the derivative and capital markets arising from above mentioned activities.

The Group trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps; and
- Interest rate options such as swaptions, caps and floors.

In the area of exchange traded derivatives, the Group trades the following instruments:

- Equity index futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into in order to hedge against interest rate risk inherent in the Banking book (interest rate swaps) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Group's Trading book are transferred to the Erste Group Bank portfolio 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. The Group retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Group's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the Value at Risk methodology (VaR) to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. Trading Book VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VaR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also scaled up to one month or one year time period and probability level 99.92%. %. Banking book VaR values (since 07/2020 position) are calculated locally, using QRM and R software. Calculated is 1 month (99%) VaR, for regular limit-check purposes, and 1 year (99.92%) VaR for ICAAP purposes. Used methods are Monte Carlo simulation for generation of scenarios and PPR function for calibration and VaR calculation.

The Board of Directors establishes VaR limits for the Trading and Banking book portfolio as the Group's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

Apart from the VaR limit also Earnings at Risk measure is calculated and checked against the EaR warning limit on a monthly basis.

The table below summarizes the VaR values as at 31 December 2021 and 2020 on the confidence level of 99%. The table has been extended because of the inclusion of credit spread risk into the relevant positions of the Banking book and the Trading book portfolios. The table shows only the Bank's amounts:

in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Credit Spread risk
2021							
Trading book							
Daily value	4	-	4	-	-	-	-
Monthly value	20	(2)	20	1	-	1	-
Average of daily values per year	7	-	7	-	-	-	-
Average of monthly values per year	32	(2)	32	1	-	1	-
Banking book							
Monthly value	3,635	(813)	3,767	18	-	279	385
Average of monthly values per year	1,760	(848)	1,879	6	-	337	386
2020							
Trading book							
Daily value	9	-	9	-	-	-	-
Monthly value	41	(1)	41	1	-	1	-
Average of daily values per year	7	(1)	7	-	-	-	-
Average of monthly values per year	34	(4)	34	1	1	-	1
Banking book							
Monthly value	1,486	(714)	1,565	4	-	421	210
Average of monthly values per year	1,538	(874)	1,366	6	-	834	206

In addition, the Group uses stress testing or an 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 (FMRMC).

In the Comprehensive Stress testing the complex scenario impact on the Group is analysed on a half-year basis. The Group monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market 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 using models which show the potential impact that changes in interest rates may have on the Group's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Group uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The Banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Group's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Group uses the present value of a basis point ('PVBP') defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account.

The following 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.

	2022		2021	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	1,562	(1,522)	1,844	(1,783)
Other comprehensive income	(2,689)	2,823	(3,334)	3,523
EUR				
Income statement	(706)	988	(14)	223
Other comprehensive income	961	(1,022)	799	(850)

Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

The Bank's FX open position is managed by Trading book's FX Desk. Total Banking book portfolio's FX open position is closed with TB FX Desk on daily basis as well as TB desk portfolios which are not allowed to keep FX open position. TB FX Desk then manages FX open position based on approved sensitivity limits set for single currencies and FX VaR limits. In addition, 'greeks' sensitivity limits are set for TB desks which are not FX closed with FX desk on daily basis and are allowed to enter into option contracts.

Equity Risk

The Group uses VaR methodology to monitor and manage the equity risk inherent in the Trading and Banking books. The equity risk comes from underlying assets (equity and equity indices) of structured bonds. The exposure to equity risk is limited only to warehousing of client orders. Market Making activities and equities of the Bank were transferred to Erste Group Bank.

35. Liquidity Risk

Definition and overview

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 ratios

With the implementation of the CRR in 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR DA), published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio. The LCR represents a ratio of highly liquid assets held by the Group, which have to cover net cash outflows over a 30 day time horizon. The Group reports LCR to the national regulator according to the Delegated Act.

The Group monitors also the NSFR which is currently not limited by the regulator. Unlike the LCR, the NSFR strives to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding.

At the end of 2021, both LCR and NSFR for the Group were significantly above 100% and confirm a sound liquidity situation of the Group. The Group also reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complement already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures. The Group limits and reports liquidity indicators for relevant members of the Group on individual levels as required by the regulator.

Methods and instruments employed

In addition to the regulatory indicators, the Group also monitors and limits internal metrics to ensure sufficient levels of liquidity which are

monitored at both total currency level and for significant currencies. Similarly to regulatory limits, all liquidity indicators are monitored and limited for relevant members of the Group on individual levels.

Short-term insolvency risk is monitored by calculating the survival period analysis. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting in 2018, an updated version of the survival period analysis came into force. It contained, among other improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Similarly, long-term structural liquidity is additionally monitored by an internal metric. The structural liquidity metric 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.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been thoroughly defined and are continuously reviewed and improved by the Group.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the ALCO. The Comprehensive 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.

The Contingency Plan of the Group 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

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile is provided by ALM and also used for FTP (Funds Transfer Pricing).

The following table shows the liquidity gaps as of 31 December 2021 and 2020:

	< 1 month		1 –12 months		1–5 years		> 5 years	
In CZK million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Liquidity GAP	390,899	341,025	(57,718)	(12,982)	(319,412)	(303,352)	130,822	62,828

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Group has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in short term to offset potential cash outflows in a crisis situation.

The term structure of the Group's counterbalancing capacity as of year-end 2021 and 2020 are shown in the tables below:

	< 1 week	
in CZK million	**2021**	**2020**
Cash, excess reserve	17,434	20,965
Liquid assets	614,054	376,701
Counterbalancing capacity	**631,489**	**397,666**

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 2021 and 2020 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
2021						
Non-derivative liabilities	**1,465,708**	**1,467,086**	**1,290,875**	**117,184**	**37,593**	**21,434**
Deposits by banks	49,695	49,572	13,714	27,986	4,558	3,315
Customer deposits	1,184,543	1,185,977	1,103,918	44,073	32,039	5,947
Debt securities in issue	213,357	213,423	155,128	45,125	996	12,173
Other financial liabilities	18,114	18,114	18,114	-	-	-
Derivative liabilities	**15,392**	**15,402**	**767**	**3,060**	**5,572**	**6,003**
Contingent liabilities	**185,094**	**185,094**	**185,094**	**-**	**-**	**-**
Financial guarantees	8,230	8,230	8,230	-	-	-
Irrevocable commitments	176,864	176,864	176,864	-	-	-
Total	**1,666,195**	**1,667,582**	**1,476,736**	**120,244**	**43,165**	**27,437**
2020						
Non-derivative liabilities	**1,364,354**	**1,365,528**	**1,214,044**	**110,134**	**32,469**	**8,881**
Deposits by banks	91,335	91,823	46,359	34,757	7,592	3,115
Customer deposits	1,100,450	1,100,907	1,027,535	43,674	23,932	5,766
Debt securities in issue	169,498	169,728	137,080	31,703	945	-
Other financial liabilities	3,070	3,070	3,070	-	-	-
Derivative liabilities	**12,895**	**12,898**	**1,402**	**4,994**	**4,085**	**2,416**
Contingent liabilities	**153,443**	**153,443**	**153,443**	**-**	**-**	**-**
Financial guarantees	28,198	28,198	28,198	-	-	-
Irrevocable commitments	125,245	125,245	125,245	-	-	-
Total	**1,530,691**	**1,531,868**	**1,368,889**	**115,128**	**36,554**	**11,297**

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.

36. 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

37. Property, equipment, right-of use of assets and investment properties

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15–50
Office furniture and equipment	4–10
Passenger cars	4–8
Computer hardware	4–6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Right-of use of assets

For accounting policy for leases including right-of use of assets see Note 40 Leases.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income

or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item 'Investment properties'.

Rental income is recognised in the line 'Rental income from investment properties & other operating leases'. Depreciation is presented in the income statement in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item 'Other operating result'.

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 2020	**18,244**	**3,986**	**2,313**	**24,543**	**3,689**
Additions in current year (+)	651	251	364	1,266	141
Disposals (–)	(405)	(543)	(174)	(1,122)	-
Reclassification (+/–)	-	2	1	3	-
Assets held for sale (–)	(137)	-	-	(137)	-
Balance as of 31 Dec 2020	**18,353**	**3,696**	**2,504**	**24,553**	**3,830**
Additions in current year (+)	714	180	311	1,205	60
Disposals (–)	(295)	(234)	(473)	(1,002)	-
Reclassification (+/–)	27	(1,037)	1,010	-	-
Assets held for sale (–)	(297)	-	-	(297)	-
Balance as of 31 Dec 2021	**18,502**	**2,605**	**3,352**	**24,459**	**3,890**

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)	Property and equipment	Investment properties
Balance as of 1 Jan 2020	**(10,751)**	**(2,680)**	**(1,640)**	**(15,071)**	**(1,407)**
Depreciation (–)	(655)	(202)	(226)	(1,083)	(61)
Disposals (+)	347	489	167	1,003	-
Impairment (–)	-	-	-	-	(80)
Reversal of impairment (+)	166	1	-	167	-
Reclassification	-	(1)	1	-	-
Assets held for sale (+)	113	-	-	113	-
Balance as of 31 Dec 2020	**(10,780)**	**(2,393)**	**(1,698)**	**(14,871)**	**(1,548)**
Depreciation (–)	(538)	(111)	(310)	(959)	(68)
Disposals (+)	249	218	468	935	-
Impairment (–)	(407)	-	-	(407)	(53)
Reversal of impairment (+)	34	-	-	34	-
Reclassification	(24)	438	(415)	-	-
Assets held for sale (+)	266	-	-	266	-
Currency translation	(5)	(2)	(29)	(37)	-
Balance as of 31 Dec 2021	**(11,205)**	**(1,850)**	**(1,984)**	**(15,039)**	**(1,669)**

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 2020	**3,526**	**30**	**18**	**3,574**
Additions	736	25	-	761
Disposals	(260)	(4)	-	(264)
Balance as of 31 Dec 2020	**4,002**	**51**	**18**	**4,071**
Additions	331	24	3	358
Disposals	(68)	(10)	-	(78)
Balance as of 31 Dec 2021	**4,265**	**65**	**21**	**4,351**

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 2020	**(482)**	**(13)**	**(8)**	**(503)**
Amortisation and depreciation	(541)	(15)	(6)	(562)
Disposals	44	4	-	48
Disposal of group	2	-	-	2
Impairment	(5)	-	-	(5)
Assets held for sale	2	-	-	2
Balance as of 31 Dec 2020	**(980)**	**(24)**	**(14)**	**(1,018)**
Amortisation and depreciation	(555)	(20)	(5)	(580)
Disposals	29	10	-	38
Impairment	(10)	-	-	(10)
Balance as of 31 Dec 2021	**(1,516)**	**(34)**	**(19)**	**(1,569)**

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 2020	**7,573**	**1,303**	**806**	**9,682**	**2,282**
Dec 2021	**7,296**	**755**	**1,368**	**9,419**	**2,221**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 416 million (2020: CZK 489 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 2020	**3,022**	**27**	**4**	**3,053**	**-**
Dec 2021	**2,750**	**31**	**2**	**2,783**	**-**

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 2020	**10,537**	**1,323**	**683**	**12,543**	**2,282**
Balance as of 31 Dec 2020	**10,595**	**1,330**	**810**	**12,735**	**2,282**
Balance as of 31 Dec 2021	**10,046**	**786**	**1,370**	**12,201**	**2,221**

In 2021, rental income arising from investment property amounted to CZK 180 million (2020: CZK 174 million), see Note 7. Operating expenses related to investment property amounted to CZK 68 million (2020: CZK 61 million).

As at 31 December 2021, the fair value of investment property amounted to CZK 2,282 million (2020: CZK 2,282 million).

The balances as at 31 December 2021 shown above include CZK 785 million (2020: CZK 850 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,489 million as at 31 December 2021 (2020: CZK 3,758 million).

As at 31 December 2021, land and buildings were impaired in the amount of CZK 1,272 million (2020: CZK 812 million).

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2021 and 2020:

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
2021					
Assets whose fair value is disclosed in the notes					
Investment property	2,221	2,282	-	-	2,282
2020					
Assets whose fair value is disclosed in the notes					
Investment property	2,282	2,282	-	-	2,282

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.

38. Intangible assets

Goodwill

Goodwill arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. For more details on measurement of goodwill at the acquisition date refer to Scope of consolidation, part Subsidiaries.

Other intangible assets

The Group's intangible assets other than goodwill include computer software, licences and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures

reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the acquisition date. In the case of the Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4–8
Other (licences, patents, etc.)	6

Brands have been impaired to nil carrying amount. As a result, they are not being amortised.

Acquisition and production costs

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2020	**100**	**16,933**	**1,930**	**18,963**
Additions in current year (+)	-	1,296	55	1,351
Disposals (–)	-	(356)	(103)	(459)
Disposal of group	(66)	-	-	(66)
Reclassification (+/–)	-	(4)	1	(3)
Currency translation	-	1	-	1
Balance as of 31 Dec 2020	**34**	**17,870**	**1,883**	**19,787**
Additions in current year (+)	-	1,823	93	1,916
Disposals (–)	-	(689)	(449)	(1,138)
Disposal of group	-	(5)	-	(5)
Currency translation	-	(2)	-	(2)
Balance as of 31 Dec 2021	**34**	**18,997**	**1,527**	**20,558**

Accumulated depreciation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total Intangible assets
Balance as of 1 Jan 2020	**(66)**	**(11,417)**	**(1,679)**	**(13,162)**
Amortisation charge (–)	-	(975)	(68)	(1,043)
Disposals (+)	-	355	103	458
Disposal of group	66	4	-	70
Impairment (–)	-	(27)	-	(27)
Balance as of 31 Dec 2020	**-**	**(12,060)**	**(1,644)**	**(13,704)**
Amortisation charge (–)	-	(985)	(128)	(1,113)
Disposals (+)	-	207	508	715
Disposal of group	-	5	-	5
Impairment (–)	-	(161)	-	(161)
Balance as of 31 Dec 2021	**-**	**(12,993)**	**(1,264)**	**(14,257)**

Carrying amounts

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2020	**34**	**5,516**	**251**	**5,801**
Balance as of 31 Dec 2020	**34**	**5,810**	**239**	**6,083**
Balance as of 31 Dec 2021	**34**	**6,004**	**263**	**6,301**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,614 million as at 31 December 2021 (2020: CZK 1,490 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 3,482 million as at 31 December 2021 (2020: CZK 2,822 million).

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item 'Other operating result'.

(ii) Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in the fourth quarter, or whenever there is an indication of possible impairment during the year, with any impairment recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of any respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

For applicable CGU (e.g. financial institutions), the cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements. Cash-flow for other CGU is not adjusted.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets, right-of-use assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates

cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market 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 Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

39. Other assets

in CZK million	2021	2020
Prepayments	399	338
Assets under construction/unfinished goods/inventory	58	48
Sundry assets	680	579
Other assets	**1,137**	**965**

'Sundry assets' consist mainly of long-term advances of CZK 258 million (2020: CZK 233 million).

LEASES

40. 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.

The Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property, equipment and right-of-use assets' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties and other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

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

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	2021	2020
Outstanding minimum lease payments	1,255	1,627
Gross investment	**1,255**	**1,627**
Unrealised financial income	(95)	(98)
Net investment	**1,160**	**1,529**
Present value of minimum lease payments	**1,160**	**1,529**

Maturity analysis by residual maturities

	2021		2020	
in CZK million	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	339	313	415	388
1–2 years	310	287	294	276
2–3 years	253	234	383	360
3–4 years	140	129	270	254
4–5 years	75	68	131	125
> 5 years	139	129	134	126
Total	**1,255**	**1,160**	**1,627**	**1,529**

During 2021, the Group recognised interest income on finance lease receivables in the amount of CZK 28 million (2020: CZK 63 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 2021 and 2020 is provided in the table below:

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

	Gross carrying amount				Credit loss allowances				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	77	-	-	77	(5)	-	-	(5)	72
Other financial corporations	2	-	-	2	-	-	-	-	2
Non-financial corporations	832	65	71	968	(5)	(4)	(48)	(57)	911
Households	97	2	4	104	(1)	-	(4)	(5)	99
Total	**1,007**	**67**	**76**	**1,150**	**(11)**	**(4)**	**(52)**	**(67)**	**1,083**
2020									
General governments	88	-	-	88	-	-	-	-	88
Other financial corporations	4	-	-	4	-	-	-	-	4
Non-financial corporations	1,036	82	144	1,262	(3)	(3)	(102)	(108)	1,154
Households	161	3	11	175	(1)	-	(9)	(10)	165
Total	**1,289**	**85**	**155**	**1,529**	**(4)**	**(3)**	**(111)**	**(118)**	**1,411**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2021					Dec 2021
Stage 1	(4)	(9)	1	6	(5)	(11)
Stage 2	(3)	-	-	(2)	1	(4)
Stage 3	(111)	-	41	(5)	26	(52)
Total	**(118)**	**(9)**	**42**	**(1)**	**23**	**(67)**
	Jan 2020					Dec 2020
Stage 1	(8)	-	1	5	(2)	(4)
Stage 2	(4)	-	1	(2)	2	(3)
Stage 3	(119)	-	18	(23)	13	(111)
Total	**(131)**	**-**	**20**	**(20)**	**13**	**(118)**

In column 'Additions' increases of CLA due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of CLA following the derecognition of the related finance lease receivables 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 finance lease receivables from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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 finance lease receivables that were assigned to Stage 3 for any period throughout the year.

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 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	54	79
To Stage 1 from Stage 2	53	10
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	7	13
To Stage 2 from Stage 3	-	2
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	5	41
To Stage 1 from Stage 3	15	2

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 109 million (2020: CZK 70 million). The GCA of the finance lease receivables that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to CZK 196 million (2020: CZK 194 million).

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	2021	2020
< 1 year	228	219
1-2 years	218	217
2-3 years	217	215
3-4 years	217	214
4-5 years	214	215
> 5 years	786	973
Total	**1,879**	**2,053**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

The Group as a lessee

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property, equipment and right-of-use assets' or, if they are subleased to third parties, for operating leases as part of 'Investment properties' and for finance leases as a 'Finance lease receivable'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Pribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Pribor. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

Maturity analysis of lease liabilities on the basis of undiscounted cash flows

	2021		2020	
in CZK million	**Nominal values**	**Present values**	**Nominal values**	**Present values**
< 1 year	621	589	(595)	(565)
1–5 years	1,653	1,565	(1,810)	(1,730)
> 5 years	1,023	967	(1,128)	(1,066)
Total	**3,297**	**3,121**	**(3,533)**	**(3,361)**

During 2021, interest expenses on lease liabilities were recognised in the amount of CZK 36 million (2020: CZK 47 million). In 2021, expenses in the amount of CZK 64 million (2020: CZK 59 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 (2020: CZK 58 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 143 million (2020: CZK 21 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 55 million (2020: CZK 109 million). Total cash outflow for leases in 2021 was CZK 759 million (2020: CZK 744 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 2021.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

41. Other liabilities

in CZK million	2021	2020
Deferred income	439	463
Sundry liabilities	5,268	3,746
Other liabilities	**5,707**	**4,209**

Sundry liabilities consist mainly of suspense account of CZK 874 million (2020: CZK 861 million) and costs of staff bonuses for 2021 amounting to CZK 1,728 million (2020: CZK 1,626 million) of which CZK 34 million (2020: CZK 29 million) is liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2021 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 439 million (2020: CZK 463 million). Revenue recognised in the reporting year 2021 that was included in the contract liability balance at the beginning of the period amounts to CZK 198 million (2020: CZK 303 million).

42. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. In the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'. However restructuring expenses relating to employees are presented under line item "Personnel expenses".

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Group.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item "Fee and commission income" under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan commitments.

If the Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk are guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Group has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. They are ignored in measuring the ECL and are measured separately and in the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Significant accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether Erste Group Bank has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 33 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 43 Contingent liabilities.

in CZK million	2021	2020
Restructuring	59	93
Pending legal issues	2,025	1,770
Loan commitments and financial guarantees given	1,197	1,214
CLA for loan commitments and financial guarantees in Stage 1	465	431
CLA for loan commitments and financial guarantees in Stage 2	452	368
CLA for loan commitments and financial guarantees in Stage 3	279	415
CLA for loan commitments and financial guarantees POCI	1	-
Provision for onerous contracts	-	3
Other provisions	374	40
Provisions	**3,655**	**3,120**

The restructuring provision was created at the end of 2019 for the next phase reorganization of the Group's redundant activities performed by the HQ departments of the Group and their employees. The reorganization is expected to be completed in 2022.

Under position 'Pending legal issues and tax litigation' provisions related to litigations from lending business, asset management or litigations with customer protection associations, which normally occur in banking business, are disclosed (refer to Note 43 part Legal disputes).

Movement in credit loss allowances for loan commitments and financial guarantees

in CZK million	As of	Additions	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2021						**Dec 2021**
Stage 1	431	1,151	(562)	(254)	(181)	(121)	465
Stage 2	368	-	(133)	433	(99)	(117)	452
Stage 3	412	-	(113)	24	34	(78)	279
POCI	3	-	(4)	-	2	-	1
Total	**1,214**	**1,151**	**(811)**	**203**	**(243)**	**(316)**	**1,197**
	Jan 2020						**Dec 2020**
Stage 1	217	2,588	(734)	(331)	(1,309)	-	431
Stage 2	105	-	(419)	286	396	-	368
Stage 3	443	-	(173)	11	131	-	412
POCI	-	-	-	3	-	-	3
Total	**765**	**2,588**	**(1,326)**	**(31)**	**(782)**	**-**	**1,214**

In column 'Additions' increases of CLA due to the initial recognition of loan commitments and financial guarantees during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loan commitments and financial guarantees 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 loan commitments and financial guarantees from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'. This column also captures the passage-of-time adverse effect ('unwinding') over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

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 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	17,505	15,143
To Stage 1 from Stage 2	8,526	2,479
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	314	135
To Stage 2 from Stage 3	36	217
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	154	294
To Stage 1 from Stage 3	35	269

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 88,400 million (2020: CZK 66,139 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to CZK 57,280 million (2020: CZK 40,397 million).

Sundry provisions

in CZK million	As of	Allocations	Use	Releases	Exchange rate and other changes (+/–)	As of
	Jan 2021					Dec 2021
Provision for restructuring	93	59	(63)	(30)	-	59
Pending legal issues and tax litigation	1,739	227	-	-	-	1,966
Other provisions	74	46	(11)	(2)	326	433
Provisions	**1,906**	**332**	**(74)**	**(32)**	**326**	**2,458**
	Jan 2020					Dec 2020
Provision for restructuring	79	55	(41)	-	-	93
Pending legal issues and tax litigation	1,783	1	-	(45)	-	1,739
Other provisions	70	2	(2)	(1)	5	74
Provisions	**1,932**	**58**	**(43)**	**(46)**	**5**	**1,906**

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.

43. 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 42).

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 2021, the aggregate balance of these allowances was CZK 1,197 million (2020: CZK 1,214 million). Refer to Note 42 Provisions.

in CZK million	2021	2020
Amounts owed under guarantees and letters of credit	8,230	28,198
Undrawn loan and other commitments	176,864	125,245
out of which loan commitments	151,491	124,574
Total	**185,094**	**153,443**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

44. Total equity

Details on equity are provided in Section IV, Consolidated Statement of Changes in Equity.

in CZK million	2021	2020
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	17,147
Retained earnings and other reserves	118,492	116,766
Owners of the parent	**142,744**	**149,125**
Non-controlling interests	452	221
Total equity	**143,196**	**149,346**

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register. In addition, the Bank issued Additional Tier 1 capital ("AT1").

As of 31 December 2021, 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.

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 issue AT1 equity instruments is compliant with Article 52 of the CRR (Regulation EU No 575/2013). The issued AT1 capital is recognized under the line item "Additional equity instruments".

The main reasons for the issuance of AT1 is optimisation of capital structure and preparation for regulatory changes - full implementation of Credit Risk Regulation (CRR), Total loss-absorbing capacity (TLAC)/ Minimum requirement for own funds and eligible liabilities (MREL) while using the currently favourable market conditions (interest rates and credit spreads).

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, i.e. AT1 holders are not entitled to repay the amount due or pay proceeds, and AT1 does not have maturity date.

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 AT1 instruments the payouts recorded in equity do not need approvals of Annual General Meeting but an event of non-payment would require a decision of the Bank's Board.

As at 1 January 2021, the Bank took over the Czech branch of the Waldviertler Sparkasse (WSPK) bank. The Bank decided to use pooling of interest accounting principles (or so-called „predecessor accounting"), with no revaluation of assets and liabilities acquired to fair value. The impact with respect to the predecessor accounting principle was a decrease of equity by CZK 267 million.

Number of shares and share capital

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

	2021		2020	
	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**

45. Non-controlling interest

in CZK million	**2021**	**2020**
At 1 January	**221**	**210**
Capital increase	104	-
Changes in scope of consolidation and ownership interest	100	-
Profit for the year	27	11
At 31 December	**452**	**221**

The increase in non-controlling interest and retained earnings was affected by the entrance of Erste Group Bank in the subsidiary Holding Card Service, s.r.o. in 2021.

SCOPE OF CONSOLIDATION

Basis of consolidation

As at 31 December 2021, the Group includes in its IFRS scope of consolidation a total of 23 subsidiaries (31 December 2020: 26).

46. 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 2021, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Group's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies.

All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owner of the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

Additions in 2021

No additions in 2021.

Disposals in 2021

During the year, the Group completed planned liquidation of the companies Czech TOP Venture Fund B.V. v likvidaci and brokerjet České spořitelny, a.s. v likvidaci which ceased to be consolidated from April and October 2021.

CS Property Investment Limited went into liquidation on 20 December 2021 and was deconsolidated and reclassified to FVPL in December 2021.

Other changes in 2021

Effectively since 1 April 2021, the company s Autoleasing, a.s. was renamed to Leasing České spořitelny, a.s. and subsequently merged with Erste Leasing, a.s., while Leasing České spořitelny, a.s. to be the successor company. The Company Erste Leasing, a.s. ceased to exist as at 1 December 2021.

As at 15 December 2021 a new partner, Erste Group Bank AG acquired the 11.52% share in the company Holding Card Service, s.r.o., as a result of this transaction the Bank's share was reduced to 66.7%.

Additions in 2020

In January 2020, new companies BP Poláčkova, s. r. o., BP Budějovická, s. r. o., BP Olbrachtova, s. r. o. joined the Group and started to be consolidated. In May 2020, Erste Corporate Finance, a.s. changed its name to ČS Seed Starter, a.s. and started to be consolidated in June 2020.

Disposals in 2020

During the year, the Group completed the planned liquidation of the companies VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci and BGA Czech, s.r.o., v likvidaci, which ceased to be consolidated from October and December 2020. Since 1 December 2020 the Group has deconsolidated the subsidiary Energie ČS, a.s. as a result of its sale.

47. Investment in associates and joint ventures

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's result is recognised in the income statement and other comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2021 and for the year then ended.

Associates are entities over which Group exercises significant influence. Significant influence is the power to participate in the financial and operating business decisions of the investee but is not control or joint control of those decisions. As a general rule, significant influence is presumed to mean a share on voting rights between 20% and 50%.

Disposals in 2021

In the company Bankovní identita, a.s. the Bank's share decreased to 17 % as a result of accession of other banks as of 19 April 2021, the company was deconsolidated and transfered to FVPL portfolio in May 2021.

Additions in 2021

No additions in 2021.

Additions in 2020

Since November 2020, the new associate Bankovní identita, a.s. has been reported in the Bank's consolidated financial statements using the equity method.

in CZK million	2021	2020
Financial institutions	1,357	981
Total	**1,357**	**981**

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

in CZK million	2021	2020
Total assets	5,046	2,803
Total liabilities	2,278	784
Income	1,177	2,512
Profit (Loss)	167	59

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

	2021	2020	2020
in CZK million	**Global Payments s.r.o.**	**Global Payments s.r.o.**	**Bankovní identita, a.s.**
Country of Incorporation / Place of business	Czech Republic	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services	Payment services
Ownership% held	49.00%	49.00%	33.33%
Voting rights held%	49.00%	49.00%	33.33%
IFRS Classification (JV/A)	Associate	Associate	Associate
Reporting currency	CZK	CZK	CZK
Cash and cash balances	703	529	35
Other current assets	1,764	743	5
Non-current assets	2,579	1,460	31
Current liabilities	46	529	12
Non-current liabilities	2,232	237	7
Operating income	170	956	-
Post-tax result from continuing operations	167	70	(10)
Depreciation and amortization	(160)	(145)	(1)
Interest expense	(22)	(16)	-
Tax expense/income	(30)	(32)	-
Net assets attributable to the Group	335	550	18
Carrying goodwill included in the cost of investment	1,022	413	-
Carrying amount	1,357	963	18

The classification of current and non-current financial assets and liabilities are based on the expected remaining maturities of assets and liabilities.

48. Unconsolidated structured entities

in CZK million	2021	2020
Carrying amount of assets	609	766
Fair value of liquidity support drawn	480	641
Total	**1,090**	**1,406**

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 measured at fair value on the Group's statement of financial position and are classified based on their characteristics as debt or equity securities mandatorily at FVPL (Note 22).

OTHER DISCLOSURE MATTERS

49. 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

	2021			2020		
in CZK million	**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**
Assets						
Cash and cash balances	998	82	-	1,451	36	-
Financial assets – held for trading	8,590	-	-	5,070	-	-
Financial assets – amortised costs	2,020	288	33	9,475	398	25
Derivatives Hedge Accounting	504	-	-	732	-	-
Other assets	-	1	-	-	1	-
Liabilities			-			
Financial liabilities held for trading	6,796	-	-	4,940	-	-
Financial liabilities measured at amortised costs	34,716	261	107	62,238	416	77
Debt securities in issue	200,195	-	-	163,609	-	-
Derivatives Hedge Accounting	1,634	-	-	234	-	-
Other Liabilities	-	1	-	-	1	-
Profit&Loss statement		**01-12 2021**			**01-12 2020**	
Net interest income	(1,306)	3	1	(1,000)	3	1
Net fee and commision income	101	1,142	-	61	945	-
Dividend income	-	61	-	-	11	-
Net trading result and fair value result	6,983	11	-	(2,569)	-	-
Other administrative expenses	(287)	(875)	(106)	(209)	(860)	(106)
Other operating result	26	27	-	27	21	-
Loans commitments, financial guarantees and other commitments given	6,179	370	-	1,134	563	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	-	-

Financial liabilities measured at amortized costs as at 31 December 2021 include primarily repurchase agreements in CZK 34,238 million (2020: CZK 61,127 million) and term deposits of CZK 595 million (2020: CZK 18 million).

The repurchase agreements are mainly denominated in CZK (CZK 4,230 million as at 31 December 2021; 2020: CZK 30,000 million) and EUR (CZK 30,008 million as at 31 December 2021; 2020: CZK 30,725 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.

The term deposits are mainly denominated in CZK, the interest rates on term deposits are in the range of -0.1% to 2.76% and maturity of these transactions is up to 52 months.

As at 31 December 2021 financial assets and financial liabilities held for trading includes mainly derivative instruments (currency and interest rate derivatives). In 2021 and 2020, the net trading and fair value result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Financial assets at amortized cost to Erste Group Bank AG include primarily standard money-market deposits of CZK 1,270 million as at 31 December 2021 (2020: CZK 8,404 million).

Terms of the debt securities issued are described in Note 19.

Remuneration of the Board of Directors 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
2021	61	2	16	21	6	106
2020	63	2	17	14	-	96

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

Board of Director members are not included in pension plan benefit. Mr. Bravek received CZK 6.9 million as termination benefit in 2021. No termination benefit was paid out in 2020 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 41 Other liabilities).

The variable performance linked component of remuneration relates to the services rendered by the Board of Directors members in the current year ("performance period'). The payments are conditional on the Bank's performance in the current and following five years. The actual variable performance linked remuneration payment (cash and non-cash payments part) is divided into an upfront (40 %) and deferred remuneration tranches (60 %). A maximum of 20% of total variable remuneration consists of a cash payment payable in the first subsequent year after the performance period and at least 20% is awarded in non-financial instruments. The 30% of deferred remuneration payments are awarded in cash and 30% in non-financial instruments.

The non-financial instruments for upfront and deferred remuneration tranches comprised of phantom shares (50%) and ČS performance certificates (50%). Both instruments will be paid out in cash when

due. These components – both the upfront and deferred parts – must be retained throughout the retention period.

The variable performance linked remuneration component is calculated as the fixed income multiplied by the bonus potential (100% for the Board of Directors members) and by bonus multiplier, where the value of the bonus multiplier is set as the outcome of the evaluation of the Strategy and Business part (evaluation of set performance indicators; overall weight 75%) and the Leadership part (overall weight 25%). The annual variable remuneration of the Board of Directors members as managers normally amounts to less than 4% of the aggregate annual volume of variable remuneration at the Bank as a whole.

Evaluation of the performance of Board of Directors members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The outputs from the TEAC are then assessed by the Remuneration Committee of the Supervisory Board. The Supervisory Board decides about the setting of bonuses for members of the management board on the basis of a proposal from the Remuneration Committee.

The total variable performance linked remuneration – taking into account both current remuneration based on performance period and possible reductions in pay-outs of amounts previously earned – is awarded only if the participant remains employed and it is sustainable considering the overall financial situation of the Bank and justified on the basis of the performance of the Bank. Should any of these criteria not allow for the full bonus to be awarded, up to 100 % of the total variable remuneration shall be subject to malus or clawback arrangements.

Variable performance linked remuneration for the Board of Directors members for reporting period 2021 was estimated at CZK 47 million (2020: CZK 31 million).

At year-end 2021 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 38 million (2020: CZK 33 million) and for non-cash part is CZK 80 million (2020: CZK 35 million) of which CZK 34 million are phantom shares.

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 2021, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2021 in the amount of EUR 32.95 (2020: EUR 21.81) 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 2021 the Board of Directors members receive equivalent of 14,528 pcs of phantom shares with average price 32.95 EUR.

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

ČS performance certificates

As a non-cash performance linked instruments, the Bank uses also ČS performance certificates, the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014.

The valuation of the Group is based on an annual impairment test conducted at the level of the parent company Erste Group Bank. The comparison of the result of the Group's value in individual years using this valuation model is used to determine the year-on-year change in the value of the certificates. The fundament based for the valuation is a 5 year plan which is prepared by the Bank using several states of the art parameters to justify the financial performance over the following 5 consecutive years. In the preparation of the plan, the macroeconomic outlook, present performance, expected growth, and compliance with the business strategy are considered. All regulatory requirements are deemed to constitute key deliverables of the five-year plan – in particular requirements concerning capital and liquidity. "Old" performance certificates used until 2018 are not awarded, only deferred parts are still paid out (last part will be paid out in 2024).

50. Audit fees and tax consultancy fees

The following table contains audit fees and other fees charged by the auditors (excluding VAT) - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.

in CZK million	2021	2020
Audit fees	26	27
Other assurance services	9	7
Other services	1	-
Total	**36**	**34**

51. 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	2021	2020
Assets held for sale	20	24

The assets held for sale are represented by buildings for sale as a result of ongoing optimisation of the branch network.

Fair values and fair value hierarchy

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
2021					
Assets whose fair value is disclosed in the notes					
Assets held for sale (IFRS 5)	20	20	-	-	20
2020					
Assets whose fair value is disclosed in the notes					
Assets held for sale (IFRS 5)	24	24	-	-	24

Assets held for sale (real-estate funds being sold) are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The valuation techniques using the same inputs and techniques as described above for Investment Property in Note 37.

52. Analysis of remaining maturities

The breakdown of the Group's assets and liabilities based on expected residual maturities as at 31 December 2021 and 2020 was as follows:

	2021		2020	
in CZK million	**< 1 Year**	**> 1 Year**	**< 1 Year**	**> 1 Year**
Cash and cash balances	37,472	-	38,075	-
Financial assets – held for trading	15,561	-	11,382	-
Derivatives	15,508	-	11,281	-
Other financial assets held for trading	53	-	101	-
Non-trading financial assets at fair value through profit or loss	1,649	862	1,508	982
Equity instruments	-	862	-	982
Debt securities	905	-	1,025	-
Loans and advances to banks	744	-	443	-
Loans and advances to customers	-	-	40	-
Financial assets at FVOCI	2,066	29,066	2,864	17,974
Debt securities	2,066	29,066	2,864	17,974
Financial assets at AC	466,401	1,045,947	530,670	898,283
Loans and receivables to credit institutions	363,280	1,714	423,152	1,686
Loans and receivables to customers	75,281	746,559	73,175	676,240
Debt securities	27,840	297,674	34,343	220,357
Finance lease receivables	276	807	334	1,077
Hedge accounting derivatives	607	-	2,654	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	1	12	-
Property and equipment	-	12,201	-	12,735
Investment properties	-	2,221	-	2,282
Intangible assets	-	6,301	-	6,083
Investments in associates and joint ventures	-	1,357	-	981
Current tax assets	1,042	-	1,417	-
Deferred tax assets	-	2,732	-	1,020
Assets held for sale	20	-	24	-
Trade and other receivables	14,004	21	6,458	-
Other assets	1,224	(87)	1,058	(93)
Total Assets	**540,312**	**1,101,429**	**596,456**	**941,324**
Financial liabilities – held for trading	15,392	-	12,895	-
Financial liabilities designated at FVPL	10,653	-	3,784	-
Financial liabilities measured at AC	635,442	819,614	675,569	685,001
Deposits from banks	41,067	8,628	77,044	14,291
Deposits from customers	376,111	797,779	426,843	669,823
Debt securities issued	200,229	13,128	168,611	887
Other financial liabilities	18,035	79	3,071	-
Finance lease liabilities	(3)	3,124	68	3,293
Derivatives - hedge accounting	4,718	-	267	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	1	-
Provisions	9	3,646	9	3,111
Current tax liabilities	117	-	60	-
Deferred tax liabilities	-	126	-	167
Other liabilities	5,372	335	4,209	-
Total Liabilities	**671,700**	**826,845**	**696,862**	**691,572**

53. 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	2021	2020
Opening balance of debt securities issued as of 1 January (Note 19)	169,498	5,634
Cash-flows reported within the cash-flow from financing activities	44,100	163,864
Non-cash adjustment	(241)	-
Closing balance of debt securities issued as of 31 December	**213,357**	**169,498**

Cash-flows from lease liabilities

in CZK million	2021	2020
Opening balance of lease liabilities as of 1 January	3,361	3,187
Cash-flows reported within the cash-flow from financing activities	(644)	(629)
Non-cash adjustments	404	803
Closing balance of lease liabilities as of 31 December	**3,121**	**3,361**

Non-cash adjustments includes the interest expense and the lease liability from the newly concluded and modified contracts in 2021 and 2020.

54. Events after the balance sheet date

As at 1 January 2022 the company MOPET CZ a.s. entered into liquidation. As at 16 February 2022 the subsidiary Dostupné bydlení České spořitelny, a.s. was established.

As at 24 February 2022, the Russian federation, supported by Belarus, invaded Ukraine. Such unprecedented act has almost immediately induced strong reaction including economical sanction imposed on the Russian federation and Belarus as well as on corporations and private individuals. Furthermore, the world market has reduced its trading activities towards the Russian federation and Belarus. Following such situation and strong clients deposit withdrawal requests, forced administration was imposed on Sberbank CZ, a subsidiary of Russia's state-owned central bank. The Group considers these acts as non-adjusting post balance sheet events.

The Group has been morally impacted by such a terrible act and the Group fully condemns the war. Nevertheless, the economic impact is rather limited. The Group has negligible credit exposure to the state or corporations domiciled in Russia and trading activities in RUB are insignificant. Therefore, neither Russia's military aggression against Ukraine nor the current economic sanctions against Russia pose any significant financial threat to the stability of the Group.

The Group is aware that some of its clients have their operations in Russia or Ukraine but currently is not able to quantify the impact on its ability to repay their loan exposures. The Group is closely monitoring their economic situation and will react accordingly.

55. 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		2021 Interest in %	2020 Interest in %
Fully consolidated subsidiaries			
Credit institutions			
Stavební spořitelna České spořitelny, a.s.	Prague	100.00%	100.00%
Other financial institutions			
brokerjet České spořitelny, a.s. v likvidaci	Prague	-	100.00%
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%
CS Property Investment Limited ('CSPIL')	Cyprus	-	100.00%
Czech and Slovak Property Fund B.V. ('CSPF B.V.')	The Netherlands	100.00%	100.00%
Czech TOP Venture Fund B.V.('CTVF B.V.')	The Netherlands	-	84.00%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.00%	100.00%
Leasing České spořitelny, a.s. (former s Autoleasing, a.s.)	Prague	100.00%	100.00%
Erste Leasing, a.s.	Znojmo	-	100.00%
Factoring České spořitelny, a.s.	Prague	100.00%	100.00%
MOPET CZ 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			
CP Praha s.r.o., v likvidaci	Prague	20.00%	20.00%
CPDP 2003 s.r.o.	Prague	100.00%	100.00%
CPP Lux S.A.R.L.	Luxemburg	20.00%	20.00%
ČS Seed Starter, a.s.	Prague	100.00%	100.00%
Erste Grantika Advisory, a.s.	Brno	100.00%	100.00%
Holding Card Service, s.r.o.	Prague	66.70%	75.40%
ČS NHQ s.r.o.	Prague	100.00%	100.00%
REICO nemovitostní fond SICAV a.s.	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%
Other investments			
Other financial institutions			
DINESIA a.s.	Prague	100.00%	100.00%
Other			
CBCB – Czech Banking Credit Bureau, a.s.	Prague	20.00%	20.00%
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	40.00%	40.00%
Procurement Services CZ, s.r.o.	Prague	40.00%	40.00%
První certifikační autorita, a.s.	Prague	23.30%	23.30%
RVG Czech, s.r.o	Prague	-	100.00%
S SERVIS, s.r.o.	Znojmo	100.00%	100.00%
Global Payments, s.r.o.	Prague	49.00%	49.00%
Realitní společnost České spořitelny, a.s.	Prague	-	100.00%
Bankovní identita, a.s.	Prague	17.00%	33.33%

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 2021, the portfolio of subsidiary and associate undertakings underwent the following changes:

- On 20 January 2021 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 100 million.
- Czech TOP Venture Fund B.V. v likvidaci was deleted from the Commercial Register on 26 February 2021. The Company paid the liquidation balance of EUR 614,213.04 to the Bank.
- On 15 March 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 23 million.
- On 22 March 2021 the Bank increased its investment in Bankovní identita, a.s. by CZK 16 million.
- In the company Bankovní identita, a.s. the Bank's share decreased to 17 % as a result of accession of other banks as at 19 April 2021, the company was deconsolidated and transfered to FVPL portfolio in May 2021.
- Effectively since 1 April 2021 the company sAutoleasing, a.s. was renamed to Leasing České spořitelny.
- On 18 June 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 2 million.
- On 30 July 2021 the Bank increased the share premium in CEE Property Development Portfolio B.V. by EUR 50 thousand.
- On 20 August 2021 the company brokerjet České spořitelny, a.s. v likvidaci paid the liquidation balance of CZK 64,253 thousand to the Bank. The company was deleted from the Commercial Register on 30 September 2021.
- On 3 September 2021 the Bank increased the share premium in CEE Property Development Portfolio B.V. by EUR 100 thousand.
- On 1 December 2021 the company Erste Leasing, a.s. ceased to exist as a result of the merger with Leasing České spořitelny, a.s.
- On 15 December 2021 the share capital of Holding Card Service, s.r.o. increased to CZK 873 million, Erste Group Bank AG became a new shareholder with 11.52% share. The Bank's share in the company decreased to 66.7%.
- On 20 December 2021 the company CS Property Investment Limited entered into liquidation, the company was deconsolidated and reclassified into FVPL portfolio.
- On 21 December 2021 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 11 million.

During the year ended 31 December 2020, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In February 2020 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 30 million.
- In April 2020 the Bank increased its investment in Erste Grantika Advisory, a.s. by CZK 20 million and ČS NHQ, s.r.o. by CZK 39 million.
- On 6 April 2020, a rebranding took place in Erste Corporate Finance, a.s. – the new name of the subsidiary is ČS Seed Starter, a.s. The change was entered into the Commercial Register on 13 May 2020.
- On 8 August 2020, the shares of VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci, were liquidated. The subsidiary was removed from the Commercial Register on 25 September 2020.
- In August 2020 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 2.9 million.
- In September 2020 the Bank increased its investment in ČS NHQ, s.r.o. by CZK 61 million.
- As of 15 September 2020 new company Bankovní identita, a.s. was established and included in the Group's IFRS consolidation scope since 1 November 2020. The Bank contributed CZK 1 million of share equity.
- In October 2020 the Bank increased its investment in Bankovní identita a.s. by CZK 16.2 million and CZK 3.8 million and in ČS Seed Starter, a.s. by CZK 2.8 million.
- In November 2020 the Bank increased its investment in Budějovická development, s.r.o. by CZK 327 million.
- As of 26 November 2020 the company BGA Czech, s.r.o., v likvidaci, was liquidated.
- In December 2020 the Bank increased its investment in ČS Seed Starter, a.s. by CZK 6 million.
- As of 1 December 2020 the Bank sold its investment in Energie ČS, a.s. and as of 17 December 2020 the subsidiary Czech Top Venture Fund B.V. entered into liquidation.

APPENDIX: OWN FUNDS AND CAPITAL REQUIREMENTS

Regulatory Scope of Application

Among others, the Group fulfils hereinafter the disclosure requirements according to the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR for short), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU) . Both the CRD IV and CRD V were transposed into national law in the Banking Act and the ČNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms, as well as within various technical standards issued by the European Banking Authority (EBA).

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

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS regulatory capital components. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation Further details are explained in the section 'Regulatory scope of consolidation and institutional protection scheme'. The uniform closing date of the consolidated regulatory figures of the Group is the 31 December of the respective year.

Consolidated own funds

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

The items of own fundsas disclosed are also used for internal capital management purpose, except T2 capital instruments the Group fulfilled the capital requirements. The regulatory minimum capital ratios including the capital buffers as of 31 December 2021 amount to

- 9.48% for CET1 (4.5% CET1, +2.5% capital conservation buffer, +2.0% systemic risk buffer and +0.48% countercyclical capital buffer),
- 10.98% for tier 1 capital (sum of CET1 and AT1) and
- 12.98% for total own funds.

The capital buffer requirements are set out in the section 12 of the Banking Act and specified in Title II of ČNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms.

According to section 12n of the Banking Act the Group has to establish a capital conservation buffer in the amount of 2.5%.

According to section 12i of the Banking Act and ČNB´s decision the Group has to establish a systemic risk buffer in the amount of 2.0%.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

The ECB Banking Supervision adjusted the SREP approach for 2020 in light of the COVID-19 crisis. Therefore the ECB has not issued a SREP decision 2020, but rather chose a pragmatic SREP 2020 approach which keeps the SREP 2019 decision in place and confirms a Pillar 2 requirement (P2R) of 1.40%.

The regulatory minimum capital ratios including the capital buffers and SREP requirements as of 31 December 2021 amount to

- a CET1 requirement of 10.53% (Pillar 1 requirement of 4.5%, combined capital buffers of 4.98% and 75% of 1.40% Pillar 2 requirement),
- a T1 requirement of 12.38% (CET1 requirement plus Pillar 1 AT1 requirement of 1.5% and 25% of 1.40% Pillar 2 requirement) and
- a total own funds requirement of 14.38% (Tier 1 requirement plus Pillar 1 T2 requirement of 2.0% and 0% of 1.40% Pillar 2 requirement).

Overview of capital requirements and buffers

	2021	2020
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)	**4.98%**	**5.99%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.48%	0.49%
Systemic risk buffer	2.00%	3.00%
O-SII capital buffer	0.00%	0.00%
Minimum CET 1 requirement (incl.CBR)	9.48%	10.49%
Minimum Tier 1 requirement (incl.CBR)	10.98%	11.99%
Minimum Own Funds requirement (incl.CBR)	12.98%	13.99%
Pillar 2	**1.40%**	**1.40%**
Minimum CET1 requirement	1.05%	1.02%
Minimum T1 requirement	1.40%	1.40%
Minimum Own Funds requirement	1.40%	1.40%
Total CET 1 requirement for Pillar 1 and Pillar 2	**10.53%**	**11.54%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**12.38%**	**13.39%**
Total Capital requirement for Pillar 1 and Pillar 2	**14.38%**	**15.39%**

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	2021	2020
Common equity tier 1 capital (CET1)		
Capital instruments eligible as CET1	15,202	15,202
Retained earnings	109,216	105,175
Interim profit	3,423	2,555
Accumulated other comprehensive income	(5,396)	1,064
Other reserve funds	418	414
Common equity tier 1 capital (CET1) before regulatory adjustments	**122,445**	**123,996**
Prudential filter: cash flow hedge reserve	5,346	(862)
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(2)	(3)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(43)	(27)
Value adjustments due to the requirements for prudent valuation	(83)	(56)
Securitizations with a risk weight of 1,250%	(494)	(113)
Other intangible assets	(5,930)	(5,712)
CET1 capital elements or deductions – other	(436)	-
Common equity tier 1 capital (CET1)	**121,221**	**117,637**
Additional tier 1 capital (AT1)		
Capital instruments eligible as AT1	9,040	17,147
Additional tier 1 capital (AT1) before regulatory adjustments	**9,040**	**17,147**
Additional tier 1 capital (AT1)	**9,040**	**17,147**
Tier 1 capital = CET1 + AT1	**130,261**	**134,784**
Tier 2 capital (T2)		
IRB excess of provisions over expected losses eligible	2,693	2,595
Tier 2 capital (T2) before regulatory adjustments	**2,693**	**2,595**
Tier 2 capital (T2)	**2,693**	**2,595**
Total own funds	**132,954**	**137,379**
Capital requirement	**44,670**	**42,885**
CET1 capital ratio	**21.70%**	**21.94%**
Tier 1 capital ratio	**23.30%**	**25.14%**
Total capital ratio	**23.80%**	**25.63%**

With the approval granted by the ČNB on February 8, 2022, the Group considers the annual profit of CZK 14,181 million reduced by the expected payment of dividends of CZK 10,758 million within its own funds in accordance with Art. 26 (2) CRR.

The position CET1 elements or deduction – Others include development of unaudited risk provisions during the year (EU No 183/2014) and insufficient coverage for non-performing exposures (NPE Backstop) covering the requirements from both Art. 36 para 1 (m) CRR in connection with Art. 47(c) CRR and the Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards with regard to disclosure of own funds requirements. Positions, which are not relevant for the Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

Likewise financial statements of single entities within the Group have not been noticed by the supervisory board yet. In addition, no resolution on the appropriation of the profit has yet been made by the general meeting of the single entity.

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

in CZK million	2021 Total risk	2021 Capital requirement	2020 Total risk	2020 Capital requirement
Total Risk Exposure Amount	558,370	44,670	536,063	42,885
Risk weighted assets (credit risk)	491,492	39,319	471,703	37,736
Standardised approach	42,628	3,410	39,229	3,138
IRB approach	448,864	35,909	432,474	34,598
Trading book, foreign FX risk and commodity risk	11,169	894	4,942	395
Operational Risk	52,156	4,172	56,672	4,534
Exposure for CVA	3,553	284	2,746	220

Separate Financial Statements

for the Year Ended 31 December 2021

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

The Separate Statement of Income for the Year Ended 31 December 2021 **202**

The Separate Statement of Other Comprehensive Income for the Year Ended 31 December 2021 **203**

The Separate Statement of Financial Position as at 31 December 2021 **204**

The Separate Statement of Changes in Equity for the Year Ended 31 December 2021 **206**

The Separate Statement of Cash Flows for the Year Ended 31 December 2021 **207**

The Notes to the Separate Financial Statements for the year ended 31 December 2021 **209**

The Separate Statement of Income

for the Year Ended 31 December 2021

in CZK million	Notes	2021	2020
Net interest income	1	28,984	27,095
Interest income	1	31,207	29,782
Other similar income	1	3,256	5,210
Interest expenses	1	(3,171)	(3,406)
Other similar expenses	1	(2,308)	(4,491)
Net fee and commission income	2	7,968	7,277
Fee and commission income	2	9,667	8,661
Fee and commission expense	2	(1,699)	(1,384)
Dividend income	3	216	154
Net trading result	4	1,869	1,926
Gains/losses from financial instruments measured at fair value through profit or loss	5	(121)	569
Rental income from other operating leases	6	36	60
Personnel expenses	7	(10,383)	(9,177)
Other administrative expenses	7	(6,332)	(6,179)
Depreciation and amortisation	7	(2,659)	(2,601)
Gains/losses from derecognition of financial assets measured at amortised cost	8	(238)	-
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	(4)	(1)
Impairment result from financial instruments	10	(1,613)	(7,748)
Other operating result	11	(1,482)	(448)
Pre-tax result from continuing operations		**16,241**	**10,927**
Taxes on income	12	(3,585)	(2,135)
Net result for the period		**12,656**	**8,792**

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

The Separate Statement of Other Comprehensive Income

for the Year Ended 31 December 2021

in CZK million	Notes	2021	2020
Net result for the period		**12,656**	**8,792**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(1)**	**(1)**
Own credit risk reserve	12	(1)	(1)
Items that may be reclassified to profit or loss		**(6,468)**	**3,022**
Fair value reserve of debt instruments	12	(321)	56
Gains/losses during the period		(343)	(10)
Credit loss allowances	10	22	66
Cash flow hedge reserve		(7,664)	3,675
Gains/losses during the period	12, 25	(7,664)	3,675
Deferred tax relating to items that may be reclassified	12	1,517	(709)
Gains/losses during the period		1,517	(709)
Total other comprehensive income / (loss)	**12**	**(6,469)**	**3,021**
Total comprehensive income for the year		**6,187**	**11,813**

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

The Separate Statement of Financial Position

as at 31 December 2021

in CZK million	Notes	2021	2020
Assets			
Cash and cash balances	14	36,663	36,459
Financial assets held for trading		15,561	11,382
Derivatives	19	15,508	11,281
Other financial assets held for trading	21	53	101
Non-trading financial assets at fair value through profit or loss	20	2,392	2,403
Equity instruments		836	976
Debt securities		812	944
Loans and advances to customers		-	40
Loans and advances to banks		744	443
Financial assets at fair value through other comprehensive income	23	29,831	19,517
Debt securities		29,831	19,517
Financial assets at amortised cost	15	1,450,356	1,366,244
Thereof pledged as collateral		79,881	57,783
Debt securities		319,331	247,553
Loans and advances to banks		360,941	418,106
Loans and advances to customers		770,084	700,585
Finance lease receivables	39	206	216
Hedge accounting derivatives	19	607	2,654
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(10)	12
Property, equipment and right-of-use assets	36	10,998	11,561
Intangible assets	37	6,079	5,837
Investments in subsidiaries and associates	40	9,253	9,248
Current tax assets	12	992	1,403
Deferred tax assets	12	2,333	629
Assets held for sale	47	20	24
Trade and other receivables	17	5,469	555
Other assets	38	907	770
Total assets		**1,571,657**	**1,468,914**

in CZK million	Notes	2021	2020
Liabilities and equity			
Financial liabilities held for trading	19	15,392	12,895
Derivatives		15,392	12,895
Financial liabilities at fair value through profit or loss	22	10,653	3,784
Deposits from customers		10,653	3,784
Financial liabilities at amortised cost	18	1,394,924	1,299,256
Deposits from banks		47,757	88,909
Deposits from customers		1,110,008	1,031,851
Debt securities issued		219,986	176,128
Other financial liabilities		17,173	2,368
Lease liabilities	39	3,817	3,988
Hedge accounting derivatives	19	4,718	267
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	1
Provisions	42	3,588	3,066
Other liabilities	41	4,623	3,679
Total equity	**44**	**133,942**	**141,978**
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		9,040	17,147
Retained earnings and other reserves		109,690	109,619
Total liabilities and equity		**1,571,657**	**1,468,914**

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 2022 and are subject to approval at the General Meeting of shareholders.



Tomáš Salomon
Chairman of the Board of Directors



Ivan Vondra
Vice-chairman of the Board of Directors

The Separate Statement of Changes in Equity

for the Year Ended 31 December 2021

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 at 1 January 2020	**15,200**	**12**	**100,656**	**17,146**	**(2,115)**	**326**	**5**	**131,230**
AT1 Distribution	-	-	(1,068)	-	-	-	-	(1,068)
Other changes	-	-	3	-	-	-	-	3
Total comprehensive income	-	-	8,792	-	2,976	46	(1)	11,813
Net result for the period	-	-	8,792	-	-	-	-	8,792
Other comprehensive income	-	-	-	-	2,976	46	(1)	3,021
Change in fair value reserve	-	-	-	-	-	56	-	56
Change in cash flow hedge reserve	-	-	-	-	3,675	-	-	3,675
Change in tax	-	-	-	-	(699)	(10)	-	(709)
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk	-	-	-	-	-	-	(1)	(1)
As at 31 December 2020	**15,200**	**12**	**108,383**	**17,146**	**861**	**372**	**4**	**141,978**
As at 1 January 2021	**15,200**	**12**	**108,383**	**17,146**	**861**	**372**	**4**	**141,978**
Dividends paid /AT 1 distribution	-	-	(6,336)	-	-	-	-	(6,336)
AT1 Call	-	-	484	(8,107)	-	-	-	(7,623)
Other changes	-	-	(265)	-	1	-	-	(264)
Total comprehensive income	-	-	12,656	-	(6,208)	(260)	(1)	6,187
Net result for the period	-	-	12,656	-	-	-	-	12,656
Other comprehensive income	-	-	-	-	(6,208)	(260)	(1)	(6,469)
Change in fair value reserve	-	-	-	-	-	(321)	-	(321)
Change in cash flow hedge reserve	-	-	-	-	(7,664)	-	-	(7,664)
Change in tax	-	-	-	-	1,456	61	-	1,517
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk	-	-	-	-	-	-	(1)	(1)
As at 31 December 2021	**15,200**	**12**	**114,922**	**9,039**	**(5,346)**	**112**	**3**	**133,942**

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

The Separate Statement of Cash Flows

for the Year Ended 31 December 2021

in CZK million	Notes	2021	2020
Pre-tax result from continuing operations		**16,241**	**10,927**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	7	3,245	2,529
Net allocation to provisions (including credit risk provisions)	11,32	1,803	7,671
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		492	24
Gains/(losses) from the sale of non-financial assets		(276)	(64)
Change in fair values of derivatives		(1,721)	1,356
Accrued interest, amortisation of discount and premium		(2,765)	747
Other adjustments		(103)	(68)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		19	66
Non-trading financial assets at fair value through profit or loss			
Equity instruments		170	(271)
Debt securities		133	421
Loans and advances to customers		(261)	958
Financial assets at fair value through other comprehensive income: debt instruments		(10,986)	1,604
Financial assets at amortised cost			
Debt securities		(73,048)	(32,137)
Loans and advances to banks		59,635	(20,305)
Loans and advances to customers		(75,352)	(25,504)
Finance lease receivables		2	(187)
Hedge accounting derivatives		(1,166)	88
Other assets from operating activities		(4,949)	467
Financial liabilities at amortised costs			
Deposits from banks		(38,570)	(206,090)
Deposits from customers		78,954	102,313
Financial liabilities at fair value through profit or loss		6,731	199
Payments for taxes on income		(3,362)	(4,381)
Other liabilities from operating activities		14,547	(35)
Cash flow from operating activities		**(30,587)**	**(159,672)**
Proceeds of disposal			
Property and equipment, intangible assets and investment properties	36,37	294	1,493
Investment securities		(30)	32
Acquisition of			
Property and equipment, intangible assets and investment properties	36,37	(2,365)	(2,497)
Disposal of subsidiaries	40	(5)	(460)
Cash flow from investing activities		**(2,106)**	**(1,432)**
AT1 Call		(8,107)	-
Dividends paid to equity holders of the parent/AT1 distribution		(6,336)	(1,068)
Proceeds from bonds issued		44,098	163,825
Payments of lease liability		(861)	(751)
Cash flow from financing activities		**28,794**	**162,006**
Cash and cash equivalents at beginning of period	**14**	**36,459**	**38,868**
Cash flow from operating activities		(30,587)	(159,672)
Cash flow from investing activities		(2,106)	(1,432)
Cash flow from financing activities		28,794	162,006
Effect of currency translation		4,103	(3,311)
Cash and cash equivalents at end of period	**14**	**36,663**	**36,459**

in CZK million	Notes	2021	2020
Operating cash flows from interest			
Interest received		31,502	35,482
Interest paid		5,284	7,986

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

Notes to the Separate Financial Statements

for the year ended 31 December 2021

A. 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 2021 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.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The separate financial statements of the Bank for the 2021 financial year and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002 under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of the separate financial statements are set out below or in individual Notes to which they relate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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 separate financial statements have been prepared on a going concern basis. The Bank has not prepared the separate annual report and intends to include the required information in the annual report together with consolidated financial statements. The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the 'Group'). Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2021 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.

b) COVID-19 disclosures

In separate financial statements considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

- The chapter 'c) Accounting and Measurement Methods' discusses the accounting and measurement methods used for state moratoria and payment holidays, public guarantees including significant effects of those topics on the separate financial statements.
- The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 outbreak.
- Note 32 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the ECL measurement, sensitivity analyses and information on credit exposures subject to certain COVID-19 measures.

c) Accounting and Measurement Methods

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.

Accounting treatment of issues related to COVID-19

Since the beginning of 2020, there has been a significant spread of the disease COVID-19 caused by a new type of coronavirus, which disrupted many business and economic activities. In view of the expected clients' cash-flow shortfalls the Bank offered in March 2020 its clients, who experienced difficulties with repayment as a result of the COVID-19 pandemic, a voluntary (individual) deferral of repayments for 3 months in the case of a housing loans, i.e., mortgage and consumer loans and loans from building society (hereinafter also referred to as „internal moratorium").

Subsequently, this programme was replaced by a state moratorium under the Act 177/2020 Coll. on Certain Measures for Repayment of Loans in Connection with the COVID-19 Pandemic (hereinafter also referred to as „state moratorium"). Under the state moratorium, clients who were in financial difficulties with direct connection with the COVID-19 epidemic could request a deferral of payments and could choose from two options of the protection period duration (deferral period until 31 July 2020 or 31 October 2020). Interest on loans was not discontinued during the state moratorium. In case of the retail loans for consumers the nominal amount of interest accrued during the period was repaid after the original principal repayment and the interest must not exceed the interest rate determined by the interest rate in the amount of the repo rate announced by the ČNB increased by 8 percentage points. In case of the loans to other subjects the interest has to be repaid also during the moratorium according to the contractual terms.

Following the expiration of the state moratorium at the end of October 2020, the Bank offered its clients, who further experienced economic difficulties caused by COVID-19, several options to ease the repayment requirements. Retail clients could choose to postpone loan instalments for 3 months or to decrease instalments payments for 6 months. The corporate clients are closely monitored and if any relieve was needed, the conditions were modified to suits clients' needs.

In cooperation with Národní rozvojová banka, a.s. (former Českomoravská záruční a rozvojová banka, a.s.) ("NRB"), the Bank also enabled entrepreneurs to quickly draw bridging loans supported by the NRB's guarantee (COVID II., COVID Prague, COVID III.) And in cooperation with the state Exportní garanční a pojišťovací , a.s. ("EGAP"), the Bank also offers its clients loans supported by the EGAP's guarantee (COVID Plus).

Due to the different levels of impacts on individual sectors, the Bank adjusted its policy for classifying receivables into the impairment levels, depending on the client's industry, internal rating, days past due and whether the client requested a deferral of payments due to the COVID-19 epidemic.

For loans with deferred instalments (i.e. internal and state moratoria), the Bank recognized an modification loss on the gross carrying amount of the asset in the amount of the difference between the

pre-contractual gross carrying amount and the present value of cash flows based on adjusted terms discounted at the original effective interest rate (in compliance with IFRS 9.5.4.3). The Bank recognized this loss in the statement of income under "Net interest income" (line "Interest income" or "Interest expense") in the case of financial assets classified in Stage 1 or in the item "Impairment of financial instruments" in the case of financial assets classified as to Stage 2 or 3.

Interest on loans impacted by the modification has not been suspended, however the interest is then earned from the adjusted gross carrying amount.

In 2020 the Bank recognized the modification loss of CZK 328 million, no further modification losses were accounted for in the year 2021. Out of the total amount the Bank has recognized CZK 248 million in the statement of income under „Net interest income", remaining CZK 80 million has been recognized under „Impairment of financial instruments".

The Bank regularly reviews impairment indicators on Property, equipment and right-of-use assets, Intangible assets, no significant impact on the level of impairment due to the COVID-19 has been identified.

The Bank also adjusted forward looking information (FLI) in the calculation of expected credit losses (ECL), which was reflected in portfolio allowances for credit losses. The parameters are set to reflect the baseline forecast as well as alternative macroeconomic scenarios. Alternative scenarios, together with the probability of occurrence, are derived as a deviation from the baseline forecast.

The probability-weighted ECL is derived using weights representing the probability of occurrence of each macroeconomic scenario. The main indicator of estimated economic development is the development of GDP.

The following factors, which occured at the end of 2021, led to a 40% probability of a baseline forecast:

- new variant of COVID-19 (omicron),
- rising inflation connected with rising interest rates,
- the unstable development of the geopolitical situation in Ukraine / Russia, which may lead to a further rise in energy prices.

The Bank took into account the higher volatility of macroeconomic variable estimates and the significantly higher risk of macroeconomic downturns due to the current development of the COVID-19 pandemic and introduced a conservative downward scenario with a probability of 49%.

In addition, the specific pandemic situation and extensive support measures lead to delays in the macroeconomic impact on credit risk parameters. The macroeconomic variables 2020 and 2021 were therefore included as another predictor of future parameter values.

At the same time, the Bank adjusted individual allowances for credit losses for selected exposures to significant clients in default in Level 3.

For detailed description related to COVID-19 situation, FLI and ECL see Note 32 Credit risk.

d) 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 – Significant accounting policies)
- Business model assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 32 Credit risk, Provisions (Note 42 Provisions))

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect the Bank's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and other non-financial assets impairment assessments. All negative effects that could be reasonable estimated were recognised by 2021 end. The Bank will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

e) Application of amended and new IFRS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2021. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below. None of the standards have been adopted by the Group before the effective date.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2021 and have been endorsed by the EU:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2;
- Amendments to IFRS 16 Leases: COVID-19- Related Rent Concessions beyond 30 June 2021;
- Amendment to IFRS 4 – deferral of IFRS 9.

Application of the above mentioned amendments in 2021 did not have a significant impact on the Bank's financial statements and for details related to Interest Rate Benchmark Reform ("IBOR reform") are disclosed in Note 25 Hedge accounting and section "Application of the Interest Rate Benchmark Reform IAS 39 amendments".

Standards and interpretations not yet effective

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

Following amendments to standards and interpretations are already endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle;
- IFRS 17: Insurance contracts;
- Amendments to IFRS 17 and an amendment to IFRS 4;
- Amendments to IFRS 16: Covid-19-Related Rent Concessions.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 18 February 2022:

- Amendments to IAS 1: Disclosure of Accounting Policies;
- Amendments to IAS 1: Classification of liabilities as current or non-current;
- Amendments to IAS 1: Classification of liabilities as current or non-current - deferral of effective date;
- Amendments to IAS 8: Definition of Accounting Estimates;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IFRS 17: Transition option to insurers applying IFRS 17.

Annual Improvements to IFRSs 2018-2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 3, IFRS 9, IFRS 16, IAS 16, IAS 37 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 9 clarifies that only fees paid or received between the entity (the borrower) and the lender are included in applying the '10 per cent' test for derecognition of a financial liability. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Bank is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Bank will estimate the effect on its financial statements when this has been clarified.

Amendments to IFRS 17 and an amendment to IFRS 4. The amendments to IFRS 17 and IFRS 4 were issued on 25 June 2020 and are effective for annual periods beginning on or after 1 January 2023. The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The Bank is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Bank will estimate the effect on its financial statements when this has been clarified.

Amendments to IFRS 16: Covid-19-Related Rent Concessions. The amendments to IFRS 16 were issued on 31 March 2021 and are effective for annual periods beginning on or after 1 April 2021. In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

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

Amendments to IAS 1: Classification of liabilities as current or non-current. The amendments to IAS 1 were issued in on 23 January 2020 and are effective for annual periods beginning on or after 1 January 2022. These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1: Classification of liabilities as current or non-current – deferral of effective date. The amendments to

IAS 1 were issued in on 15 July 2020 and are effective for annual periods beginning on or after 1 January 2023. The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued in February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

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

Amendments to IFRS 17: Transition option to insurers applying IFRS 17. The amendments to IFRS 17 were issued on 9 December 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17. The Bank is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Bank will estimate the effect on its financial statements when this has been clarified.

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 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 effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

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

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

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

in CZK million	2021	2020
Interest and other similar income		
Financial assets at fair value through other comprehensive income	406	377
Financial assets at amortised costs	30,801	29,405
Interest income	**31,207**	**29,782**
Financial assets held for trading	2,392	4,799
Non-trading financial assets at fair value through profit or loss	-	13
Derivatives – Hedge accounting, interest rate risk	696	182
Other assets	2	2
Negative interest from financial liabilities	166	214
Other similar income	**3,256**	**5,210**
Total interest and other similar income	**34,463**	**34,992**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(3,171)	(3,406)
Interest expenses	**(3,171)**	**(3,406)**
Financial liabilities at fair value through profit or loss	(14)	(5)
Financial liabilities held for trading	(2,120)	(4,310)
Derivatives – Hedge accounting, interest rate risk	10	18
Other liabilities	(44)	(49)
Negative Interest from financial assets	(140)	(145)
Other similar expenses	**(2,308)**	**(4,491)**
Total interest and other similar expense	**(5,479)**	**(7,897)**
Net interest income	**28,984**	**27,095**

Interest income on impaired financial assets amounted to CZK 280 million (2020: CZK 352 million). In addition in 2021 no modification gains or losses of financial instruments allocated to Stage 1 were recognized. In 2020 the Bank reported loss in the amount of CZK 248 million in line item 'Financial assets at amortised costs'.

The amounts disclosed in the line items 'Negative interest from financial liabilities' and 'Negative interest from financial assets' relate to the interbank business, deposits and refinancing with central banks only.

2. Net fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees 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	2021		2020	
	Income	Expenses	Income	Expenses
Securities	685	(111)	526	(117)
Clearing and settlement	-	(4)	-	(4)
Asset management	228	(53)	205	(33)
Custody	134	(23)	134	(16)
Payment services	3,752	(670)	3,609	(536)
Customer resources distributed but not managed	3,557	-	3,006	-
Collective investment	1,651	-	1,322	-
Insurance products	1,594	-	1,458	-
Building society brokerage	189	-	154	-
Other	123	-	72	-
Servicing fees from securitization activities	-	(41)	-	(54)
Lending business	986	(418)	860	(261)
Other	325	(379)	321	(363)
Total fee and commission income and expenses	**9,667**	**(1,699)**	**8,661**	**(1,384)**
Net Fee and commission income	**7,968**		**7,277**	

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 and amount to CZK 1,819 billion (2020: CZK 1,014 billion).

Net fee and commission income above include income of CZK 3,098 million (2020: CZK 3,192 million) relating to other financial instruments not measured at FVPL.

The Bank has decided to unify the reporting of asset management fees (commission fee received for arranging the sale of the Bank funds) with Erste Group Bank methodology and consequently changed their classification for the comparable period. As a result of this change, fee income in the line 'Securities' decreased by CZK 1,322 million and fee income in the line 'Customer resources distributed but not managed' (sub-item 'Collective investment') increased by CZK 1,322 million in 2020.

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	2021	2020
Non-trading financial assets at fair value through profit or loss	166	54
Financial assets at fair value through other comprehensive income	-	2
Financial assets at cost	50	98
Dividend income	**216**	**154**

4. Net trading result

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

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, c) Accounting and measurement methods, 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	2021	2020
Securities and derivatives trading	84	133
Foreign exchange transactions	2,012	1,745
Gains or losses from hedge accounting	(227)	48
Net trading result	**1,869**	**1,926**

In 2008, Česká spořitelna 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	2021	2020
Realised and unrealised gains on trading assets	500	270
Foreign exchange trading	244	173
Total	**744**	**443**

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

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

in CZK million	2021	2020
Result from measurement/sale of financial assets designated at fair value through profit or loss	-	14
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(140)	(28)
Result from financial assets and liabilities designated at fair value through profit or loss	**(140)**	**(14)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	19	583
Gains/losses from financial instruments measured at fair value through profit or loss	**(121)**	**569**

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.

in CZK million	2021	2020
Other operating leases (real estate and cars)	36	60
Rental income from other operating leases	**36**	**60**

7. General administrative expenses

Personnel expenses

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

According to the remuneration policy of the Bank has several categories of employees who receive cash settled performance-linked certificates and bonuses paid as cash-settled share based payment. Total effect of cash-settled bonuses on personnel expenses is CZK 33 million (2020: CZK 31 million). Description and further information about remuneration of Board members including performance-linked remuneration and share based payments can be found in Note 45 Related party transactions.

All employees with an active employment as of 31 December 2021 and at least 6 months active employment within the Bank will receive shares of Erste Group Bank AG in the equivalent of EUR 350 net. This Employee Share Program is awarded when EGB group, including local Banks and Subsidiaries, meets all capital and liquidity requirements and pays dividends. The Bank is the grantor, who is responsible to settle this transaction, therefore, this share-based payment is cash settled and vested immediately. Therefore, based on the number of the entitled employees, personnel expenses in the amount of CZK 150 million as well as the corresponding other liabilities were recognized.

The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes and jubilee benefits.

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	2021	2020
Personnel expenses	**(10,383)**	**(9,177)**
Wages and salaries	(7,269)	(6,476)
Compulsory social security	(2,372)	(2,084)
Other personnel expenses	(742)	(617)
Other administrative expenses	**(6,332)**	**(6,179)**
Deposit insurance contribution	(253)	(243)
IT expenses	(3,072)	(2,973)
Expenses for office space	(780)	(799)
Office operating expenses	(582)	(619)
Advertising / marketing	(887)	(762)
Legal and consulting costs	(196)	(230)
Sundry administrative expenses	(562)	(553)
Depreciation and amortisation	**(2,659)**	**(2,601)**
Software and other intangible assets	(1,051)	(979)
Owner occupied real estate	(509)	(642)
Office furniture and equipment and sundry property and equipment	(403)	(402)
Right-of-use assets	(696)	(578)
General administrative expenses	**(19,374)**	**(17,957)**

Personnel expenses include expenses of CZK 2,372 million (2020: CZK 2,084 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	2021	2020
Remuneration	106	106

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short – term employee benefits and part of variable remuneration as long - term benefit. The description of remuneration model is described in more detail in Note 45 Related party transactions.

Headcount of full time employees per reporting date

	2021	2020
Staff	9,209	9,292

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, except for credit impaired financial instruments.

in CZK million	2021	2020
Gains from sale of financial assets at amortised cost	5	-
Losses from sale of financial assets at amortised cost	(243)	-
Gains from derecognition of financial assets measured at amortised cost	**(238)**	**-**

Due to sell of debt securities during 2021 the Bank realized loss in amount of CZK 243 million. 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	2021	2020
From repurchase of liabilities measured at amortised cost	(4)	(1)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(4)**	**(1)**

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	2021	2020
Financial assets at fair value through other comprehensive income	(22)	(66)
Financial assets at amortised cost	(1,284)	(7,235)
Net allocation to risk provisions	(1,644)	(7,628)
Direct write-offs	(11)	(7)
Recoveries recorded directly to the income statement	371	480
Modification gain or losses	-	(80)
Finance lease	(8)	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(299)	(447)
Impairment result from financial instruments	**(1,613)**	**(7,748)**

Development of risk provision was driven by considerably lower creation in 2021 (CZK 1,644 million) in comparison with 2020 (CZK 7,628 million). Impact of COVID-19 on loan portfolio of Retail as well as Wholesale is gradually fading away, bringing risk costs back to standard level.

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year 2021 a 2020

in CZK million	CLA changes through P&L-NIR	CLA changes through P&L-Outside NIR	CLA changes outside P&L	CLA changes Total
Opening balance of CLA (total) as at 1 January 2021				**(19,320)**
Net impairment loss for the period	(1,522)			(1,522)
(Increase) due to passage of time (unwinding corrections)		(313)		(313)
CLA decreases due to sales			303	303
CLA decreases due to write-offs			871	871
CLA changes due to changes in Group's structure			(131)	(131)
CLA changes due to foreign exchange		207		207
Other CLA changes		286		286
Closing balance of CLA (total) as at 31 December 2021				**(19,619)**
Impairment gain/(loss) from POCI without CLA	(451)			
Direct write-offs	(11)			
Recoveries of written-off amounts	371			
Net impairment loss for the period as at 31 December 2021	**(1,613)**			
Opening balance of CLA (total) as at 1 January 2020				**(12,011)**
Net impairment loss for the period	(7,751)			(7,751)
(Increase) due to passage of time (unwinding corrections)		(206)		(206)
CLA decreases due to sales			144	144
CLA decreases due to write-offs			530	530
Other CLA changes		(26)		(26)
Closing balance of CLA (total) as at 31 December 2020				**(19,320)**
Impairment gain/(loss) from POCI without CLA	(390)			
Direct write-offs	(7)			
Recoveries of written-off amounts	480			
Modification gains and losses attributable to financial assets in Stages 2, 3, POC	(80)			
Net impairment loss for the period as at 31 December 2020	**(7,748)**			

Table shows movements in CLA during the year. From the total movement in CLA (increase in amount of CZK 299 million) CZK 1,522 million was reported in Net impairment result in Profit and Loss (NIR). Other movement (decrease) in amount of CZK 1,223 million represents impact of changes due to sales, write-offs or unwinded corrections recognized in other items in Profit and Loss (e.g. net interest income) or outside Profit and Loss. Beside the CLA movements the NIR was increased by another CZK 90 million consisting of impairment loss from POCI in amount of CZK 451 million, direct write-offs in amount of CZK 11 million and decreased by recoveries of written-offs in amount of 371 CZK million.

11. Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities. The other operating result includes impairment losses or any reversal of impairment losses on non-financial assets as well as results on their sale.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund.

in CZK million	2021	2020
Other operating expenses	**(1,098)**	**(788)**
Allocation to other provisions	(268)	(2)
Other taxes	(12)	(16)
Recovery and resolution fund	(818)	(770)
Other operating income	**2**	**2**
Release of other provisions	2	2
Result from properties/movables/other intangible assets other than goodwill	**(382)**	**198**
Result from other operating expenses/income	**(4)**	**140**
Other operating result	**(1,482)**	**(448)**

In 2021 the Bank accounted for the impairment of the buildings in Prague of CZK 407 million (2020: released CZK 166 million) due to expected building utilization after movement into new HQ. Impairment is reported within the line "Result from properties/movables/other intangible assets other than goodwill".

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 2021 the final annual contribution paid to resolution fund of CZK 818 million was reported within the line "Recovery and resolution fund" (2020: CZK 770 million).

In 2021 the Bank accounted for the provision for legal issues and litigation of CZK 226 million.

12. Taxes on income

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Taxes on income are made up of current taxes on income based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2021	2020
Current tax expense / income	(3,772)	(2,732)
current period	(3,497)	(2,685)
prior period	(275)	(47)
Deferred tax expense / income (+)	187	597
current period	187	597
Total taxes on income	**(3,585)**	**(2,135)**

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	2021	2020
Pre-tax profit/loss	16,241	10,927
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,086)	(2,076)
Non-taxable income	1,001	988
Non-deductible expenses	(1,254)	(1,030)
Other	(246)	(17)
Total	**(3,585)**	**(2,135)**
Effective tax rate	**22,07%**	**19,54%**

In 2021 The Bank has accounted for the additional tax expense related to transfer of means to Depositum Bonum Foundation of CZK 204 million.

Tax effects relating to each component of other comprehensive income:

	2021			2020		
in CZK million	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit	Net-of-tax amount
Cash flow hedge reserve	(7,664)	1,456	(6,208)	3,675	(699)	2,976
Fair value reserve on debt instrument	(321)	61	(260)	56	(10)	46
Own credit risk reserve	(1)	-	(1)	(1)	-	(1)
Other comprehensive income	**(7,986)**	**1,517**	**(6,469)**	**3,730**	**(709)**	**3,021**

In the following tables the major components of deferred tax assets and deferred tax liabilities are shown.

	Tax assets		Tax liabilities		Net variance 2021		
in CZK million	Dec 2021	Dec 2020	Dec 2021	Dec 2020	Total	Through P&L	Through OCI
Temporary differences related to the following items:							
Financial assets at FV	-	-	(31)	(91)	60	(20)	80
Other financial assets at FVOCI	-	-	(90)	(70)	(20)	-	(20)
Financial assets at AC	1,073	1,051	-	-	22	22	-
Property and equipment (useful life in tax law different)	103	93	-	-	10	10	-
Intangible assets other than goodwill	-	-	(379)	(382)	3	3	-
Hedge accounting derivatives	1,254	-		(203)	1,457	-	1,457
Other liabilities	403	231	-	-	172	172	-
Total deferred taxes	**2,833**	**1,375**	**(500)**	**(746)**	**1,704**	**187**	**1,517**
Current taxes	**992**	**1,403**	**-**	**-**	**(411)**		**-**
Total taxes	**3,833**	**2,778**	**(500)**	**(746)**	**1,293**		

	Tax assets		Tax liabilities		Net variance 2020		
in CZK million	Dec 2020	Dec 2019	Dec 2020	Dec 2019	Total	Through P&L	Through OCI
Temporary differences related to the following items:							
Financial assets at FV	-	-	(91)	(66)	(25)	24	(49)
Other financial assets at FVOCI	-	-	(70)	(109)	39	0	39
Financial assets at AC	1,051	233	-	-	818	818	-
Property and equipment (useful life in tax law different)	93	234	-	-	(141)	(141)	-
Intangible assets other than goodwill	-	-	(382)	(348)	(34)	(34)	-
Hedge accounting derivatives	-	496	(203)	-	(699)	-	(699)
Other liabilities	231	301	-	-	(70)	(70)	-
Total deferred taxes	**1,375**	**1,264**	**(746)**	**(523)**	**(112)**	**597**	**(709)**
Current taxes	**1,403**	**-**	**-**	**(246)**	**1,649**		**-**
Total taxes	**2,778**	**1,264**	**(746)**	**(769)**	**1,537**		

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

Out of the total net deferred tax variance of CZK 1,704 million (2020: CZK (112) million) an amount of CZK 187 million (2020: income CZK 597 million) is reflected as net deferred tax expense in the Bank's income statement for the year 2021, whilst an income amount of CZK 1,520 million (2020: expense CZK (709) million) represents the impact in the Bank's other comprehensive income for the year.

The Bank's deferred tax asset position in amount of CZK 2,333 million as of 31 December 2021 (2020: CZK 629 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 12,656 million under the Czech accounting regulations, which increased its distributable capital accordingly (2020: CZK 8,792 million). The equity increased accordingly.

Due to high uncertainty in 2020 and stabilising measures adopted by the ČNB in connection with the COVID-19 epidemic, no dividend was paid for 2019 except for payment of coupons on AT1 instruments in the amount of CZK 1,068 million.

In 2021, the sole shareholder of the Bank has approved distributions (dividends and AT1 coupons) in the total volume of CZK 6,336 million (out of which distribution of dividend of CZK 5,360 million and AT1 coupons of CZK 976 million). Dividend per share was CZK 35.26. These were in line with recommendations received from the ČNB, regarding limiting distributions due to ongoing economic uncertainties. The currently valid ČNB's recommendation will cease to apply after financial results for the year 2021 are audited. A decision on the distribution of 2021 profit has thus not been taken before the date of issue of these financial statements.

The decision of a profit allocation for 2021 has not been taken before the date of issue of the financial statements.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses.

The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset was sold or paid, if a liability was transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 24 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant inputs based on observable markets data, the Bank immediately recognises the difference between the transaction price and the fair value as a gain or loss (also referred to as Day 1 gain or loss). In all other cases, the difference between the fair value at initial recognition and the transaction price is recognized in the carrying amount of the instrument, but the recognition of gains / losses is deferred. After initial recognition, an entity recognizes this deferred difference as a gain / loss only if it results from a change in certain factors (including time) that market participants would consider in determining the price of the instrument. In other words, a deferred difference would only be recognized if the underlying factors are observable and can be confirmed by the market. ".

Classification and subsequent measurement of financial assets

Financial assets – Debt securities

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

(i) the business model for managing the financial assets - the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets – Equity instruments

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank.

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. Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Note 18 Financial liabilities

measured at amortised costs and Note 22 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 balances, its finance lease receivables, its trade and other receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Bank distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending exposures (see details in Note 32 Credit risk). The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is recognised in the allowance account (without impacting the impairment loss).

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 32 Credit risk.

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'.

For financial assets which are credit-impaired at initial recognition (purchased or originated credit-impaired ('POCI') – financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

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'.

In order to maximise collection opportunities and minimise the number of defaults, the Bank renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Bank's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, if the renegotiation can be qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows, the loan is derecognised and the renegotiated loan is recognized as a new loan initially recognised at fair value.

Write-offs

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'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Bank may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Bank has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. As a result, the bank renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

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 unamortized balance of the origination fees/transaction costs considered in the EIR 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 effective interest rate. In the statement of income the modification gain or loss is presented in the line 'Net interest income' (sub-item "Interest income")

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Significant accounting judgements, assumptions and estimates

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees and project financing loans. The benchmark test for loans with interest mismatches features does not represent area of SPPI judgement since the Bank does not provide such products to its customers. Assets failing the SPPI test are classified as mandatorily at FVPL. The Bank has no loan failing SPPI test as of 31 December 2021 and 2020.

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.

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.

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 32 Credit risk. The development of loan loss provisions is described in Note 23 Financial assets at fair value through other comprehensive income, Note 15 Financial assets at amortised cost, Note 42 Provisions, Note 39 Lease, part Finance lease receivables and Note 17 Trade and other receivables.

FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are solely payment of principal and interest ('SPPI') compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit

loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables', 'Finance lease receivables' and 'Cash and cash balances'.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (sub-item "Interest income") in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Bank, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any), interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables.

14. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances with central banks' represents mandatory reserve deposits of CZK 18,446 million (2020: CZK 8,778 million). Mandatory reserve deposits accrue interest at the ČNB's two week repo rate. 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	2021	2020
Cash on hand	16,824	20,020
Cash balances at central banks	18,446	14,778
Other demand deposits	1,393	1,661
Cash and cash balances	**36,663**	**36,459**

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

15. Financial assets at amortized costs

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the Board of Directors, initiation and fostering of client relationship, substitution of loan business or other yield generating activities). Their common attribute is that significant and/or frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the paragraph "Business model assessment" in chapter Financial instruments - Significant accounting policies.

The analysis of the GCA and of related CLA of Bank's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2021 and 2020 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	Total	Stage 1	Stage 2	Total	Carrying amount
2021							
General governments	307,589	-	307,589	(14)	-	(14)	307,575
Credit institutions	11,754	-	11,754	(5)	-	(5)	11,749
Non-financial corporations	-	7	7	-	-	-	7
Total	**319,343**	**7**	**319,350**	**(19)**	**-**	**(19)**	**319,331**
2020							
General governments	236,823	-	236,823	(12)	-	(12)	236,811
Credit institutions	10,289	453	10,742	(6)	(1)	(7)	10,735
Non-financial corporations	4	3	7	-	-	-	7
Total	**247,116**	**456**	**247,572**	**(18)**	**(1)**	**(19)**	**247,553**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2021 and 2020.

The movement in the credit loss allowances for debt securities at AC in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2021						**Dec 2021**
Stage 1	(18)	(3)	1	1	(1)	1	(19)
Stage 2	(1)	-	-	-	1	-	-
Total	**(19)**	**(3)**	**1**	**1**	**-**	**1**	**(19)**
	Jan 2020						**Dec 2020**
Stage 1	(17)	(86)	2	-	84	(1)	(18)
Stage 2	-	-	-	(2)	1	-	(1)
Total	**(17)**	**(86)**	**2**	**(2)**	**85**	**(1)**	**(19)**

In column 'Additions' increases of CLA due to the initial recognition of debt securities at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities 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 debt securities from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

One significant driver of the CLA movements for the current year has been the transfer of the related instruments across different stages. The year-end GCAs of AC debt securities 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 in the table below:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	4	456
To Stage 1 from Stage 2	454	4

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2021 and not sold by 31 December 2021 amounts to CZK 106,656 million (2020: CZK 50,330 million). The GCA of AC debt securities that were held at 1 January 2021 and de-recognized (matured/sold) during the year 2021 amounts to CZK 34,859 million (2020: CZK 17,608 million).

Loans and advances to banks at amortised cost

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 2021 and 2020 is provided in the table below:

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

In CZK million	GCA Stage 1	CLA Stage 1	Carrying amount
2021			
Central banks	356,252	(2)	356,250
Credit institutions	4,691	-	4,691
Total	**360,943**	**(2)**	**360,941**
2020			
Central banks	406,717	(2)	406,715
Credit institutions	11,396	(5)	11,391
Total	**418,113**	**(7)**	**418,106**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021 and 2020.

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Other changes in credit risk (net)	As of
	Jan 2021				**Dec 2021**
Stage 1	(7)	(73)	76	1	(3)
Stage 2	-	(1)	-	1	-
Total	**(7)**	**(74)**	**76**	**2**	**(3)**
	Jan 2020				**Dec 2020**
Stage 1	(10)	(309)	112	200	(7)
Stage 2	-	(3)	-	3	-
Stage 3	-	-	60	(60)	-
Total	**(10)**	**(312)**	**172**	**143**	**(7)**

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to banks at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to banks 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 banks from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 359,227 million (2020: CZK 428,056 million). The GCA of AC loans and advances to banks that were held at 1 January 2021 and fully de-recognized (matured) during the year 2021 amounts to CZK 415,816 million (2020: CZK 389,975 million).

Loans and advances to customers at amortised cost

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 2021 and 2020 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
2021											
General governments	15,477	8,181	-	-	23,658	(10)	(98)	-	-	(108)	23,550
Other financial corporations	33,732	8,348	2	-	42,082	(35)	(35)	(1)	-	(71)	42,011
Non-financial corporations	205,205	52,511	7,457	1,174	266,347	(968)	(2,730)	(4,266)	(466)	(8,430)	257,917
Households	410,328	38,118	6,950	108	455,504	(1,053)	(3,181)	(4,640)	(24)	(8,898)	446,606
Total	**664,742**	**107,158**	**14,409**	**1,282**	**787,591**	**(2,066)**	**(6,044)**	**(8,907)**	**(490)**	**(17,507)**	**770,084**
2020											
General governments	21,024	1,334	7	-	22,365	(16)	(10)	-	-	(26)	22,339
Other financial corporations	35,411	311	1	-	35,723	(55)	(5)	(1)	-	(61)	35,662
Non-financial corporations	185,653	62,910	7,222	1,137	256,922	(986)	(3,104)	(4,901)	(541)	(9,532)	247,390
Households	363,068	33,392	6,824	92	403,376	(851)	(2,588)	(4,718)	(25)	(8,182)	395,194
Total	**605,156**	**97,947**	**14,054**	**1,229**	**718,386**	**(1,908)**	**(5,707)**	**(9,620)**	**(566)**	**(17,801)**	**700,585**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2021							Dec 2021
Stage 1	**(1,908)**	**(977)**	**472**	**2,360**	**(2,005)**	**3**	**(11)**	**(2,066)**
General governments	(15)	(5)	2	1	7	-	-	(10)
Other financial corporations	(56)	(63)	46	51	(13)	-	-	(35)
Non-financial corporations	(986)	(390)	166	864	(622)	3	(2)	(967)
Households	(851)	(519)	258	1,444	(1,377)	-	(9)	(1,054)
Stage 2	**(5,707)**	**(457)**	**529**	**(3,061)**	**2,702**	**-**	**(50)**	**(6,044)**
General governments	(10)	(8)	-	(72)	(9)	-	1	(98)
Other financial corporations	(5)	(10)	16	(38)	2	-	-	(35)
Non-financial corporations	(3,104)	(287)	235	(967)	1,411	-	(19)	(2,731)
Households	(2,588)	(152)	278	(1,984)	1,298	-	(32)	(3,180)
Stage 3	**(9,620)**	**(71)**	**1,037**	**(682)**	**(1,021)**	**849**	**601**	**(8,907)**
General governments	-				(2)		2	-
Other financial corporations	(1)	-	-	-	(2)	1	1	(1)
Non-financial corporations	(4,901)	(21)	534	(333)	(307)	164	598	(4,266)
Households	(4,718)	(50)	503	(349)	(710)	684	-	(4,640)
POCI	**(566)**	**-**	**106**	**-**	**(105)**	**14**	**61**	**(490)**
Non-financial corporations	(541)	-	105	-	(101)	11	61	(465)
Households	(25)	-	1	-	(4)	3	-	(25)
Total	**(17,801)**	**(1,505)**	**2,144**	**(1,383)**	**(429)**	**866**	**601**	**(17,507)**

in CZK million	As of	Additions	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2020							Dec 2020
Stage 1	**(1,512)**	**(812)**	**323**	**1,278**	**(1,184)**	**2**	**(3)**	**(1,908)**
General governments	(12)	(6)	1	3	(1)	-	-	(15)
Other financial corporations	(26)	(64)	72	85	(123)	-	-	(56)
Non-financial corporations	(830)	(569)	133	544	(261)	-	(3)	(986)
Households	(644)	(173)	117	646	(799)	2	-	(851)
Stage 2	**(1,677)**	**(733)**	**242**	**(4,818)**	**1,282**	**5**	**(8)**	**(5,707)**
General governments	(11)	-	1	(8)	8	-	-	(10)
Other financial corporations	(1)	(41)	1	(79)	113	2	-	(5)
Non-financial corporations	(695)	(183)	131	(2,521)	172	-	(8)	(3,104)
Households	(970)	(509)	109	(2,210)	989	3	-	(2,588)
Stage 3	**(7,331)**	**(24)**	**703**	**(812)**	**(2,657)**	**514**	**(13)**	**(9,620)**
Other financial corporations	(2)	-	19	-	(23)	5	-	(1)
Non-financial corporations	(3,855)	(3)	377	(328)	(1,475)	396	(13)	(4,901)
Households	(3,474)	(21)	307	(484)	(1,159)	113	-	(4,718)
POCI	**(487)**	**-**	**43**	**-**	**(125)**	**4**	**(1)**	**(566)**
Non-financial corporations	(466)	-	42	-	(120)	4	(1)	(541)
Households	(21)	-	1	-	(5)	-	-	(25)
Total	**(11,007)**	**(1,569)**	**1,311**	**(4,352)**	**(2,684)**	**525**	**(25)**	**(17,801)**

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 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'. 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 313 million cumulatively for the year 2021 (2020: CZK 206 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:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in CZK million	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
2021								
General governments	7,395	75	-	4	-	1	-	-
Other financial corporations	2,117	1,373	-	-	-	-	-	-
Non-financial corporations	14,526	19,861	2,067	92	1,297	20	-	16
Households	24,216	14,360	1,796	689	1,223	520	1	25
Total	**48,254**	**35,669**	**3,863**	**785**	**2,520**	**541**	**1**	**41**
2020								
General governments	710	160	-	-	7	-	-	-
Other financial corporations	310	89	-	-	-	-	-	-
Non-financial corporations	48,183	3,894	867	71	2,383	15	6	111
Households	25,765	6,611	782	335	2,467	190	-	8
Total	**74,968**	**10,754**	**1,649**	**406**	**4,857**	**205**	**6**	**119**

Detailed information on stage transfers due to COVID-19 measures are described in Note 32 Credit risk.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 231,160 million (2020: CZK 165,842 million). The GCA of the AC loans and advances to customers that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to CZK 116,946 million (2020: CZK 94,100 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 2021 amounted to CZK 901 million (2020: CZK 497 million).

16. Debt instruments subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

	2021		2020	
in CZK million	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modification	Net modification gains/losses
Loans and advances				
Non-financial corporations	-	-	1	-
Households	-	-	6,357	(81)
Total	**-**	**-**	**6,358**	**(81)**

As at 31 December 2021, 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 in previous period and re-assigned to Stage 1 during the year 2021 amounted to CZK 2,337 million (2020: CZK 0 million).

17. Trade and other receivables

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

	GCA				CLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2021									
General governments	653	1	-	654	(1)	(1)	-	(2)	652
Credit inttitutions	96	12	61	169	(1)	(13)	(30)	(44)	125
Other financial corporations	237	1	-	238	-	(2)	-	(2)	236
Non-financial corporations	4,434	46	540	5,020	(35)	(4)	(537)	(576)	4,444
Households	1	116	30	147	-	(107)	(28)	(135)	12
Total	**5,421**	**176**	**631**	**6,228**	**(37)**	**(127)**	**(595)**	**(759)**	**5,469**

	GCA				CLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2020									
General governments	51	2	-	53	-	(1)	-	(1)	52
Credit inttitutions	50	12	6	68	-	(12)	(6)	(18)	50
Other financial corporations	152	2	-	154	-	(1)	-	(1)	153
Non-financial corporations	290	2	12	304	-	(2)	(12)	(14)	290
Households	6	114	19	139	-	(110)	(19)	(129)	10
Total	**549**	**132**	**37**	**718**	**-**	**(126)**	**(37)**	**(163)**	**555**

Movement in credit loss allowances

in CZK million	As of	Additions	Dereco-gnitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2021							**Dec 2021**
Stage 1	-	(47)	15		(5)	-	-	**(37)**
Stage 2	(126)	-	7		(38)	3	27	**(127)**
Stage 3	(37)	-	2	(3)	(1)	3	(560)	**(596)**
Total	**(163)**	**(47)**	**24**	**(3)**	**(44)**	**6**	**(533)**	**(760)**

in CZK million	As of	Additions	Dereco-gnitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2020							**Dec 2020**
Stage 2	(125)	(5)	-	-	3	1	-	**(126)**
Stage 3	(33)	(4)	-	-	(4)	4	-	**(37)**
Total	**(158)**	**(9)**	**-**	**-**	**(1)**	**5**	**-**	**(163)**

Year-on-year increase in Trade and other receivables is attributable to factoring receivables.

18. Financial liabilities measured at amortised costs

The line item 'Financial liabilities at amortised cost' is further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are calculated using effective interest rate method and reported in the line item 'Net interest income' (sub-item 'Interest expenses') in the statement of income. Gains and losses from de-recognition are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

in CZK million	2021	2020
Deposits	1,157,765	1,120,760
Deposits from banks	47,757	88,909
Deposits from customers	1,110,008	1,031,851
Debt securities issued	219,986	176,128
Bonds	219,986	176,128
Other financial liabilities	17,173	2,368
Financial liabilities measured at amortised costs	**1,394,924**	**1,299,256**

The significant year-on-year increase in Other financial liabilities was attributable to the high demand for inflation-linked government bonds issued by the Czech state, which were available only till the year-end 2021. As a result, the balance of Other financial liabilities as at 31 December 2021 consisted mainly of temporary payments from customers for purchase of inflation-linked government bonds in amount of CZK 13,368 million. Other items consist mainly of payables to card associations in amount of CZK 685 million (2020: CZK 484 million), unbilled supplies in amount of CZK 1,219 million (2020: CZK 843 million) and received margin for futures of CZK 823 million (2020: CZK 724 million).

Deposits from banks

in CZK million	2021	2020
Current accounts/Overnight deposits	2,609	4,373
Term deposits	8,692	18,324
Repurchase agreements	36,456	66,212
Deposits from banks	**47,757**	**88,909**

Deposits from customers

in CZK million	2021	2020
Current accounts/Overnight deposits	1,037,477	956,509
General governments	70,983	65,723
Other financial corporations	24,774	24,858
Non financial corporations	149,465	151,286
Households	792,255	714,642
Term deposits	60,949	42,054
General governments	1,174	768
Other financial corporations	12,452	16,111
Non financial corporations	14,309	3,233
Households	33,014	21,942
Repurchase agreements	11,582	33,288
General governments	20	62
Other financial corporations	11,562	33,066
Non-financial corporations	-	160
Deposits from customers	**1,110,008**	**1,031,851**
General governments	72,177	66,553
Other financial corporations	48,788	74,035
Non financial corporations	163,774	154,679
Households	825,269	736,584

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

Debt securities issued – Bods

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	2021	2020
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	4,007	4,000
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	Yes	2,006	2,002
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	1,045	1,066
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	39	41
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	-	5,002
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	526	408
Public covered bonds	CZ0003705667	December 2020	February 2021	floating	No	-	26,529
Public covered bonds	CZ0003705733	December 2020	January 2021	floating	No	-	137,080
Mortgage bonds	CZ0002008261	December 2021	January 2022	floating	No	58,072	-
Mortgage bonds	CZ0002008279	December 2021	March 2022	floating	No	45,062	-
Mortgage bonds	CZ0002008006	October 2021	January 2022	floating	No	97,056	-
Bonds-subordinated (SNP)	AT0000A2STV4	September 2021	September 2028	floating	Yes	12,173	-
Bonds issued						**219,986**	**176,128**

Debt securities which are traded on the official regulated market are registred in the Prague Stock Exchange ('PSE') in case of mortgage bonds and in the Vienna Stock Exchange in case of SNP bonds.

Assets in cover pools used for mortgage bonds issuance amounted to CZK 252,768 million (2020: CZK 157,615 million). The main holders of debt securities are companies belonging into Ceska sporitelna group.

FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

A) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVPL')

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to debt instruments financial assets.

FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Bank, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by the Bank since they are managed and their performance is evaluated on a fair value basis. Another reason for the FVPL measurement are financial assets whose contractual cash flows are not considered as SPPI. At the Bank, this concerns certain debt securities and loans to customers.

The Bank also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities'). Non-trading financial assets consist of two sub-categories disclosed in Note 20 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 20 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 19 Derivative financial instruments.

In the income statement, the profit or loss effects of non-derivative financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item 'Other similar income'). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. On the balance sheet, financial liabilities at FVPL are presented as 'Financial liabilities held for trading', sub-items 'Derivatives' and 'Other financial liabilities held for trading' and as 'Financial liabilities at fair value through profit or loss' which are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Accounting policy related to financial liabilities at FVPL can be found in Note 19 Derivative financial instrument.

19. Derivative financial instruments

Derivatives used by the Bank include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the Trading book and Banking book according to CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items 'Other similar income' or 'Other similar expenses'). Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated OCI is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Embedded derivatives

The Bank is involved in business with own debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instrument. Embedded derivatives are separated from the host own debt instruments if

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the definition of derivative; and
- the hybrid instrument is not a financial liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading.

Derivatives that are not closely related and are separated relate to issued bonds and deposits whose payments are linked to equity prices or FX rates. Instead of separating the embedded derivatives, the Bank largely uses the possibility to designate the entire financial liability as measured at FVPL.

Derivatives – held for trading

in CZK million	2021 Notional value	2021 Positive fair value	2021 Negative fair value	2020 Notional value	2020 Positive fair value	2020 Negative fair value
Derivatives held in the Trading book	**703,758**	**14,988**	**(14,242)**	**781,282**	**10,738**	**(10,274)**
Interest rate	370,360	10,784	(10,300)	446,722	6,911	(6,611)
Foreign exchange	333,398	4,204	(3,942)	334,560	3,827	(3,663)
Derivatives held in the Banking book	**42,859**	**520**	**(1,150)**	**90,754**	**543**	**(2,621)**
Interest rate	26,409	-	(935)	20,763	321	(17)
Foreign exchange	16,450	520	(215)	69,991	222	(2,604)
Total	**746,617**	**15,508**	**(15,392)**	**872,036**	**11,281**	**(12,895)**

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).

Derivatives – hedge accounting

in CZK million	2021 Notional value	2021 Positive fair value	2021 Negative fair value	2020 Notional value	2020 Positive fair value	2020 Negative fair value
Fair value hedges	**17,602**	**92**	**(312)**	**6,761**	**160**	**(12)**
Interest rate	17,602	92	(312)	6,761	160	(12)
Cash flow hedge	**111,754**	**515**	**(4,406)**	**107,037**	**2,494**	**(255)**
Interest rate	77,084	33	(3,521)	72,024	2,237	(22)
Foreign exchange	34,670	482	(885)	35,013	257	(233)
Total	**129,356**	**607**	**(4,718)**	**113,798**	**2,654**	**(267)**

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

in CZK million	2021 Mandatorily	2020 Mandatorily
Equity instruments	836	976
Debt securities	812	944
Other financial corporations	812	944
Loans and advances to banks	744	443
Loans and advances to customers	-	40
Nonfinancial corporations	-	40
Financial assets designated and mandatorily at fair value through profit or loss	2,392	2,403
Non-trading financial assets at fair value through profit or loss	**2,392**	**2,403**

Financial assets classified as mandatorily at FVPL comprise of equities and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in Classification and subsequent measurement of financial assets in section Significant accounting policies.

The maximum exposure to credit risk on these securities is its fair value.

21. Other financial assets held for trading

in CZK million	2021	2020
Debt securities	53	101
General governments	23	24
Credit institutions	30	74
Other financial corporations	-	3
Other trading assets	**53**	**101**

22. Financial liabilities at fair value through profit or loss ('FVPL')

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

In the business of the Bank non-derivative held-for-trading liabilities comprise of short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Bank makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item "Deposits from customers".

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item "Other similar expenses").

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and the beginning of the period. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

in CZK million	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
	2021	2020	2021	2020	2021	2020
Deposits	10,653	3,784	9,943	3,637	710	147
Financial liabilities at fair value through profit and loss	**10,653**	**3,784**	**9,943**	**3,637**	**710**	**147**

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

in CZK million	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	
	2021	2020	2021	2020
Financial liabilities at fair value through profit or loss				
Deposits from customers	(1)	(1)	(2)	(3)

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.

B) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

23. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income - Debt securities

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 asset 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'. 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'.

Financial assets at fair value through other comprehensive income – Equity instruments

For certain investments in equity instruments which are not held for trading, the Bank makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve of equity instruments at FVOCI' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

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 2021 and 2020 is provided below:

	GCA			CLA					
In CZK million	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total	Amortized cost	Accumulated fair value changes	Fair value
Dec 2021									
Debt securities	**20,177**	**9,662**	**29,839**	**(2)**	**(146)**	**(148)**	**29,691**	**140**	**29,831**
General governments	16,059	-	16,059	(1)	-	(1)	16,058	95	16,153
Credit institutions	1,614	-	1,614	(1)	-	(1)	1,613	(29)	1,584
Other financial corporations	1,161	1,974	3,135	-	(44)	(44)	3,091	105	3,196
Non-financial corporations	1,343	7,688	9,031	-	(102)	(102)	8,929	(31)	8,898
Total	**20,177**	**9,662**	**29,839**	**(2)**	**(146)**	**(148)**	**29,691**	**140**	**29,831**
Dec 2020									
Debt securities	**11,489**	**7,694**	**19,183**	**(7)**	**(119)**	**(126)**	**19,057**	**460**	**19,517**
General governments	5,565	-	5,565	-	-	-	5,565	108	5,673
Credit institutions	2,834	-	2,834	(2)	-	(2)	2,832	13	2,845
Other financial corporations	517	1,388	1,905	(1)	(48)	(49)	1,856	100	1,956
Non-financial corporations	2,573	6,306	8,879	(4)	(71)	(75)	8,804	239	9,043
Total	**11,489**	**7,694**	**19,183**	**(7)**	**(119)**	**(126)**	**19,057**	**460**	**19,517**

The accumulated OCI changes combine the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income, as required by IFRS 9 in respect of debt instruments measured at FVOCI. There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2021 and 2020.

The movement in the credit loss allowances for debt securities at FVOCI in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	As of
	Jan 2021					**Dec 2021**
Stage 1	(6)	(2)	2	25	(22)	(3)
Stage 2	(120)	(21)	-	(28)	24	(145)
Total	**(126)**	**(23)**	**2**	**(3)**	**2**	**(148)**
	Jan 2020					**Dec 2020**
Stage 1	(12)	(2)	1	-	7	(6)
Stage 2	(48)	-	-	(74)	2	(120)
Total	**(60)**	**(2)**	**1**	**(74)**	**9**	**(126)**

In the column 'Additions' increases of Credit Loss Allowances (CLA) due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI 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 FVOCI debt securities from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'.

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:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	1,916	5,264

C) FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

24. Fair value of financial instruments

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

All financial instruments at fair value are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

Description of valuation models and parameters

The Bank uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. As a consequence of the negative interest environment, shifted Black Scholes valuation model is used for interest rate options for the respective currencies. For this model negative interest rates are no restriction.

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 effective discount rate incorporating other risk/cost components. The complex interest rate assets are valued by Monte Carlo simulation approach to include convexity correction and time value of embedded options.

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.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

As a result of the IBOR reform it has been decided that the so far used EONIA (Euro Over Night Index Average) will be replaced by €STR

(Euro Short-Term Rate) with a transition phase until 31 December 2021. In the Bank all contracts with CCP's (Central Counter Parties), LCH (London Clearing House) and EUREX have been converted in 2020 and for the respective collaterals €STR is used as interest rate. More details to IBOR reform is described in Note 25 Hedging.

The Bank values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid/ask spread to the valuation. Parameters are reviewed on a regular basis or in case of significant market moves.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices.

According to the described methodology the accumulated CVA-adjustments amounted to CZK (67) million (2020: CZK (103) million) and the total DVA-adjustment amounted to CZK 43 million (2020: CZK 27 million).

Based on an analysis carried out by the Bank it was decided that for the valuation of OTC derivatives no Funding Value Adjust-ment (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, participationsand 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

in CZK million	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Financial assets - held for trading	21	15,413	127	15,561	19	11,263	100	11,382
Derivatives	-	15,381	127	15,508	-	11,181	100	11,281
Other trading assets	21	32	-	53	19	82	-	101
Non-trading financial assets - FVPL	-	-	2,392	2,392	-	-	2,403	2,403
Equity instruments	-	-	836	836	-	-	976	976
Debt securities	-	-	812	812	-	-	944	944
Loans and advances	-	-	744	744	-	-	483	483
Financial assets – FVOCI	21,081	6,173	2,577	29,831	13,656	3,605	2,256	19,517
Debt securities	21,081	6,173	2,577	29,831	13,656	3,605	2,256	19,517
Derivatives Hedge Accounting	-	607	-	607	-	2,654	-	2,654
Total assets	**21,102**	**22,193**	**5,096**	**48,391**	**13,675**	**17,522**	**4,759**	**35,956**
LIABILITIES								
Financial liabilities held for trading	-	15,160	232	15,392	-	12,836	59	12,895
Derivatives	-	15,160	232	15,392	-	12,836	59	12,895
Financial liabilities designated at fair value through profit or loss	-	10,653	-	10,653	-	3,784	-	3,784
Deposits from customers	-	10,653	-	10,653	-	3,784	-	3,784
Derivatives Hedge Accounting	-	4,659	59	4,718	-	267	-	267
Total liabilities	**-**	**30,472**	**291**	**30,763**	**-**	**16,887**	**59**	**16,946**

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.

In CZK million	2021		2020	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	-	2,135	-	5,264
Net transfer from Level 2	136	-	(5,264)	-
Purchases/sales/expiries	7,291	383	3,021	(5,654)
Changes in derivatives	-	2,153	-	3,473
Total year-to-date change	**7,427**	**4,671**	**(2,243)**	**3,083**

The relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements 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 2021							**Dec 2021**
Assets								
Financial assets HfT	100	42	-	-	-	-	(15)	127
Derivatives	100	42	-	-	-	-	(15)	127
Non-trading financial assets at FVPL	2,403	742	-	69	(862)	40	-	2,392
Equity instruments	976	(180)	-	-	-	40	-	836
Debt securities	944	175	-	69	(376)	-	-	812
Loans and advances	483	747	-	-	(486)	-	-	744
Financial assets at FVOCI	2,256	(43)	40	2	-	1,764	(1,442)	2,577
Debt securities	2,256	(43)	40	2	-	1,764	(1,442)	2,577
Total assets	**4,759**	**741**	**40**	**71**	**(862)**	**1,804**	**(1,457)**	**5,096**
	Jan 2020							**Dec 2020**
Assets								
Financial assets HfT	171	(57)	-	4	-	12	(30)	100
Derivatives	171	(57)	-	4	-	12	(30)	100
Non-trading financial assets at FVPL	3,220	940	-	86	(1,823)	-	(20)	2,403
Equity instruments	738	258	-	-	0	-	(20)	976
Debt securities	1,042	199	-	86	(383)	-	-	944
Loans and advances	1,440	483	-	-	(1,440)	-	-	483
Financial assets at FVOCI	1,361	-	13	1,036	(2)	-	(152)	2,256
Debt securities	1,361	-	13	1,036	(2)	-	(152)	2,256
Hedge accounting derivatives	19	(18)	-	(1)	-	-	-	-
Total assets	**4,771**	**865**	**13**	**1,125**	**(1,825)**	**12**	**(202)**	**4,759**

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's end and which are included in profit or loss are as follow:

in CZK million	2021 Unrealized gain/loss in profit or loss	2020 Unrealized gain/loss in profit or loss
ASSETS		
Financial assets – held for trading	42	(57)
Derivatives	42	(57)
Non-trading financial assets at fair value through protif or loss	742	940
Equity instruments	(180)	258
Debt securities	175	199
Loans and advances	747	483
Financial assets at FVOCI	(43)	-
Debt securities	(43)	-
Hedge accounting derivatives	-	(18)
Total	**741**	**865**

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	**2021**	**2020**	**2021**	**2020**
Derivatives	3	9	(7)	(3)
Income statement	3	9	(7)	(3)
Debt securities	34	22	(46)	(29)
Other comprehensive income	34	22	(46)	(29)
Equity instruments	82	96	(164)	(191)
Income statement	82	96	(164)	(191)
Total	**119**	**127**	**(217)**	**(223)**
Income statement	**85**	**105**	**(171)**	**(195)**
Other comprehensive income	**34**	**22**	**(46)**	**(28)**

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 2021 and for the year-end 2020. 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
2021					
ASSETS					
Cash and cash balances	36,663	36,663	16,824	19,839	-
Financial assets at amortised costs	1,450,356	1,442,130	264,030	34,083	1,144,017
Loans and advances to banks	360,941	368,324	-	-	368,324
Loans and advances to customers	770,084	775,688	-	-	775,688
Debt securities	319,331	298,118	264,030	34,083	5
Finance lease receivables	206	206	-	-	206
Trade and other receivables	5,469	5,469	-	-	5,469
LIABILITIES					
Financial liabilities measured at amortised costs	1,394,924	1,394,699	-	219,925	1,174,774
Deposits from banks	47,757	47,691	-	-	47,691
Deposits from customers	1,110,008	1,109,910	-	-	1,109,909
Debt securities issued	219,986	219,925	-	219,925	-
Other financial liabilities	17,173	17,172	-	-	17,172
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(6)	-	-	(6)
Irrevocable commitments	n/a	288	-	-	288
2020					
ASSETS					
Cash and cash balances	36,459	36,459	-	-	-
Financial assets at amortised costs	1,366,244	1,397,506	239,584	16,752	1,141,170
Loans and advances to banks	418,106	418,293	-	-	418,293
Loans and advances to customers	700,585	721,801	-	-	721,801
Debt securities	247,553	257,412	239,584	16,752	1,076
Finance lease receivables	216	216	-	-	216
Trade and other receivables	555	555	-	-	555
LIABILITIES					
Financial liabilities measured at amortised costs	1,299,256	1,299,661	-	176,387	1,123,274
Deposits from banks	88,909	89,043	-	-	89,043
Deposits from customers	1,031,851	1,031,863	-	-	1,031,863
Debt securities issued	176,128	176,387	-	176,387	-
Other financial liabilities	2,368	2,368	-	-	2,368
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(13)	-	-	(13)
Irrevocable commitments	n/a	2,702	-	-	2,702

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign. The calculation of fair values of financial guarantees and commitments is based on the coefficient, which is calculated by the Market risk using the Erste Group Bank algorithms.

The fair value of loans and advances to customers and credit institutions, trade and other receivables and finance lease receivables has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost – debt securities are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

25. Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Bank elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items 'Other similar income or 'Other similar expenses'). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

The Bank also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, the Bank makes use of the relaxation provided by the EU-carve out for so called bottom layer amount. More details are discussed in part 'Hedges of interest rate risk' below. The change in the fair value of the hedged items attributable to the hedged interest risk in portfolio fair value hedges is presented on the balance sheet under the line item 'Fair value changes of hedged items in portfolio hedge of interest rate risk'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under 'Net interest income' in the line item 'Interest income' if the hedged item was a financial asset or in the line item 'Interest expenses' if the hedged item was a financial liability.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; sub-items "Other similar income or "Other similar expenses"). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

The interest rate and FX risk of the Banking book is managed by the Bank's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IAS 39. The main guideline for interest rate risk positioning is the Bank Interest Rate Risk Strategy that is approved by the Bank ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Bank statement of financial position. In general, the Bank policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets. By using cross currency interest rate swaps, the Bank hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, income of amount CZK 182 million (2020: income of amount CZK 129 million) was taken from the cash flow hedge reserve and recognised in the income statement; while gain CZK 6,600 million (2020: loss CZK 1,064 million) was recognised directly in other comprehensive income.

As at 31 December 2021, the loss on hedging derivatives used for fair value hedging was CZK 326 million (2020: loss CZK 97 million); the gain due to changes in the fair value of hedged items was CZK 281 million (2020: gain CZK 16 million).

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

	2021			2020		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedge	**17,602**	**92**	**(312)**	**6,661**	**160**	**(12)**
Interest rate	17,602	92	(312)	6,661	160	(12)
Cash flow hedge	**111,754**	**515**	**(4,406)**	**107,037**	**2,494**	**(255)**
Interest rate	77,084	33	(3,521)	72,024	2,237	(22)
Foreign exchange	34,670	482	(885)	35,013	257	(233)
Total	**129,356**	**607**	**(4,718)**	**113,698**	**2,654**	**(267)**

At the end of 2021 the Bank had 234 cash flow hedge structures with maturity from 2022 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in cash flow hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2022	4,000	182	-
2023	29,252	357	50
2024	12,100	168	-
2025	24,100	148	-
2026	1,300	245	-
2027	3,200	148	-
2028	-	10	-
2029	-	59	-
2030	-	97	-
2031		5	-
Total	**73,952**	**1,419**	**50**

At the end of 2020 the Bank had 235 cash flow hedge structures with maturity from 2021 to 2031. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor) or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2021	3,550	308	-
2022	5,000	157	-
2023	19,550	357	50
2024	12,100	168	-
2025	24,100	68	-
2026	1,300	187	-
2027	3,200	73	-
2028	-	10	-
2029	200	24	-
2030	-	40	-
2031	-	5	-
Total	**69,000**	**1,397**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges are reported.

Hedging instruments

	Carrying amount		Change in FV for the period used for calculating hedge ineffective-ness		Timing of the nominal amounts of the instruments			
in CZK million	Assets	Liabilities		Notional	≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
2021								
Fair value hedges								
Interest rate risk	92	(312)	-	17,602	-	-	3,729	13,873
Cash flow hedges								
Interest rate risk	33	(3,521)	(5,419)	77,084	4,534	1,500	67,850	3,200
Foreign exchange risk	482	(885)	(1,853)	34,670	1,052	943	24,341	8,334
Total	**607**	**(4,718)**	**(7,272)**	**129,356**	**5,586**	**2,443**	**95,920**	**25,407**
2020								
Fair value hedges								
Interest rate risk	160	(12)	-	6,761	-	2,624	3,937	200
Cash flow hedges								
Interest rate risk	2,237	(22)	(2,952)	72,024	500	3,050	63,974	4,500
Foreign exchange risk	257	(233)	(3)	34,913	4,021	4,206	17,817	8,869
Total	**2,654**	**(267)**	**(2,955)**	**113,698**	**4,521**	**9,880**	**85,728**	**13,569**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

		Hedge adjustments		
in CZK million	Carrying amount	included in the carrying amount of assets/liabilities	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
2021				
Financial assets at AC				
Interest rate risk	89	(11)	(15)	-
Financial liabilities at AC				
Interest rate risk	(17,475)	(73)	316	(4)
2020				
Financial assets at AC				
Interest rate risk	105	5	4	
Financial liabilities at AC				
Interest rate risk	(6,750)	(188)	-	(8)

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
2021			
Interest rate risk	(5,419)	3,676	295
Foreign exchange risk	(1,853)	2,629	-
Total	**(7,272)**	**6,305**	**295**
2020			
Interest rate risk	(2,952)	(1,688)	(32)
Foreign exchange risk	(3)	645	11
Total	**(2,955)**	**(1,043)**	**(21)**

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

			Cash flow hedge reclassified to profit or loss because:	
in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	hedged item affected profit or loss	hedged item no longer expected
2021				
Fair value hedges				
Interest rate risk	(45)	-	-	-
Cash flow hedges				
Interest rate risk	(171)	(5,692)	659	-
Foreign exchange risk	(11)	(1,972)	1,775	-
Total	**(227)**	**(7,664)**	**2,434**	**-**
2020				
Fair value hedges				
Interest rate risk	81	-	-	-
Cash flow hedges				
Interest rate risk	(114)	(3,186)	13	1
Foreign exchange risk	(14)	(488)	-	(7)
Total	**(47)**	**(3,674)**	**13**	**(6)**

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.

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Bank closely monitors, assess, and applies changes of IBOR reform and follow the EUR Benchmark regulation.

Based on The EU Benchmark Regulation 2016/1011 ('BMR') effective from January 1st 2018, BMR prohibits EU-supervised users from using a benchmark unless its administrator is approved by a national regulator in one of the EU Member States and appears on the benchmarks register maintained by the European Securities and Markets authority ('ESMA'), an EU supranational supervisory authority.

The Bank's main currency is CZK where PRIBORs benchmarks are authorized by ČNB (authorization provided in 2018 to the Czech Financial Benchmark Facility ('CFBF')) for further usage in contracts, so there is no impacts in CZK currency as PRIBOR continues. This is also valid for WIBOR (authorization by the Polish Financial Supervision Authority to GPW Benchmark as administrator) and EURIBOR, that was authorized by the The Financial Services and Markets Authority ('FSMA') of Belgium, on 2 July 2019.

The Bank has majority floating exposure in EUR currency with reference to EURIBORs. So there is no major impact of BMR also in EUR currency. Contracts (over 3,200) on EONIA were already transposed into €STR during 2021 (see table below).

There is no impact on the exposures of CZEONIA, BUBOR and ROBOR as the national banks are responsible for the administration and production of those rates.

The Bank had negligible exposure (approx. 0.003% of total assets) with reference to LIBOR authorized till 31 December 2021. All open contracts (mostly commercial loans, overdrafts, current accounts) as at 31 December 2021 were already switched to Official ON fallback rate or official term rates based on negotiations with the clients or automatically.

Process of alignment to the new official fallback rates was mixture of decision: to stop offering the ending benchmark rates, followed by focus to change the contracts based on prioritization (active contracts first) under bilateral negotiation and communication to clients in case of automatic switch. Currently also no new business is executed with reference to USD LIBOR.

There were no contracts with EUR LIBOR reference as at 31 December 2021. There were 2 accounts in total amount of CHF 313 thousand with CHF LIBOR reference that were switched to SARON. There were 16 accounts with GBP LIBOR reference from which one account was closed and the rest in amount of GBP 329 thousand was switched to SONIA. There was 1 account with JPY LIBOR reference of JPY 30 million which was switched to TONA.

There are no open derivative contracts and also no hedging contracts with EUR LIBOR reference as at 31 December 2021. There were opened hedging instruments with nominal amount of USD 50 million (equivalent of CZK 1,098 million) with USD LIBOR reference as at 31 December 2021. Their hedging period reaches beyond the cessation date of the respective LIBOR rates (30 June 2023 for USD LIBOR 1M, 3M, 6M and 12M tenors). For details see also Note 25 Hedge accounting.

Table below shows the Bank´s exposure with LIBOR reference subject to cessation as at 31 December 2021 in comparison with balances as at 31 December 2020:

in CZK million Ending Benchmarks	Exposure to Ending Benchmarks in Dec 2020	Ccy	Authorized by	Official Fall Back rate	Exposure to Official fall back rates Dec 2021
EONIA	266	EUR	No	€STR	2,551
EUR LIBOR	-	EUR	FCA till 12/2021		
GBP LIBOR	22	GBP	FCA till 12/2021	SONIA/TSRR	6
CHF LIBOR	8	CHF	FCA till 12/2021	SARON	8
JPY LIBOR	3	JPY	FCA till 12/2021	TONA/TORF	9

26. Offsetting of financial instruments

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

Financial assets subject to offsetting and potential offsetting agreements

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
2021						
Derivatives	16,115	16,115	9,747	2,127	-	4,241
Reverse repurchase agreements	357,197	357,197	-	-	350,934	6,263
Total	**373,311**	**373,311**	**9,747**	**2,127**	**350,934**	**10,503**
2020						
Derivatives	13,935	13,935	8,650	2,372	-	2,913
Reverse repurchase agreements	407,654	407,654	-	-	405,385	2,269
Total	**421,589**	**421,589**	**8,650**	**2,372**	**405,385**	**5,182**

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 received	Non-cash financial collateral received	
2021						
Derivatives	20,110	20,110	9,747	605	-	9,758
Repurchase agreements	48,039	48,039	-	-	48,038	-
Total	**68,149**	**68,149**	**9,747**	**605**	**48,038**	**9,759**
2020						
Derivatives	13,162	13,162	8,650	2,464	-	2,048
Repurchase agreements	99,500	99,500	-	-	99,500	-
Total	**112,662**	**112,662**	**8,650**	**2,464**	**99,500**	**2,048**

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.

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'.

	2021		2020	
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	38,183	32,223	38,114	36,088
Total – repurchase agreements	**38,183**	**32,223**	**38,114**	**36,088**
Securities lendings				
Financial assets at AC	41,698	-	19,669	-
Total – securities lendings	**41,698**	**-**	**19,669**	**-**

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

The total amount of CZK 38,183 million (2020: CZK 38,114 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 32,223 million (2020: CZK 36,088 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	2021 Fair value of transferred assets	2021 Fair value of associated liabilities	2021 Net position	2020 Fair value of transferred assets	2020 Fair value of associated liabilities	2020 Net position
Financial assets at AC	35,486	32,201	3,285	39,732	36,095	3,637
Total	**35,486**	**32,201**	**3,285**	**39,732**	**36,095**	**3,637**

28. Collateral

in CZK million	2021	2020
Financial assets at AC	287,694	70,302
Total	**287,694**	**70,302**

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 381,6 billion (2020: CZK 191,2 billion). Collateral with fair value of CZK 15,6 billion (2020: CZK 63,5 billion) was resold. Collateral with fair value of CZK 9,7 billion (2020: CZK 171,9 million) was repledged. The bank is obliged to return the resold and repledged collateral.

29. Securities

in CZK million	2021 At AC	2021 Trading assets	2021 Financial assets Mandatorily at FVPL	2021 Financial assets At FVOCI	2020 At AC	2020 Trading assets	2020 Financial assets Mandatorily at FVPL	2020 Financial assets At FVOCI
Bonds and other interest-bearing securities	**319,331**	**53**	**812**	**29,831**	**247,553**	**101**	**944**	**19,517**
Listed	283,081	21	-	21,081	228,259	19	-	10,243
Unlisted	36,250	32	812	8,750	19,294	82	944	9,274
Equity-related securities	**-**	**-**	**836**	**-**	**-**	**-**	**976**	**-**
Unlisted	-	-	836	-	-	-	976	-
Total	**319,331**	**53**	**1,648**	**29,831**	**247,553**	**101**	**1,920**	**19,517**

Securities lending and repurchase transactions are disclosed in Note 27 Transfers of financial assets – repurchase transactions and securities lending.

RISK AND CAPITAL MANAGEMENT

30. Risk management

Risk policy and strategy

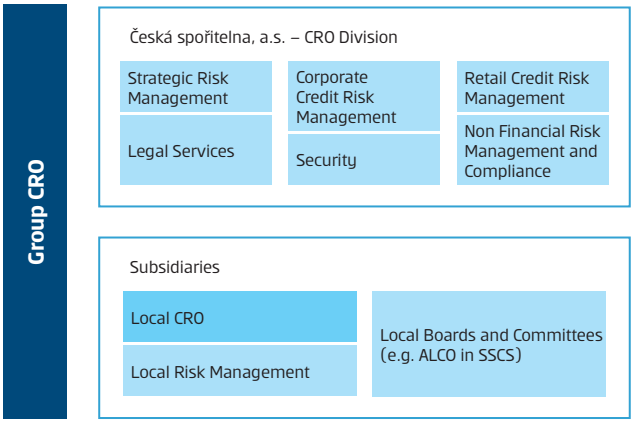
A core function of a bank is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

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 bank. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

In 2020, when the COVID-19 pandemic has been the central topic worldwide – and hence also in our core markets, management has continued to steer credit portfolio, including active management of non-performing exposures to further strengthen the risk profile. A forward-looking approach was implemented in the Bank and significant provisions were set aside to reflect the expected deterioration in asset quality as a result of worsening in the macroeconomic outlook due to COVID-19.

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 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.

Risk management structure

The management board and in particular the Bank's Chief Risk Officer (Bank CRO) perform the oversight function within the Bank's risk management structure. Risk control and risk steering within the Bank are performed based on the business strategy and risk appetite approved by the management board. The Bank CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Bank CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within the Bank.

At Bank level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Bank CRO:

- Strategic Risk Management;
- Corporate Credit Risk Management;
- Retail Credit Risk Management;
- Legal Services;
- Security;
- Non-Financial Risk Management and Compliance;
- Local Chief Risk Officers.

Strategic risk management

Strategic Risk Management (SRM) focuses on holistic risk management and ensures comprehensive cross-risk group-wide risk portfolio steering, monitoring, analysis, and reporting. SRM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. Furthermore, SRM works together with all risk functions and key divisions to strengthen oversight group-wide risk to cover capital, credit, liquidity, market, operational, and business risk. The Strategic Risk Management division consists of the departments Financial Market Risk Management, Enterprisewide Risk Management, Collateral Management and Model and Infrastructure of Credit Risk.

Financial Market Risk Management department is responsible for identification, monitoring, measuring and management of market risk from financial market transactions. It's further responsible for methodology of market-based valuation of financial market products, evaluation of transaction positions, monitoring of market compliance of financial market transactions, calculation and development of market VAR for the Bank, administration and documentation of won model for calculation of capital requirement from market risks and monitoring and reporting of the limits.

Enterprisewide Risk Management department ensures reporting for the Bank exposure to risk, monitoring of exposure to sectoral limits, measuring of concentration risk, development and validation of the LLP model according the IFRS9 methodology. It's responsible for RWA calculation and reconciliation, forecasting and stress-testing of risk parameters. It ensures forecasting and planning of credit risk, management of capital requirement within Pillar 2 (ICAAP), methodology and infrastructure of model risk management.

Collateral Management department is responsible for administration of the collateral catalogue, for methodology, rule and procedures in collateral area, methodology of collateral valuation. It ensures valuation and revaluation of collaterals and support of collateral management in subsidiaries.

Model and Infrastructure of Credit Risk is responsible for development of models for credit risk management, cooperation during validation and back-testing of these models, development of concept for implementation of rating tools, monitoring and management of processes for determining the client ratings and defaults. It ensures development of methodology and calculation of IRB and IFRS9 risk parameters, communication with Erste Group Bank validation unit, analysis of validation results. It administrates scoring tools for retail and corporate lending and is responsible for development of the concept for implementation of rating tools in the lending process.

Corporate and Retail Credit Risk Management units

The Corporate and Retail Group Credit Risk Management units manage operative risk in underwriting and workout activities for retail resp. non-retail portfolios (medium-sized enterprises, large corporate, municipalities and real estate customers, as well as institutional clients and counterparties). In addition, the units are responsible for setting standards and steering the non-retail and retail lending portfolios. They ensure that only credit risk which is in line with the risk appetite, risk strategy, and limits set by ERM are taken on the books of the Bank.

Legal Services

Legal Services acts as the central legal department of the Bank. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Non-financial Risk management and Compliance

Non-financial risk management and Compliance department if responsible for management of operational, compliance/legal and reputation risk of the Bank, coordination for processes of incident management and crisis management and management of non-financial risks, including regular analyses, monitoring methodologies and proposals for measure to mitigate the operational, compliance and reputation risks of the Bank.

Head of the unit is also the Bank's crisis manager. The unit provides a function of data protection in the Bank and subsidiaries.

Data Protection Officer checks and monitors compliance of personal data processing in the Bank with GDPR.

AML and International Sanction is responsible for implementation and fulfilment of the Bank obligations which arise from legislation in the areas of preventing legitimisation of proceeds from crime and financing of terrorism and application of international sanctions, defining the rules for acceptability of clients and risk countries from the AML perspective that can be utilised also by other Bank.

Compliance is responsible for defining and monitoring adherence to the compliance policy in the Bank, methodology management, definition of processes and work procedures for executing the compliance function in the Bank; further for checking of regulations issued by the Bank as regards mutual concord of internal regulations and compliance of activities with legal and internal regulations and with recognised standards.

Operational Risk Management ensures methodology for monitoring of measurement and management of operational risks (OR); is responsible for providing for recording the OR events, with subsequent reconciliation and data checks and for development and maintenance of tools for preventing occurrence of operational risk events. The unit is also responsible for Outsourcing and PAP (Product Approval Process) framework (including assessment of all retail product changes).

Prevention and Detection ensures and is responsible for overall fraud prevention concept, internal and credit fraud detection, verification of loan applications, verification of entities cooperating with the Bank in the lending area, including assignees (natural persons) further for approval and monitoring of the Bank external sales persons and for personal security and process of screening prospective employees of the Bank.

Investigations ensures and is responsible for investigation and analyses of fraudulent and corruption conduct as well as financial crimes, including risk of fraudulent conduct committed by external sales persons, further for investigation of manipulation and cash differences in case of suspected frauds, investigation of frauds committed with the Bank payment cards, investigation of clients complaints on unauthorised viewing and on breach of banking secrecy or personal data protection.

Local Chief Risk Officers

Each subsidiary has separate risk control and management units with responsibilities tailored to the local requirements, which are headed by the respective chief risk officer (CRO).

Bank coordination of risk management activities

The management board regularly deals with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed.

Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities in the Bank:

- Risk Committee
- Risk Management Model Committee (RMMC)
- Credit Committee
- Asset Liability Committee (ALCO)

- Product and Pricing Committee
- Operational Liquidity Committee
- Financial Markets Risk Management Committee (FMFMC) and
- Compliance, Operational Risk and Security Committee.

The **Risk Committee** has an escalation function for approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the Credit Committee of the management board according to the credit risk approval guidelines.

The **Risk Management Model Committee** (RMMC) is the steering and control body for IRB approach and Pillar 2 model development, validation and monitoring. All new or changed models and model related aspects (e.g. risk parameters, group-wide methodology standards) are reviewed by the RMMC and require its approval.

The **Credit Committee** is the highest approval body according to the credit risk approval guidelines. It is also responsible for approval of credit risk management strategy.

The **Asset Liability Committee** (ALCO) manages the separate Bank balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks). In addition, it approves policies and strategies for controlling liquidity risk as well as interest rate risk (net interest income) and examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Products and Pricing Committee** is responsible for assessment and approval of new products and their innovation in area retail and corporate banking as well as in area of the financial market products. It manages the pricing policy in CS.

The **Operational Liquidity Committee** (OLC) is responsible for the day-to-day management of the global liquidity position of the Bank. It analyses the liquidity situation of the Bank on a regular basis and reports directly to the ALCO.

The **Financial Markets Risk Management Committee** is the main steering body for market risk and Trading book related issues of the Bank. It approves group-wide market risk limits and elaborates on the current market situation. Furthermore, it approves market risk methodologies and models, model changes, and related validation results.

The **Compliance, Operational Risk and Security Committee** is decision body in the area of operational risk, compliance and security in the Bank.

Risk and capital management

Overview

Enterprisewide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the Bank's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within the Bank as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk Appetite Statement (RAS), limits and risk strategy;
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC);
- planning of key risk indicators;
- recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite

The Bank defines the maximum level of risk it is willing to accept in order to meet its business objectives within the Bank's risk appetite (Bank RAS). 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 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 Erste Group Bank 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 Bank creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Bank is willing to accept. In order to ensure that the group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a 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 Bank RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the group remains within its RAS.

Bank RAS was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The Bank further developed an aggregated and consolidated risk appetite dashboard (Risk report) illustrating the Group's and Bank's risk profile developments by comparing the risk exposure and risk limits. The Risk report is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Portfolio and risk analytics

The Bank uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across the Bank and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing material risks for the Bank. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Bank. The assessment also serves as input for the design and definition of the Bank's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

The Bank has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of the Bank, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at the Bank is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/calibration of limit system.

Stress testing

Modelling sensitivities of the Bank's assets, liabilities and profit or loss provide management steering information and help to optimise the Bank's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the Bank's planning process.

The Bank's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned.

The Bank has developed specific tools to translate macroeconomic variables (e.g. GDP) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches.

Results from internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2021 indicated no breach of stressed RAS triggers after the application of scenario contingent measures in the last year of adverse scenario.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the level of capital adequacy required by the ICAAP. In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view assuming continuation of the Bank (as expected by ECB Guide to ICAAP) and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the management board. The aggregated capital requirements are then compared to internally available capital, as reflected by the coverage potential.

The management board, risk management committees and supervisory board are briefed quarterly on the results of the ICAAP capital adequacy through the ICAAP report. The report includes risks movements, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation, the overall status of capital adequacy and risk profile development in relation to risk appetite.

Besides the Pillar 1 risk types (credit, market and operational risks), interest rate risk in the Banking book, liquidity risk, as well as business risk are explicitly considered within the economic capital requirements calculated over a horizon of one year and at a confidence level of 99.92%. At the end of 2021, the economic capital adequacy was at 49.2% (2020: 35.8%). The methodologies applied to the different risk types are diverse and range from value at risk approaches to the regulatory approach. Moreover, calculations for most of the portfolios under the standardised approach for credit risk are extended by risk parameters from the internal ratings-based approach in order to provide a more risk sensitive economic view.

The largest portion of economic capital requirements is coming from credit risk, which accounts for 59.1% of total economic capital requirements at the end of 2021 (2020: 70.5%). Reflecting conservative risk management policy and strategy, the Bank does not offset diversification effects between the risk types.

The internal capital or coverage potential required to cover Pillar 2 risks and unexpected losses is based on CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) fully loaded regulatory own funds adjusted by Pillar 2 add-ons (e.g. year-to-date profit (if not already considered in Pillar 1 capital), exclusion of Tier 2 capital instruments, IRB expected loss excess/shortfall add-on, etc.). The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank's operations at any point in time, as reflected in the Bank's Risk Appetite through the limits set for utilisation of coverage potential.

Risk planning

Bank Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the Bank.

Methods and instruments applied

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the Bank´s overall process and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

The Bank's aggregate capital requirements by risk type

The following diagrams present the composition of the economic capital requirements according to type of risk:

Economic capital allocation in %	2021	2020
Credit risk	59.12%	70.5%
Market risk	28.95%	6.6%
Operational risk	5.97%	8.4%
Other risk	5.96%	14.5%

Other risks include business risk, liquidity risk and for 2020 also reputational risk.

Recovery and resolution plans

In compliance with the Czech Banking Recovery and Resolution Act (No. 374/2015 "Zákon o ozdravných postupech a řešení krize na finančním trhu"), the Bank submits an updated Group Recovery Plan to the ČNB at least annually.

The Group Recovery Plan identifies options for restoring financial strength and viability in case the Group comes under severe stress (measured by a comprehensive set of indicators). The plan specifies potential options for the replenishment of capital and liquidity of the bank in

order to cope with a range of scenarios including both idiosyncratic and market-wide stress. Governance/escalation procedures described in the plan ensure a timely identification of, and proper reaction to such situations. The plan also serves to demonstrate that in stress, the bank has sufficient recovery capacity, i.e. is able to restore capital adequacy and liquidity on its own. Furthermore, the assessment of the Group Recovery Plan is part of the Supervisory Review and Evaluation Process (SREP).

The Bank also collaborates with the resolution authorities in the drawing up of resolution plans based on the relevant legislation. Erste Group Bank is subject to the Multiple Point of Entry (MPE) resolution strategy, meaning that the Group would be resolved separately from Erste Group Bank.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL has to be met at any time once it is a binding requirement. MREL is expressed as the ratio of own funds and eligible liabilities to the total risk exposure, or the total liabilities and own funds (TLOF) of the institution. As of December 2020, the Bank has received its binding target of 18.8 % RWA (excluding combined buffer requirement), applicable from 1. 1. 2024. The issuance strategy to fulfil this requirement was incorporated into the Bank's the long-term budgeting process.

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law (Act 374/2015 Coll. On Recovery Procedures and Resolution of the Financial Market Crisis "ZOPRK") has been done in August 2021 in amendment No. 298/2021 Coll.. Beside the introduction of concept of internal MREL, further criteria for bail-in eligible liabilities and MREL eligible liabilities are set.

31. Own funds and capital requirements

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2021 and 2020:

in CZK million	2021	2020
Tier 1 capital	121,736	127,854
Tier 1 + Tier 2 capital	124,382	130,446
Exposure to credit risk	483,089	471,047
Exposure to market risk	11,169	4,943
Exposure to operational risk	47,053	51,482
Total risk exposure	**541,311**	**527,472**
Capital adequacy ratio for the year (Tier 1 ratio)	**22,49%**	**24.24%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**22,98%**	**24.73%**

*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.

The Bank meets all capital adequacy requirements as requested by regulators as of 31 December 2021 and 2020.

32. Credit risk

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses apply to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward-looking information is also recognised in the calculation of credit risk.

Operative credit decisions are made by the credit risk management units. An explanation of the role and responsibilities of Corporate and Retail Credit Risk Management is covered in the section 'Corporate and Retail Credit Risk Management units '.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management, and determination of risk-weighted assets and regulatory capital requirements is regularly loaded into this database. Relevant subsidiaries not yet integrated into the data pool regularly deliver reporting packages.

The ERM department uses the BI-DWH in particular for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the Group as a whole. Credit risk reporting comprises regular reports on the Bank's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

The Bank has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Bank is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed more frequently.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 or 2.

For entities of the Group that use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The Bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment 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).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, Erste Group Bank ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Bank applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality the Bank assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with the Bank or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short-term negative financial and economic developments and shows an elevated

probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. The Bank applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

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

ERM 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.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);
- debt instruments at amortised cost (AC), other than trade and other receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- finance lease receivables;
- 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 2020 and 31 December 2021, the credit risk exposure increased from CZK 1,576 billion to CZK 1,707 billion. This is an increase of 8.3% or CZK 131 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
Dec 2021				
Cash and cash balances – demand deposits to central banks and credit institutions	1,393	-	-	1,393
Debt instruments held for trading	15,561	-	-	15,561
Non-trading debt instruments at FVPL	1,556	-	-	1,556
Debt securities	812	-	-	812
Loans and advances to banks	744			744
Debt instruments at FVOCI	29,840	(148)	(9)	29,831
Debt securities	29,840	(148)	(9)	29,831
Debt instruments at AC	1,467,884	(17,528)	-	1,450,356
Debt securities	319,350	(19)	-	319,331
Loans and advances to banks	360,943	(2)	-	360,941
Loans and advances to customers	787,591	(17,507)	-	770,084
Trade and other receivables	6,228	(759)	-	5,469
Finance lease receivables	214	(8)	-	206
Positive fair value of hedge accounting derivatives	607	-	-	607
Off balance-sheet exposures	184,067	(1,541)	-	-
Total	**1,707,350**	**(19,984)**	**(9)**	**1,504,979**
Dec 2020				
Cash and cash balances - demand deposits to central banks and credit institutions	1,661	-	-	1,661
Debt instruments held for trading	11,382	-	-	11,382
Non-trading debt instruments at FVPL	1,427	-	-	1,427
Debt securities	944	-	-	944
Loans and advances to customers	40	-	-	40
Loans and advances to banks	443			443
Debt instruments at FVOCI	19,184	(126)	333	19,517
Debt securities	19,184	(126)	333	19,517
Debt instruments at AC	1,384,071	(17,827)	-	1,366,244
Debt securities	247,572	(19)	-	247,553
Loans and advances to banks	418,113	(7)	-	418,106
Loans and advances to customers	718,386	(17,801)	-	700,585
Trade and other receivables	718	(163)	-	555
Finance lease receivables	216	-	-	216
Positive fair value of hedge accounting derivatives	2,654	-	-	2,654
Off balance-sheet exposures	154,379	(1,244)	-	-
Total	**1,575,692**	**(19,360)**	**333**	**1,403,656**

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 next pages the credit risk volume is categorized in the following way:

- counterparty sector and financial instrument;
- off-balance sheet exposure by product;
- industry and IFRS 9 treatment;
- industry and risk category;
- composition of credit loss allowances;
- forbearance exposure and credit loss allowances;
- types of forbearance exposure;
- financial instrument and collateral.

Credit risk exposure by counterparty sector and financial instrument

in CZK million	Cash and cash balances – other demand deposits to credit institutions	Debt instruments – held for trading	Non-trading financial assets at FVPL	Debt instruments at FVOCI	At amortised cost			Trade and other receivables	Finance lease receivables	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Gross exposure
					Debt securities	Loans and advances to banks	Loans and advances to customers					
Dec 2021												
Central banks	-	-	-	-	-	356,252	-	-	-	-	-	356,252
General governments	-	1,039	-	16,059	307,589	-	23,658	654	5	-	15,056	364,060
Credit institutions	1,393	12,863	744	1,613	11,754	4,691	-	169	-	597	3,441	37,265
Other financial corporations	-	395	812	3,136	-	-	42,081	238	86	10	10,324	57,082
Non-financial corporations	-	1,262	-	9,032	7	-	266,346	5,020	123	-	84,829	366,619
Households	-	2	-	-	-	-	455,506	147	-	-	70,417	526,072
Total	**1,393**	**15,561**	**1,556**	**29,840**	**319,350**	**360,943**	**787,591**	**6,228**	**214**	**607**	**184,067**	**1,707,350**
Dec 2020												
Central banks	-	-	-	-	-	406,717	-	-	-	-	-	406,717
General governments	-	1,804	-	5,565	236,822	-	22,365	53	-	-	15,843	282,452
Credit institutions	1,661	7,110	443	2,835	10,743	11,396	-	68	-	2,653	1,674	38,583
Other financial corporations	-	386	944	1,905	-	-	35,723	154	76	-	11,467	50,655
Non-financial corporations	-	2,080	40	8,879	7	-	256,922	304	140	1	78,901	347,274
Households	-	2	-	-	-	-	403,376	139	-	-	46,494	450,011
Total	**1,661**	**11,382**	**1,427**	**19,184**	**247,572**	**418,113**	**718,386**	**718**	**216**	**2,654**	**154,379**	**1,575,692**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	2021	2020
Financial guarantees	14,113	32,397
Loan commitments	144,360	121,152
Other commitments	25,594	830
Total	**184,067**	**154,379**

For credit quality of contingent liabilities / off balance-sheet exposures see Note 43 Contingent assets and liabilities.

Credit risk exposure by industry and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Dec 2021							
Agriculture and forestry	15,223	3,214	538	24	18,999	158	19,157
Mining	535	90	5	-	630	1	631
Manufacturing	54,790	16,545	2,754	408	74,497	5,484	79,981
Energy and water supply	16,486	5,164	91	72	21,813	312	22,125
Construction	13,870	1,504	487	75	15,936	13,192	29,128
Development of building projects	6,785	763	269	71	7,888	7,996	15,884
Trade	44,584	7,332	2,149	227	54,292	2,296	56,588
Transport and communication	20,442	10,103	289	160	30,994	923	31,917
Hotels and restaurants	1,173	6,025	520	21	7,739	71	7,810
Financial and insurance services	420,407	11,412	62	-	431,881	18,402	450,283
Holding companies	10,431	7,531	-	-	17,962	534	18,496
Real estate and housing	100,791	12,699	853	42	114,385	400	114,785
Services	16,920	7,467	1,284	175	25,846	700	26,546
Public administration	343,535	17,590	-	-	361,125	1,041	362,166
Education, health and art	5,448	1,726	145	2	7,321	336	7,657
Households	455,478	35,892	6,371	88	497,829	-	497,829
Other	747				747		747
Total	**1,510,429**	**136,763**	**15,548**	**1,294**	**1,664,034**	**43,316**	**1,707,350**
Dec 2020							
Agriculture and forestry	12,263	3,348	140	26	15,777	51	15,828
Mining	767	5	5	-	777	3	780
Manufacturing	50,191	24,625	2,748	639	78,203	659	78,862
Energy and water supply	23,026	5,057	321	117	28,521	249	28,770
Construction	24,763	2,797	547	180	28,287	33	28,320
Development of building projects	10,156	1,615	163	111	12,045	5	12,050
Trade	40,465	11,106	1,848	164	53,583	820	54,403
Transport and communication	18,220	9,202	227	22	27,671	226	27,897
Hotels and restaurants	1,436	7,253	539	2	9,230	60	9,290
Financial and insurance services	481,826	2,369	7	-	484,202	11,443	495,645
Holding companies	7,492	1,696	-	-	9,188	320	9,508
Real estate and housing	84,881	16,155	500	8	101,544	775	102,319
Services	16,736	4,546	1,267	15	22,564	117	22,681
Public administration	277,930	1,002	7	-	278,939	1,803	280,742
Education, health and art	4,854	2,123	420	2	7,399	54	7,453
Households	386,147	30,183	6,311	61	422,702	-	422,702
Total	**1,423,505**	**119,771**	**14,887**	**1,236**	**1,559,399**	**16,293**	**1,575,692**

From industry and financial instrument point of view, the highest exposure is represented by households (exposure of 497 billion, representing 29.1% from total) followed by financing and insurance services in loans and advances to customers (exposure of 450 billion, representing 26.4% from total).

Stage 1 and Stage 2 comprise not impaired credit risks exposure while Stage 3 includes impaired credit risks exposure. POCI consists of credit risks exposure already impaired when purchased or originated.

Column "Not subject to impairment" represents exposures measured at fair values.

The defaulted part of POCI amounted to CZK 1,188 million (2020: CZK 1,066 million), the non-defaulted part to CZK 106 million (2020: CZK 170 million).

Credit risk exposure by industry and risk category in 2021

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
Agriculture and forestry	11,689	5,990	919	559	19,157
Mining	535	1	90	5	631
Manufacturing	53,047	19,134	4,481	3,320	79,981
Energy and water supply	15,915	5,474	573	164	22,125
Construction	19,753	7,445	1,135	795	29,128
Trade	40,356	11,136	2,731	2,365	56,588
Transport and communication	23,206	7,360	904	448	31,917
Hotels and restaurants	4,585	1,678	1,007	540	7,810
Financial and insurance services	444,930	4,474	814	64	450,283
Real estate and housing	86,011	22,853	5,026	897	114,785
Services	17,408	6,108	1,520	1,508	26,546
Public administration	359,991	1,322	851	-	362,166
Education, health and art	6,373	798	242	245	7,657
Private households	470,791	14,216	6,430	6,391	497,829
Other	-	747	-	-	747
Total	**1,554,590**	**108,736**	**26,723**	**17,301**	**1,707,350**

Credit risk exposure by industry and risk category in 2020

Agriculture and forestry	8,505	6,484	673	166	15,828
Mining	731	40	4	5	780
Manufacturing	36,202	34,848	4,431	3,381	78,862
Energy and water supply	19,421	4,905	4,001	443	28,770
Construction	17,214	8,110	2,364	632	28,320
Trade	28,206	21,520	2,641	2,036	54,403
Transport and communication	16,055	10,016	1,577	249	27,897
Hotels and restaurants	3,670	4,135	943	542	9,290
Financial and insurance services	488,511	6,658	461	15	495,645
Real estate and housing	70,514	25,177	6,119	509	102,319
Services	12,599	7,467	1,334	1,281	22,681
Public administration	279,491	1,234	17	-	280,742
Education, health and art	5,696	802	533	422	7,453
Private households	394,679	14,685	7,007	6,331	422,702
Total	**1,381,494**	**146,081**	**32,105**	**16,012**	**1,575,692**

The low risk exposure has the highest proportion in total credit risk exposure, with 91.05% (2020: 87.68%), while management attention represents 6.37% (2020: 9.27%), The substandard exposure represents 1.57 % (2020: 2.04%) and the non-performing 1.01% (2020: 1.02 %).

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 117.2 % (2020: 121.1%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2021. 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 2021, the non-performing credit risk exposure increased by CZK 1,289 million (2020: CZK 3,627 million), or 8.1%, from CZK 16,012 million to CZK 17,301 million. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 299 million (2020: CZK 7,309 million) or 1.5% (2020: 60.8%).

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed

as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in the Bank. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. Also, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Bank has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition), and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria. Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation. The relative thresholds can vary from 110% to 359% according to PD segment and rating level.

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement, therefore if the quantitative and qualitative criteria for SICR are not met the instrument is moved back to stage 1).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not positively concluded.

Qualitative criteria. Qualitative SICR indicators include forbearance-type flags (i.e. threshold is set up to level of performing regulatory forbearance), information from the early-warning system (threshold is set up to level of EW2 - client is on watch list), fraud indicators and 30 days past due. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. The Bank has introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see COVID-19 disclosures in the next chapter.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop. A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption. The "low credit risk exemption" allowed by IFRS 9 for "investment grade" assets or other assets deemed "low risk" (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Bank. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient "low risk" evidence. On this basis, the 'low risk exemption' is applied only to securities exposures (reverse repos excluded). The Bank considered that low credit risk is still appropriate since potential increase of riskiness is already incorporated in 1Y PD due to FLI.

As of 31 December 2021, in the Bank, the corresponding exposure amounted to CZK 339.8 billion (2020: CZK 255.6 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repos excluded) in the amount CZK 9.5 billion with 1Y PD higher than 0.5% does not qualify for low credit risk exemption.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in the Bank's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band. There are credit listed groups for calculation of collective allowance: MSE by product type, Private Individual by product type, in case of PI Mortgages the group is splited according to LTV (<20%, 20-60%, 60-80%, >80%, LTV is missing). Recovery curves depends also on repayments type (cooperative versus noncooperative client).

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the 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 the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Bank's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The main indication of estimated economic development is the GDP development. Disclosure sensitivity of the staging and ECL on macro scenarios is provided in the COVID-19 section below.

As the future outlook was still not stable, the baseline scenario was assigned with 40% probability of occurrence. Following factors, materializing at the end of 2021 were considered:

- new variant (omicron),
- increasing inflation through-the region with potential effect on the increasing interest rates and
- unstable development of the geo-political situation in Ukraine / Russia that can as well effect energy prices.

The specific situation of the COVID-19 pandemic and extensive supporting measures additionally lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, GDP growth of 2020 and 2021 were taken as a prediction for year 2022 and 2023. And the expected GDP growth for 2022 was taken as a prediction for year 2024 for the purposes of the ECL calculation. Variables of crisis year 2020 have the same values across all three scenarios. They were updated during 2021 according to the latest statistical offices' updates and publications.

The GDP development is predicted by internal macroeconomists of the Bank. The impact of FLI effect on exposures and on credit loss allowances by Stages is summarised in tables in chapter Effect on Expected Credit Loss.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth forecasts.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
2021	**Scenario**	**2021**	**2022–23**	**2020**	**2021**	**2022**	**2023**
Czech Republic	Upside	11%	11%		4.1	5.7	6.4
	Baseline	40%	40%	(5.8)	2.4	4.0	4.7
	Downside	49%	49%		(2.3)	0.5	1.8
2020		**2021**	**2022–23**	**2020**	**2021**	**2022**	**2023**
Czech Republic	Upside	4%	4%		5.5	7.3	6.4
	Baseline	40%	40%	(7.7)	3.9	5.7	4.8
	Downside	56%	56%		(1.7)	1.2	1.7

The table above shows used scenarios in YE 2021 and for previous year (YE 2020). Scenario approach for 2021 was kept due to late realization of the baseline forecast risk and possibility of re-visions of the final values within next 12 month. Such development was witnessed with 2020 values during year 2021.

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the COVID-19 pandemics the Bank has introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

The Bank recognizes additional challenges caused by the ESG (environmental, social and governance) risks. We are in the process of analyses how to incorporate these risks into ECL measurement. The Bank has not included additional overlays for ESG risks for year-end 2021. However, due to our considerate approach to the current situation we believe that ECL represents the best estimate of the expected credit losses as of 31 December 2021.

COVID-19

The COVID-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, , the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programs were introduced to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support the Bank´s clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of the Bank towards all stakeholders in mind.

Measures like short-term deferrals were applied, financial support schemes with state guarantees were offered. In addition to programmes with standard parameters that were defined at a very early stage of the crisis and should support an efficient processing, also individual solutions were agreed with clients that did not meet all predefined requirements. In the meantime, significant majority of the (governmental) support measures expired without resulting in a severe negative effect on the portfolio quality.

As at 31 December, the Bank provided CZK 12,017 million (2020: CZK 4,636 million) loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis and received CZK 10,054 million public guarantees in the context of the COVID-19 crisis (2020: CZK 4,489 million).

Effect on business

In March 2020, Risk and Business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within the Bank, reflecting the changed economic environment. Industries and sub-industries were categorised into critical, high, medium and low expected impacts due to COVID-19 based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

Main driver for assigning an industry classification was the assessment of impacts of the crisis on the specific (sub)industry. The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. Recently, the economic development and the ability of many industries to adapt to new conditions resulted in some upgrades into lower risk categories. However, the Group keeps cautious view on the several, mostly affected industries (mainly hotels and leisure, air transportation). In light of this, the respective business and risk strategies for the (sub)industries were also adapted accordingly.

In the course of the year 2021, challenges on top of COVID-19-impacts had to be addressed by corporate clients: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply

chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry heatmap and the industry strategies.

Exposures in particular industries that belong to critical and high risk sub-industries are referred to as "significant risk" in the following tables.

Credit risk exposure and credit loss allowances by industry and IFRS 9 treatment – industry heatmap

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
Dec 2021								
Agriculture and forestry	15,223	3,214	538	24	18,999	158	19,157	(611)
Mining	535	90	5	-	630	2	632	(11)
Manufacturing	54,790	16,545	2,754	408	74,497	5,484	79,981	(3,123)
of which significant risk	2,754	3,363	1,102	188	7,407	94	7,501	(1,191)
Energy and water supply	16,486	5,164	91	72	21,813	313	22,126	(315)
Construction	13,870	1,504	487	75	15,936	13,193	29,129	(743)
Trade	44,582	7,332	2,149	227	54,290	2,298	56,588	(2,349)
of which significant risk	4,259	2,977	430	94	7,760	501	8,261	(515)
Transport and communication	20,442	10,103	289	160	30,994	924	31,918	(487)
of which significant risk	5,341	4,912	18	159	10,430	324	10,754	(167)
Hotels and restaurants	1,173	6,025	520	21	7,739	71	7,810	(512)
of which significant risk	14	5,551	512	-	6,077	71	6,148	(511)
Financial and insurance services	420,409	11,412	62	-	431,883	18,398	450,281	(390)
Real estate and housing	100,791	12,699	853	42	114,385	401	114,786	(1,587)
of which significant risk	9,743	475	-	20	10,238	46	10,284	(33)
Services	16,920	7,467	1,284	175	25,846	699	26,545	(1,330)
of which significant risk	6,566	2,843	539	68	10,016	37	10,053	(571)
Public administration	343,535	17,590	-	-	361,125	1,040	362,165	(233)
Education, health and art	5,448	1,726	145	2	7,321	337	7,658	(229)
of which significant risk	3,031	1,307	65	2	4,405	339	4,742	(116)
Private households	455,478	35,892	6,371	88	497,829	-	497,829	(8,061)
Other	747	-	-	-	747	-	747	(5)
Total	**1,510,429**	**136,763**	**15,548**	**1,294**	**1,664,034**	**43,318**	**1,707,352**	**(19,986)**
of which significant risk	**31,708**	**21,428**	**2,666**	**531**	**56,333**	**1,412**	**57,743**	**(3,104)**

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
Dec 2020								
Agriculture and forestry	12,263	3,348	140	26	15,777	51	15,828	(373)
Mining	767	5	5	-	777	3	780	(8)
of which significant risk	434	5	5	-	444	-	444	(6)
Manufacturing	50,191	24,625	2,748	639	78,203	659	78,862	(3,108)
of which significant risk	14,138	16,259	1,793	408	32,598	561	33,159	(2,049)
Energy and water supply	23,026	5,057	321	117	28,521	249	28,770	(619)
Construction	24,763	2,797	547	180	28,287	33	28,320	(964)
Trade	40,465	11,106	1,848	164	53,583	820	54,403	(2,187)
of which significant risk	6,526	5,736	1,025	64	13,351	567	13,918	(1,161)
Transport and communication	18,220	9,202	227	22	27,671	226	27,897	(543)
of which significant risk	4,972	5,860	132	1	10,965	113	11,078	(272)
Hotels and restaurants	1,436	7,253	539	2	9,230	60	9,290	(536)
of which significant risk	417	7,232	487	-	8,136	60	8,196	(494)
Financial and insurance services	481,826	2,369	7	-	484,202	11,443	495,645	(226)
Real estate and housing	84,881	16,155	500	8	101,544	775	102,319	(1,625)
Services	16,736	4,546	1,267	15	22,564	117	22,681	(1,361)
of which significant risk	7,527	521	754	12	8,814	101	8,915	(782)
Public administration	277,930	1,002	7	-	278,939	1,803	280,742	(46)
Education, health and art	4,854	2,123	420	2	7,399	54	7,453	(363)
of which significant risk	2,969	1,773	313	-	5,055	49	5,104	(247)
Private households	386,147	30,183	6,311	61	422,702	-	422,702	(7,361)
Total	**1,423,505**	**119,771**	**14,887**	**1,236**	**1,559,399**	**16,293**	**1,575,692**	**(19,320)**
of which significant risk	**36,983**	**37,386**	**4,509**	**485**	**79,363**	**1,451**	**80,814**	**(5,011)**

The most visible change in significant risk is decrease in industry Manufacturing (by 77 %) followed by increase in Real Estate and housing category. The movements are driven by update in Industry Heatmap deployed in 2021. Subsectors Machinery, Energy (Oil & Gas) and Metals have been shifted from subcategories with significant risk into subcategories with moderate risk. On the other hand Real Estate and housing category has been moved to significant risk.

Effect on Expected Credit Loss

The Bank has re-assessed credit risk parameters based on the new macro-scenarios FLI overlay in December 2021. Specifics of the COVID pandemics (support measures) led to lagging of macroeconomic variables. Late materialization of the baseline forecast risks in the end of 2021 (mainly new variant Omicron) led to keeping probability of occurrence of baseline scenario on 40%. GDP scenarios and weights are shown in the table displayed within Incorporation of forward-looking information section above. The effect of the FLI in the ECL calculation as of 31 December 2021 amounted to CZK 2.7 bn, similarly as at the end of 2020 (CZK 2.6 bn).

The Bank has additionally addressed expected SICR by introducing COVID-19 portfolio overlays. The Bank divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by considering any COVID-19 related relief measure granted (even if expired) as well as the internal industry heat-map and corresponding customer-specific one-year IFRS PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. lifetime ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews. The effect of COVID-19 portfolio overlays in the ECL calculation as of 31 December 2021 amounted to CZK 0.4 bn (2020: 0.8 bn). Majority of the overlays for PIs were released at the end of 2021. They were mainly driven by moratoria that expired at the beginning of 2021. We concluded that sufficient time has passed to capture potential negative developments via regular behavioural scoring. Decrease of the overlay can be additionally attributed to the moderate upgrades of the heat-map.

The Bank expects a moderate increase in defaults and portfolio deterioration in 2022.

The analysis tables below present effects of the portfolio overlays and FLI macro overlays both on exposure migration to stage 2 and resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated.

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 particular 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.

Analysis shows that out of CZK 136,763 million exposure in Stage 2, CZK 17,806 million were migrated to Stage 2 due to COVID-19 overlays, resulting in an increase of ECL of CZK 446 million (in 2020 out of CZK 119,771 million exposure in Stage 2, CZK 41,688 million were migrated to Stage 2 due to COVID-19 overlays, resulting in an increase of ECL of CZK 787 million).

Further CZK 21,684 million were migrated to Stage 2 due to FLI overlay, resulting in ECL increase of CZK 2,694 million (in 2020 CZK 14,130 million were migrated to Stage 2 due to FLI overlay, resulting in ECL increase of CZK 2,571 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.

Forward looking information (FLI) and stage overlays due to the COVID-19 pandemic

Impact of FLI and stage overlays on credit risk exposure (CRE)

	Current status – arameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of FLI shifts	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021						
CRE	1,510,429	136,763	(17,806)	17,806	(21,684)	21,684
2020						
CRE	1,423,504	119,771	(41,688)	41,688	(14,130)	14,130

Impact of FLI and stage overlays on credit loss allowances (CLA)

	Current status – arameters (FLI shifted)		Effect of stage overlays due to Covid-19		Effect of FLI shifts	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021						
CLA	(2,110)	(6,158)	219	(665)	(593)	(2,100)
2020						
CLA	(1,908)	(5,821)	546	(1,332)	(1,082)	(1,488)

Scenario analysis – Different probabilities of default (PD)

The tables show the impact of FLI: If FLI has not been applied, total exposure in Stage 2 would decrease by CZK 21.7 billion to the benefit of Stage 1. The second table shows the impact on credit loss allowance. Total CLA would improve by CZK 2.7 billion (CLA in Stage 1 would be improved by CZK 0.6 billion and Stage 2 by CZK 2.1 billion). Upside, baseline and downside scenario show potential impact if probability of weights for given scenario was 100%.

Impact of different scenarios on credit risk exposure (CRE)

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021								
CRE	21,684	(21,684)	10,332	(10,332)	8,029	(8,029)	(8,788)	8,788
2020								
CRE	14,130	(14,130)	8,069	(8,069)	4,342	(4,342)	(4,340)	4,340

Impact of different scenarios on credit loss allowances (CLA)

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in CZK million	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
2021								
CLA	594	2,100	(97)	651	(64)	461	75	(555)
2020								
CLA	1,082	1,489	41	672	28	460	(4)	(431)

Composition of credit loss allowances

in CZK million	**2021**	**2020**
Loan loss allowances	(18,443)	(18,116)
Loss allowances for loan commitments and financial guarantees	(1,174)	(1,204)
Provisions for other commirments	(367)	(40)
Total	**(19,984)**	**(19,360)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for any other commitments are subject to IAS 37.

Risk Costs

Impairment result from financial instruments by industry

in CZK million	**On-balance**	**Off-balance**	**Total**
Dec 2021			
Agriculture and forestry	181	16	197
Mining	3	-	3
Manufacturing	178	78	256
Energy and water supply	(124)	(12)	(136)
Construction	(103)	(192)	(295)
Development of building projects	(58)	(265)	(323)
Trade	249	16	265
Transport and communication	(3)	4	1
Hotels and restaurants	3	2	5
Financial and insurance services	(45)	141	96
Real estate and housing	(135)	9	(126)
Services	59	50	109
Public administration	85	105	190
Education, health and art	(75)	6	(69)
Households	894	72	966
Other	147	4	151
Total	**1,314**	**299**	**1,613**

in CZK million	On-balance	Off-balance	Total
Dec 2020			
Agriculture and forestry	136	8	144
Mining	(6)	-	(6)
Manufacturing	816	152	968
Energy and water supply	214	17	231
Construction	162	(18)	144
Development of building projects	(5)	14	9
Trade	679	54	733
Transport and communication	383	26	409
Hotels and restaurants	307	9	316
Financial and insurance services	77	22	99
Real estate and housing	892	23	915
Services	990	22	1 012
Public administration	(2)	13	11
Education, health and art	214	71	285
Households	2,419	46	2,465
Other	21	1	22
Total	**7,302**	**446**	**7,748**

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. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- early warning signals for this customer identified;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:
- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- granting the forbearance has not led to classifying the exposure as non-performing/default.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:
- an additional forbearance measure is extended;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:
- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:
- one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
- the moment of extending the restructuring measure;
- the end of the grace period included in the restructuring agreement;
- the moment when the exposure has been classified as defaulted.
- the forbearance has not led the exposure to be classified as non-performing;
- the customer is not classified as defaulted according to the definition of default;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
- the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
- the customer has repaid the full past due amount or the written-off amount (if there was any).
- corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Bank.

Default definition

Default definitions complies with the EBA 'Guidelines on the application of the definition of default under Art.178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'.

The definitions of non-performing and default are aligned within the Group.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:
- retail exposure: as an absolute limit on client level of CZK 2,500 and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of CZK 12,600 and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in CZK million	Loans and advances	Debt securities	Other positions	Loan commitments	Total
Dec 2021					
Gross exposure	**1,155,721**	**350,003**	**57,268**	**144,360**	**1,707,352**
thereof gross forborne exposure	6,230	-	-	49	6,279
Performing exposure	1,139,493	350,003	56,636	143,919	1,690,051
thereof performing forborne exposure	1,183	-	-	1	1,184
Credit loss allowances for performing exposure	(8,289)	(168)	(272)	(623)	(9,352)
thereof credit loss allowances for performing forborne exposure	(118)	-	-	-	(118)
Non-performing exposure	16,228	-	632	441	17,301
thereof non-performing forborne exposure	5,047	-	-	48	5,095
Credit loss allowances for non-performing exposure	(9,988)	-	(398)	(248)	(10,634)
thereof credit loss allowances for non-performing forborne exposure	(2,781)	-	-	(43)	(2,824)
Dec 2020					
Gross exposure	**1,137,915**	**267,700**	**48,924**	**121,152**	**1,575,691**
thereof gross forborne exposure	29,398	-	-	182	29,580
Performing exposure	1,122,763	267,700	48,342	120,875	1,559,680
thereof performing forborne exposure	25,580	-	-	122	25,702
Credit loss allowances for performing exposure	(7,816)	(145)	(330)	(462)	(8,753)
thereof credit loss allowances for performing forborne exposure	(550)	-	-	-	(550)
Non-performing exposure	15,152	-	582	277	16,011
thereof non-performing forborne exposure	3,818	-	-	60	3,878
Credit loss allowances for non-performing exposure	(10,155)	-	(325)	(127)	(10,607)
thereof credit loss allowances for non-performing forborne exposure	(2,198)	-	-	(53)	(2,251)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
Dec 2021			
Loans and advances	6,230	6,203	27
Loan commitments	49	49	-
Total	**6,279**	**6,252**	**27**
Dec 2020			
Loans and advances	29,398	29,352	47
Loan commitments	182	182	-
Total	**29,580**	**29,534**	**47**

Loans and advances also include lease, trade and other receivables.

Collateral

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 CS 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 CS Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory

requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by relevant Credit Risk Management unit after determining if the applicable regulatory requirements are met. Relevant back office unit monitor adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- movables: equipment, investment goods, machinery and motor vehicles;
- claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management unit and by authorised staff with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the Bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis for all segment of financing.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Mechanism for regular update is described in Collateral Management Policy.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software application COLMAN. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. CS is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from customers. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly manner, with the proceeds used to reduce or repay the outstanding claim.

Treasury collateral

The department Financial Markets Risk Management is responsible for treasury collateral. The Bank Collateral Management Policy Part 2 defines, among other things, uniform valuation standards for treasury collateral across the entire group.

Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), Czech framework agreements, framework agreements for securities lending transactions and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

The following tables compare the credit risk exposure broken down by financial instrument to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

Credit risk exposure by financial instrument and collateral

in CZK million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Dec 2021									
Cash and cash balances – demand deposits to central banks and credit institutions	1,393	-	-	-	-	1,393	1,393	-	-
Debt instruments held for trading	15,561	-	-	-	-	15,561	-	-	-
Non-trading debt instruments at FVPL	1,556	-	-	-	-	1,556	-	-	-
Debt instruments at FVOCI	29,840	-	-	-	-	29,840	29,840	-	-
Debt instruments at AC	1,467,884	769,931	25,732	385,768	358,435	697,953	1,449,959	2,328	15,597
Debt securities	319,350	4,226	4,226	-	-	315,124	319,350	-	-
Loans and advances to banks	360,943	350,717	1,118	-	349,600	10,226	360,943	-	-
Loans and advances to customers	787,591	414,988	20,388	385,768	8,835	372,603	769,666	2,328	15,597
Trade and other receivables	6,228	1,482	1,478	-	4	4,746	5,473	124	631
Finance lease receivables	214	-	-			214	214	-	-
Positive fair value of hedge accounting derivatives	607	-	-	-	-	607	-	-	-
Off balance-sheet exposures	184,067	12,301	666	7,391	4,244	171,766	157,907	59	508
out of which: loan commitments	144,360	8,385	0	5,951	2,434	135,975	143,862	57	441
financial guarantees	14,113	1,634	666	541	427	12,479	14,044	2	67
other commitments	25,594	2,282	-	899	1,383	23,312	-	-	-
Total	**1,707,350**	**783,714**	**27,876**	**393,159**	**362,679**	**923,636**	**1,644,786**	**2,511**	**16,736**
Dec 2020									
Cash and cash balances – demand deposits to central banks and credit institutions	1,661	-	-	-	-	1,661	1,661	-	-
Financial assets held for trading	11,382	-	-	-	-	11,382	-	-	-
Non-trading debt instruments at FVPL	1,427	-	-	-	-	1,427	-	-	-
Debt instruments at FVOCI	19,184	1,940	1,940	-	-	17,244	19,184	-	-
Debt instruments at AC	1,384,071	796,106	24,639	363,984	407,483	587,965	1,366,503	2,454	15,114
Debt securities	247,572	4,042	4,042	-	-	243,530	247,572	-	-
Loans and advances to banks	418,113	400,218	790	-	399,428	17,895	418,106	7	-
Loans and advances to customers	718,386	391,846	19,807	363,984	8,055	326,540	700,825	2,447	15,114
Trade and other receivables	718	-	-	-	-	718	558	122	38
Finance lease receivables	216	-	-			216	216	-	-
Positive fair value of hedge accounting derivatives	2,654	-	-	-	-	2,654	-	-	-
Off balance-sheet exposures	154,379	8,843	2,000	5,441	1,402	145,536	152,707	40	801
out of which: loan commitments	121,152	6,025	1,683	4,030	312	115,127	120,841	34	277
financial guarantees	32,397	2,753	317	1,351	1,085	29,644	31,866	6	525
other commitments	830	65	-	60	5	765	-	-	-
Total	**1,575,692**	**806,889**	**28,579**	**369,425**	**408,885**	**768,803**	**1,540,829**	**2,616**	**15,953**

The collateral attributable to exposures that are credit-impaired at 31 December 2021 amounts to CZK 5,406 million (2020: CZK 4,684 million).

33. Market Risk

The Bank is exposed to the impact of market risks. The Bank's market risk arise from open positions in an interest rate, currency, equity, volatility of financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Bank is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread is included:

1) 1. The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor;
2) 2. A more precise calculation of security prices; and
3) 3. To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Derivative market quotations (market making); and
- Managing open positions in the derivative and capital markets arising from above mentioned activities.

The Bank trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps; and
- Interest rate options such as swaptions, caps and floors.

In the area of exchange traded derivatives, the Bank trades the following instruments:

- Equity index futures.

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into in order to hedge against interest rate risk inherent in the Banking book (interest rate swaps) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Bank's Trading book are transferred to the Erste Group Bank portfolio 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. The Bank retains in the trading portfolio the equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Bank's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses the Value at Risk (VaR) methodology to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. Trading book VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VaR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also scaled up to one month or one year and probability level 99.92%. Banking book VaR values (since 07/2020 position) are calculated locally, using QRM and R software. Calculated is 1 month (99%) VaR, for regular limit-check purposes, and 1 year (99.92%) VaR for ICAAP purposes. Used methods are Monte Carlo simulation for generation of scenarios and PPR function for calibration and VaR calculation.

The Board of Directors establishes VaR limits for the Trading and Banking book portfolio as the Bank's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

Apart from the VaR limit also Earnings at Risk measure is calculated and checked against the EaR warning limit on a monthly basis.

The table below summarizes the VaR values as at 31 December 2021 and 2020 on the confidence level of 99%. The table has been extended because of the inclusion of credit spread risk into the relevant positions of the Banking book and the Trading book portfolios:

in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Com-modity risk	Credit Spread risk
2021								
Trading book								
Daily value	4	-	4	-	-	-	-	-
Monthly value	20	(2)	20	1	-	1	-	-
Average of daily values per year	7	-	7	-	-	-	-	-
Average of monthly values per year	32	(2)	32	1	-	1	-	-
Banking book								
Monthly value	3,635	(813)	3,767	18	-	279	-	385
Average of monthly values per year	1,760	(848)	1,879	6	-	337	-	386
2020								
Trading book								
Daily value	9	-	9	-	-	-	-	1
Monthly value	41	(1)	41	1	-	1	-	4
Average of daily values per year	7	(1)	7	-	-	-	-	1
Average of monthly values per year	34	(4)	34	1	1	-	1	4
Banking book								
Monthly value	1,486	(714)	1,565	4	-	421	-	-
Average of monthly values per year	1,538	(874)	1,366	6	-	834	-	-

In addition, the Bank uses stress testing or an 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 (FMRMC).

In the Comprehensive Stress testing the complex scenario impact on the Bank is analysed on a half-year basis. The Bank monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market 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 using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Bank uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The Banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Bank's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the present value of a basis point ('PVBP') defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account.

The following 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.

	2021		2020	
in CZK million	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
CZK				
Income statement	1,528	(1,488)	1,822	(1,737)
Other comprehensive income	(2,689)	2,823	(3,334)	3,523
EUR				
Income statement	(706)	988	(14)	223
Other comprehensive income	961	(1,022)	799	(850)

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options.

The Bank´s FX open position is managed by Trading book's FX Desk. Total Banking book portfolio's FX open position is closed with TB FX Desk on daily basis as well as TB desk portfolios which are not allowed to keep FX open position. TB FX Desk then manages FX open position based on approved sensitivity limits set for single currencies and FX VaR limits. In addition, 'greeks' sensitivity limits are set for TB desks which are not FX closed with FX desk on daily basis and are allowed to enter into option contracts.

Equity risk

The Bank uses VaR methodology to monitor and manage the equity risk inherent in the Trading and Banking books. The equity risk comes from underlying assets (equity and equity indices) of structured bonds. Equities Market Making activities were transferred to Erste Group Bank.

34. Liquidity Risk

Definition and overview

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank members.

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 ratios

With the implementation of the CRR at the beginning of 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR DA), published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio. The LCR represents a ratio of highly liquid assets held by the Bank, which have to cover net cash outflows over a 30 day time horizon. The Bank reports LCR to the national regulator according to the Delegated Act.

The Bank monitors also the NSFR which is currently not limited by the regulator. Unlike the LCR, the NSFR strives to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding.

At the end of 2021, both LCR and NSFR for the Bank were significantly above 100% and confirm a sound liquidity situation of the Bank. The Bank also reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complements already existing Basel III liquidity risk ratio in the form of several detailed liquidity risk reports/measures.

Methods and instruments employed

In addition to the regulatory indicators, the Bank also monitors and limits internal metrics to ensure sufficient levels of liquidity which are monitored at both total currency level and for significant currencies.

Short-term insolvency risk is monitored by calculating the survival period analysis. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting in 2018, an updated version of the survival period analysis came into force. It contained, among other

improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Similarly, long-term structural liquidity is additionally monitored by an internal metric. The structural liquidity metric 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.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the ALCO. The Comprehensive 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.

The Contingency Plan of the Bank 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

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile which is provided by ALM and also used for FTP (Funds Transfer Pricing).

The following table shows the liquidity gaps as of 31 December 2021 and 2020

In CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2021	2020	2021	2020	2021	2020	2021	2020
Liquidity GAP	391,719	357,364	(26,432)	18,221	(306,490)	(295,178)	69,078	10,926

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Bank has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in a short term to offset potential cash outflows in a crisis situation.

The term structure of the Bank's counterbalancing capacity as of year-end 2021 and 2020 are shown in the tables below:

	< 1 week	
in CZK million	2021	2020
Cash, excess reserve	16,824	20,021
Liquid assets	603,678	362,131
Counterbalancing capacity	**620,502**	**382,152**

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 2021 and 2020 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
2021						
Non-derivative liabilities	**1,405,577**	**1,406,690**	**1,285,753**	**92,338**	**11,586**	**17,013**
Deposits by banks	47,758	47,961	12,103	27,986	4,557	3,315
Customer deposits	1,120,661	1,121,210	1,101,343	12,946	5,396	1,525
Debt securities in issue	219,986	220,347	155,135	51,406	1,633	12,173
Other financial liabilities	17,172	17,172	17,172	-	-	-
Derivative liabilities	**15,392**	**15,402**	**767**	**3,060**	**5,572**	**6,003**
Contingent liabilities	**184,067**	**184,067**	**184,067**	**-**	**-**	**-**
Financial guarantees	14,113	14,113	14,113	-	-	-
Irrevocable commitments	169,954	169,954	169,954	-	-	-
Total	**1,605,036**	**1,606,159**	**1,470,587**	**95,398**	**17,158**	**23,016**
2020						
Non-derivative liabilities	**1,303,040**	**1,303,999**	**1,203,155**	**78,771**	**17,487**	**4,586**
Deposits by banks	88,909	89,341	42,665	35,364	8,197	3,115
Customer deposits	1,035,635	1,035,741	1,021,040	11,651	1,579	1,471
Debt securities in issue	176,128	176,549	137,082	31,756	7,711	-
Other financial liabilities	2,368	2,368	2,368	-	-	-
Derivative liabilities	**12,895**	**12,898**	**1,403**	**4,994**	**4,085**	**2,416**
Contingent liabilities	**157,448**	**157,448**	**157,448**	**-**	**-**	**-**
Financial guarantees	35,466	35,466	35,466	-	-	-
Irrevocable commitments	121,982	121,982	121,982	-	-	-
Total	**1,473,383**	**1,474,345**	**1,362,006**	**83,765**	**21,572**	**7,002**

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.

35. 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

36. Property, equipment and right-of-use assets

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15–50
Office furniture and equipment	4–10
Passenger cars	4–8
Computer hardware	4–6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Right-of use of assets

For accounting policy for leases including right-of use of assets see Note 39 Leases.

Own property and equipment – at cost

	Property and equipment – Acquisition and production costs			
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 2020	**17,687**	**3,864**	**2,175**	**23,726**
Additions in current year (+)	585	244	362	1,191
Disposals (–)	(4,581)	(533)	(168)	(5,282)
Reclassification (+/–)	-	2	1	3
Assets held for sale (–)	(137)	-	-	(137)
Balance as of 31 Dec 2020	**13,554**	**3,577**	**2,370**	**19,501**
Additions in current year (+)	581	174	304	1,059
Disposals (–)	(295)	(224)	(453)	(972)
Reclassification (+/–)	27	(1,038)	1,011	-
Assets held for sale (–)	(297)	-	-	(297)
Balance as of 31 Dec 2021	**13,570**	**2,489**	**3,232**	**19,291**

In November 2020, the Bank carried out an internal restructuring and transferred its three headquarters buildings into three separate subsidiaries (BP Budějovická, s. r. o., BP Poláčkova, s. r. o., BP Olbrachtova, s. r. o.). From the value of total disposals in 2020 the amount of CZK 4,176 million represents the value of these buildings at cost, which after deducting accumulated depreciation of CZK 2,906 (see table below) were transferred to the subsidiaries in the total amount of CZK 1,270 million.

Own property and equipment – Accumulated depreciation

	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 2020	**(10,555)**	**(2,596)**	**(1,528)**	**(14,679)**
Depreciation (–)	(643)	(189)	(214)	(1,046)
Disposals (+)	3,253	483	160	3,896
Reversal of impairment (+)	167	-	-	167
Reclassification	-	(1)	1	-
Assets held for sale (+)	113	-	-	113
Balance as of 31 Dec 2020	**(7,665)**	**(2,303)**	**(1,581)**	**(11,549)**
Depreciation (–)	(509)	(100)	(303)	(912)
Disposals (+)	249	210	448	907
Impairment (+)	(407)	-	-	(407)
Reclassification	(24)	439	(415)	-
Assets held for sale (+)	266	-	-	266
Currency translation	(5)	(3)	(29)	(37)
Balance as of 31 Dec 2021	**(8,095)**	**(1,757)**	**(1,880)**	**(11,732)**

Right of use property and equipment – at cost

	Right of use – Property and equipment – Acquisition and production costs			
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 2020	**3,531**	**30**	**18**	**3,579**
Additions in current year (+)	1,307	25	-	1,332
Disposals (-)	(259)	(4)	-	(263)
Balance as of 31 Dec 2020	**4,579**	**51**	**18**	**4,648**
Additions in current year (+)	547	23	3	573
Disposals (-)	(61)	(10)	-	(71)
Balance as of 31 Dec 2021	**5,065**	**64**	**21**	**5,150**

Right of use property and equipment – Accumulated depreciation

	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)	Total property and equipment
Balance as of 1 Jan 2020	**(483)**	**(13)**	**(8)**	**(504)**
Depreciation (-)	(555)	(16)	(7)	(578)
Disposals (+)	44	4	-	48
Impairment	(5)	-	-	(5)
Balance as of 31 Dec 2020	**(999)**	**(25)**	**(15)**	**(1,039)**
Depreciation (-)	(671)	(20)	(5)	(696)
Disposals (+)	24	10	-	34
Impairment	(10)	-	-	(10)
Balance as of 31 Dec 2021	**(1,656)**	**(35)**	**(20)**	**(1,711)**

Carrying amounts

Own property and equipment

	Property and equipment			
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 2020	**7,132**	**1,268**	**647**	**9,047**
Balance as of 31 Dec 2020	**5,889**	**1,274**	**789**	**7,952**
Balance as of 31 Dec 2021	**5,475**	**732**	**1,352**	**7,559**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 316 million (2020: CZK 409 million).

Rights of use property and equipment

	Property and equipment			
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 2020	**3,048**	**17**	**10**	**3,075**
Balance as of 31 Dec 2020	**3,580**	**26**	**3**	**3,609**
Balance as of 31 Dec 2021	**3,409**	**29**	**1**	**3,439**

The balances as at 31 December 2021 shown above include CZK 785 million (2020: CZK 850 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,378 million as at 31 December 2021 (2020: CZK 3,646 million).

As at 31 December 2021, land and buildings were impaired in the amount of CZK 1,272 million (2020: CZK 812 million).

37. Intangible assets

The Bank's intangible assets include computer software, licences, know-how and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if the Bank can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4–8
Other (licences, patents, etc.)	6

Brands have been impaired to nil carrying amount.

Acquisition and production cost

	Acquisition and production costs		
in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2020	**15,739**	**1,880**	**17,619**
Additions in current year (+)	1,255	51	1,306
Disposals (-)	(354)	(102)	(456)
Reclassification (+/-)	(4)	1	(3)
Balance as of 31 Dec 2020	**16,636**	**1,830**	**18,466**
Additions in current year (+)	1,305	572	1,877
Disposals (-)	(141)	(913)	(1,054)
Balance as of 31 Dec 2021	**17,800**	**1,489**	**19,289**

Accumulated amortization

	Amortisation		
in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2020	**(10,438)**	**(1,641)**	**(12,079)**
Amortisation charge (–)	(915)	(63)	(978)
Disposals (+)	353	102	455
Impairment (–)	(27)	-	(27)
Balance as of 31 Dec 2020	**(11,027)**	**(1,602)**	**(12,629)**
Amortisation charge (–)	(929)	(122)	(1,051)
Disposals (+)	138	493	631
Impairment (–)	(161)	-	(161)
Balance as of 31 Dec 2021	**(11,979)**	**(1,231)**	**(13,210)**

Carrying amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible sassets
Balance as of 1 Jan 2020	**5,301**	**239**	**5,540**
Balance as of 31 Dec 2020	**5,609**	**228**	**5,837**
Balance as of 31 Dec 2021	**5,821**	**258**	**6,079**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,614 million as at 31 December 2021 (2020: CZK 1,490 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 3,220 as at 31 December 2021 (2020: CZK 2,506 million).

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'.

38. Other assets

in CZK million	2021	2020
Prepayments	304	268
Sundry assets	603	502
Other assets	**907**	**770**

'Sundry assets' consist mainly of long-term advances of CZK 258 million (2020: CZK 233 million).

LEASES

39. 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.

The Bank as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property, equipment and right-of-use assets' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

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

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	2021	2020
Outstanding minimum lease payments	227	221
Gross investment	**227**	**221**
Unrealised financial income	(13)	(5)
Net investment	**214**	**216**
Present value of minimum lease payments	**214**	**216**

Maturity analysis of leases by residual maturities

in CZK million	Gross investment	Present value
2021		
< 1 year	45	42
1-2 years	37	35
2-3 years	36	34
3-4 years	34	32
4-5 years	29	27
> 5 years	46	44
Total	**227**	**214**
2020		
< 1 year	41	41
1-2 years	39	39
2-3 years	36	35
3-4 years	33	33
4-5 years	30	29
> 5 years	42	39
Total	**221**	**216**

During 2021, the Bank recognised interest income on finance lease receivables in the amount of CZK 1,6 million (2020: CZK 1,4 million). Gains/losses from derecognition of finance lease receivables are recognized in line item 'Gains/losses from derecognition of financial assets measured at amortised cost' (Note 8 Gain/losses from derecognition of financial assets measured at amortised cost).

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 2021 is provided in the table below:

In CZK million	GCA Stage 1	CLA Stage 1	Carrying ammount
Dec 2021			
General governments	77	(5)	72
Other financial corporation	86	-	86
Non-financial corporations	51	(3)	48
Total	**214**	**(8)**	**206**
Dec 2020			
General governments	86	-	86
Other financial corporation	76	-	76
Non-financial corporations	54	-	54
Total	**216**	**-**	**216**

As there were no credit allowances incurred no movements are disclosed.

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 and the GCA of the finance lease receivables that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to nil.

Operating leases

Under operating leases, the Bank leases real estate and movable property to other parties.

Maturity analysis of lease payments from operating leases

in CZK million	2021	2020
< 1 year	76	68
1-5 years	231	210
> 5 years	49	57
Total	**356**	**335**

The Bank does not recognise any income relating to variable lease payments. For information about rental income please refer to Note 6 Rental income from other operating leases.

The Bank as a lessee

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Bank uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property, equipment and right-of-use assets' or, if they are subleased to third parties, for finance lease as 'Finance lease receivables'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Pribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Pribor. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

For details about right-of-use assets capitalized in balance sheet arising from leases where the Bank is lessee, please see Note 36 Property, equipment and right-of-use assets.

Maturity analysis of lease liabilities

2021	Gross value	Present value
in CZK million		
< 1 year	754	702
1-5 years	2,164	2,038
> 5 years	1,134	1,077
Total	**4,052**	**3,817**
2020		
< 1 year	738	708
1-5 years	2,295	2,214
> 5 years	1,128	1,066
Total	**4,161**	**3,988**

During 2021, interest expenses on lease liabilities were recognised in the amount of CZK 39 million (2020: CZK 47 million). In 2021, expenses in the amount of CZK 62 million (2020: CZK 56 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 (2020: CZK 50 million) relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, were recognized.

Loss arising from sale and leaseback transactions in the amount of CZK 143 million (2020: loss in amount of CZK 21 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 55 million (2020: CZK 109 million). Total cash outflow for leases in 2021 was CZK 886 million (2020: CZK 751 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 2021.

SUBSIDIARIES AND ASSOCIATES

40. 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 2021	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidiaries					
CEE Property Development Portfolio B.V. *	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,272
Czech and Slovak Property Fund B.V.	30.0	EUR	100%	100%	345
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	-
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
Česká spořitelna – penzijní společnost, a.s.	350.0	CZK	100%	100%	491
MOPET CZ, a.s.	27.0	CZK	100%	100%	-
REICO investiční společnost České spořitelny, a.s.	25.0	CZK	100%	100%	90
Leasing České spořitelny, a.s.	500.0	CZK	100%	100%	3,255
Stavební spořitelna České spořitelny, a.s.	750.0	CZK	100%	100%	1,515
Holding Card Service, s.r.o.	873.0	CZK	67%	67%	583
ČS NHQ, s.r.o.	10.0	CZK	100%	100%	310
ČS Seed Starter, s.r.o.	6.0	CZK	100%	100%	69
Budějovická Development, s.r.o.	1.0	CZK	100%	100%	338
Subtotal					**9,253**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	-
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	-
Total					**9,253**

*) 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

During the year, the Bank completed planned liquidation of the companies Czech TOP Venture Fund B.V. v likvidaci and brokerjet České spořitelny, a.s. v likvidaci. CS Property Investment Limited went into liquidation on 20 December 2021 and reclassified to FVPL in December 2021.

As of 31 December 2020	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidiaries					
brokerjet České spořitelny, a.s. v likvidaci	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V. *	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,272
CS Property Investment Limited	120.0	EUR	100%	100%	66
Czech and Slovak Property Fund B.V.	30.0	EUR	100%	100%	345
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	-
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	-
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
Česká spořitelna - penzijní společnost, a.s.	350.0	CZK	100%	100%	491
MOPET CZ, a.s.	27.0	CZK	100%	100%	-
REICO investiční společnost České spořitelny, a.s.	25.0	CZK	100%	100%	90
s Autoleasing, a.s.	500.0	CZK	100%	100%	2,313
Erste leasing, a.s.	200.0	CZK	100%	100%	942
Stavební spořitelna České spořitelny, a.s.	750.0	CZK	100%	100%	1,515
Holding Card Service, s.r.o.	773.0	CZK	75%	75%	583
ČS NHQ, s.r.o.	10.0	CZK	100%	100%	210
ČS Seed Starter, s.r.o.	6.0	CZK	100%	100%	32
Budějovická Development, s.r.o.	1.0	CZK	100%	100%	338
Subtotal					**9,227**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	-
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	-
Bankovní identita, a.s.	3.0	CZK	33%	33%	21
Subtotal					-
Total					**9,248**

*) 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

In January 2020, new companies BP Poláčkova, s.r.o., BP Budějovická, s.r.o., BP Olbrachtova, s.r.o. joined the Group. In May 2020, Erste Corporate Finance, a.s. changed its name to ČS Seed Starter, a.s.

During the year 2020, the Bank completed the planned liquidation of the companies VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

41. Other liabilities

in CZK million	2021	2020
Deferred income	453	389
Sundry liabilities	4,170	3,290
Other liabilities	**4,623**	**3,679**

Sundry liabilities consist mainly of suspense account amounting to CZK 874 million (2020: CZK 861 million) and costs of staff bonuses for 2021 amounting to CZK 1,728 million (2020: CZK 1,626 million) of which CZK 34 million (2020: CZK 29 million) is a liability regarding share-based remuneration.

Deferred income outstanding at 31 December 2021 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 453 million (2020: CZK 389 million). Revenue recognised in the reporting year 2021 that was included in the contract liability balance at the beginning of the period amounts to CZK 198 million (2020: CZK 174 million).

42. Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. In the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'. However restructuring expenses relating to employees are presented under line item 'Personnel expenses'.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Bank.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item "Fee and commission income" under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan commitments.

If the Bank is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk are guaranteed. The Bank considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. They are ignored in measuring the ECL and are measured separately and in the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Significant accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether the Bank has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 32 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 43 Contingent assets and liabilities.

in CZK million	2021	2020
Restructuring	59	93
Pending legal issues	1,981	1,727
Commitments and guarantees given	1,174	1,204
CLA for loan commitments and financial guarantees in Stage 1	453	427
CLA for loan commitments and financial guarantees in Stage 2	441	362
CLA for loan commitments and financial guarantees – Defaulted	280	415
Provisions for onerous contracts	-	3
Other provisions	374	39
Provisions	**3,588**	**3,066**

Provision for legal disputes are explained in detail in Note 43 Contingent assets and liabilities.

The restructuring provision was created at the end of 2019 for the next phase reorganization of the Bank's redundant activities performed by the HQ departments of the Bank and their employees. The reorganization is expected to be completed in 2022.

Under position 'Pending legal issues and tax litigation' provisions related to litigations from lending business, asset management or litigations with customer protection associations, which normally occur in banking business, are disclosed (refer to Note 43 part Legal disputes).

Movement in credit loss allowances for loan commitments and financial guarantees

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2021						**Dec 2021**
Stage 1	427	1,126	(544)	(202)	(242)	(112)	453
Stage 2	362	-	(125)	408	(96)	(108)	441
Defaulted	415	-	(118)	24	32	(73)	280
Total	**1,204**	**1,126**	**(787)**	**230**	**(306)**	**(293)**	**1,174**
	Jan 2020						**Dec 2020**
Stage 1	215	2,583	(691)	(316)	(1,364)	-	427
Stage 2	103	-	(403)	276	386	-	362
Defaulted	442	-	(171)	14	130	-	415
Total	**760**	**2,583**	**(1,265)**	**(26)**	**(848)**	**-**	**1,204**

In column 'Additions' increases of CLA due to the initial recognition of loan commitments and financial guarantees during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loan commitments and financial guarantees 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 loan commitments and financial guarantees from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 favourable (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)'. This column also captures the passage-of-time adverse effect ('unwinding') over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

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 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2021	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	17,064	15,025
To Stage 1 from Stage 2	7,812	1,766
Transfers between Stage 2 and Defaulted		
To Defaulted from Stage 2	314	135
To Stage 2 from Defaulted	36	217
Transfers between Stage 1 and Defaulted		
To Defaulted from Stage 1	154	294
To Stage 1 from Defaulted	35	269

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2021 and not fully de-recognized by 31 December 2021 amounts to CZK 81,963 million (2020: CZK 63,539 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to CZK 56,049 million (2020: CZK 38,182 million).

Sundry provision

in CZK million		Allocations	Use	Releases	Exchange rate and other changes	
	As of Jan 2021					As of Dec 2021
Pending legal issues	1,727	265	(10)	(1)	-	1,981
Provision for restructuring	93	59	(63)	(30)	-	59
Other provisions	43	7	(1)	(1)	326	374
Provisions	**1,863**	**331**	**(74)**	**(32)**	**326**	**2,414**
	As of Jan 2020					As of Dec 2020
Pending legal issues	1,727	1	-	(1)	-	1,727
Provision for restructuring	79	55	(41)	-	-	93
Other provisions	38	2	(2)	-	5	43
Provisions	**1,844**	**58**	**(43)**	**(1)**	**5**	**1,863**

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.

43. Contingent assets and 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 42 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.

In 2021, 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 2021 the aggregate balance of these allowances was CZK 1,174 million (2020: CZK 1,204 million). Refer to Note 42 Provisions.

in CZK million	2021	2020
Amounts owed under guarantees and letters of credit	14,113	35,466
Undrawn loan and other commitments	169,954	121,982
of which loan commitments	*144,360*	*121,152*
Total	**184,067**	**157,448**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

44. Total equity

Details on equity are provided in Section IV, Statement of Changes in Equity.

in CZK million	2021	2020
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	9,040	17,147
Retained earnings and other reserves	109,690	109,619
Total equity	**133,942**	**141,978**

The share capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register. As of 31 December 2021, share capital consists of 152,000,000 voting ordinary shares. In addition, the Bank issued AT1 (additional Tier 1 capital). Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

The issue of Additional Tier 1 ("AT1") equity instruments is compliant with Article 52 of the CRR (Regulation EU No 575/2013). In December 2015 the Bank has launched an issue of AT1, denominated in Euro, for a total of EUR 300 million (the equivalent of CZK 8,107 million). In June 2019 the Bank has launched second issue of AT1, denominated in Euro, for a total of EUR 350 million (the equivalent of CZK 9,039 million). In December 2021 the Bank has called the first issue of AT1 of EUR 300 million (equivalent of CZK 8,107 million out of which CZK 484 million FX result was accounted to retained earnings). The issued AT1 capital is recognized under the line item "Additional equity instruments".

In accordance with the characteristics of AT1 (i.e. the terms of the issue), the Bank is not obliged to deliver funds or other financial assets to the AT1 holder to settle the contractual obligation, ie. AT1 holders are not entitled to repay the amount due or pay proceeds, and AT1 has no maturity date.

The main reasons for the issuance of AT1 is optimisation of capital structure and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

Distributions on own equity instruments are recognised as a liability and deducted from equity when they are approved by the Bank shareholder. For dividends on ordinary shares the decision is taken by the Annual General Meeting. For coupons on Additional Tier 1 instruments the payouts recorded in equity do not need approvals of Annual General Meeting but an event of non-payment would require a decision of the Bank's Board.

As at 1 January 2021, the Bank took over the Czech branch of the Waldviertler Sparkasse (WSPK) bank. The Bank decided to use pooling of interest accounting principles (or so-called „predecessor accounting") with no revaluation of assets and liabilities acquired to fair value. The impact with respect to the predecessor accounting principle was decrease of equity by CZK 267 million.

Number of shares and share capital

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

	2021		2020	
	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

45. 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.

Loans and advances to and amounts owed to related parties

	2021					2020				
in CZK million	Erste Group Bank AG	Subsidaries	Associates	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Subsidaries	Associates	Other related parties	Members of the Board of Directors and Supervisory Board
Assets										
Cash and cash balances	998	-	-	81	-	1,451	-	-	36	-
Financial assets – held for trading	8,590	-	-	-	-	5,070	-	-	-	-
Financial assets – FVPL	744	-	-	-		443	-	-	-	-
Financial assets – amortised costs	1,270	26,575	-	170	33	9,022	21,426	-	311	25
Trade and other receivables	6	223	1	118		10	106	-	87	-
Derivatives Hedge Accounting	504	-	-	-	-	732	-	-	-	-
Other assets	-	725	-	1	-	-	649	-	1	-
Liabilities										
Financial liabilities held for trading	6,796	-	-	-		4,940	-	-	-	-
Financial liabilities measured at amortised costs	34,716	1,966	14	248	107	62,220	2,870	6	363	77
Debt securities in issue	200,195	6,630	-	-		163,609	6,630	-	-	-
Derivatives Hedge Accounting	1,634	-	-	-		234		-	-	-
Other financial liabilities	-	710	-	1		19	646	-	44	-
Other Liabilities	-	137	-	1		-	75	-	1	-
Profit&Loss statement										
Net interest income	(1,306)	99	-	3	1	(1,000)	99	-	3	1
Net fee and commission income	109	603	-	1,150	-	61	785	-	945	-
Dividend income	-	49	-	-	-	-	(97)	-	(11)	-
Net trading result and fair value result	6,983	-	-	-	-	(2,569)	8	-	-	-
Rental income from other operating lease	-	4	7	3	-	-	21	8	4	-
Other administrative expenses	(287)	(114)	(44)	(830)	(106)	(209)	(99)	(44)	(814)	(106)
Other operating result	26	95	2	13	-	27	300	2	-	-
Loans commitments, financial guarantees and other commitments given	**6,179**	**12,947**	**8**	**361**	**-**	**1,134**	**13,157**	**8**	**555**	**-**

'Other related parties' include companies wholly or partly owned by Erste Group Bank.

Financial assets measured at amortized cost to subsidiaries comprise mainly of providing long term loans to Leasing ČS, a.s. of CZK 18,006 million (2020: CZK 15,061 million) and Factoring České spořitelny of CZK 6,355 million (2020: CZK 4,006 million).

Financial liabilities measured at amortized costs as at 31 December 2021 include primarily repurchase agreements with Erste Group Bank AG in CZK 34,218 million (2020: CZK 61,088 million).

Financial assets at amortized costs to Erste Group Bank AG as at 31 December 2021 include primarily term deposits of CZK 1,270 million (2020: CZK 8,968 million).

Financial assets held for trading to Erste Group Bank AG as at 31 December 2021 include primarily derivatives held for trading of CZK 8,561 million (2020: CZK 4,996 million).

The repurchase agreements are mainly denominated in CZK (CZK 4,232 million as at 31 December 2021, (2020: CZK 29,984 million)) and EUR (CZK 29,985 million as at 31 December 2021, 2020: CZK 30,701 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.

The term deposits are mainly denominated in EUR, the interest rates on term deposits are in the range of –0,1% to 2,76% and maturity of these transactions is up to 52 months.

As at 31 December 2021 financial assets and financial liabilities held for trading include mainly derivative instruments (currency and interest rate derivatives). In 2021 and 2020, the net trading and fair value result consists primarily of foreign currency gains/losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Loans commitments, financial guarantees and other commitments given include primarily risk participation on Leasing ČS, a.s. and Factoring, a.s. in amount of CZK 5,881 million as at 31 December 2021 (2020: CZK 3,482 million) which were concluded on arms-length conditions.

Terms of the debt securities issued are described in Note 18.

Board remuneration

Board of Directors Members are remunerated on the basis of an „Agreement on the Performance of the Position of a Member of the Board of Directors". The overall income of a Board of Directors Member for any given year is comprised of fixed pay, variable income, and benefits/ in-kind performances.

	Short-term benefits		Long-term benefits			
in CZK million			Variable performance linked remuneration			
Board total	Fixed salaries	Other remuneration (in kind)	Previous years (cash)	Previous years (non-cash)	Previous years (phantom/ shares)	Total
2021	61	2	16	21	6	106
2020	63	2	17	14	-	96

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

Board of Directors members are not included in pension plan benefit. Mr. Bravek received CZK 6.9 million as termination benefit in 2021. No termination benefit was paid out in 2020 to the Board 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.The variable remuneration component of the Board of Directors members's includes both:

- cash payments and
- 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 41. 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 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 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 2021 was estimated at CZK 47 million (2020: CZK 31 million).

At year-end 2021 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 38 million (2020: CZK 33 million) and for non-cash part is CZK 80 million (2020: CZK 35 million) of which CZK 34 million are phantom shares.

Non-cash performance linked 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 2021, the valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2021 in the amount of EUR 32,95 (2020: EUR 21.81) per share. Pay-outs of share-based bonus payments are made one-year after the final amount is determined.

Phantom shares are settled in cash and therefor treated as cash-settled share-based payment transactions. The average daily weighted price of a phantom share is calculated on the basis of the official DataStream (Thomson Reuters Corp) information of Erste Group Bank shares and is based on data published on the Vienna Stock Exchange (Wiener Börse).

The allocated number of phantom shares to the Board of Directors members is calculated by division of respective gross bonus amount by the average daily weighted price of Erste Group Bank shares stock in the performance period. For performance period 2021 Board of Directors members receive equivalent of 14,528 pcs of phantom shares with average price 32,95 EUR.

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

ČS Performance Certificates

As a non-cash performance linked instruments, the Bank uses also ČS Performance certificates, the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014.

The valuation of the ČS Financial Group is based on an annual impairment test conducted at the level of the parent company EGB. The comparison of the result of the FGČS'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).

46. Audit fees and other consultancy fees

The following table contains audit fees and other fees charged by the auditors (excluding VAT) - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.:

in CZK million	2021	2020
Audit fees	18	16
Other assurance and consultancy fees	7	6
Total	**25**	**22**

47. Assets held for sale and liabilities associated with assets held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of

IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Bank recognises this difference as a provision under the statement of financial position line item 'Provisions'.

in CZK million	2021	2020
Assets held for sale	20	24

For year end 2020 Energie ČS, a.s. has been already sold. The remaining part of assets held for sale are represented by buildings for sale as a result of ongoing optimisation of the branch network.

48. Analysis of remaining maturities

The breakdown of the Banks's assets and liabilities based on residual expected maturities as at 31 December 2021 and 2020 was as follows:

	2021		2020	
in CZK million	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	36,663	-	36,459	-
Financial assets held for trading	15,561	-	11,382	-
Non-trading financial assets at FVPL	1,556	836	1,427	976
Equity instruments	-	836	-	976
Debt instruments	812	-	944	-
Loans and advances to customers	-	-	40	-
Loans and advances to banks	744	-	443	-
Financial assets at FVOCI	2,065	27,766	2,864	16,653
Debt securities	2,065	27,766	2,864	16,653
Financial assets at amortized cost	464,925	985,431	522,438	843,806
Loans and advances to banks	359,227	1,714	416,422	1,684
Loans and advances to customers	78,169	691,915	73,257	627,328
Debt securities	27,530	291,801	32,759	214,794
Hedge accounting derivatives	607	-	2,654	-
Finance lease receivables	-	206	-	216
Property, equipment and right-of-use assets	-	10,998	-	11,561
Intangible assets	-	6,079	-	5,837
Investments in subsidiaries and associates	-	9,253	-	9,248
Current tax assets	992	-	1,403	-
Deferred tax assets	-	2,333	-	629
Other assets	907	-	770	-
Trade and other receivables	5,465	4	555	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-	12	-
Non current assets held for sale	20	-	24	-
TOTAL ASSETS	**528,751**	**1,042,906**	**579,988**	**888,926**
Financial liabilities held for trading	15,392	-	12,895	-
Financial liabilities at fair value through profit or loss	10,653	-	3,784	-
Financial liabilities measured at amortised cost	605,877	789,047	636,154	663,102
Lease liabilities	702	3,115	708	3,280
Hedge accounting derivatives	4,718	-	267	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	1	-
Commitments and guarantees given	-	1,175	-	1,203
Other provisions	-	2,413	-	1,863
Tax liabilities	-	-	-	-
Other liabilities	4,623	-	3,679	-
TOTAL LIABILITIES	**641,965**	**795,750**	**657,488**	**669,448**

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	2021	2020
Opening balance of debt securities issued as of 1 January (Note 18)	176,128	12,304
Cash-flows reported within the cash-flow from financing activities	44,098	163,825
Non-cash adjustments	(240)	(1)
Closing balance of debt securities issued as of 31 December (Note 18)	219,986	176,128

Non-cash adjustments consist mainly of FX impact.

Cash-flows from lease liabilities

in CZK million	2021	2020
Opening balance of finance lease liabilities as of 1 January (Note 39)	3,988	3,192
Cash-flows reported within the cash-flow from financing activities	(861)	(751)
Non-cash adjustments	690	1,547
Closing balance of finance lease as of 31 December (Note 39)	3,817	3,988

Non-cash adjustments consist maily of interest expense from lease liability.

49. Events after the balance sheet date

As of 1st January 2022 the company Mopet CZ, a.s. entered into liquidation. As of 16 February 2022 the subsidiary Dostupné bydlení České spořitelny, a.s. was established.

As at 24 February 2022, the Russian federation, supported by Belarus, invaded Ukraine. Such unprecedented act has almost immediately induced strong reaction including economical sanction imposed on the Russian federation and Belarus as well as on corporations and private individuals. Furthermore, the world market has reduced its trading activities towards the Russian federation and Belarus. Following such situation and strong clients deposit withdrawal requests, forced administration was imposed on Sberbank CZ, a subsidiary of Russia's state-owned central bank. The Bank considers these acts as non-adjusting post balance sheet events.

The Bank has been morally impacted by such a terrible act and the Bank fully condemns the war. Nevertheless, the economic impact is rather limited. The Bank has negligible credit exposure to the state or corporations domiciled in Russia and trading activities in RUB are insignificant. Therefore, neither Russia's military aggression against Ukraine nor the current economic sanctions against Russia pose any significant financial threat to the stability of the Bank.

The Bank is aware that some of its clients have their operations in Russia or Ukraine but currently is not able to quantify the impact on its ability to repay their loan exposures. The Bank is closely monitoring their economic situation and will react accordingly.

50. Details of companies wholly or partly owned by Česká spořitelna, a.s.

Name of company	Registered office	Principal activities
Investments in subsidiaries		
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Erste Grantika Advisory, a.s.	Brno	Business consulting
Factoring České spořitelny, a.s.	Prague	Factoring
Česká spořitelna – penzijní společnost, a.s.	Prague	Pension insurance
Mopet CZ, a.s.	Prague	Mobile payment services
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
Leasing České spořitelny, a.s.	Prague	Leasing
Stavební spořitelna ČS, a.s.	Prague	Construction savings bank
Holding Card Service, s.r.o.	Prague	Property Management
ČS NHQ, s.r.o.	Prague	Real estate investment
Budějovická development, s.r.o.	Prague	Real estate investment
ČS Seed Starter, a.s.	Prague	Investment services
Investments in associates		
Procurement Services CZ, s.r.o.	Prague	Provision of procurement services
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	Foreign payments services

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. 2021 to 31. 12. 2021

The Board of Directors of Česká spořitelna, as, with its registered office in Prague 4, Olbrachtova 1929/62, 140 00, IČ: 45244782, entered in the Commercial Register, Section B, Insert 1171, kept by the Municipal Court in Prague (hereinafter "Česká spořitelna" or the "Bank"), prepared the following report on relations in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., On Business Corporations (hereinafter referred to as the "Business Corporations Act") for the accounting period of the calendar year 2021 (hereinafter "Reporting period").

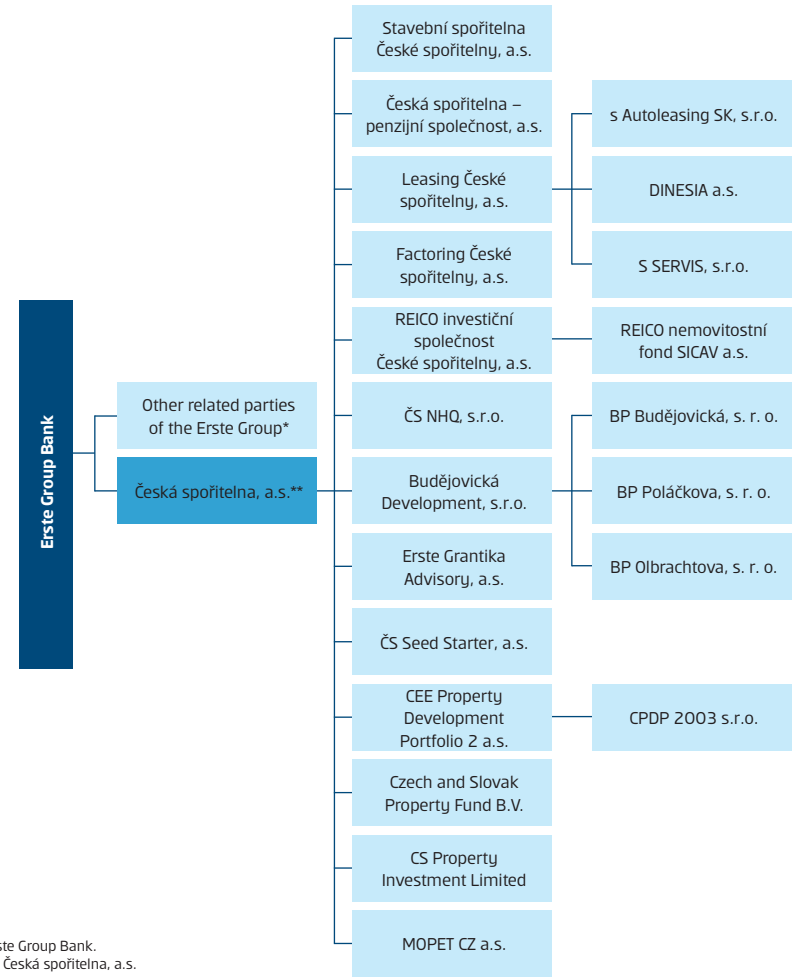
Česká spořitelna, a. s. is a member of a business group in which the described relationships exist between Česká spořitelna and controlling parties, and between Česká spořitelna and parties controlled by the same controlling parties (hereinafter referred to as "Related Parties").

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 2021 to 31 December 2021.

A. Financial Group of Česká spořitelna, a.s.

Česká spořitelna was part of the Group in which Erste Group Bank AG (the "Group", the "Erste Group" or the "EG") is the controlling entity throughout the relevant period. Data on persons belonging to the Group are presented as of 31 December 2021.

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.
** Companies listed in Part C with 100% ownership of Česká spořitelna, a.s.

B. Controlling Party

Erste Group Bank AG, Am Belvedere 1, Vienna, Austria („Erste Group Bank")

Erste Group Bank AG 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 2021 and current information is also available on the Erste Group Bank website.

C. Other Related Parties

Erste Group

- **Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft**, Promenade 11–13, Linec, Austria
- **Banca Comerciala Romana s.a.**, Regina Elisabeta Bvd 5, Bucharest, Romania
- **Banka Sparkasse d.d.**, Cesta v Kleče 15, Ljubljana, Slovenia
- **CEE Property Development B.V.**, Naritaweg 165, Amsterdam, Nizozemí
- **Epsilon Immorent s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **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 No.5, 21000 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 Group Card Processor d.o.o.**, Radnička cesta 45, Zagreb, Croatia
- **Erste Group Immorent ČR s.r.o.**, Budějovická 1518/13a, Praha 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 IT International GmbH**, Am Belvedere 1, 1100 Vienna, Austria
- **Erste Group Shared Services s.r.o.**, Národní třída 44, Hodonín, Czech Republic
- **Erste Securities Polska S.A.**, ul. Królewska 16, Warsaw, Polland
- **George Labs GmbH**, Am Belvedere 1, 1100 Vienna, Austria
- **Intermarket Bank AG**, Am Belvedere 1, 1100 Vienna, Austria
- **OMEGA IMMORENT s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Procurement Services CZ s.r.o.**, Budějovická 1912/64b, Praha 4, Czech Republic
- **Proxima Immorent s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Slovenská sporiteľňa a.s.**, Tomášikova 48, Bratislava, Slovak Republic
- **Sparkasse Bank dd Bosna i Hercegovina**, Zmaja od Bosne 7, Sarajevo, Bosnia and Herzegovina
- **SPARKASSE BANK MAKEDONIJA AD SKOPJE**, Makedonija Str. No 9-11, Skopje, Macedonia
- **Theta Immorent s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Waldviertler Sparkasse Bank AG**, Sparkassenplatz 3, Zwett, Austria
- **Zeta Immorent s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic

Česká Spořitelna Group

- **BP Budějovická, s. r. o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **BP Olbrachtova, s. r. o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **BP Poláčkova, s. r. o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **brokerjet České spořitelny a.s., v likvidaci**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Budějovická Development, s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **CEE Property Development Portfolio 2 a.s.**, Budějovická 1912/64B, Praha 4, Czech Republic
- **CPDP 2003 s.r.o.**, Budějovická 1912/64B, Praha 4, Czech Republic
- **CS Property Investment Limited**, Diomidous street 10, Nicosia, Cyprus
- **Czech and Slovak Property Fund B.V.**, Prins Bernhardplein 200, AmsterdaM, Netherlands
- **Czech TOP Venture Fund B.V., v likvidaci**, Postweg 11, Groesbeek, Netherlands
- **Česká spořitelna – penzijní společnost, a.s.**, Poláčkova 1976/2, Praha 4, Czech Republic
- **ČS NHQ, s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **ČS Seed Starter, a.s.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **DINESIA a.s.**, Střelničná 8, Praha 8, Czech Republic
- **Erste Grantika Advisory, a.s.**, Jánská 448/10, Brno, Czech Republic
- **Factoring České spořitelny, a.s.**, Budějovická 1518/13B, Praha 4, Czech Republic
- **Holding Card Service s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **Leasing České spořitelny, a.s.**, Budějovická 1912/64B, Praha 4, Czech Republic
- **MOPET CZ a.s.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Realitní společnost České spořitelny a.s.**, Vinohradská 180/1632, Praha 3, Czech Republic
- **REICO investiční společnost České spořitelny, a.s.**, Antala Staška 2027/79, Praha 4, Czech Republic
- **REICO nemovitostní fond SICAV a.s.**, Antala Staška 79, 140 00 Praha 4, Czech Republic
- **s Autoleasing SK, s.r.o.**, Vajnorská 100/A 831 04 Bratislava, Slovak Republic
- **S SERVIS, s.r.o.**, Horní náměstí 3561/14, Znojmo, Czech Republic
- **Stavební spořitelna České spořitelny, a.s.**, Vinohradská 180/1632, Praha 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 (CSFG) 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 CSFG are the controlled parties. The CSFG 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 Česká spořitelna Financial Group is graphically depicted in Sections A to C.

CSFG 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 CSFG are as follows:

a) a comprehensive offer of financial and complementary services for target client segments,
b) a high level of cooperation and synergies,
c) shared distribution and communication channels,
d) co-responsibility for CSFG's consolidated results,
e) shared services.

CSFG 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 CSFG 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.	(1,306)	102
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.	101	1,753
Dividend income	Related party share distribution agreements.	-	49
Net trading result	Agreements on the provision of derivatives for trading, contracts for the acquisition of derivatives for trading.	6,983	-
Rental income from investment properties & other operating leases	Lease and rental agreements and other non-banking contracts.	-	14
Other administrative expenses	Non-banking contracts.	(287)	(988)
Other operating result	Non-banking contracts.	26	110

* ČS, a.s. in related party transactions, it holds a larger volume of deposits than it provides loans.

Related Party Transactions Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Item of Income statement 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.	998	81
Financial assets held for trading	Agreements on the acquisition of bonds and similar securities, contracts for the acquisition of derivatives for trading.	8,590	-
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.	744	-
Financial assets at amortised costs	Loan agreement, agreement on long-term deposits, agreement on the establishing and maintenance of current accounts, overdrafts.	1,270	26,745
Hedge accounting derivates	Hedging derivative contracts	504	-
Financial lease receivables, trade and other receivables, other assets	Non-banking contracts.	6	1,067

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Item of Income statement in million CZK	Type of contract	Controlling Party	Other Related Parties
Financial liabilities held for trading	Derivative trading agreements	6,796	-
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.	234,911	8,858
Hedge accounting derivates	Derivative derivative contracts	1,634	-
Other liabilities	Non-banking contracts.	-	849

Other Banking and Trading Relationships with Related Parties

Item of Income statement in million CZK	Type of contract	Controlling Party	Other Related Parties
Guarantees Provided	Guarantee agreements	72	5,889
Fixed-term Contracts	Term contracts	460,065	-
Equity investments with Related Parties	Related party share distribution agreements	3,165	-
Dividends	Decision of the General Meeting of 20 September 2021	5,360	-
Additional Tier 1 Notes interest	Decision of the General Meeting of 27 April 2021	976	-

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	GMSLA	SFTR, BAIL IN, ESTR FALL BACK	2021	None incurred
Erste Group Bank AG	Cash Management	EUR Agreement on Current Account	2020	None incurred
Erste Group Bank AG	Cash Management	Client Account Agreement (nostro accounts)	2020	None incurred
Erste Group Bank AG	GMSLA	Global Master Securities Lending Agreement	2019	None incurred
Erste Group Bank AG	Cash Management	CZK Agreement on Current Account	2019	None incurred
Erste Group Bank AG	Cash Management	Business24 – Light	2018	None incurred
Erste Group Bank AG	Commission agreement	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	2011	None incurred
Erste Group Bank AG	Commission agreement	Commission Agent´s Contract on Arranging the Purchase or Sale of Securities	2007	None incurred
Erste Group Bank AG	Commission agreement	mandate Agreement on Entering into Derivate Transaction	2003	None incurred

CONTRACTUAL RELATIONS OF THE STANDARD NON – BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
Erste Group Bank AG	GMRA (SFTR)	ESTR, SFTR, BAIL IN	2021	None incurred
Erste Group Bank AG	Other	Omnibus Reporting Agreement	2021	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ESTR, BAIL IN	2021	None incurred
Erste Group Bank AG	Change 00, PV without IDOP	Process Agent – change notification	2021	None incurred
Erste Group Bank AG	Other	MIFID II Indirect clearing account type selection for ETD	2020	None incurred
Erste Group Bank AG	Other	MASTER AGREEMENT ON CERTIFICATES OF DEPOSIT ČESKÁ SPOŘITELNA, A.S.	2020	None incurred
Erste Group Bank AG	Other	Clearing Framework Agreement	2020	None incurred
Erste Group Bank AG	Other	Annex to Clearing Framework Agreement ('Framework Agreement') for indirect clearing	2020	None incurred
Erste Group Bank AG	Other	Service Level Agreement	2019	None incurred
Erste Group Bank AG	Other	Authorized persons for concluding transactions	2019	None incurred
Erste Group Bank AG	Other	Cooperation agreement-Hong Kong branch	2019	None incurred
Erste Group Bank AG	Other	Service Level Agreement MIFID II	2018	None incurred
Erste Group Bank AG	Syndicated financing	Funded Subparticipation Agreement dated October 29, 2018 between Erste Group Bank AG and ČS a.s.	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement – Amendment Nr. 7	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement – Amendment 6	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement – Amendment 5	2018	None incurred
Erste Group Bank AG	Other	Electronic Trading Agreement – ČS is a client	2018	None incurred
Erste Group Bank AG	Other	Electronic Trading Agreement – EGB is a client	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement – Amendment 4	2018	None incurred
Erste Group Bank AG	Other	Service Level Agreement – Appendix No. 1	2017	None incurred
Erste Group Bank AG	Syndicated financing	Funded Subparticipation Agreement dated 27 October 2017 between Erste Group Bank AG and ČS a.s.	2017	None incurred
Erste Group Bank AG	GMRA	Global Master Repurchase Agreement	2017	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Variation Margin CSA	2017	None incurred
Erste Group Bank AG	Other	Service Level Agreement for Care Order Execution	2016	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Notification of the change of the counterparty 's registered office	2016	None incurred
Erste Group Bank AG	Other	Zentai + Böwing signature patterns	2015	None incurred
Erste Group Bank AG	Other	Extract from OR – merger with EGB CEPS Holding	2015	None incurred
Erste Group Bank AG	Other	Agent in England	2013	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ISDA EMIR protocol	2013	None incurred
Erste Group Bank AG	Other	Distribution Agreement	2013	None incurred
Erste Group Bank AG	Other	Memorandum of understanding	2013	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	Amendment – change in issue. allowances	2013	None incurred

Erste Group Bank AG	Other	cooperation agreement	2011	None incurred
Erste Group Bank AG	Other	Sub-Distribution Agreement	2011	None incurred
Erste Group Bank AG	Custody	Global Custody Agreement	2010	None incurred
Erste Group Bank AG	Other	AML – Credit- / Fin. Ins. Working Instruction	2010	None incurred
Erste Group Bank AG	ISDA, ISMA (1992)	ISDA – Annex on Emission Allowances	2009	None incurred
Erste Group Bank AG	Other	Cooperation Agreement	2009	None incurred
Erste Group Bank AG	Other	Cooperation Agreement – Profit Transfer Matrix	2008	None incurred
Erste Group Bank AG	Other	service level agreement	2008	None incurred
Erste Group Bank AG	Other	II. AGREEMENT on the issuance and use of debit cards of Česká spořitelna, a.s.	2007	None incurred
Erste Group Bank AG	Other	notice of change of contact details	2005	None incurred
Erste Group Bank AG	Other	Framework Agreement for Handling Options & Futures	2005	None incurred
Erste Group Bank AG	Other	Pledge Agreement	2003	None incurred
Erste Group Bank AG	Other	Agreement on Fees	2002	None incurred
Erste Group Bank AG	Other	Commission Agent´s Contract on Arranging Purchase or Sale	2002	None incurred
Erste Group Bank AG	Other	Agreement on Classes of Fully Capitalized Units	2002	None incurred
Erste Group Bank AG	Other	Contract On Arranging for the Purchase Price Playments for the Transfer of Securities	2001	None incurred
Erste Group Bank AG	Other	Contract On intermediation of Sale and Purchase of Securities	2001	None incurred
Erste Group Bank AG	Other	Custody Agreement with Česká Spořitelna, a.s.	2001	None incurred
Erste Group Bank AG	Other	Business sale agreement	2000	None incurred

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** – 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), CS Property Investment Limited (1x), Czech and Slovak Property Fund B.V. (1x), ČS NHQ, s.r.o. (2x), Česká spořitelna – penzijní společnost, a.s. (1x), DINESIA a.s. (1x), Erste Asset Management GmbH, pobočka Česká republika (1x), Factoring České spořitelny, a.s. (1x), Holding Card Service s.r.o. (1x), MOPET CZ a.s. (2x), Realitní společnost České spořitelny, a.s. (1x), REICO investiční společnost České spořitelny, a.s. (1x), Stavební spořitelna České spořitelny, a.s. (1x), Leasing České spořitelny, a.s. (1x), brokerjet České spořitelny, a.s. v likvidaci (1x)
- **Agreement on the establishment and maintenance of a term account** – Česká spořitelna – penzijní společnost, a.s. (1x), REICO investiční společnost České spořitelny, a.s. (1x)
- **Agreement on the establishment and maintenance of an investment account** – brokerjet České spořitelny, a.s. v likvidaci (1x)
- **Agreement on the establishment and maintenance of a deposit account** – brokerjet České spořitelny, a.s. v likvidaci (1x)
- **Framework agreement on long-term deposits** – Erste Group Bank AG (1x)

Cooperation in the field of payments and cards

In the given accounting period, the Bank provided performance on the basis of a contract in the area of issuance, acceptance of payment cards and processing of payments. For these banking services, the contracting parties paid a contractual fee in the form of fees.

- **Agreement on processing domestic payments** – Erste Group Shared Services, s.r.o. (1x)
- **Agreement on accepting payment cards** – MOPET CZ a.s. (2x)
- **Agreement on issuing and using debit cards** – Factoring České spořitelny, a.s. (1x)
- **Card Processing Services Agreement** – Erste Group Card Processor d.o.o. (1x)

Loans and other receivables

In the given accounting period, the Bank provided performance on the basis of agreements related to credit products: loans, placement of term deposits, interbank loans, permitted overdraft. The contracting parties paid contractual fees and interest for these loan products.

- **Loan agreement** – Leasing České spořitelny a.s. (4x), Factoring České spořitelny a.s. (1x), BP Olbrachtova, s. r. o. (1x), BP Poláčková, s. r. o. (1x), BP Budějovická, s. r. o. (1x), Realitní společnost České spořitelny, a.s. (1x)
- **Overdraft agreement** – MOPET CZ a.s. (1x)

Investment and investment services

In the given accounting period, the Bank provided performance on the basis of an agreement on the purchase or sale of investment instruments, agreements on custody and deposit of securities, settlement of trades in investment instruments, securities management, depository activities and records of book-entry units. The consideration provided by the counterparties consisted of fees and contractual fees.

- **Framework agreement on trading on the financial market** – CEE Property Development Portfolio 2 a.s. (1x), Czech and Slovak Property Fund B.V. (1x), Erste Asset Management GmbH, pobočka Česká republika (3x), MOPET CZ a.s. (1x), Česká spořitelna – penzijní společnost, a.s. (1x), ČS NHQ, s.r.o. (1x), REICO investiční společnost České spořitelny, a.s. (4x), Stavební spořitelna České spořitelny, a.s. (2x)
- **Agreement on custody and administration of an investment instrument** – Česká spořitelna – penzijní společnost, a.s. (1x), Erste Asset Management GmbH, pobočka Česká republika (2x), REICO investiční společnost České spořitelny, a.s. (2x), Stavební spořitelna České spořitelny, a.s. (1x), brokerjet České spořitelny, a.s. v likvidaci (2x)
- **Agreement on keeping separate records of book-entry unit certificates, issuing and repurchasing PLs and providing related activities** – Erste Asset Management GmbH, pobočka Česká republika (1x), REICO investiční společnost České spořitelny, a.s. (1x)
- **Service Level Agreement – Sales Support** – Erste Asset Management GmbH, pobočka Česká republika (1x)
- **Agreement on depository services** – REICO investiční společnost České spořitelny, a.s. (1x)

Other banking services

In the given accounting period, the Bank provided performance on the basis of contracts relating to other banking services, such as contracts for the provision of internet banking services, contracts for the provision of advisory services. The consideration provided by the counterparties consisted of fees and contractual fees.

- **Provision of internet banking services** – BP Budějovická, s.r.o. (1x), BP Olbrachtova, s.r.o. (1x), BP Poláčkova, s.r.o. (1x), Budějovická Development, s.r.o. (1x), Czech and Slovak Property Fund B.V. (1x), Česká spořitelna – penzijní společnost, a.s. (1x), ČS NHQ, s.r.o. (1x), Factoring Česká spořitelna, a.s. (1x), Holding Card Service s.r.o. (1x), Stavební spořitelna České spořitelny, a.s. (3x)
- **Agreement on lease of safes** – Česká spořitelna – penzijní společnost, a.s. (1x)
- **Implementation agreement on commercial representation** – Stavební spořitelna České spořitelny, a.s. (5x)
- **Framework agreements on financial services** – Realitní společnost České spořitelny, a.s. (1x)
- **Contract for the provision of banking innovation consulting services – HUB** – MOPET CZ a.s. (1x)
- **Credit line agreement** – Erste Asset Management GmbH, pobočka Česká republika (1x)
- **Contract for the provision of the MultiCash service** – brokerjet České spořitelny a.s., v likvidaci (1x), Realitní společnost České spořitelny, a.s. (1x)

CONTRACTUAL RELATIONS OF THE STANDARD NON-BANK CHARACTER

Contractual party	Name	Description	Date	Detriment
BP Budějovická, s. r. o.	Headquarters service contract	Residence	2021	None incurred
BP Budějovická, s. r. o.	Headquarters service contract	Residence	2020	None incurred
BP Budějovická, s. r. o.	Purchase contract for real estate	Buying real estate	2020	None incurred
BP Budějovická, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Budějovická, s. r. o.	Agreement on the establishment of a lien on immovable property	Pledge for real estate	2020	None incurred
BP Budějovická, s. r. o.	Agreement on the establishment of a lien on receivables from lease agreements	Pledge to receivables from lease agreements	2020	None incurred
BP Budějovická, s. r. o.	Contract on the establishment of a lien on receivables from insurance contracts	Pledge to receivables from insurance contracts	2020	None incurred
BP Budějovická, s. r. o.	Agreement on the establishment of a lien on receivables from agreements on the management of bank accounts	Pledge to receivables from bank account management agreements	2020	None incurred
BP Budějovická, s. r. o.	Agreement on the establishment of a lien on a stake in BP Budějovická, s.r.o.	Pledge to share	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	2021	None incurred
BP Olbrachtova, s. r. o.	Headquarters service contract	Residence	2020	None incurred
BP Olbrachtova, s. r. o.	Purchase contract for real estate	Buying real estate	2020	None incurred
BP Olbrachtova, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Olbrachtova, s. r. o.	Agreement on the establishment of a lien on immovable property	Pledge for real estate	2020	None incurred
BP Olbrachtova, s. r. o.	Agreement on the establishment of a lien on receivables from lease agreements	Pledge to receivables from lease agreements	2020	None incurred
BP Olbrachtova, s. r. o.	Contract on the establishment of a lien on receivables from insurance contracts	Pledge to receivables from insurance contracts	2020	None incurred
BP Olbrachtova, s. r. o.	Agreement on the establishment of a lien on receivables from agreements on the management of bank accounts	Pledge to receivables from bank account management agreements	2020	None incurred
BP Olbrachtova, s. r. o.	Agreement on the establishment of a lien on a stake in BP Olbrachtova, s.r.o.	Pledge to share	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	2021	None incurred
BP Poláčkova, s. r. o.	Headquarters service contract	Residence	2020	None incurred
BP Poláčkova, s. r. o.	Purchase contract for real estate	Buying real estate	2020	None incurred
BP Poláčkova, s. r. o.	Lease agreement	Lease agreement	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on the establishment of a lien on immovable property	Pledge for real estate	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on the establishment of a lien on receivables from lease agreements	Pledge to receivables from lease agreements	2020	None incurred
BP Poláčkova, s. r. o.	Contract on the establishment of a lien on receivables from insurance contracts	Pledge to receivables from insurance contracts	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on the establishment of a lien on receivables from agreements on the management of bank accounts	Pledge to receivables from bank account management agreements	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on the establishment of a lien on a stake in BP Poláčkova, s.r.o.	Pledge to share	2020	None incurred
BP Poláčkova, s. r. o.	Agreement on subordination of BP Poláčkova s.r.o.	Subordination agreement	2020	None incurred
brokerjet České spořitelny a.s. v likvidaci	2x Agreement on the performance and performance of internal audit	Provision of selected services	2017–2018	None incurred
brokerjet České spořitelny a.s. v likvidaci	Outsourcing service agreement (including supplements)	Providing selected outsourcing services	2016–2018	None incurred

brokerjet České spořitelny a.s. v likvidaci	Contract for the lease of business premises	Sublease agreement for business premises	2019	None incurred
brokerjet České spořitelny a.s. v likvidaci	Assignment Agreement	Transfer of rights and obligations associated with the brokerjetGO application	2018	None incurred
brokerjet České spořitelny a.s. v likvidaci	Overview of signature samples and account authorizations	Manage signature patterns and maintain credentials on the account	2018	None incurred
brokerjet České spořitelny a.s. v likvidaci	Personal data maintenance contract	Personal data management	2017	None incurred
brokerjet České spořitelny a.s. v likvidaci	Information transfer agreement	Deposit Insurance Information Transfer Agreement	2016	None incurred
brokerjet České spořitelny a.s. v likvidaci	Contract on sublease of non-residential premises and on lease of movables	Sublease of non-residential premises and rental of movable property	2016	None incurred
brokerjet České spořitelny a.s. v likvidaci	Contract for the transfer of tangible and intangible assets	Asset transfer	2016	None incurred
brokerjet České spořitelny a.s. v likvidaci	Contract for the provision of IT, telephone and data services	Provision of IT services	2015	None incurred
Budějovická Development, s. r. o	Contract for the provision of outsourcing services	Providing selected services	2020	None incurred
Budějovická Development, s. r. o	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	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	Agreement on the establishment of a lien on a stake in BP Budějovická, s.r.o.	Pledge to share	2020	None incurred
Budějovická Development, s. r. o	Agreement on the establishment of a lien on a share in BP Olbrachtova, s.r.o.,	Pledge to share	2020	None incurred
Budějovická Development, s. r. o	Agreement on the establishment of a lien on a stake in BP Poláčkova, s.r.o.	Pledge to share	2020	None incurred
Budějovická Development, s. r. o	Headquarters service contract	Residence	2019	None incurred
Budějovická Development, s. r. o	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	2019	None incurred
Budějovická Development, s. r. o	Cooperation agreement	Real estate transaction cooperation agreement	2019	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.	Outsourcing agreement (including supplements)	Providing selected outsourcing services	2018	None incurred
CEE Property Development Portfolio 2 a.s.	Service contract	Contract for the provision of telephone and data services	2014	None incurred
CPDP2003, s. r. o.	Contract for the provision of outsourcing services	Providing selected services	2020	None incurred
CPDP2003, s. r. o.	Contract for the provision of outsourcing services	Providing selected services	2020	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on the use of Premium API products of Česká spořitelna, a.s.	Linking the provider's application with the information of the Česká spořitelna, a.s.	2019	None incurred
Česká spořitelna – penzijní společnost, a.s.	Personal Data Processing Agreement (GDPR)	Rights and obligations of the parties in the field of personal data processing	2018	None incurred
Česká spořitelna – penzijní společnost, a.s.	Contract for the lease of business premises	Office space for rent in Veselí nad Moravou	2018	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on the provision of outsourcing services 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	2018	None incurred
Česká spořitelna – penzijní společnost, a.s.	Contract for the provision of outsourcing services	Outsourcing of selected activities	2018	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on the lease of premises serving Česká spořitelna, a.s.	Office for rent in Brno	2017	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 Jihlava	2015	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on the lease of premises serving Česká spořitelna, a.s.	Office for rent in Pilsen	2015	None incurred
Česká spořitelna – penzijní společnost, a.s.	Contract for the provision of outsourcing services 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 lease of premises serving Česká spořitelna, a.s. for business	Commercial space for rent on Antala Staška Street, Prague	2014	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on the provision of outsourcing services 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.	Contract for the lease of commercial space	Premises for rent – archive, Olbrachtova street, Prague	2006	None incurred
Česká spořitelna – penzijní společnost, a.s.	Cooperation agreement	Providing CS Client Center services for CSPS	2005	None incurred
Česká spořitelna – penzijní společnost, a.s.	Agreement on access to the ČS Intranet	Intranet access for 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	program Tableua	2019	None incurred
Česká spořitelna – penzijní společnost, a.s.	IT cost sharing agreement for the Reporting Module and the Limits Module	SW Arbes Topas	2019	None incurred
Česká spořitelna – penzijní společnost, a.s.	Contract for the provision of outsourcing services	Outsourcing of selected activities	2020	None incurred
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	Nevznikla
ČS NHQ, s.r.o.	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	2021	None incurred
ČS NHQ, s.r.o.	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	2020	None incurred
ČS NHQ, s.r.o.	Contract for the provision of outsourcing services	Providing selected services	2019	None incurred
ČS NHQ, s.r.o.	Contract for the provision of IT services	Provision of IT services	2019	None incurred
ČS NHQ, s.r.o.	Contract for the provision of outsourcing services	Providing selected services	2018	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Olbrachtova	2018	None incurred
ČS NHQ, s.r.o.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Trianon	2018	None incurred
ČS NHQ, s.r.o.	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	2018	None incurred
ČS Seed Starter, a. s.	Contract for the provision of outsourcing services	Providing selected services	2020	None incurred
ČS Seed Starter, a. s.	Contract for the lease of business premises	Commercial space for rent in Prague 4, Olbrachtova	2020	None incurred
ČS Seed Starter, a. s.	Agreement on the provision of a surcharge outside the share capital	Providing a surcharge outside the share capital	2020	None incurred
Erste Asset Management GmbH, pobočka ČR	Personal Data Processing Agreement (GDPR)	to the DPM contract	2018	None incurred

Erste Asset Management GmbH, pobočka ČR	Outsourcing Services Agreement (Including Supplements)	The subject of the agreement is the provision of outsourcing services by Česká spořitelna to Erste Asset Management GmbH, Czech Republic, in selected areas.	2020	None incurred
Erste Asset Management GmbH, pobočka 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, pobočka 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, pobočka ČR	Personal Data Processing Agreement (GDPR)	to the contract on keeping separate records	2017	None incurred
Erste Asset Management GmbH, pobočka ČR	Contract for sublease of premises used for business (Trianon) incl. Appendices	sublease Trianon	2016	None incurred
Erste Asset Management GmbH, pobočka ČR	Risk management co-operation agreement	Ensuring synergies in risk management	2016	None incurred
Erste Asset Management GmbH, pobočka ČR	Agreement on securing selected back-office activities (incl. Amendments)	providing selected back-office activities	2016	None incurred
Erste Asset Management GmbH, pobočka ČR	Storage contract	archival storage	2015	None incurred
Erste Asset Management GmbH, pobočka ČR	IT service agreement (including amendments)	Contract for remuneration for the provision of IT services (including amendments)	2013	None incurred
Erste Asset Management GmbH, pobočka 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, pobočka ČR	IT cost sharing agreement for the Reporting Module and the Arbes Topas SW Limits Module	cost sharing for the implementation of the reporting module and the limits module and for licenses (between EAM, ČS, REICO and ČSPS)	2019	None incurred
Erste Asset Management GmbH, pobočka ČR	Agreement on the establishment of a lien on the Commission Agreement - futures	establishment of a lien	2019	None incurred
Erste Asset Management GmbH, pobočka 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
Waldviertler Sparkasse Bank AG	Future agreement	This agreement regulates the rights and obligations of the contracting parties in connection with the conclusion of the Agreement on the transfer of a part of the company.	2020	None incurred
Waldviertler Sparkasse Bank AG	APA \ "PART OF THE ENTERPRISE AGREEMENT	APA \ "PART OF THE ENTERPRISE AGREEMENT	2020	None incurred
Waldviertler Sparkasse Bank AG	PROTOCOL ON TRANSFER AND TAKEOVER OF THE TARGET ENTERPRISE	PROTOCOL ON TRANSFER AND TAKEOVER OF THE TARGET ENTERPRISE	2020	None incurred
Waldviertler Sparkasse Bank AG	ANTI - TRUST AGREEMENTS IN THE BALKANS + ČNB DECISIONS	ANTI - TRUST AGREEMENTS IN THE BALKANS + ČNB DECISIONS	2020	None incurred
Waldviertler Sparkasse Bank AG	TRANSITIONAL SERVICES AGREEMENT	TRANSITIONAL SERVICES AGREEMENT	2020	None incurred
Waldviertler Sparkasse Bank AG	DATA PROCESSING AGREEMENT (TSA)	DATA PROCESSING AGREEMENT (TSA) – Declaration on the accuracy and precision of the data contained in the merger notification	2021	None incurred
Waldviertler Sparkasse Bank AG	Service contract (including amendments)	Transfer of ownership of a part of the Company's plant in the Czech Republic. Termination of the operation of the ČS Company's branch plant.	2017	None incurred
Waldviertler Sparkasse Bank AG	ESCROW AGREEMENT	ESCROW AGREEMENT	2020	None incurred
Erste Bank der oesterreichischen Sparkassen AG	ESCROW AGREEMENT	ESCROW AGREEMENT	2020	None incurred
Erste Bank Hungary Zrt	SA FASCOR	Provision of services	2018	None incurred

Erste Grantika Advisory a.s.	Contract for the provision of consulting services	Agreement on the provision of consulting services to Česká spořitelna	2021	None incurred
Erste Grantika Advisory a.s.	Sub-license agreement	Sublicense agreement - logo	2020	None incurred
Erste Grantika Advisory a.s.	Non-residential sublease agreement	sublease Campus, Palachovo	2020	None incurred
Erste Grantika Advisory a.s.	Contract for the lease of commercial space	rental warehouse contract Jánská 10, Brno	2020	None incurred
Erste Grantika Advisory a.s.	The insurance contract	management insurance	2020	None incurred
Erste Grantika Advisory a.s.	Parking space sublease agreement 2020/2300/428	parking Prague, Trianon	2020	None incurred
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.	Safety deposit box rental agreement	safety deposit box - rental	2006	None incurred
Erste Grantika Advisory, a.s.	Outsourcing agreement (including supplements)	Providing selected outsourcing services	2019	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 Group Card Processor d.o.o.	Data processing agreement	Provision of services	2018	None incurred
Erste Group IT International, Gmbh	Group contract for the provision of services (incl. Amendments)	Provision of services	2018	None incurred
Erste Group IT International, Gmbh	29x Contract in the field of IT services and IT solutions	Provision of services in the field of IT solutions	2018	None incurred
Erste Group IT International, Gmbh	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	None incurred
Erste Group IT International, Gmbh	Termination of the preliminary contract	Termination of the preliminary contract	2018	None incurred
Erste Group IT International, Gmbh	Outsourcing agreement	Provision of selected outsourcing services	2018	None incurred
Erste Group IT International, Gmbh	40x Contract in the field of IT services and IT solutions	Provision of services in the field of IT solutions	2017	None incurred
Erste Group IT International, Gmbh	Preliminary contract	Setting conditions for future services	2016	None incurred
Erste Group Shared Services, s.r.o.	IT service agreement (including amendments)	Providing selected services	2013, 2016	None incurred
Erste Group Shared Services, s.r.o.	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	None incurred
Erste Group Shared Services, s.r.o.	Service level agreement	Providing selected services	2010	None incurred
Erste Group Shared Services, s.r.o.	Outsourcing service agreement (including supplements)	Provision of services	2020	None incurred
Erste Group Shared Services, s.r.o.	Contract for the provision of IT services – HW lease	HW rental	2020	None incurred
Erste Group Shared Services, s.r.o.	Non-residential lease agreement (including amendments)	Rental of non-residential premises	2010, 2016	None incurred
Factoring České spořitelny, a.s.	Lease agreement	Sublease of non-residential premises – Trianon as amended – this contract was terminated in 2019	2014–2018	None incurred
Factoring České spořitelny, a.s.	Service contract	IT services (IP Telephony) as amended (TEL Internet access)	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	2009–2019	None incurred
Factoring České spořitelny, a.s.	Cooperation agreements	Agreement on data transfer to DWH	2007–2009	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.	Confidentiality agreements to protect confidential information	Confidential Information Agreement	2003–2005	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	Rental of a safety box at the Jugoslávská petrol station	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.	Service contract	Contract for the provision of outsourcing services	2019	None incurred
Factoring České spořitelny, a.s.	Other	Personal data processing agreement – GDPR in relation to the monitoring of receivables and leases	2018	None incurred
Factoring České spořitelny, a.s.	Subparticipation agreement	Framework agreement on subparticipation for reverse factoring	2018	None incurred
Factoring České spořitelny, a.s.	License agreement	Use of the "Sparkassen" brand	2017	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Agreement on business cooperation in the area of approval of factoring transactions	2017	None incurred
Factoring České spořitelny, a.s.	Cooperation agreement	Verification of pledged invoices; monitoring and evaluation of clients / pledges.	2015	None incurred
Factoring České spořitelny, a.s.	Lease agreement	Sublease of non-residential premises – Antala Staška	2014	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 of the company	2014	None incurred
Factoring České spořitelny, a.s.	Lease agreement	Rental of a safety box at the Budějovická petrol station	2011	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
Leasing České spořitelny, a.s.	Safety deposit box rental agreement	Safety deposit box rental	2013-2015	None incurred
Leasing České spořitelny, a.s.	Agreement on mutual exchange of information through special access to the CLIENT application (including amendments)	Using the CLIENT application	2008-2018	None incurred
Leasing České spořitelny, a.s.	Outsourcing Services Agreement (as amended)	Provision of outsourcing services by Česká spořitelna in favor of Autoleasing in selected areas.	2019	None incurred
Leasing České spořitelny, a.s.	Contract for the lease of business premises	Lease of non-residential premises, Budějovická 1912 / 64b	2016	None incurred
Leasing České spořitelny, a.s.	Non-residential sublease agreement	Sublease of non-residential premises in Prague 4, Budějovická 13B, Trianon	2014	None incurred
Leasing České spořitelny, a.s.	Contract for the lease of business premises	Commercial space for rent, Prague 4, Antala Staška	2014	None incurred
Leasing České spořitelny, a.s.	Contract for the provision of IT services	Provision of HW and SW infrastructure	2014	None incurred
Leasing České spořitelny, a.s.	Framework order agreement concerning the portfolio of receivables	Receivables portfolio management	2014	None incurred
Leasing České spořitelny, a.s.	Framework order agreement concerning the portfolio of receivables	Receivables portfolio management	2021	None incurred
Leasing České spořitelny, a.s.	Contract for the lease of commercial space	Lease of non-residential premises Brno Jánská	2012	None incurred
Leasing České spořitelny, a.s.	Agreement on cooperation in securing sources of financing	Patronage statement	2007	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
MOPET CZ a.s.	Agreement on cooperation in the field of testing credit propositions and digitization of ČS clients	Agreement on cooperation in the field of testing credit propositions and digitization of ČS clients	2019	None incurred
MOPET CZ a.s.	Outsourcing Services Agreement 20191104	Outsourcing Services Agreement 20191104	2019	None incurred
MOPET CZ a.s.	Agreement on the termination of the contract No. UP / 1358/14 / LCD of 3 May 2018	Agreement on the termination of the contract No. UP / 1358/14 / LCD of 3 May 2018	2018	None incurred
MOPET CZ a.s.	Agreement on follow-up cooperation in the field of digitization of ČS clients dated 7 December 2018	Agreement on follow-up cooperation in the field of digitization of ČS clients dated 7 December 2018	2018	None incurred
MOPET CZ a.s.	Agreement on the provision of outsourcing services dated 18 December 2018	Agreement on the provision of outsourcing services dated 18 December 2018	2018	None incurred
MOPET CZ a.s.	Contract for the provision of outsourcing services	Contract for the provision of outsourcing services	2018	None incurred
MOPET CZ a.s.	Service contract - NEL dated 30 April 2017	Service contract – NEL dated 30 April 2017	2017	None incurred
MOPET CZ a.s.	Agreement on the provision of F24 software support services dated 5 June 2017	Agreement on the provision of F24 software support services dated 5 June 2017	2017	None incurred
MOPET CZ a.s.	Non-residential sublease agreement (Trianon Building) dated 13 September 2017	Non-residential sublease agreement (Trianon Building) dated 13 September 2017	2017	None incurred
MOPET CZ a.s.	Service Agreement - Wi-Fi Metronome Festival Prague dated 20 September 2017	Service Agreement - Wi-Fi Metronome Festival Prague dated 20 September 2017	2017	None incurred
MOPET CZ a.s.	Service Agreement - Wi-Fi Colors of Ostrava dated 20 September 2017	Service Agreement - Wi-Fi Colors of Ostrava dated 20 September 2017	2017	None incurred
MOPET CZ a.s.	Agreement on the provision of outsourcing services dated 1 December 2017	Agreement on the provision of outsourcing services dated 1 December 2017	2017	None incurred
MOPET CZ a.s.	Agreement on verification of potential in the area of digitization of Česká spořitelna's clients dated 20 December 2017	Agreement on verification of potential in the area of digitization of Česká spořitelna's clients dated 20 December 2017	2017	None incurred
MOPET CZ a.s.	Framework agreement on the provision of services (Working capacity of specialists and IT services) dated 20 December 2017	Framework agreement on the provision of services (Working capacity of specialists and IT services) dated 20 December 2017	2017	None incurred
MOPET CZ a.s.	Framework outsourcing agreement dated 22 February 2016	Framework outsourcing agreement dated 22 February 2016	2016	None incurred
MOPET CZ a.s.	Framework outsourcing agreement 1800 / NEL / 1/2016 dated March 17, 2016	Framework outsourcing agreement 1800 / NEL / 1/2016 dated March 17, 2016	2016	None incurred
MOPET CZ a.s.	Agreement on the provision of infrastructure and its maintenance as an Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016 (NEL)	Agreement on the provision of infrastructure and its maintenance as an Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016 (NEL)	2016	None incurred
MOPET CZ a.s.	Cooperation Agreement (Biip Support Marketing Agreement) dated 1 June 2016	Cooperation Agreement (Biip Support Marketing Agreement) dated 1 June 2016	2016	None incurred
MOPET CZ a.s.	Agreement on the provision of outsourcing services dated 20 December 2016	Agreement on the provision of outsourcing services dated 20 December 2016	2016	None incurred
MOPET CZ a.s.	Application Operation Agreement as the Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016	Application Operation Agreement as the Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016	2016	None incurred
MOPET CZ a.s.	Agreement on the provision of outsourcing services for the area of internal audit, debt collection, card center, payment system and contractual documentation, concluded on 31 December 2015.	Agreement on the provision of outsourcing services for the area of internal audit, debt collection, card center, payment system and contractual documentation, concluded on 31 December 2015.	2015	None incurred

MOPET CZ a.s.	Option right agreement dated 14 December 2015	Option right agreement dated 14 December 2015	2015	None incurred
MOPET CZ a.s.	Agreement on the provision of IT services dated 30 December 2015	Agreement on the provision of IT services dated 30 December 2015	2015	None incurred
MOPET CZ a.s.	Cooperation Agreement dated 13 October 2014, defining in particular the issuance of payment instruments	Cooperation Agreement dated 13 October 2014, defining in particular the issuance of payment instruments	2014	None incurred
MOPET CZ a.s.	Oracle Services and Licensing Agreement dated August 19, 2014	Oracle Services and Licensing Agreement dated August 19, 2014	2014	None incurred
MOPET CZ a.s.	Google Apps Access Agreement of February 13, 2014	Google Apps Access Agreement of February 13, 2014	2014	None incurred
MOPET CZ a.s.	Agreement on business cooperation between MOPET CZ and a partner bank dated 28 April 2012 in the area of mobile payments and Mobito system solutions	Agreement on business cooperation between MOPET CZ and a partner bank dated 28 April 2012 in the area of mobile payments and Mobito system solutions	2012	None incurred
Procurement Services CZ, s.r.o.	Service contract (including amendments)	outsourcing services in the areas of financial accounting, asset management, purchasing support, human resources, internal audit and IS / IT security	2021	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.	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	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.	Service contract	Outsourcing of purchasing services	2012	None incurred
Procurement Services CZ, s.r.o.	Agreement	Agreement on the division of competences	2012	None incurred
Realitní společnost České spořitelny, a.s.	Order service	Providing real estate consulting services in connection with the sale of selected real estate owned by CS	2019	None incurred
Realitní společnost České spořitelny, a.s.	Order service	Providing real estate consulting services in connection with the lease of selected real estate owned by ČS	2019	None incurred
Realitní společnost České spořitelny, a.s.	Mediation agreement	Procurement of the sale of the real estate in question ČS, a.s.	2019	None incurred
Realitní společnost České spořitelny, a.s.	Outsourcing contract	Provision of outsourcing services for the areas of financial accounting and reporting, human resources, marketing, communication, IT operational security, compliance, operational risk and personal data protection, PO and OSH, contractual documentation	2019	None incurred
Realitní společnost České spořitelny, a.s.	Contract for the provision of IT services – HW lease	HW rental	2019	None incurred
Realitní společnost České spořitelny, a.s.	Cooperation agreement - tipper	Cooperation between ČS – real estate trader and RSČS	2018	None incurred
Realitní společnost České spořitelny, a.s.	Contract for the provision of RSČS IT services	Access to Google Apps services	2016	None incurred
Realitní společnost České spořitelny, a.s.	Confidential Information Agreement	Protection of confidential information	2005	None incurred
Realitní společnost České spořitelny, a.s.	Agreement on the assignment of the right to exercise the right to use the company logo	Modification of rights and obligations with regard to the use of the ČS logo	2004	None incurred
Reico investiční společnost ČS, a.s.	Agreement on arranging the client's participation in the Short-Term Bond System organized by the ČNB	Mediation of participation in the Short-Term Bond System organized by the ČNB	2020	None incurred
Reico investiční společnost ČS, a.s.	Contract for back-office activities incl. supplements	Providing back-office services	2020	None incurred

Reico investiční společnost ČS, a.s.	Agreement on ensuring the daily calculation of PL's equity, calculation of current values of PL and current values of investment fund shares and keeping fund accounting and related. tin. incl. supplements	Ensuring the daily calculation of PL's equity, calculation of the current values of PL and the current values of investment fund shares and bookkeeping of funds and related activities	2020	None incurred
Reico investiční společnost ČS, a.s.	Outsourcing Services Agreement (as amended)	Provision of outsourcing services by Česká spořitelna in favor of REICO investment company ČS in selected areas.	2020	None incurred
Reico investiční společnost ČS, a.s.	Personal Data Processing Agreement (GDPR)	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	None incurred
Reico investiční společnost ČS, a.s.	Sublicense Agreement	Using the new logo	2018	None incurred
Reico investiční společnost ČS, a.s.	Creating a new website on the Emil platform	Creating a new website	2018	None incurred
Reico investiční společnost ČS, a.s.	Risk Management Cooperation Agreement	Fund risk management support activities	2017	None incurred
Reico investiční společnost ČS, 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 ČS, 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 ČS, 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	Nevznikla
Reico investiční společnost ČS, a.s.	Agreement on access to the ČS intranet	Providing access to the company's intranet to the ČS intranet	2007	Nevznikla
s IT Solutions AT Spardat GmbH	2x Contract for the provision of services	IT services	2018	Nevznikla
s IT Solutions AT Spardat GmbH	5x Service Agreement	IT services	2017	None incurred
s IT Solutions AT Spardat GmbH	CTO charging model 2021 – BorderProxy	BorderProxy	2021	None incurred
Slovenská sporiteľna, a.s.	3x Termination of IT services	Services related to the operation of certain IT applications and other IT services	2018	None incurred
Slovenská sporiteľna, a.s.	eCommerce 3-D Secure Issuing	Schedule of works	2018	None incurred
Slovenská sporiteľna, a.s.	Provision of communication and decentralized services	Provision of services	2018	None incurred
Slovenská sporiteľna, a.s.	Aggregation API	Pilot and license	2018	None incurred
Slovenská sporiteľna, a.s.	E-Commerce - Issuing	Provision of services	2018	None incurred
Slovenská sporiteľna, a.s.	3x Contract for the provision of IT services	Services related to the operation of certain IT applications and other IT services	2017	None incurred
Stavební spořitelna České spořitelny, a.s.	Personal Data Processing Agreement (GDPR)	following the Agreement on the provision of outsourcing services 39/2017	2018	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	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 between SSČS and ČS in fulfilling the contract on outsourcing of selected activities	2016	None incurred
Stavební spořitelna České spořitelny, a.s.	2 x Agreement on payment of extraordinary commission	Organization of motivational events to mediate and support the sale of SSČS products and services (retail and commercial loans)	2016	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for sublease of office space and two parking spaces	Office space for rent and parking spaces in the Trianon building	2016	None incurred
Stavební spořitelna České spořitelny, a.s.	Service Agreement @ FACTURE 24	Modification of rights and obligations in the provision of the @ FAKTURA 24 service within the scope of the Business Conditions for the @ FAKTURA 24 ČS service; transfer of documents to electronic banking applications and other services specified in the conditions	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Sublease agreement for business premises	Sublease agreement for business premises	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Framework agreement on commercial representation	Offer and mediation of sales of selected products and services through the EXPA network	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Implementation agreement on commercial representation for American mortgages ČS	Developing activities aimed at concluding contracts such as the American mortgage	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the provision of outsourcing services	Performance, methodology and power of attorney for the area - for financial accounting, reporting, controlling, asset management, purchasing management, human resources, marketing, communications, payments and client accounting, computer user support. program my SAP. com, AMOS and PDS, computer user support and administration. GRC program, IS / IT security, compliance, loan approval, real estate appraisal management, 3rd party requirements processing, risk management, VKL and Ú account management, loan application processing, support of internal network sellers, support and services of building society partners - central partners, internal audit, client center, recovery of receivables from retail clients in the pre-settlement phase, recovery of receivables from retail clients in the post-settlement phase.	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Lease contract	Security box rental No. 20750	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	DWH Data Transfer Agreement (including amendments)	Modification of mutual rights and obligations related to the transfer of Risk Data and SSČS Data and further handling of them	2015	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the provision of IP telephone services	Providing IP telephone services for the operation of telephone services and infrastructure operation	2015	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.	Agency Implementation Agreement – Commercial Mortgage	Agency Implementation Agreement - Commercial Mortgage	2015	None incurred

Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Cooperation in the operation of the CPS application (Central Workplace Sporoservis) to support the process of approving credit transactions	2014	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement – tripartite agreement (as amended)	adjustment of cooperation - confirmation of Kooperativa's obligations as an insurer) in favor of ČS or SSČS; encumbrance of the indemnity means: 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	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 after the end of payments; return of unpaid funds to the SSČS account)	2013	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation in the operation of the REV module	Modification of the rights and obligations of the contracting parties from the use of the module for SSČS credit products	2013	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Cooperation in the field of processing SSČS secured loans	2011	None incurred
Stavební spořitelna České spořitelny, a.s.	Service Level Agreement	Provision of services – certificates and certification services	2009	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the conditions of using the Client application service (including amendments)	Determining the conditions for using the Client application service	2008	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.	DWH Data Transfer Agreement	Adjustment of mutual rights and obligations related to the transfer of data on SSČS trades and clients to DWH and further handling of them	2007	None incurred
Stavební spořitelna České spořitelny, a.s.	Contract for the lease of commercial space	Leaving non-residential premises (offices) to use	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Commission agreement on the administration of securities and the provision of settlement of trades in them	Securities asset management and revenue collection	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Power of Attorney	Power of attorney to conclude the "Agreement on the processing of acts in the field of building savings made through the direct banking services SERVIS 24"	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Intranet access agreement	Employee access to Česká spořitelna Intranet	2006	None incurred
Stavební spořitelna České spořitelny, a.s.	Data processing contract	Data processing, printing of forms, personalization, completion of shipments, wrapping and delivery to the Czech Post for sending	2005	None incurred
Stavební spořitelna České spořitelny, a.s.	Cooperation agreement	Collaboration in data transfer from XEF templates	2004	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the conditions of granting access	Modification of conditions to allow access to the Customer file	2003	None incurred
Stavební spořitelna České spořitelny, a.s.	Agreement on the assignment of the right to exercise the right to use the logo	Assignment of the right to exercise the right to use the logo and trade name	2001	None incurred

G. 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 instigation 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 equity as at 31 December 2021 is 4.7%.

H. Other Legal Acts

During 2021, they were liquidated and deleted from the Commercial Register of brokerjet České Spořitelny, a.s. and Realitní společnost České spořitelny, a.s. The sole shareholder acting at the General Meeting of MOPET a.s. and CS Property Investment Limited decided to liquidate the companies on 1 January 2022.

Česká spořitelna did not accept or carry out any other legal actions in the interest or at the instigation of related parties during the accounting period.

I. 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.

J. 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 2021 to 31 December 2021 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 15 March 2022



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 Vinohradská 180, 130 11 in Prague 3 and 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 2021, Stavební spořitelna České spořitelny maintained approximately 121 thousand loan accounts, having lent its clients CZK 55.9 bn for obtaining better housing. It was maintaining over 578 thousand building savings accounts for its clients, with a target amount of nearly CZK 181 bn and current savings of CZK 64.4 bn.

2021 at Stavební spořitelna České spořitelny was marked by an increase in the volume as well as the number of loans. Compared to 2020, the loan volume production was up by 63%. The entire market of building societies recorded a year-on-year increase by 66%. In terms of the number of loan agreements concluded, there was a year-on-year increase by 21%. Market-wide, the increase was 24%. In its building savings product, Stavební spořitelna České spořitelny recorded a year-on-year increase by 12%. The market overall had recorded an increase by a mere 0.1%.

2021 was also important in terms of marketing and communication. Stavební spořitelna České spořitelny followed up on the Prvok ("Protozoan") project - 3D printed house and, together with the Borough of Prague 11, it opened the first 3D printed parkour playground. The goal was to show the uniqueness of this alternative route in the construction business in public space and, at the same time, to offer a community space for active ways to spend leisure time. Buřinka also succeeded in all of its nominations in PR competitions, with its communication campaign for the project of the first 3D-printed house Prvok by Buřinka. It won many awards in domestic as well as international competitions, the most important being first place in the prestigious SABRE Awards PR competition, in the CEE category. In the global SABRE Awards competition, it took an unbelievable 24th place in the world.

In co-operation with Česká spořitelna, Stavební spořitelna České spořitelny also paid great attention to improving and simplifying services for its clients, by expanding the possibilities of electronic communication and electronic service. Newly, it offers clients the option to conclude building savings agreements and obtain an unsecured loan for financing housing renovations entirely online, through the George internet banking application.

Stavební spořitelna České spořitelny, a.s.	2021	2020	2019	2018	2017
Share capital (CZK m)	750	750	750	750	750
Total assets (CZK bn)	74.5	73.9	73.0	72.3	75.5
Receivables from clients (CZK bn)	56.6	50.2	45.2	41.5	37.6
Amounts owed to clients (CZK bn)	64.2	63.8	63.4	62.5	65.4
Net profit (CZK m)	832	746	972	866	691
Number of accounts (m)	0.7	0.7	0.7	0.7	0.7
Average headcount	184	186	189	188	180

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Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s. was incorporated on 1 January 2013 by the transformation of the 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 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 ensure a supplementary income for people in retirement.

Česká spořitelna – penzijní společnost has long been the market leader in supplementary pension savings, managing the largest conservative participants fund on the market, with assets of almost CZK 13.1 bn. The Ethical Participation Fund, which is the only one in the Czech Republic to appreciate pension savings exclusively by investing in responsible and sustainable companies and industries, already reached a size of over CZK 2 bn. As at the end of 2021, the ČS Penzijní společnost had over 970 thousand unique participants with a total volume of funds of CZK 111.8 bn. In 2021, bonds noted a significant decline due to the increase in market interest rates, which negatively impacted the achieved appreciation for both the Conservative and Ethical Participation funds. Conversely, equity investments in the Dynamic and Balanced Participation funds again performed very well in 2021. Over the last three years, the Pension Company has delivered to its clients one of the highest valuations among pension companies on the market, which, especially for the dynamic strategies, far exceeds the possibilities of other savings products.

Česká spořitelna – penzijní společnost is the first pension company on the market using Banking Identity when arranging pension savings online. Thanks to this, clients can arrange their pension savings even faster, easier, and without uploading documents. Furthermore, the Pension Company newly makes it possible to sign an agreement via Banking Identity, with an electronic signature that is at the level of a guaranteed electronic signature. The Pension Company has also extended the possibility of arranging pension savings in the George mobile application. In the application a client can make even the most important adjustments to their savings settings in a matter of seconds. In 2021, the Pension Company was awarded gold in "Zlatá koruna" (the "Golden Crown") competition in the Pension Savings category.

Česká spořitelna – penzijní společnost, a.s.	**2021**	**2020**	**2019**	**2018**	**2017**
Share capital (CZK m)	350	350	350	350	350
Total assets (CZK bn)	3.2	2.6	2.3	2.1	2.0
Volume of funds in particular funds (CZK m)					
Transformed Fund	81,043	77,954	73,805	70,761	66,796
Conservative Participation Fund	13,140	12,199	10,376	8,439	6,531
Ethical Participation Fund (since 1. 11. 2017)	2,041	1,372	742	325	4
Balanced Participation Fund	11,055	8,442	6,285	4,348	2,892
Dynamic Participation Fund	4,559	3,083	2,112	1,298	882
Net profit (CZK m)	529	389	344	221	183
Number of unique participants (thousand)	970	949	936	920	917
Average headcount	65	65	64	61	62

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Leasing České spořitelny, a.s.

Leasing České spořitelny was incorporated on 6 October 2003. Česká spořitelna is the 100% shareholder of the Company. The Company has registered office at Budějovická 1912/64b in Prague 4. The Company has share capital of CZK 500 m. As at 1 January 2021, the Company merged nationally with its sister company Erste Leasing, upon its cessation. The successor company, Leasing České spořitelny, thus newly profiles itself as a leasing company with a more universal focus, a strong share of whose overall portfolio focuses on financing for vehicles of up to 3.5 tonnes and agricultural machines and equipment.

In 2021, Leasing České spořitelny generated a profit of CZK 115 m. During the year, the Company financed new transactions, with the aggregate amount of initial debt being CZK 11,264 m. The Company covers all known risks arising from the portfolio of contracts concluded, including risks associated with the global COVID-19 pandemic, by creating impairment provisions. Important facts that may have a positive impact on the achievement of the business objectives of Leasing České spořitelny in future years include intensification of co-operation with the parent bank.

Leasing České spořitelny, a.s.	2021	2020	2019	2018	2017
Share capital (CZK m)	500	500	500	500	500
Total assets (CZK bn)	23.9	12.9	13.1	12.3	11.1
Amount of newly concluded transactions (CZK bn)	11.3	5.1	5.5	5.8	4.9
Net profit / loss (CZK m)	115	81	119	116	112
Number of newly concluded agreements	14,129	10,242	13,120	15,009	14,008
Number of POS owned	2	1	1	1	1
Average headcount	168	111	111	109	111

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FACTORING České spořitelny

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 in the Czech Republic, a member of the Czech Leasing and Finance Association, and a long-standing member of the international association FCI (Factors Chain International). The Company's registered office is at Budějovická 1912/64b in Prague 4.

Factoring České spořitelny has long been one of the largest factoring companies on the Czech market. In 2021, the Company noted a significant year-on-year increase in total turnover from assigned and maintained receivables, by 65% to CZK 61.2 bn. The reason for the high rate of turnover growth was the continued development of the client portfolio, primarily in the segment of large corporates, a lower impact of anti-epidemic government restrictions on the business sector, and last but not least, growth in the prices of certain commodities financed. Although net profit was adversely affected by a change in the creating impairment provision on the portfolio, the Company's profit increased to CZK 49 m due to increase in business turnover and client financing.

Factoring České spořitelny focuses 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.

The Company's operations in 2021 were impacted by the ongoing global COVID-19 pandemic however, the quality of the services provided to factoring clients was in no way affected, thanks to a successfully managed transition to computerisation of internal processes and setup of remote working for all employees.

Factoring České spořitelny, a.s.	2021	2020	2019	2018	2017
Share capital (CZK m)	114	114	114	114	114
Equity (CZK m)	1,326	1,278	1,234	1,199	1,201
Total assets (CZK m)	8,482	5,831	5,228	5,860	5,480
Contracted amount (CZK m)	61,167	37,097	35,682	35,916	33,682
Net profit (CZK m)	49	44	36	53	56
Average headcount	39	41	40	40	39

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REICO investiční společnost České spořitelny, a.s.

REICO investiční společnost České spořitelny, a.s. was incorporated on 13 June 2006. Since its establishment, 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 2021, REICO investiční společnost České spořitelny, a.s. managed a special real estate fund, ČS nemovitostní fond, otevřený podílový fond REICO investiční společnosti České spořitelny, a.s. (hereinafter referred to as the "ČSNF"). Newly, it has also started to manage the special real estate fund REICO ČS Long Lease, otevřený podílový fond REICO investiční společnosti České spořitelny, a.s. (hereinafter referred to as "RČSLL").

From the point of view of the Central European real estate market, 2021 continued to be adversely affected by the COVID-19 pandemic, with the hotel, hospitality, and retail sectors being the most affected sectors. On the other hand, the logistics sector benefited from growing online consumer demand and, for investors, it became the most sought-after asset on the commercial property market.

In 2021, the Investment Company focused primarily on income optimisation, active management of the properties in the portfolio of ČSNF, and the establishment of a new fund – REICO ČS Long Lease – focused on long-term leased properties. The acquisition activity of ČS nemovitostní fond was naturally lower due to the market situation, but still, in July and December 2021, purchases of the first and second phases of an industrial park near the city of Tychy, Poland, worth CZK 2.5 bn, were completed (CZK 1.1 bn for the first building, CZK 1.4 bn for the second). ČSNF also completed a divestment of an older property in Brno, the Platinium building. The REICO ČS Long Lease fund was established in January 2021 and the trading of its unit certificates was launched in mid-May of the same year. In the same month, RČSLL made its first acquisition – the ELCOM research and development centre in Ostrava, with a contract-based lease for 10 years.

The total number of properties managed by REICO investiční společnost České spořitelny, a.s. thus grew to 21 commercial properties, of which 20 are in the portfolio of ČS nemovitostní fond and one in the portfolio of the REICO ČS Long Lease fund. In terms of regions in 2021, the Investment Company managed 9 properties in the Czech Republic, 7 in Slovakia, and 5 in Poland. The premium nature and significant diversification of the portfolio of ČS nemovitostní fond proved to be good assets, despite certain adverse factors in its retail part, and in 2021, the Fund thus again achieved a positive appreciation of the funds invested by its investors, of 2.5%. The REICO ČS Long Lease fund is being gradually invested in, such as to achieve its target return between 3% and 5% p.a. in 2022.

From the financial point of view, the ČSNF and RČSLL portfolios are sound, more than 90% of most properties are leased, and regular rental income is secured. The current values of the properties in both funds' portfolios are stable, with a significant potential for long-term growth. In terms of assets under management, ČS nemovitostní fond has remained the largest Czech real estate fund, having reached a volume of CZK 28.7 bn at the end of December 2021. The volume of assets managed by the REICO ČS Long Lease fund in 2021 amounted to CZK 890.9 m and the trading with RČSLL unit certificates was launched on 17 May 2021.

In 2021, REICO investiční společnost reported a net profit of CZK 96 m. The increase compared to 2020 was due to the increased business of the funds under management and cost savings.

REICO investiční společnost České spořitelny, a.s.	2021	2020	2019	2018	2017
Share capital (CZK m)	25	25	25	25	25
Equity (CZK m)	251	155	160	156	158
Total assets (CZK m)	300	200	201	197	185
Net profit (CZK m)	96	93	92	88	79
Assets under management (CZK bn)	29.6	27.6	25.8	21.6	17.2
Average headcount	16	15	13	15	14

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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.

A) Alternative Performance Indicators that Can Be Determined Directly from the Consolidated Financial Statement

Alternative Performance Indicator		Financial statement
Net interest income	A	Consolidated income statement
Net fee and commission income	B	Consolidated income statement
Dividend income	C	Consolidated income statement
Net trading result	D	Consolidated income statement
Gains/losses from financial instruments measured at fair value through profit or loss	E	Consolidated income statement
Net result from equity method investments	F	Consolidated income statement
Rental income from investment properties and other operating leases	G	Consolidated income statement
Operating income	**H=A+B+C+D+E+F+G**	**Consolidated income statement**
Personnel expenses	I	Consolidated income statement
Other administrative expenses	J	Consolidated income statement
Depreciation and amortisation	K	Consolidated income statement
Operating expenses	**L=I+J+K**	**Consolidated income statement**
Operating result	**H+L**	**Consolidated income statement**
Cost/Income ratio	**-L/H**	**Consolidated income statement**
Non-interest operating income/Operating income	**(B+C+D+E+F+G)/H**	**Consolidated income statement**
Non-trading financial assets at fair value through profit or loss – loans and advances to customers	M	Consolidated statement of financial position
Financial assets at amortised costs – loans and advances to customers	N	Consolidated statement of financial position
Finance lease receivables	O	Consolidated statement of financial position
Trade and other receivables	P	Consolidated statement of financial position
Financial liabilities at fair value through profit or loss – deposits from customers	Q	Consolidated statement of financial position
Financial liabilities at amortised cost - deposits from customers	R	Consolidated statement of financial position
Loans and advances to customers	**S=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**T=Q+R**	**Consolidated statement of financial position**
Loans and advances to customers/deposits from customers	**U=S/T**	**Consolidated statement of financial position**

The Purpose of the Alternative Performance Indicators

Operating Income
Operating income shows the amount of bank income from common business activities.

Operating Expenses
Operating expenses express the volume of bank costs used for common business activities.

Operating Result
Operating result gives information about the bank´s success rate of common business activity. It shows the amount of financial resources that was earned from common business activity.

Cost/Income Ratio
This indicator expresses the volume of operating expenses consumed to achieve the operating income. The ratio gives a clear view of how efficiently the bank is being run – the lower it is, the more profitable the bank is.

Non-interest Operating Income/Operating Income
The indicator shows the share of income other than interest income on total operating income.

Loans to Customers/Deposits from Customers
The indicator shows the share of customer deposits used for funding of customer loans.

B) 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 – available for sale, Financial assets – held to maturity, 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.

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Annual Report 2021

Published on internet: https://www.csas.cz/en/documents-to-download#/37

Production: Omega Design, s.r.o.

Material for the Public

MH-LH-RP Czech