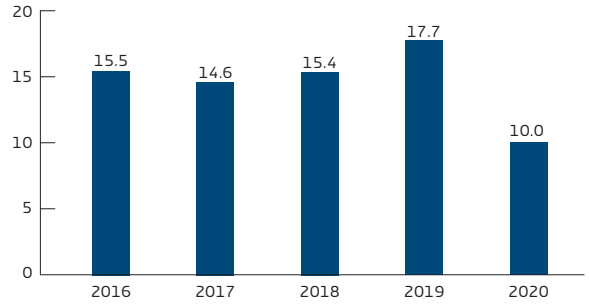


Česká spořitelna

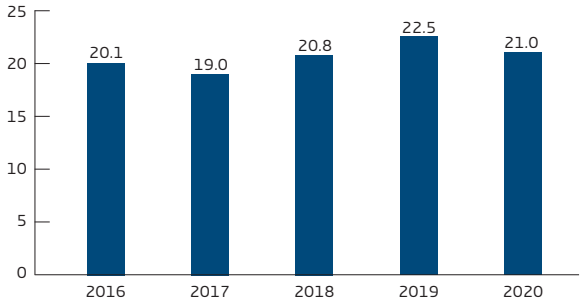
Annual Report 2020

ČESKÁ spořitelna

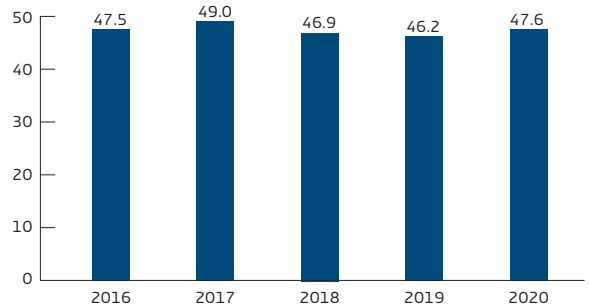
Net profit (CZK billion)



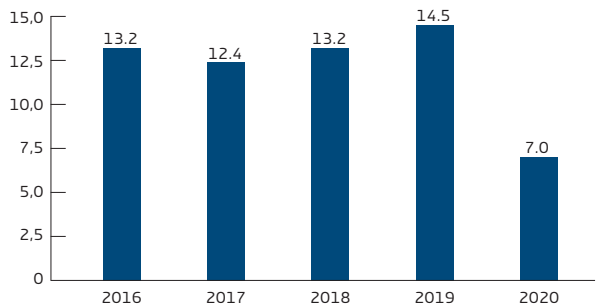
Operating result (CZK billion)



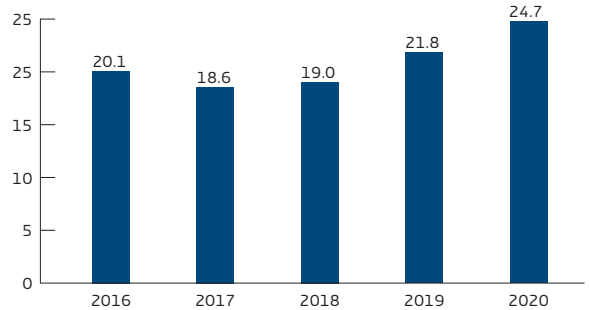
Cost/Income ratio (%)



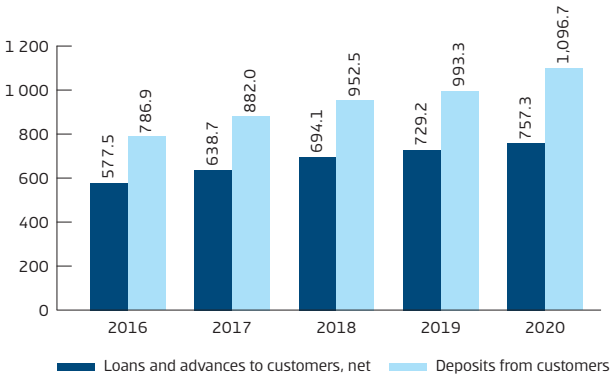
ROE (%)



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	negative
Moody's	A1	Prime-1	stable
Standard & Poor's	A	A-1	stable

(1) "Deposits from customers at amortised cost"

Key Consolidated Figures

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

Financial Position Indicators

CZK million	2020	2019	2018	2017	2016
Total assets	1,537,780	1,458,650	1,426,465	1,329,223	1,066,526
Loans and advances to banks, net [3]	424,838	411,650	389,844	157,525	22,328
Loans and advances to customers, net	757,324	729,206	694,065	638,694	577,453
Securities [4]	277,646	242,301	246,781	219,501	257,183
Deposits from banks	91,335	292,111	318,861	295,232	114,282
Deposits from customers [5]	1,096,666	993,257	952,506	881,997	786,876
Equity attributable to owners of the parent	149,125	137,128	122,473	120,810	121,564

Income Statement Indicators

CZK million	2020	2019	2018	2017	2016
Net interest income	29,099	30,261	27,821	25,350	25,512
Net fee and commission income	8,243	8,591	8,540	8,803	9,308
Operating income	40,147	41,899	39,088	37,227	38,227
Operating expenses	(19,110)	(19,352)	(18,327)	(18,240)	(18,146)
Operating result	21,037	22,547	20,761	18,987	20,081
Net profit attributable to owners of the parent	10,006	17,743	15,362	14,610	15,457

Basic Ratios

	2020	2019	2018	2017	2016
ROE	7.0%	14.5%	13.2%	12.4%	13.2%
ROA	0.6%	1.2%	1.1%	1.1%	1.5%
Cost/income ratio	47.6%	46.2%	46.9%	49.0%	47.5%
Non-interest income/operating income	27.5%	27.8%	28.8%	31.9%	33.3%
Net interest margin on interest-bearing assets	1.9 %	2.1%	2.2%	2.6%	3.1%
Loan/deposit ratio	68.6%	72.9%	72.7%	72.2%	73.2%
Capital adequacy (unconsolidated)	24.7%	21.8%	19.0%	18.6%	20.1%

Key Operating Indicators

Number of	2020	2019	2018	2017	2016
staff (average FTE)	9,892	9,873	10,224	10,248	10,371
branches	438	483	501	517	561
clients	4,474,198	4,597,170	4,634,337	4,674,173	4,707,094
private accounts	2,819,346	2,760,815	2,700,629	2,679,015	2,670,719
active cards	2,988,906	2,919,381	2,867,262	2,828,439	2,946,449
of which: credit cards	167,677	170,964	177,349	185,242	209,948
ATMs and payment machines	1,825	1,832	1,783	1,704	1,642

(2) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 326.
(3) In 2019–2020 "Loans and advances to banks at amortised cost"
(4) Calculation for 2016–2017 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 2018–2020 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) "Deposits from customers at amortised cost"

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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 196 years. Currently, the Bank provides services to 4.5 million clients. Since 2000, Česká spořitelna has been part of Erste Group Bank, a multinational financial group.

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

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

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.

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 companies 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.

> Česká spořitelna is setting a trend in the introduction of modern technologies in the local banking market.

THE YEAR



IN REVIEW

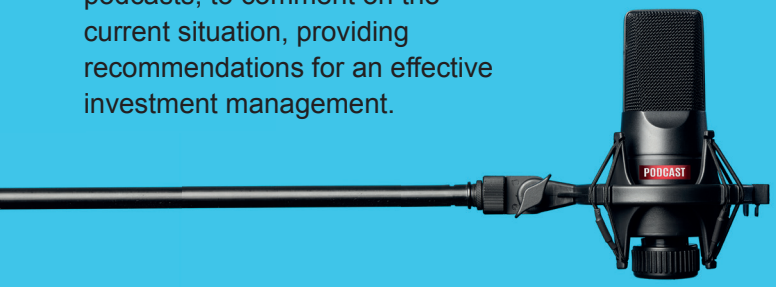
1. QUARTER

Protection against loan sharks

Česká spořitelna has started to offer micro loans from CZK 2,000 to 20,000. No fee is charged for the arrangement of a loan. The Bank´s objective is to protect clients from falling victim to loan sharks or into a debt trap.

Navigation through turbulence

Dramatic fluctuations on global financial markets caused by the worldwide COVID-19 pandemic have caused a panic among investors. Česká spořitelna's experts therefore initiated regular and comprehensive communication with the public through podcasts, to comment on the current situation, providing recommendations for an effective investment management.





George offers investments

Newly, clients can enter the most frequent service requests with respect to their mortgages through their George Internet banking.

Since February, George has been offering online investments in more than 80 mutual funds. In stage one, George will allow active online trading in mutual funds. In the next stage, it will allow active trading in bonds and stock.

Another innovation that George presented in Q1 2020 are supplementary pension savings that clients can arrange through George.

The fight against COVID-19 started

Česká spořitelna has joined the fight against the COVID-19 pandemic. Česká spořitelna was the first to offer its clients a postponement of instalments by three to six months.

In co-operation with Global Payments, Česká spořitelna has started to offer micro and small-enterprises free payment terminals for fast and contactless acceptance of payments for 8 months.

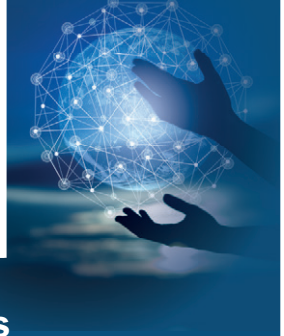
Česká spořitelna has become involved in the COVID programme, in which small and medium-sized companies are eligible for concessionary operating loans of up to CZK 15 m.

Česká spořitelna supported the launch of mass production of protective masks designed by the Czech Technical University, with a donation of CZK 500,000.

With pro bono technical solutions, the Bank contributed to the development and start-up of several other platforms: **zachransvoufirmu.cz**, **zachranhospodu.cz**, **podporime.cz** ("Save Your Company", "Save a Pub", "We're Supporting").



2. QUARTER



Digitization overcomes lockdown

Česká spořitelna has further strengthened its digital products and services in order to get even closer to its clients and to offer solutions corresponding to changing conditions even faster and more efficiently. Spořitelna emphasizes indivudualized advisory. With this intention, the Bank is also restructuring its branches.

During the coronavirus crisis, 100,000 clients who had, until that time, preferred cash transactions, started to take advantage of the possibility of making card payments. Those clients had accounted for a third of the total number of Spořitelna's purely cash-based customers. The share of cashless payments in all payments made by Spořitelna's clients was roughly 40% at the end of H1 2020.

Postponing repayments



Spořitelna made it possible for its clients to postpone three payments between April and June. Subsequently, ČS also started to provide a protective period, in line with the law.

The fight against coronavirus continues

Postponement of loan re-payments is already underway on two fronts – newly also under the state moratorium.

ČS joins the new COVID II and COVID III programmes with state guarantees.

One-third of all mortgages comes from ČS

Despite the pandemic, Česká spořitelna has been increasing its mortgage lending with a current market share of 27%.



General Meeting

Česká spořitelna's General Meeting decided on 23 April 2020 to allocate the Česká spořitelna´s 2019 profit and retained profit from previous years. Based on ČNB expectations, the General Meeting has not yet decided about dividend payment.

Quick help for companies

Česká spořitelna made it possible for companies to postpone instalments and to draw loans in the COVID programmes designed to help companies overcome the adverse impact of coronavirus measures on their business. Spořitelna was able to adapt its application, product, as well as process environments in record time. Spořitelna started to process postponements of instalments for large and medium-sized clients purely digitally.

ČS celebrates the Golden Crowns

In the "Zlatá koruna" ("Golden Crown") competition,three Česká spořitelna´s products won the main prize – a mortgage, a Start-up loan and also a Mastercard World Elite Metal payment card.

Spořitelna's employees contributed a total of CZK 150, 120 through Cafeteria to the project Energy for Doctors. They also got actively involved in the sewing of protective masks.

The Bank provided financial support to the Czech Television educational programme "UčíTelka" ("School via Television") and We Can Do It. In its Money Alphabet programme, it created a series of leisure-time educational activities and competitions.

Thanks to Spořitelna, CZK 7,461,258 was successfully raised in co-operation with the Czech Philharmonic Orchestra, for five hospitals that handle the most serious COVID-19 cases.



3. QUARTER



It’s easier to know the accounts

Česká spořitelna significantly simplified its offer of personal accounts, reducing them to two. Spořitelna was the first of the country’s three largest banks to launch its Standard account in July, the maintenance of which, as well as all basic services, is free of charge.

Spořitelna has also added new complimentary services to its My Healthy Finance accounts.

Unique payment system for municipalities

In co-operation with Global Payments and pays.cz, Česká spořitelna has provided a unique solution to the Central Bohemian Region – the Payment Portal of Central Bohemian Region. The portal will support convenient payments by card or bank order, even in small municipalities that would otherwise not be easily able to afford such a modern payment instrument.



Spořitelna is taking over Waldviertler Sparkasse in the Czech Republic

Česká spořitelna has announced its plan to take over the Czech branches and business of Waldviertler Sparkasse (WSPK CZ) and become the owner of WSPK CZ at the beginning of 2021. WSPK operates 7 branches in the Czech Republic, in particular in the South Bohemian Region. The plan is to strengthen Česká spořitelna’s position in the South Bohemian Region and to get new clients across segments, in particular in the Small Business segment and in agriculture.



Innovations got a new Seed Starter

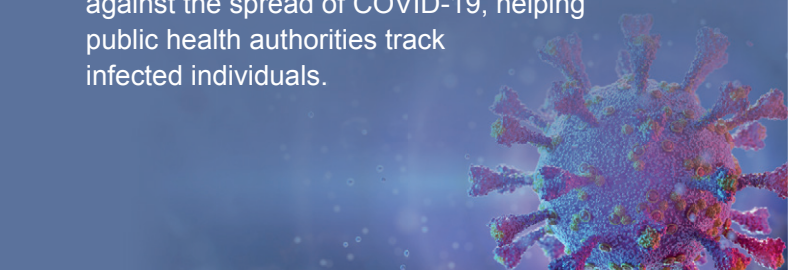
Česká spořitelna has launched Seed Starter – a new programme to support innovation. The programme will focus on supporting projects that yield technological innovations, digitisation, or new business models. Through its Seed Starter programme, the Bank plans to draw in new clients and be an innovation leader.

Online lending also for non-clients

Spořitelna has started online lending even for non-clients.

Fighting coronavirus over the phone

In co-operation with the Ministry of Health and hygienic stations, Česká spořitelna has formed a specialised tracking team at its client centre, comprised of experienced operators. The team has joined the fight against the spread of COVID-19, helping public health authorities track infected individuals.



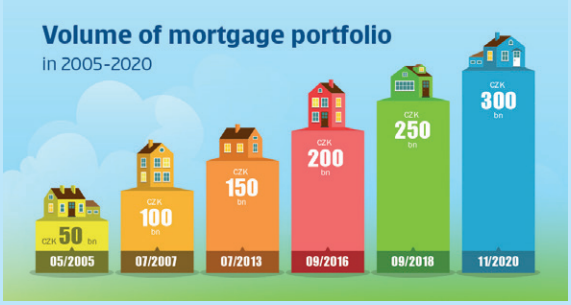
George returns money

In Q3, Spořitelna launched the Moneyback loyalty programme in its mobile George. More than 200,000 clients already get back 1%-10% of the price of their purchases paid by a payment card, from more than 50 vendors.

4. QUARTER

300 billion
in the mortgage portfolio

Česká spořitelna has exceeded the magic threshold of CZK 300 billion in its mortgage portfolio. In addition, after 12 years, Spořitelna has become the market leader in newly provided mortgages.



Blockchain we.trade opened to clients of ČS

Česká spořitelna has joined the we.trade digital blockchain platform. It will significantly speed up and simplify the negotiation and implementation of business contracts between Česká spořitelna's corporate clients and their business partners in the Czech Republic and across Europe.

Mobile phones are transformed into payment terminals

Thanks to Česká spořitelna, Czech merchants are the first in Europe to be able to accept payments with the help of a mobile phone instead of a payment terminal.





ČS's Bank Identity stands as a new digital ID

Česká spořitelna has received accreditation from the Ministry of the Interior, thanks to which clients will be able to use their Bank Identity as an online proof of identity when interacting with the government.



Investments reached 200 billion

Česká spořitelna encountered a remarkable milestone. The volume of retail investments under the Bank's management exceeded CZK 200 billion. This ranks Česká spořitelna among the largest providers of investment services in the Czech Republic.



Spořitelna bought Waldviertler Sparkasse in the Czech Republic

After a long time, Česká spořitelna made an acquisition on the Czech banking market and bought the Waldviertler Sparkasse. It is a universal branch of Austrian bank that serves both retail and corporate customers in seven branches located mainly in the region of South Bohemia.

Foreword by the Chairman of the Board of Directors



Tomáš Salomon

Chairman of the Board of Directors
of Česká spořitelnaa

Dear Ladies and Gentlemen,

The year 2020 posed an extraordinary test for all of us and for the whole society. We had to adapt quickly to hitherto unseen conditions due to the pandemic. Often, we had to depart from established scenarios, leave our comfort zones, and promptly implement new solutions.

I am proud of how we coped with the situation – both as the banking sector as a whole and as Česká spořitelna. Above all, great thanks are owed to all employees of the ČS Financial Group. Stability and our sustained sound financial results allowed us to help clients quickly and effectively in these unprecedented times – whether we talk about loan instalment deferrals for individuals and companies or special loans for small and large enterprises, the availability of our branches, services, and ATMs, or online banking services.

In 2020, we carried on with the role that we have played for more than 195 years – helping Czech society. In addition to traditional financing, we also got involved in a number of activities helping the government combat the pandemic. In co-operation with the Ministry of Health and hygienic stations, Česká spořitelna formed a specialised tracking team of experienced operators at its client centre. Later, we established a special line for helping seniors register for coronavirus vaccination. We supported doctors and nurses through our charitable activities. We also supported community projects, cultural activities, and professional as well as amateur sport. We brought a lot of help to the online world.

We ceaselessly supported our clients and their businesses even during the lockdown. Most of our branches remained open for our clients and, thanks to digitalisation, nearly all our employees had good conditions for working from home.

Despite the difficult conditions, we successfully continued to strengthen our market position. For the first time in 12 years, we were the leader in mortgage financing. The value of our mortgage portfolio amounted to CZK 300 billion. We continued to develop our digital platform, George, which was used by 1.7 million users at the end of the year, and, of that, nearly 1 million of our clients actively used its mobile version. We also further strengthened our position on the investment, mutual fund, and asset management market. Our share of the mutual fund market reached 27.6 percent.

At the end of last year, we also concluded an important acquisition on the domestic market, having agreed with the Austrian bank Waldviertler Sparkasse (WSPK) to purchase their assets on the Czech market. With this purchase, we are expanding the provision of our services in the Southern Bohemian region and want to strengthen our market share in particular in the small enterprises and agricultural segments.

Last year demanded great flexibility and extraordinary commitment of all our employees and management alike. I would like to thank them for all this once again. And together, we thank all 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: Petr Brávek, Pavel Kráčmar, Daniela Pešková, Tomáš Salomon, Karel Mourek, Wolfgang Schopf


SPORITELNA

Board of Directors of Česká spořitelna

in the Year 2020



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 companies: Kooperativa pojišťovna, a.s., Vienna Insurance Group, Nadace České spořitelny, Česká bankovní asociace



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 has been the Vice-Chairman of the Board of Directors of Česká spořitelna responsible for Financial Division since August 2013.

Membership in other companies: Nadace České spořitelny



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 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



Karel Mourek

Member 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.

Membership in other companies: Erste Reinsurance S.A.



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 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 a 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.



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.

Mr Brávek has been the member of the Board of Directors of Česká spořitelna responsible for IT and operations since 1 February 2020.

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



Bohuslav Šolta

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

Mr. Šolta is a graduate of the University of Economics in Bratislava. After his studies he worked for several years in financial management. He started his banking career in 1993 in Slovakia in Banka Haná, a.s. where he was later appointed to the Board of Directors. From 1998 to 2005 Mr. Šolta was the member of the Board of Directors in Všeobecná úverová banka responsible, beside other, for IT and operations. In the period between 2006 and 2016 he worked as an advisor for key development project and strategic planning in Slovak companies Eclyps and IQUAP. At the same time Mr. Šolta was a Board Advisor in Slovenská sporiteľňa and also an IT Manager. In 2016 he began working for Česká spořitelna as the Executive Director for IT and Operations.

From 13 March 2017 Mr. Šolta 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 31 January 2020.

Membership in other companies: none



Supervisory Board



From the left: Petr Brázda, Bernhard Spalt, Maximilian Hardegg, Zlata Gröningerová, John James Stack, Helena Černá, Stefan Dörfler, Aleš Veverka, Štefan Máj

Supervisory Board and Audit Commitee of Česká spořitelna

in the Year 2020

Supervisory Board of Česká spořitelna 2020



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 has been the Chairman of the Supervisory Board of Česká spořitelna since 2013.

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



Bernhard Spalt

Vice-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 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 Vice-Chairman of the Supervisory Board on 11 December 2019.

Membership in other companies: Erste Group Bank AG, Banca Comercială Română SA, Erste Social Financial Holding GmbH, Haftungsverbund GmbH



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 companies: 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 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 the 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 Oesterreich. 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, Wiener Börse AG, Slovenská sporiteľňa, a.s., Erste Group IT International GmbH, Procurement Services GmbH, OM Objektmanagement GmbH, EB-Restaurantsbetriebe GmbH, Sparkassen-Haftungs GmbH, Haftungsverbung GmbH.



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 companies: Erste Stiftung, Erste Group Bank AG, Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, HAT, s.r.o., Erste Mitarbeiterbeteiligung Privatstiftung



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

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 2020

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 2020, page 20.

Mr. Stack has been the Chairman of the Audit Committee of Česká spořitelna since 2014.

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 2020, page 22.

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 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. Since 2019 he has been the Chairman 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 2020, page 21.

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.

Macroeconomic Development of the Czech Republic

in 2020

Czech economic development was marked by the COVID-19 pandemic in 2020, which affected the economy in waves, with a strong drop in economic activity in the spring and the autumn. However, there was a relatively rapid recovery during the summer months. In response to the onset of the pandemic in the Czech Republic, monetary and fiscal policies were significantly loosened, and a number of government measures was introduced to keep the unemployment rate low (for example, the so-called kurzarbeit). Monetary and fiscal measures had positive impact, as the deterioration in the labour market was very small compared to the first estimates from the period shortly after the outbreak of the pandemic. Moreover, the recovery that took place between the second half of May and the beginning of autumn also contributed to keeping the unemployment rate low. Despite the fall in GDP, the relatively low unemployment rate contributed to the fact that inflation remained significantly above the inflation target throughout the year and did not approach it until the very end of the year 2020.

> Czech economic development was marked by the COVID-19 pandemic in 2020.

In 2020, GDP fell by 5.6% [6]. In the first two months of 2020, there was an economic recovery, mainly due to the favourable development of the German economy. In March, the first wave of the pandemic hit the Czech economy, with a significant drop in both domestic and foreign demand. The second half of May saw an economic recovery encouraged by the temporary retreat of the pandemic. This economic improvement was much better than originally expected. From the beginning of autumn, however, a new wave of the pandemic hit the economy and led to another decline in domestic demand, also affected by various subsequent restrictive measures. Compared to the spring wave, however, the development of foreign demand was different during the second half of the year, driven by more favourable epidemiological and economic developments in Germany.

GDP y/y growth [7]

2020	2019	2018	2017	2016
–5.6%[8]	2.2%	3.2%	5.4%	2.4%

In 2020, inflation remained well above the ČNB's inflation target. There were several reasons for this development. The main one was the favourable economic development in 2019, with an extremely strong labour market. The high excess demand for new available employees over their supply pushed down the unemployment rate and increased wage growth, which was subsequently reflected in growth in core inflation. In addition, food prices also rose significantly. Another reason why even a significant economic downturn did not lead to significant anti-inflationary pressures was government support for the economy, which had keeping the unemployment rate low as one of its main goals. However, the inflation rate was gradually slowing down towards the ČNB's 2% inflation target [9] during the second half of 2020, with y/y inflation reaching "only" 2.3% [10] in December. The main reasons for this slowdown in price growth were the development of food prices and, to a lesser extent, the anti-inflationary developments associated with subdued domestic demand.

Price growth (inflation) [11]

2020	2019	2018	2017	2016
3.2%	2.8%	2.1%	2.5%	0.7%

Prior to the outbreak of the COVID-19 pandemic, the Czech labour market was characterized by an extremely low unemployment rate, due to a significant shortage of the available workers Czech companies needed. Over the year 2020, with a decrease in both domestic and foreign demand, the unemployment rate was rising steadily.

(6) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4th-quarter-of-2020
(7) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/hdp_ts
(8) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4th-quarter-of-2020
(9) Source: Czech National Bank, 4. 2. 2021, https://www.cnb.cz/en/monetary-policy/inflation-targeting/
(10) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2020
(11) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/inflation_rate

Overall, however, it remained relatively low, as it was supported by government measures and foreign demand development in the second half of the year 2020. In December, the unemployment rate reached only 3.2% [12].

Unemployment rate [13]

2020	2019	2018	2017	2016
2.6%	2.0%	2.3%	2.9%	4.0%

Due to higher pro-inflationary pressures, the ČNB raised interest rates in February 2020, when its main rate reached 2.25% [14]. However, following the outbreak of the COVID-19 pandemic and the slump in economic activity, interest rates fell relatively quickly, reaching a key rate of 0.25% [15] in May. Since then, its setting was not changed until the end of 2020, as strong inflation and relatively decent developments in the labour market, together with a weak koruna, were the main reasons why the ČNB did not cut interest rates even more significantly.

The pandemic implies a sharp deterioration in market sentiment, which resulted in a significant weakening of many exchange rates, including the koruna. Subsequently, this development was accelerated by a significant reduction in ČNB rates. Throughout the year 2020, the koruna remained weak, as negative market sentiment, fuelled by Brexit fears and the US election, prevented it from strengthening again. However, market sentiment improved in the fourth quarter, driven by the US election results and reports of successful vaccine tests.

The same factors, i.e., uncertainty in the markets and the fall in ČNB rates, also significantly affected the yield curve, which fell during 2020. From the second half of 2020, however, the situation began to change gradually, as the economic recovery in the world economy slightly improved market sentiment and the yield curve shifted slightly upwards. At the end of the year 2020, similarly to the koruna, yields saw a positive effect from the US election and improvements in market sentiment. However, the yield curve remained relatively low at the end of 2020.

(12) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-december-2020
(13) Source: Czech Statistical Office, 4. 2. 2021, https://www.czso.cz/csu/czso/zam_cr
(14) Source: Czech National Bank, 4. 2. 2021, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/
(15) Source: Czech National Bank, 4. 2. 2021, https://www.cnb.cz/en/monetary-policy/bank-board-decisions/



Report of the Board of Directors

In this photo there are Česká spořitelna´s employees as the volunteers during the Different Day.

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

for 2020

Consolidated Financial Results (16)

Consolidated Statement of Income

Česká spořitelna reported a consolidated net profit after taxes and minority interests of CZK 10.0 bn as at 31 December 2020 (in compliance with International Financial Reporting Standards). In 2019, net profit amounted to CZK 17.7 bn, it thus decreased by 43.6% in a year-on-year comparison heavily hit by COVID-19 pandemic. The return on equity was negatively affected by the lower net profit and reached 7.0% at the end of 2020, compared to 14.5% at year-end of 2019.

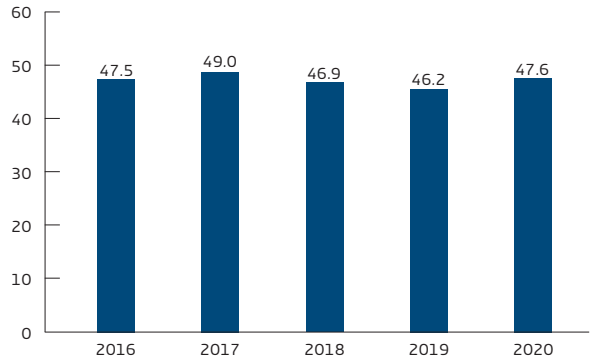
> Česká spořitelna reported a consolidated net profit of CZK 10.0 bn heavily hit by COVID-19 pandemic.

Operating income decreased compared to year-end of 2019 by 4.2% to CZK 40.1 bn, driven by decline in main components (net interest income, net fee and commission income and net trading result). Operating expenses decreased in a year-on-year comparison by 1.3% to CZK 19.1 bn. Operating result therefore reached CZK 21.0 bn, which meant compression of 6.7% compared to 2019. The development in operating income and operating expenses also led to worsening of Cost/Income ratio which increased from 46.2% in 2019 to 47.6% in 2020.

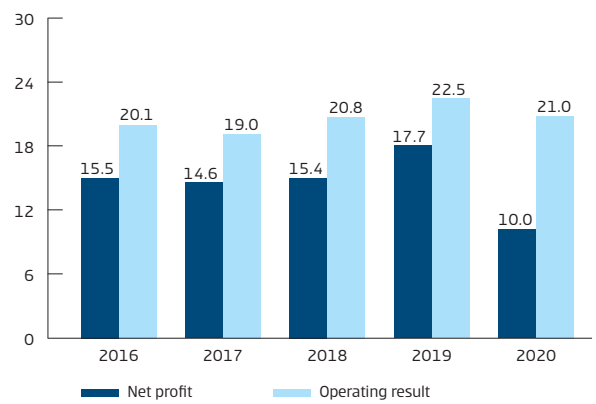
Net interest income traditionally represents the largest share of operating income. Compared to 2019, net interest income decreased by 3.8% to CZK 29.1 bn. The development of net interest income was heavily affected by the decline in interest rates in 2020 and negative impact of loan repayment moratoriums. On the other hand, above market growth of customer loans and deposits had a positive effect on net interest income. Net interest margin related to interest bearing assets declined from 2.12% in 2019 to 1.94% in 2020.

Net fee and commission income decreased in 2020 by 4.1% year-on-year to CZK 8.2 bn. The decline was caused by impact of payment transfers (SEPA) regulation effective since December 2019, negative impact of COVID-19 pandemic and reduction of fees for current accounts reflecting higher number of customers benefitting from My Healthy Finances concept. On the other hand, these effects were partly offset by growth of securities transactions and asset management (e.g. mutual funds were up by 8.0% y/y).

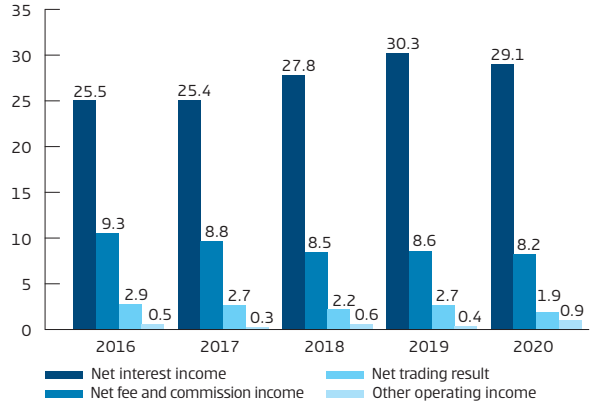
Cost/Income (%)



Net profit and operating result (CZK billion)



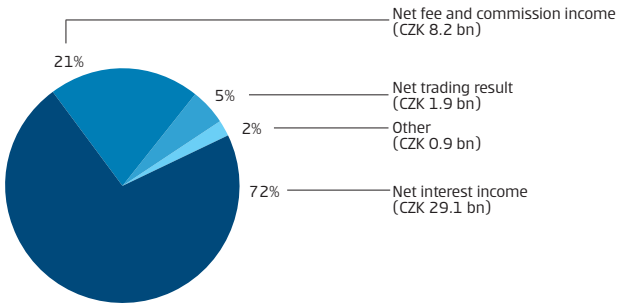
Composition of operating income (CZK billion)



(16) Definitions of the below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 326

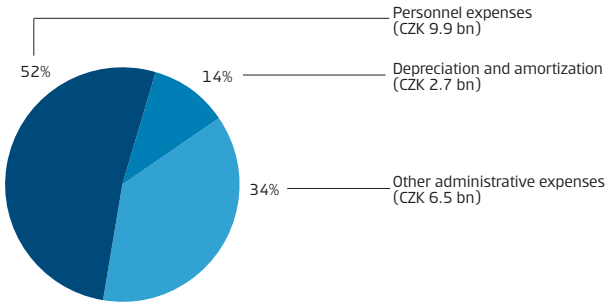
Net trading result went down by 28.6% to CZK 1.9 bn, compared to 2019. This result was affected by market volatility in 2020 and lower income from retail foreign card transactions and payments. Other operating income was positively influenced by development of gains from financial instruments measured at fair value through profit or loss.

Structure of operating income



Total operating expenses were kept under strict control, down by 1.3% y/y to CZK 19.1 bn in 2020 despite of 3.2% average inflation rate. Decrease in personnel expenses (–2.6% y/y) was driven mainly by reduced variable remuneration. Cost efficiency measures connected with COVID-19 pandemic led to reduction in other administrative expenses (–1.9% y/y). Depreciation grew by 5.6% y/y affected by investments into own buildings and an adjustment of parameters related to IFRS 16.

Structure of operating expenses



Impairment result from financial results (i.e., creation of risk provision and reserves for loans and advances, guarantees and commitments) reached CZK 7.9 bn. It meant a year-on-year worsening by CZK 8.1 bn as Česká spořitelna experienced risk provision release in 2019. This result was attributed to expected credit losses as a consequence of economic downturn in 2020 and prudent approach after termination of government repayment moratorium in October 2020.

The quality of the loan portfolio experienced slight worsening in 2020; the share of non-performing loans over total loans increased to 2.2% compared to 1.8% in 2019. This result was caused by inflow of new defaults partly affected by expiration of government repayment moratoria.

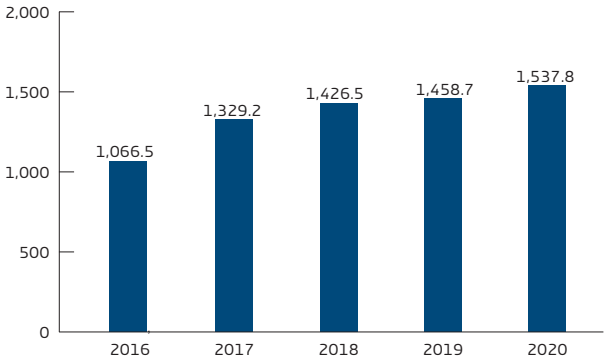
Coverage of non-performing loans by impairment provisions rose in a year-on-year comparison and reached a solid 115%; the total coverage of non-performing loans (including collaterals) also up to 141%. In 2019, these figures were 96% and 121% respectively.

Other operating result of CZK -0.6 bn consisted mainly of other income and costs not directly related to main operating activities of the Group. Year-on-year improvement of other operating result was due to release of impairment on buildings in 2020, which was partly offset by a higher contribution to the Recovery and Resolution Fund.

Consolidated Balance Sheet Analysis

As at 31 December 2020, total consolidated assets amounted to CZK 1,537.8 bn and grew by 5.4% in a year-on-year comparison. The increase was attributed mainly to the rise of loans and advances to customers and debt securities on the assets side and deposits from customers on the liability side.

Total assets (CZK billion)

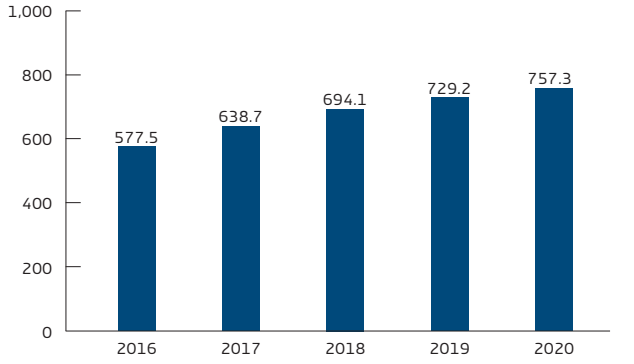


Assets

The loan book of Česká spořitelna developed successfully across various client segments and products in spite of unfavourable macroeconomic development. The total net volume of loans and advances to customers grew from CZK 729.2 bn at the year-end of 2019 to CZK 757.3 bn at the year-end of 2020, which meant a 3.9% increase. The proportion of net client loans to client deposits (Loans/Deposits ratio) went down from 72.9% to 68.6%.

> The total net volume of loans and advances to customers grew to CZK 757.3 bn.

Net loans and advances to customers (CZK billion)



The portfolio of gross retail loans (Bank only) amounted to CZK 438.7 bn [17], representing a year-on-year increase of 6.9%. The volume of outstanding gross mortgages to private individuals grew by 9.0% compared to 2019 to CZK 305.7 bn supported by CZK 66 bn of new mortgages where ČS became the market leader.

Lower household consumption decreased demand for customer loans, leading to only modest growth of gross volume of consumer loans by 1.9% y/y to CZK 74.8 bn [18]. New sales of cash loans were negatively influenced by lockdowns, lower utilization of credit cards and overdrafts continued.

The volume of wholesale (Corporate and Group Markets, Bank only) loans modestly increased in a year-on-year comparison to CZK 260.7 bn [19]. The growth was due to a rise of loans to SMEs (+1.6%) and public sector (+5.2%).

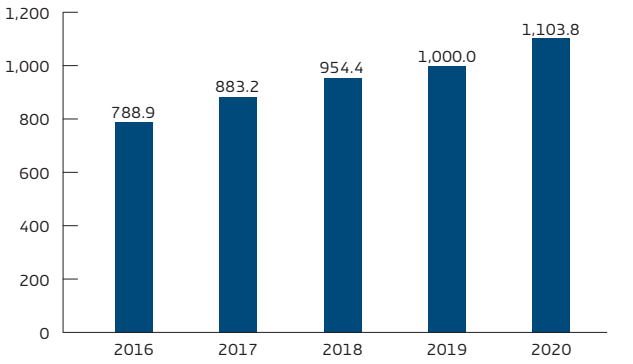
Balance sheet development in 2020 also reflected growth of debt securities by CZK 35.8 bn to CZK 254.7 bn and loans and advances to banks at amortised cost by CZK 13.2 bn to CZK 424.8 bn which was supported by reverse repo operations with the ČNB.

Liabilities

Group deposits from customers rose compared to 31 December 2019 by 10.4% to CZK 1,103.8 bn. This development was influenced mainly by lower household consumption due to COVID-19 pandemic, demonstrating the trust of clients in Česká spořitelna and even further strengthening its very solid liquidity position. Households (retail) deposits increased by 13.3% to CZK 804.4 bn. Group corporate deposits went up by 6.1% to CZK 232.9 bn and public sector deposits decreased by 5.7% to CZK 66.6 bn in a year-on-year comparison.

The development in deposits from banks reflected a decline of repo operations in 2020. For this reason, deposits from banks declined to CZK 91.3 bn compensated by increase in debt securities issued to CZK 169.5 bn reflecting changes in steering of short-term intra-group liquidity.

Deposits from customers (CZK billion)



Equity attributable to owners of the parent amounted to CZK 149.1 bn, which represented a growth of 8.7% in a year-on-year comparison supported by increasing retained earnings and no dividend payment in 2020 reflecting ČNB recommendation in response to COVID-19 pandemic. Equity attributable to owners of the parent represented 9.7% of total assets. The total capital ratio for Česká spořitelna Group as at 31 December 2020 reached 25.6%, well above the minimum regulatory capital requirements (15.4%). Compared to the year-end of 2019, it rose by 3.6pp.

Business Activities

Retail Banking

As at the end of 2020, 4.5 million customers were using the retail banking services of Česká spořitelna and its subsidiaries. From those clients' point of view, Česká spořitelna is the most accessible bank on the domestic market, thanks to it having the most extensive network of branches (438) and also ATMs and transactional terminals (1,825). It holds the first place in the market of consumer loans, including credit cards and overdrafts, total deposits, and mutual fund distribution. Furthermore, it is a leader in client mortgages and in life insurance intermediation.

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

(17) Source: ČS 2020 results, p. 38, 26. 02. 2021, https://www.csas.cz/banka/content/inet/internet/cs/cs_results_fy_2020_final.pdf
(18) Source: ČS 2020 results, p. 23, 26. 02. 2021, https://www.csas.cz/banka/content/inet/internet/cs/cs_results_fy_2020_final.pdf
(19) Source: ČS 2020 results, p. 38, 26. 02. 2021, https://www.csas.cz/banka/content/inet/internet/cs/cs_results_fy_2020_final.pdf

My Healthy Finances

The My Healthy Finances (MHF) service assists with maintaining of a healthy budget, correct setting of financial products portfolio and caters to the client's various needs tailored to their current life situation. The concept of the MHF service is based on the professionalism and support of personal bankers, in combination with a digital environment.

Up to the end of 2020, the My Healthy Finances concept was closely related to and conditioned on the opening of a My Healthy Finance Account, of which almost 1.6 million clients took advantage. The method of care for these clients, the provision of advisory services both at branches and in the online environment, has become the standard in client care. For this reason, at the end of 2020, the Bank informed clients, not only of the General Business Terms and Conditions and an updated pricelist, but also that it would provide My Healthy Finance advisory services to all its clients, regardless of the type of account they hold at the Bank. By that, Česká spořitelna sent out a positive message to all other clients who, for whatever reason, decided to use a different type of account. This was brought about in response to all the important indicators and feedback from clients confirming that this is the right method of client care. The Net Promoter Score (NPS) indicator grew to 28. Furthermore, 96% of clients indicate satisfaction with their visits at a branch!

> 96% of clients indicate satisfaction with their visits at a branch.

As part of the MHF service, a banker meets a client regularly and discusses their current financial needs. In the spring, when a major drop in the economy occurred due to the COVID-19 pandemic, physical meetings were replaced with telephone calls from ČS bankers offering help. Česká spořitelna was the first bank to offer clients instalment postponement, before it was mandated by the government. The Bank also carried on with process digitalisation, to offer clients an alternative solution during the lockdown. All that within a very short time, with a view to its clients' current needs. Simultaneously, the Bank worked to improve advisory services at its branches. In 2020, Česká spořitelna introduced an aid for its clients – Financial Health in tablets, which intuitively displays the state of a client's finances and recommends how to improve them. The role of an experienced personal banker and the banker-client relationship is irreplaceable. Therefore, Česká spořitelna was the only bank on the market to start offering personal advisory services to its mass market clients in 2020. By the end of 2020, it successfully confirmed this personal relationship with more than 400,000 clients.

The Bank continued to enhance its digital environment, as well. Clients in internet or mobile banking George receive personalised advice and tips for how to use Česká spořitelna's products and services more smartly, as well as, for example, news and tips on how to use internet and mobile banking comfortably. Through this comprehensive client care, Spořitelna helps, and teaches clients how, to take better control of their finances. Spořitelna believes that, in the long-term, it will help its clients do better and better.

Digital Banking

Online Account

In 2020, Česká spořitelna introduced the possibility of opening a current account remotely (known as online onboarding), through a unique form – while conversing with a chatbot. Until October 2020, it ran in a pilot mode, designed for a limited range of clients. The last 2 months of 2020 proved an ability to sell the account through online channels, which constitutes great potential for 2021. In terms of sales, the end of 2020 met the Bank's expectations.

In 2020, Česká spořitelna's active client base totalled more than 2 million, meaning that every fifth Czech relies on ČS' services on a daily basis. Growth in the Bank's active base correlates with the growth of the digital base, which confirms Česká spořitelna's dominant market position.

Use of the George Platform

Česká spořitelna achieved excellent results in terms of use of internet banking, and especially mobile banking in 2020. The rate of growth of new clients of mobile George doubled year-on-year. The average client of George mobile banking logged into the application daily (30 times per month). The number of transactions entered through mobile telephones has risen by 62% year-on-year; the volume of payment transactions was up even by 87%. This makes George the most frequently used banking application on the market, both in terms of the number of users and transaction volume.

> The rate of growth of new clients of mobile George doubled year-on-year.

Approximately 2.2 million unique users have taken a peek at George at least once, and over 1.9 million clients use it actively (whether in their mobile or on the web).

Innovations in George

A strategic area that the Bank started to successfully develop in 2020 is the range of products that clients can manage directly in George, that is, without having to visit a branch. In January 2020, Česká spořitelna offered enhanced client management of mortgages, through which they can request a drawing, repayment or enter details of an extraordinary mortgage instalment. Over the course of 2020, the Bank gradually added new service operations for pension products, loans, and accounts. Thanks to that, it is possible to use George to request, for example, a change in pension savings contribution, modification of the amount or date of loan instalments, cancellation of the sending of paper statements of account, and many other things.

The George mobile application went through approximately ten updates in 2020 that introduced many innovations. One of them

was search for branches and ATMs and another was the display and administration of Savings Envelopes, or Authorised Calls directly from George that accelerates client centre accessibility and call handling by 15 seconds. Since the autumn 2020, it has been possible to sign contracts and documents for already established banking products and, at the end of the year, SEPA payments were launched. Additional options were also made available in the sphere of payments: standing order interruption, single direct debit order, payment signing, and display of current exchange rates and fees when entering a foreign payment.

The display of a comprehensive passbook portfolio met with great response from clients, of which many were surprised not only by its existence, but, above all, by their balance levels. In October 2020, car insurance from Kooperativa was displayed.

George Key

The George Key application makes it possible to log in and send payments more securely. Whereas the application began 2020 with 407,421 users, on the last day of the year, George Key was used by nearly 880,000 clients. The total increase over the course of the year was a decent 467,423 clients. This increase was brought about by new functionalities, the increase of the daily limits in internet and mobile banking to 10 million with confirmation with a George Key, and the possibility to send greater amounts beyond the daily limit if the device is registered at a branch. Among the reasons why clients chose the George Key application is its security and simplicity. When confirming payments at e-shops, clients need not enter the additional security element, ePIN, and can confirm everything using only the George Key application.

Migration of Legal Entities to George

Česká spořitelna has been offering George to corporate, public and non-profit sector clients since 2020. George is used by more than 60,000 companies already – users benefit from a single platform where they can manage their personal as well as corporate finance. In the first half of 2021, the last clients will leave the SERVIS 24 internet banking and ČS will cease providing it.

> George is used by more than 60,000 companies.

Aside from the George mobile application, Česká spořitelna´s clients can also use other mobile applications:

- **MOBILE GEORGE** – cutting-edge personalised banking enabling the real time management of family finance;
- **APPLE PAY** – since February 2019, Česká spořitelna's clients can make payments through their iPhones or Apple Watch;
- **GOOGLE PAY** – all that is required to activate the Google Pay service is a mobile device supporting NFC technologies with an Android 5.0 operating system and higher, and then add a ČS payment card to the Google Pay application;
- **FRIENDS 24** – an application allowing a new method of paying small amounts without knowing the account number;
- **BUSINESS 24 Mobilní banka** – an application for corporate clients enabling management via BUSINESS 24 while on the road.

Housing Financing

The mortgage market in 2020 was the largest in history, with the overall volume of mortgages crossing the CZK 245 bn threshold and surpassing the hitherto record year of 2016. Česká spořitelna did well in 2020 and became number one on the market of newly provided mortgages.

In all of 2020, Česká spořitelna concluded 23,747 new mortgage loans in an aggregate volume of CZK 66 bn. The volume of the mortgage portfolio exceeded CZK 300 bn, which means an increase by CZK 25 bn compared to 2019.

> The volume of the mortgage portfolio exceeded CZK 300 bn.

Financing the Needs of Private Individuals

At the beginning of 2020, the consumer loan market carried on with its growing trend, fuelled by the positive development of the domestic economy and positive expectations of households. This market continues to be one of the most important for Česká spořitelna, which is why it pays due attention to it, in line with the Bank's Healthy Finances strategy.

The first COVID-19 pandemic wave came during the spring of 2020, to which Česká spořitelna was the first bank on the market to respond, offering its clients instalment postponements before the government moratorium was introduced. It tied into that smoothly and carried on with the postponement option within the framework of the government moratorium. The Bank also came to the aid of its clients during the autumn wave, introducing an offer of COVID restructuring without the making of a negative record in the Banking Register.

Česká spořitelna applies a responsible approach to the financing of its clients' needs not only in its product offering but also in its method of client service, which is based on advisory services. Familiarity with a client's specific situation and needs is a basic prerequisite for providing a sound loan. The possibility to set up loans flexibly, even during repayment (reducing, increasing, postponing instalments and change in instalment payment date free of charge) became a standard.

Digital channels became more important than ever before, during the coronavirus crisis. Clients did not visit branches as much and moved their purchases to the internet. The possibilities of arranging a loan are extensive: in addition to arranging a loan at branches, Spořitelna offers loan arrangement through its website, ATMs, the

client centre, and last but not least, through the George mobile and internet banking applications. Furthermore, the Bank introduced a simple process for arranging online loans, even for those who were not its clients in 2020. The process allows for arranging a loan E2E, with many handy features, such as the photographing of documents, PSD2.

> Digital channels became more important than ever before.

Going digital definitely paid off, and Česká spořitelna successfully reversed the trend of its declining market share, when it started to grow again for the first time in 15 years.

The Distribution Network

Transforming consumer behaviour is manifested in the new branch network concept. The concept differentiates branches by size (small, medium-sized, and large "flagship") and also by the services provided (cash and cashless). Branches differ in terms of the complexity of the services provided, based on demand in each location. Whereas small cashless branches only offer ordinary products and services, primarily for individuals (personal account, overdraft, loans to individuals, "Click for Cash" loan, savings account), large flagship branches provide the broadest possible offer of products and services for all segments and their design enhances the role of consultancy and the prestige of the Bank on the market.

In the new concept, branches always feature a self-service zone with a selection of machines (ATMs) that handle cash withdrawals and deposits and the entering of payment orders. These self-service zones are available to clients at any time of day.

In 2020, the transformation of branches to new formats continued – at the end of the year, ČS had 141 new-concept branches – 7 flagship, 72 medium-sized, and 62 small branches (47 of which operated as cashless).

In connection with the the COVID-19 pandemic and lockdown, the Bank accelerated the transition of its branches to the cashless mode in 2020. At the end of 2020, there were a total of 158 cashless branches in its network – clients can take care of cash and cashless transactions using ATMs (in particular, the new recycling ATMs) or through the George service (there is no cash desk available).

The change in branch format goes hand in hand with the Financial Health service and service digitalisation. The new, attractive branch environment, in particular discreet meeting points, which have received very affirmative client ratings, supplemented with modern technology (client tablets, iPads for advisors, biometrics, digital advertising) and coffee makers, enhance the overall client experience. Newly, Spořitelna piloted the service of online meetings with clients (known as remote advisory).

New-concept branches are built to be wheelchair friendly, in order to indeed be accessible to all clients. All branches feature the Deafcom application for serving clients with hearing impairments. Large and medium-sized branches (a total of 80 branches already) feature voice navigation for visually impaired clients.

In order to optimally cover client demand, Česká spořitelna continued to adapt the deployment of its branches throughout the country in 2020, which is why certain branches were closed or relocated to points where the demand concentration is higher.

The COVID-19 pandemic had an impact on branch opening hours in 2020. Despite all lockdown measures, ČS managed to keep all its branches open for most of 2020. Opening hours changed depending on the development of lockdown measures (a lunch break was introduced throughout the network and afternoon opening hours were shortened). Opening hours as well as hygienic measures at branches were aimed to ensure the health of clients as well as bankers.

Investment Products for Retail Clients in 2020

In developing investment products for retail clients, Česká spořitelna has always focused on delivering investment solutions with an added value for clients that will fulfil their needs, requirements, and expectations. Great emphasis is also placed on the comprehensibility, simplicity, and transparency of investment solutions, while maintaining the highest possible probability of attaining an attractive yield.

> Česká spořitelna has always focused on delivering investment solutions with an added value for clients.

Conservative investment products have traditionally been very popular with clients, as clients prefer, above all, a lower market risk to maximum possible attainable yield. This trend is documented by the volume of bonds and structured debt securities sold, which amounted to CZK 3.2 bn. The volume of sales of the most conservative structured deposits amounted to CZK 2.7 bn.

Stock markets brought an interesting investment opportunity to more dynamic investors in 2020, and hence, direct equity investments were popular with them. The overall volume of equity transactions made on the basis of orders entered in this manner in 2020 exceeded CZK 9.2 bn.

Investment certificates offered by Česká spořitelna also did well. In particular, Bonus Certificates, Index Certificates, and Turbo Long and Turbo Short were popular with clients. In 2020, clients traded certificates in an aggregate volume exceeding CZK 440 m. The sale of physical gold was also poplar with clients – in 2020, they purchased gold bullion worth nearly CZK 240 m through Česká spořitelna.

Erste Asset Management GmbH Mutual Funds, Czech Republic Branch

Financial markets underwent rather turbulent development in 2020, and especially the history of equity markets was rewritten. The COVID-19 pandemic resulted in the greatest economic decline since World War II and the subsequent political steps or support interventions of central banks significantly influenced events all over the world. These will certainly continue to play a major role in 2021, as development will be conditioned on the speed of vaccination of populations of the developed world.

At the beginning of January, probably no one expected 2020 to bring such turbulent development as the equity and bond markets in the end recorded. After strong drops in stock prices in March, few would have expected that equity markets would be able to close 2020 with two-digit growth and that certain developed equity markets would reach their all-time highs.

In 2020, total net sales of mutual funds of the Czech branch of Erste Asset Management amounted to CZK 3.25 billion, which is a weaker result than in 2019. The strong correlation of equity markets with the outbreak of the pandemic in the spring meant the departure of investors from risk assets. Hence, the strongest component of total net sales were primarily bond funds, followed by equity funds. On the other hand, mixed funds did not fare well, noting overall negative net sales.

In 2020, the influx of money into mutual funds was based to a significant degree on regular investments, where it can be stated that more than every third investor invests regularly with Česká spořitelna. The average amount of their first regular investment was CZK 2,835.

Bond markets too were affected by the COVID-19 pandemic in 2020. The shutdown of economies in the spring resulted in a correction in bond markets. Optimism concerning the development of a vaccine, however, quickly returned the markets to growth. Central banks attempted to support economies by reducing interest rates and by strengthening quantitative easing programmes. Especially the fund Sporobond, focused on the Czech bond market, profited from the decline in interest rates and in the yield of government bonds. The Fund performed at 2.57% in 2020. Commercially, the Fund was the most successful of those offered by Česká spořitelna, with net sales at CZK 3 bn. The more conservative bond fund Sporoinvest noted performance at 0.51% and its net sales in 2020 were negative.

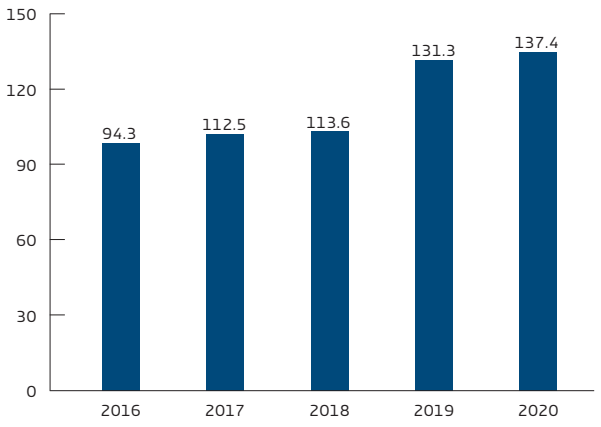
The spring correction in credit markets was largely successfully offset by stronger purchases of corporate bonds by central banks. Both the ČS korporátní dluhopisový, with an annual performance of 1.47%, and the High Yield dluhopisový funds, with an annual performance of -0.45% successfully participated in the subsequent tightening of credit premiums. Especially the ČS korporátní dluhopisový fund was successful in terms of sales, having gained CZK 1.8 bn in new funds.

2020 was also a very successful year for stock. The country's largest equity fund, Top Stocks, which had lagged behind the market significantly as at the first half of the year, ended the year with performance growth at +18.02% thanks to its strong performance in the second half of the year. More than 213 million koruna flowed into the Fund's portfolio in 2020. The equity fund Stock Small Caps, which is focused on lower market capitalisation firms, was very popular with investors, with new funds of CZK 960 million flowing into the Fund. Its unit certificates were up by 15.46% in 2020.

The successful trend started in 2019 carried on with mixed funds. The surprisingly good performance of mixed funds in 2020 did not help the funds to achieve better commercial results. The unit certificates of the largest mixed fund, Konzervativní mix, strengthened by 2.6% in 2020, despite which the balance of sales of the Fund was negative, exceeding CZK 900 m. The mixed fund Optimum did not fare well, either, having noted negative sales. On the other hand, the youngest mixed fund, Universum, whose portfolio includes alternative and real estate investments, did well, having attracted over CZK 1 bn in new investments.

The aggregate volume of assets in retail funds administered by the Czech branch of Erste Asset Management at the end of 2020 amounted to more than CZK 137.4 bn, which represented year-on-year growth of nearly 4.6%. This growth in the volume of assets under management was caused by investor interest in riskier asset classes, thanks to the persisting low-interest-rate environment and the general expectations of economic revival in 2021.

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



ČS nemovitostní fond

In co-operation with its subsidiary REICO investiční společnost České spořitelny, Česká spořitelna offers retail clients the possibility to invest in commercial properties through ČS nemovitostní fond, which is an open-end mutual fund. With assets under management in the value

of CZK 27.6 bn, the Fund is one of the largest real estate funds in the Czech Republic, and with nearly fourteen years on the market, it is also the longest-operating and largest real estate fund in the country.

> ČS nemovitostní fond is the largest real estate fund in the country.

The administrator of ČS nemovitostní fond worked primarily to optimise the Fund's income and to actively manage the properties in its portfolio in 2020. The acquisition activities of ČS nemovitostní fond were naturally lower due to the COVID-19 pandemic. Despite that, the purchase of the first two stages of an industrial park in Sereď, Slovakia, worth CZK 835 m, was completed. The total number of properties in ČS nemovitostní fond's portfolio thus grew to 19 commercial buildings in 2020, of which 9 were in the Czech Republic, 7 in Slovakia and 3 in Poland.

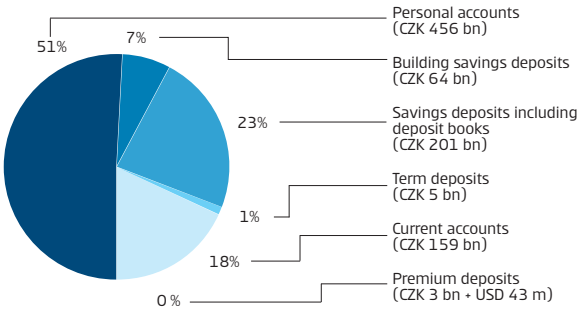
Even though real estate markets were affected by a number of adverse factors related to the COVID-19 pandemic in 2020, ČS nemovitostní fond appreciated by 2.2%, which was in line with the target interval of 2–3%. Its positive performance was owed primarily to the premium nature of properties in the Fund's portfolio and their significant sectoral and regional diversification.

From the financial point of view, the ČS nemovitostní fond´s portfolio is sound, more than 90% of most properties are leased, and regular rental income is assured. The present values of the buildings in the Fund's portfolio are stable, with a significant potential of long-term growth.

Savings

Another popular retail product is Spoření ČS, designed for regular as well as irregular savings, with which clients always have the money available to them in their accounts. The aggregate amount saved with Spoření ČS and other savings products amounted to CZK 175.2 bn. Clients prefer deposits on demand and increasingly put money away for the future. On the other hand, demand for term deposits is growing among more affluent clients. Even though Česká spořitelna did not change interest rates on its savings products in 2020, the number of newly opened savings accounts was more than twice the number of accounts closed.

Household savings



Building savings with Stavební spořitelna České spořitelny (known also as the "Bowler Hat") has consistently been the most popular savings product on the market for some time. The 2020 results were, however, adversely influenced by a rate reduction announced by the ČNB. Given the drop in the ČNB repo rate to 0.25% and the fixing of the building savings market at the deposit rate of 1%, profits were down, and the 2020 plan underwent a targeted reduction.

The number of new building savings agreements, including an increase in the target rate, was therefore down by 31% in 2020, in a year-on-year comparison, having returned to 2018 values after a successful 2019. Specifically, to 86,537 agreements. The volume of target amounts in new agreements, including increases, fared the same, having dropped by 31% in a year-on-year comparison, amounting to CZK 27 bn for 2020. Overall, the Bowler Hat manages 568 thous building savings accounts, with CZK 64 bn in the amount saved and a target volume of CZK 171 bn.

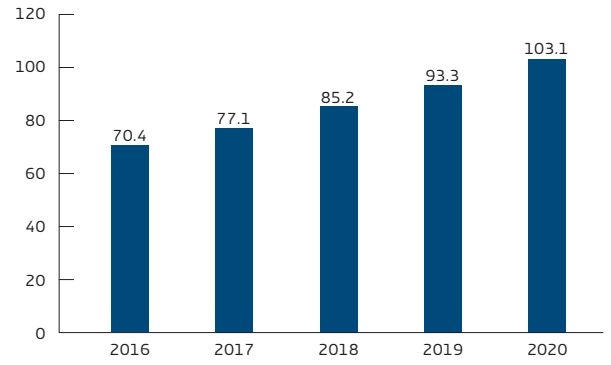
With the Bowler Hat, clients can arrange building savings agreements online. A new process was added in 2020 for retail clients: the possibility to arrange building savings online through the George internet banking. For clients who have a banking identity in George, concluding an agreement is now far easier, as they do not need to document their identity.

Česká spořitelna – penzijní společnost has long been number one on the supplementary pension savings market, managing the largest conservative participation fund on the market, with assets of nearly CZK 12.2 bn. As at the end of 2020, it had over 949 thous unique participants with an aggregate volume of funds of CZK 103.1 bn. The Company appreciated its clients' pension savings despite the high fluctuations affecting financial markets in 2020, and all supplementary pension savings funds achieved positive appreciation. In recent years, it has been successfully bringing its clients one of the highest levels of appreciation among all pension companies on the market.

> Česká spořitelna – penzijní společnost has long been number one on the supplementary pension savings market.

The greatest innovation presented by the Company to its clients is the possibility to administer their pension savings through the George internet banking, where they can newly also request the arrangement of pension savings. On top of that, the online arrangement of supplementary pension savings on the website was accelerated in co-operation with Česká spořitelna, thanks to the new possibility of verifying identity through Banking Identity. In 2020, the Company was awarded a bronze medal in the Golden Crown competition, in the Pension Savings category, while in the Finparáda competition, it took first place in the category of Supplementary Pension Savings.

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



Payment Cards

The sphere of cards at Česká spořitelna noted fundamental development in 2020, due to the situation with the COVID-19 pandemic.

In 2020, the volume of payment card purchases exceeded the volume of cash dispensed, confirming a transition to cashless payments when making regular payments. This trend was enhanced by the launch of the Moneyback reward programme. Some 300 thousand clients were registered in the programme as at the end of 2020. Since the programme's launch in July 2020, clients saved over CZK 30 million on card purchases, with the average cashback per client being CZK 88. The retail card portfolio also underwent a comprehensive graphic redesign that ties into the Bank's direction.

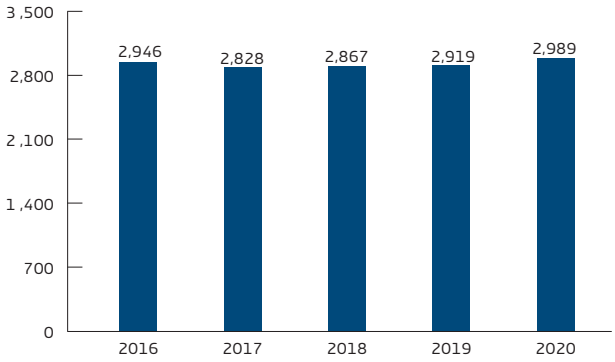
> Moneyback reward programme launched in 2020.

Fundamental growth was also noted in e-commerce, which grew by 49.5% year-on-year, to 50 million card payments on the internet. Also, confirmation of card payments on the internet has undergone significant development, as confirmation by means of the George Key application was enabled and, with the unique solution in the form of card payment confirmation with SMS OTP, behavioural biometrics, and an ePIN. Česká spořitelna thereby fully complies with the PSD2 European directive.

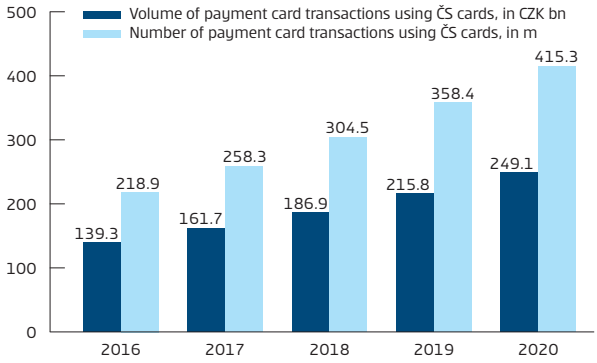
ČS noted an extremely strong increase in the take-up of payments with smart devices, noting 371 thousand unique clients using Apple Pay, Google Pay, Garmin Pay, or Fitbit Pay at the end of 2020. This represented a year-on-year increase by 168%.

As at the end of 2020, the total number of active payment cards issued by Česká spořitelna was 2.99 million, which meant year-on-year growth by 2.4%. The total number of payments made by Česká spořitelna cards to retailers continued to grow and increased by a significant 15.4% in a year-on year comparison, to CZK 249.1 bn. The average expenditure at a POS amounted to CZK 600. The number of transactions executed with clients' cards copied the growth in the volume of payments, having grown by 16% year-on-year, to CZK 415.3 million.

Number of active cards (thousand)



Card transactions executed with ČS cards with retailers (issuing)

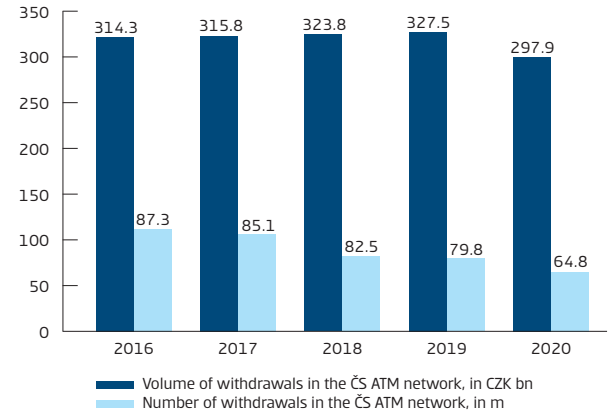


In terms of the extent of its ATM network, Česká spořitelna has consistently maintained the leading position on the Czech market. At the end of 2020, it operated a total of 1,825 self-serve devices (ATMs, transactional terminals). In all of 2020, card holders made 64.8 m cash withdrawals in the volume of CZK 297.9 bn from Česká spořitelna ATMs. The average amount withdrawn was CZK 4,594.

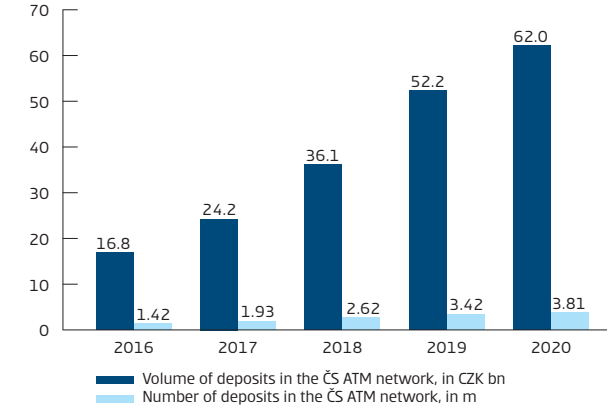
Česká spořitelna has again expanded its network of ATMs with a deposit function, which make it possible for clients to deposit cash in their account or passbook at Česká spořitelna, but also to accounts maintained by other banks in the Czech Republic. There is a total of 305 deposit, dual, and recycling ATMs in which clients executed 3.81 million deposits in the volume of CZK 62 bn. The average deposit amount in 2020 was CZK 16,269.

In 2020, Česká spořitelna also deployed another 506 contactless ATMs reaching a total of 1,268.

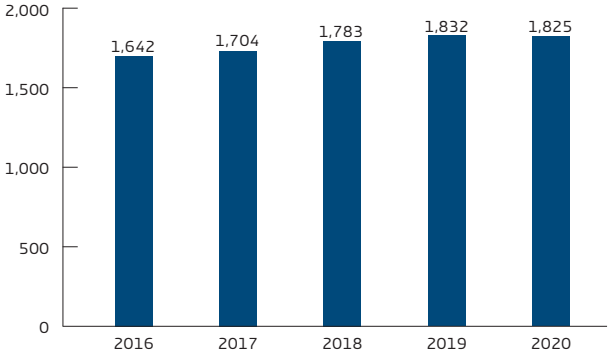
Cash withdrawals in the ČS ATM network



Cash deposits in the ČS ATM network



Number of withdrawal, deposit and dual ATMs and transactional terminals



Corporate Banking

In Česká spořitelna's corporate banking, clients are offered customised solutions to their needs and wishes, from investment, acquisition, and project financing to support for export activities, merger and acquisition advisory services, a broad range of cash management and treasury products, to initial public offerings and placement on bond and equity capital markets.

The development strategy of Česká spořitelna's corporate banking is based on three main pillars: taking advantage of its position as a main player of the corporate market for business growth; portfolio granularity attained by increased focus on the small enterprises (SE) segment; and automation and digitalisation of the client administration process.

In the lending process, Spořitelna applies two approaches, one simplified and the other one individualised. The simplified approach targets the speed and foreseeability of the loan approval process. Simplification of approval processes aims to support the growth of ČS' market share on the small enterprises segment (SE) and to further contribute to linking product offers to the MSE segment. The individualised approach offers clients the possibility of customised financing for their needs.

In terms of digitalisation of services, the above-mentioned lending process includes further development of the digital credit application, which allows for its higher efficiency and structure. It is a part of a strategy to shift towards full lending process digitalisation.

Česká spořitelna was one of the first banks to allow its clients to join the "we.trade" digital blockchain platform that will help simplify and accelerate commercial contracts of its corporate clients with their trading partners, not only in the Czech Republic, but across Europe.

To further improve the client approach and as support of acquisition activities, the CRM system was developed further in 2020. CRM gathers information about clients from internal systems as well as external sources. On the basis of that information, Česká spořitelna has a better idea of the client's existing products and is also able to identify their further potential needs. The advantage of the tool is that it is available online and can be used from tablets directly in the field.

In 2020, the situation on the market was fundamentally influenced by the global COVID-19 pandemic. The situation exposed whole segments to an entirely new and difficult situation and influenced both Spořitelna's activities in 2020 and its strategic course. Generally, the trend towards digitalisation that the Bank has taken up was confirmed, in particular in the sphere of basic service, where ČS significantly expanded its efforts, for example by making it possible to sign documents without needing to meet in person. In general, the pandemic shifted these perceptions on the part of clients, and today they are ready to take the digital route.

In 2020, the situation on the market was fundamentally influenced by the global COVID-19 pandemic.

Since March 2020, Česká spořitelna has helped clients cope with the complicated situation caused by the COVID-19 pandemic. Its assistance can be divided into three basic types:

1) The sphere of consultancy and care involved active contact with clients and learning about their problems. This was followed up with help getting oriented in the complex world of government aid and support. Overviews of aid were distributed both directly to clients and through trained bankers. During the second wave, this assistance was, thanks to improved work with data, distributed in a targeted manner, based on a client's sector and situation. In 2020, Spořitelna also organised several virtual conferences and fairs focusing on diverse topics, such as economic development, news in agriculture, etc., making it possible for clients to share their experience and obtain a comparison with others;
2) Another major task was to keep money circulating in the economy, preventing an avalanche of secondary insolvency. In this regard, Česká spořitelna first took the route of individual instalment postponement at its own initiative, which were followed by postponement mandated by the government moratorium. The Bank further followed up by loosening the rules for drawing down loans for operating financing. Overall, the Bank maintained regular financing at the 2019 level. Subsequently, Spořitelna got involved in all COVID programmes announced by the ČMRZB (COVID II, COVID Praha, COVID III) and in the EGAP COVID Plus programme. For farmers, ČS made available a support programme overarched by the PGRLF. Through all these programmes in combination with postponements, Česká spořitelna "pumped" tens of billions in cash into the economy. For the future, the Bank is preparing additional programmes in association with the ČMRZB, in particular COVID Sport and COVID Invest (as a component of COVID III);
3) The situation around COVID-19 also greatly accelerated the need of process automatization and digitalisation, which the Bank had launched in the previous period. In 2020, the Bank introduced many innovations in remote administration, such as remote signing of selected contractual documents or electronic acquittance process, receipt of applications for postponement under the government moratorium, etc. It newly introduced self-service generation of confirmations of account maintenance and payments in its Business 24 electronic banking. In the lending process, the Bank continued to modernise its digital credit application that constitutes a part of its strategy to transition to full lending process digitalisation.

Small and Medium-Sized Enterprises

Spořitelna serves its clients in the small and medium-sized enterprise (SME) segment through fifteen regional corporate centres. In individual sub-segments – SE and ME – the Bank offers individualised service and specific products. Despite the difficult market situation in 2020, it affirmed its position as a key financing partner for its clients, thanks to a correctly set corporate banking development strategy and rapid adaptation to the new environment.

In addition to using specialised programmes, Česká spořitelna has focused primarily on a one-on-one client approach, consultancy for clients, and the financing of their needs with a view to the present situation caused by the COVID-19 pandemic, but also on their long-term development.

Due to government measures, personal contact with clients has been significantly limited; nevertheless, the Bank was supportive of them when addressing their financial needs.

Corporate Clientele

Among its corporate clientele, Česká spořitelna serves large local as well as supranational corporations. Česká spořitelna provides its corporate clients with a broad range of top-level corporate banking products, including specialised investment banking products and services. To get a better understanding of its clients' needs and to attain greater expertise, Česká spořitelna invested in the development of its bankers' sectoral specialisation in the large corporate segment. In co-operation with Erste Group Bank, Česká spořitelna is prepared to accompany those of its corporate clients who operate outside of the Czech Republic and serve them in the countries in which they operate.

Česká spořitelna provides its corporate clients with a broad range of top-level corporate banking products.

From the commercial point of view, 2020 in the large corporate segment was also influenced by the pandemic situation, primarily in its first months; nevertheless, it can be said that it managed to grow, which confirms both the good condition of the Czech economy and the optimistic mood of Czech companies about the future. In addition to standard operating and investment financing, companies actively sought capital market products and club and export financing, which was reflected in solid lending activity throughout 2020. Česká spořitelna is well equipped to respond to this development and to help companies in their development plans, through financing on the bond or capital market and to provide them with consultancy services.

Structured, Trade, and Export Financing

Despite the complicated situation in 2020, when especially in the spring months Česká spořitelna noted a slow-down in some of its commercial activities, acquisitions not excepting, the Bank's results and full-year balance on the structured transactions market exceeded its original expectations to some extent.

As in previous years, in 2020, the Bank managed to be involved in practically all major syndicated (club) and acquisition financing transactions and to successfully implement a number of transactions for both private and institutional clients. The Bank's stability and irreplaceable position on the domestic market, its transparency, credibility, and favourable references from many cases implemented in the past, paid off in a further increase of the volume as well as number of structured transactions in 2020.

Česká spořitelna is no less pleased with its commercial activities in export financing, having provided an export buyer credit with EGAP insurance to build a hospital in an African country. Additional export buyer credits are at various stages of negotiation and the Bank believes in their successful implementation in the coming years. Spořitelna is happy that it can support Czech exporters in such large-volume projects, in particular to those that have another dimension in addition to their commercial aspect.

The complexity of today's world and greater level of uncertainty in 2020 was manifest in greater demand for security instruments. Česká spořitelna noted significant year-on-year growth both in numbers and in volume, in particular in terms of guarantees and letters of credit. It continued to develop comprehensive financing solutions and other financial services in supplier-client relations.

After a short pause, ČS also executed a successful IPO on the Prague Stock Exchange for one of its major corporate clients. Spořitelna is convinced that it will help enrich the securities market with new titles in the years to come and help selected clients use this tool for their further expansion.

The Bank confirmed its position as a system-based and trustworthy financial partner, not only in the transactions and services mentioned above, but also through its active involvement in negotiating and offering crisis support programmes. For Česká spořitelna, this represents naturally not only an encouragement, but above all, a great commitment for the years to come.

> ČS confirmed its position as a system-based and trustworthy financial partner.

Public and Non-profit Sector

Česká spořitelna provides comprehensive banking services to a major share of public and non-profit sector clients. In this important segment, ČS has maintained a stable high market share for some time and also a very high level of client satisfaction (NPS).

In 2020, Česká spořitelna actively supported its clients who were facing the possibility of not being able to complete planned investments, projects supported with subsidies from the EU or national programmes, due to an outage in tax income. Thanks to operating loans, its public-sector clients were able to bridge the critical months of the spring lockdown. Likewise, many non-profit organisations were not obliged to cut back on their services, thanks to operating loans or overdraft facilities from Česká spořitelna.

At the same time, Spořitelna successfully completed a number of major loan transactions, in particular in the sphere of healthcare, regional transport, housing, and regional and local infrastructure. Many interesting client acquisitions were implemented, including large state corporations and EU institutions.

Real Estate Financing

Česká spořitelna has long been among leaders in financing of commercial properties in the Czech Republic. As in other segments, 2020 was marked by intensive communication with all existing clients. Increased attention had to be paid and an individual approach offered, in particular in retail and hotel projects. Despite the adverse aspects related to the pandemic, there was no outage in debt service and no need create impairments. The Bank continues to be very active in the financing of logistical and industrial facilities, whose expansion is fuelled by, among other things, the development of e-commerce and diversification of supplier chains and logistical routes. In the residential segment, Česká spořitelna is successfully expanding its expertise in the new sub-segment of rental housing, both at the investment and the development stage of the projects.

> Česká spořitelna has long been among leaders in financing of commercial properties in the Czech Republic.

Loans provided by the Bank continue to maintain the required granularity in terms of the type of real assets financed as well as a major dominance of for-profit buildings that account for 80% of its loan portfolio in the segment. The concentration profile of real estate financing has been successfully targeted at 20% of corporate loan exposure on a long-term basis.

Trading in Financial Instruments for Corporate Clients

Česká spořitelna provides services in the sphere of financial markets to international and local corporations and companies from the small and medium-sized enterprise segment. Česká spořitelna has good-quality analytical and business facilities and infrastructure that enable it to provide to clients reliable processing of their orders as well as analysis and consultancy concerning the structuring and timing of hedging transactions. Česká spořitelna's strategic business model is focused on offering a broad range of customised hedging financial instruments and on currency conversion trading via an electronic trading platform. Every year, Spořitelna's clients rate this model as one of the best on the market, which is reflected in their sustained satisfaction with the services offered.

Trading in Debt Securities and Equity Instruments

In 2020, Česká spořitelna further affirmed its position among securities traders for institutional clients. The volume traded in combination with the high quality of its services make Česká spořitelna

the leader among all banks that provide asset management on the capital market.

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

Asset Management for Institutional Clients

Asset Management for institutional clients is a major product in Česká spořitelna's product offering. The basic solution lies in a diversified portfolio of investment instruments where – with a view to the mostly conservative risk profile of clients – the major objective is to retain the fair value of assets under management with a simultaneous higher expected appreciation compared to deposits on the interbank market. The basis of long-term success for the client continues to be good quality portfolio management, quality diversification, competitive appreciation of funds, an above-standard client approach, and above-standard reporting. Česká spořitelna offers these pillars and provides them to all its institutional clients, for whom it was managing nearly CZK 140 bn in 2020.

Financial Institutions, Depositary and Custody Services

In 2020, 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. The Bank continued to successfully sell its products and services to both existing and new clients, thereby confirming its strong position in the financial institutions segment.

Its strategy in providing services to the financial institutions segments increasingly focuses on innovative payment methods in the sphere of cash management, with added value not only for clients from this segment, but, above all, for their end customers. This is closely related to the development of new products in the sphere of open banking, which is closely linked to the financial institutions segment. Financial market products and specialised services themselves, such as depositary, custody, and intermediation of the payment of the yield from securities, are undergoing many innovations in order to satisfy increasing client demands.

Social Banking

Česká spořitelna continued to support non-profit and social enterprises on the Czech market in 2020. To these clients, the Bank offers not only consultancy and education as part of social banking, but also advantageous financing, thanks to support from the European Investment Fund. By the end of 2020, Česká spořitelna financed 30 loans with such a guarantee, amounting to a total of CZK 130 m.

> Česká spořitelna continued to support non-profit and social enterprises on the Czech market in 2020.

Relationships with Supporting Financial Institutions in the Czech Republic an in the EU

Česká spořitelna is the leader in energy-project financing, including renewable sources, in export financing, as well as in the use of concessional financial instruments in co-operation with the European Investment Bank (EIB), European Investment Fund (EIF), but also with national agencies such as the Czech-Moravian Guarantee and Development Bank (ČMZRB) and Export Guarantee and Insurance Corporation (EGAP).

In 2020, Česká spořitelna continued to develop its co-operation with domestic as well as foreign and international financial institutions.

Aside from the national bank guarantee programme, Spořitelna successfully co-operates with the Czech and Moravian Guarantee and Development Bank on its Expansion lending programme. With it, the Bank's clients can receive a contribution for the payment of interest on loans provided by Česká spořitelna. Spořitelna has also expanded its further use of financial instruments from the national development bank in its guarantee programme Expansion, which is to further increase the availability of financing for small and medium-sized Czech enterprises. Due to the impact of the COVID-19 pandemic on the Czech economy, the government proposed several programmes for supporting businesses. The programmes operate on a decentralised basis with the bank taking care of most of the administrative steps and being the sole point of contact. The programmes significantly increase the availability of financing and have become a major instrument for helping the business sector.

In 2020, Česká spořitelna continued to provide loans with a concessional interest rate (including to companies employing young workers up to 30 years of age) on the basis of the "Global Loan for SMEs and MidCaps II" EIB loan signed and drawn down in 2018. Over the course of co-operation, the volume of concessional loans has amounted to approximately CZK 40 billion, which puts Česká spořitelna in a leading spot in their brokerage in Central Europe.

In addition to continuous allocation of a global loan, the Bank is carrying on in association with the European Investment Bank in a programme to support small and medium-sized enterprises through a portfolio guarantee with a positive impact on freed-up capital. The bilateral agreement allows for the provision of another CZK 8 billion in concessional loans to Česká spořitelna´s clients over the course of two years. These loans are offered under the title "Concessional Loan".

High-level co-operation with the European Investment Fund carries on with the InnovFin programme of guarantees for innovative small and medium-sized enterprises, in guarantees for start-up enterprises, and guarantees for social enterprises. All of these programmes fulfil their objective of increasing the volume of loans in these segments, and particularly the programmes for the financing of start-up companies and social enterprises are exceptions on the Czech market.

Selected Awards in 2020

In the course of 2020, Česká spořitelna and its subsidiaries received many awards, confirming the quality of products and services provided.

International Awards

The Banker
Česká spořitelna won The Banker's Bank of the Year award 2020 for the Czech Republic. The Banker is a respected British magazine owned by the Financial Times. An expert jury composed of CEOs and executives of British companies and magazine editors especially praised Česká spořitelna's openness to innovation, digitization, as well as the offer of financial advisory within the My Healthy Finances service.

Domestic Awards

"Zlatá Koruna" ("Golden Crown") 2020
Mortgages: Česká spořitelna's mortgage has triumphed for the third year in a row.

Business loans: The start-up loan offered to start-up entrepreneurs within the project "Nová krev pro české podnikání" ("New Blood for Czech Business") also won the first place for the third time in a row. The third place was taken by Česká spořitelna's Investment Loan.

Payment cards: The Mastercard World Elite Metal payment card, which Česká spořitelna offers to Erste Private Banking clients, won the first prize. The new contactless card became the first metal payment card offered on the Czech market.

Pension savings: Česká spořitelna – penzijní společnost won the third place.

Finparáda
Financial Product 2020: Česká spořitelna – penzijní společnost won the first place in the Pension Savings category.

Česká spořitelna Believes in Good Causes

The COVID-19 pandemic has affected the entire world, significantly transforming the sphere of the good causes that the Bank has supported. Česká spořitelna has retained all its corporate social responsibility programmes, adapting many of them to the new situation, focusing on thorough digitisation and creation of online programmes. In addition to the areas which it has supported and developed on a sustained basis, whether as part of CSR, marketing, or brand activation activities, it has expanded its help by adding many new pursuits.

1. Česká spořitelna During the Pandemic

Česká spořitelna became intensively and proactively involved in assisting those affected by the COVID-19 pandemic. During the uncertain time, with constantly changing information, the Bank got oriented quickly and offered all possible assistance, not only to its clients, but also to others, including special COVID programmes, payment deferrals, and providing payment terminals free of charge, etc. As a bank of the 21st century, it utilised leading technologies during the crisis to help it to provide a full range of services, even during the lockdown.

> Česká spořitelna during the pandemic helped not only to its clients.

During the first wave of the pandemic, the Bank supported launch of mass production of protective masks authored by the Czech Technical University, with a gift of CZK 500 thous in co-operation with the National Industry Centre 4.0 and the Czech Institute for Informatics, Robotics, and Cybernetics. ČS also supported the initiative "Tiskne celé Česko" ("The Entire Czechia Prints") by CZK 200 thous for purchase of materials for 3D printers for production of protective shields for medical professionals.

Česká spořitelna's Seed Starter donated CZK 500 thous to the newly established Virtual Waiting Room. This project, which was developed by Tomáš Šebek and his service "U lékaře" ("At a Doctor"), enables linking doctors with patients from all over the country online and has been used by Česká spořitelna's staff free of charge.

In co-operation with the VIA Foundation, the Bank distributed CZK 204 thous in micro-grants among 24 individuals and non-profits that got actively involved in helping others, the most frequently by sewing masks. In another round of "Vraťme život do ulic" ("Let's Return Life to the Streets") micro-grants, the Bank supported 66 projects throughout the country, with a total of CZK 539 thous. Micro-grants in both initiatives were announced under the Bank's community programme "Dokážeme víc" ("We Can Do More").

During the spring and the autumn call, the Bank's employees contributed CZK 351 thous through the Cafeteria to the "Energii lékařům" ("Energy for Doctors") project. In May, they supported

the "SOS Česko" ("SOS Czechia") collection organised by "Člověk v tísni" ("People in Need"), having contributed CZK 64 thous. Spořitelna´s employees got actively involved primarily in the sewing of masks, using, among other things, their two Days Differently to do so.

The Bank provided financial support to the Czech Television educational programmes "UčíTelka" ("TV Teaches") and "Máme na to" ("We Can Do It"), and in its "Abeceda peněz" ("Money Alphabet") programme created a series of educational leisure time activities and competitions.

Spořitelna also got involved in "Chráním tebe" ("Protecting You") campaign in the spring and "Na každém záleží" ("Everyone Matters") in the autumn, to both of which it donated its media time. In addition, it also created its own campaign "Společně to zvládneme" ("We Can Do It Together") and also "#nechamsi" ("#I´llKeep"), involving the general public. The Bank also supported online sport programmes of its partners, such as the Czech Athletic Federation or "Kolo pro život" ("Bike for Life").

Spořitelna, in co-operation with the Czech Philharmonic, successfully collected high amounts of money at four benefit concerts to assist medical staff and other people in need. The very first concert, to help five hospitals that cared for the most serious COVID-19 cases, yielded CZK 7,461 thous.

A total of CZK 30 million was contributed by the Česká spořitelna Foundation towards mitigating the consequences of the COVID-19 pandemic. Money from the crisis fund was used by 28 organisations that organised catch-up classes, psycho-social advice, and provided computers or internet connection for the most disadvantaged children. Timely and fast assistance reached thousands of children and families.

Thanks to the organisation Česko.Digital, Česká spořitelna Foundation arranged equipment and IT support for 606 schools and trained over 7,000 teachers in distance teaching, recordings of these webinars reached over 56 thous views on YouTube. Total of 1,718 families received computers necessary for distance learning. Other organisations got involved in helping, as well. Thanks to them, thousands of telephone conversations could be held on crisis lines, including chat and e-mail conversations, thousands of interventions arranged against domestic violence, and thousands of children tutored in catch-up classes.

2. Česká spořitelna Bets on Education

A society that continues to educate itself is a prerequisite for prosperity in an era of increasingly rapid change. Education is not just about schools and children, but about each of us. The pandemic has shone a far sharper light on problems in education. Spořitelna supports programmes to increase the quality of education primarily through its foundation, the Česká spořitelna Foundation. The Bank engages in a long-term co-operation with universities and it supports interesting discussion forums and organisations, such as the Meltingpot forum, PREF (Prague Education Festival), Aspen Institute CE, and the AntiPanic conference series.

The Bank believes that it is important to lead people, companies, and institutions to prosperity, and it is the first bank to take care of the financial health of its clients. Spořitelna wants people to understand their financial activities in context and to be able to make good decisions, hence it starts with the youngest ones. For 14 years, the services of the Finance Distress Advisory have been available to anyone who needs help in escaping the debt trap.

"Abeceda peněz" ("Money Alphabet")

"Abeceda peněz" ("Money Alphabet") is currently the largest financial education programme in the Czech Republic. Česká spořitelna prepares it in co-operation with education specialists and implements it under the auspices of the Ministry of Finance. The objective of the "Money Alphabet" is to enable an access to financial literacy education for every child in the country.

> "Abeceda peněz" ("Money Alphabet") is currently the largest financial education programme in the Czech Republic.

With the "Money Alphabet", children in kindergartens and primary schools, as well as teenagers at secondary schools, participate in its entertaining and interactive programme, in which they acquire principles of money-management on levels appropriate to their age and ability. The youngest ones enter the world of money through educational audio-tales narrated by Jiří Lábus. Older children are enthused by a thrilling game of householders and entrepreneurs, and secondary school students learn about finance in a strategic computer game titled "Tajuplná cesta" ("Mysterious Journey"). The "Money Alphabet" also continues to run courses in which seniors learn to use smartphones. New in 2020 was a financial education programme adapted to the needs of children from children's homes.

In response to the situation in 2020, the "Money Alphabet" is newly available online. In addition to fun for children, it offers comprehensively elaborated materials that are available for download for teachers and parents free of charge, from worksheets to methodological aids and overviews of financial literacy standards to practical advice and tips for talking to kids about money. For more, see www.abecedapenez.cz.

3. Česká spořitelna Is a Good Neighbour

The Good Neighbour initiative is the Bank's contribution to improving the country's social capital. It supports Czechs to be active, to approach the freedom they enjoy responsibly and with the knowledge that it does not come free of charge. That is one of the reasons why the Bank supports the Journalist Award of the OSF Foundation, the "Nelež" ("Do Not Lie") association fighting disinformation, and the "Festival svobody" ("Freedom Festival") platform. For the

17 November celebrations, Spořitelna enlighted its headquarters by the colours of the tricolour, and it has also become a signatory of the new initiative "Změna k lepšímu" ("A Change for the Better").

There are many enthusiasts at the Bank who do not hesitate to help people in need, donating their time, knowledge, and also money. In 2020, 697 employees used the Days Differently volunteer programme; overall, the Bank donated 903 days towards good causes. More than 230 other volunteers take part in the "Money Alphabet" financial literacy programme.

> Česká spořitelna donated 903 days towards good causes.

Česká spořitelna continues to develop its unique social banking programme, in which it offers clients with social and environmental overlap not only advice and education, but also, as one of the few local banks, concessional financing thanks to the support of the European Investment Fund.

"Dokážeme víc" ("We Can Do More") Community Grant Programme

The Bank supports projects initiated by active people who have ideas about how to improve their environment. They establish associations, renovate their villages' squares, renew benches, springs or disused paths, plant trees, build gazebos for neighbourhood events, and organise such events themselves. Grants of up to CZK 100 thous can be requested at any time, at www.dokazemevic.cz. Spořitelna co-operates on the programme with the VIA Foundation, and the Česká spořitelna Foundation doubles donor calls announced in the programme at the darujme.cz portal. In 2020, the Bank supported 55 projects throughout the country, distributing more than CZK 3.8 mil.

Barrier-free Bank

Česká spořitelna has the most extensive network of wheelchair-accessible branches and ATMs. It is among the best on the market in terms of comprehensiveness of services and their accessibility to people with various types of handicaps. Of its 424 buildings, 349 are wheelchair-accessible, and the Bank has 257 ATMs that are fully or partially wheelchair-accessible. Bankers at all its branches use the DeafCom application and the Silent Line service for sign language interpretation or online transcription of the spoken word; these applications also enable contacting the Bank. 80 branches offer voice navigation for the visually impaired, and 1,409 of the Bank's 1,820 ATMs have a headphone connector and voice controls for visually impaired clients. The Bank operates a special website www.bankabezbarier.cz on a sustained basis.

The Česká spořitelna Financial Group itself organises or supports a number of activities, including a broad portfolio of sport projects and cultural events. For more information, see the Non-Financial Report at www.verimedobrymvecem.cz.

Non-commercial Activities

The Bank's employees represent a foundation of its healthy development and success in a competitive environment. Česká spořitelna perceives its qualified and motivated employees as its major competitive advantage. That is why it continues to create and improve its work environment and possibilities for training and development, both on the professional as well as personal level. To that end, it implements many activities each year supporting equal opportunities and the interaction of personal and professional lives of its employees, in order to enhance conditions for an enduring and satisfied partnership of the employees and Česká spořitelna as the employer.

Year 2020 brought especially tough challenges for the Bank's employees and management. Like many other companies, Česká spořitelna was forced by the COVID-19 pandemic to close most of its offices and redirect most employees to working from home. Employees and managers together managed the change very successfully. The crisis management team comprised of managers of key departments responded to the rapidly changing situation effectively. Two special opinion polls were carried out among the employees during the year, focused on the work efficiency of the Bank's management during the pandemic and on productivity when working from home. Employees were very appreciative of the management's response and behaviour and accepted remote ways of work positively. This adaptation of the normal work model will bring many important lessons for improving work efficiency after the pandemic.

Česká spořitelna understands that its qualified, motivated, and satisfied employees constitute its competitive advantage. It cares for its employees, making sure they feel that the Bank is a reliable and stable employer. Česká spořitelna not only provides its employees with an above-standard contribution for meals and for supplementary pension insurance, but also strives to support them in terms of work-life balance. Since 2020, the Bank has introduced so-called My Days – 12 days off per year, in addition to the five weeks of holidays. Employees enjoy the opportunity to use modern online medical advisory services, get influenza vaccination directly at the workplace, and naturally those groups of employees who are in direct contact with clients receive protective equipment. In connection with the COVID-19 pandemic, the Bank established a special COVID advisory line for its employees, where trained operators help them address all situations related to the pandemic.

A comprehensive development offer for employees helps them to be not only successful at what they do today, but also prepares them for what lies ahead of the Bank and the overall market. A broad range of training and electronic courses and to an increasing degree also interactive modes of training in the digital environment is available to employees. Digitalisation of training has become a key priority for 2020, and the new digital training offer includes online training paths, for example, in virtual leadership, remote teamwork,

facilitation, management of difficult situations and management of the digital era.

Digitalisation of training has become a key priority for 2020.

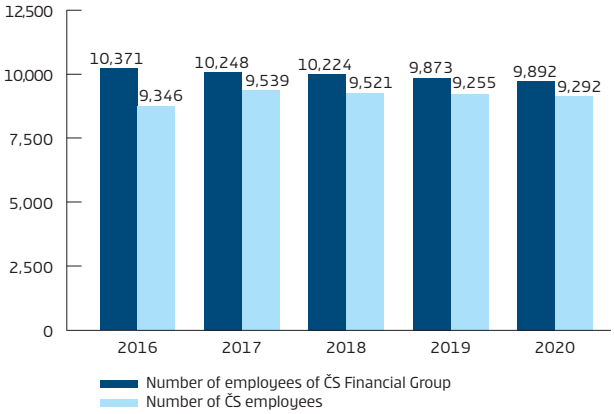
In 2020, ČS also worked intensively on defining individual crafts/expertise at Česká spořitelna, looking for ways to further support their development. The Data Academy has seen the light of day, to develop data literacy across the Bank. The Customer eXperience academy strives to support each employee to better understand the customer needs and to continuously see the results of their work through the eyes of a client.

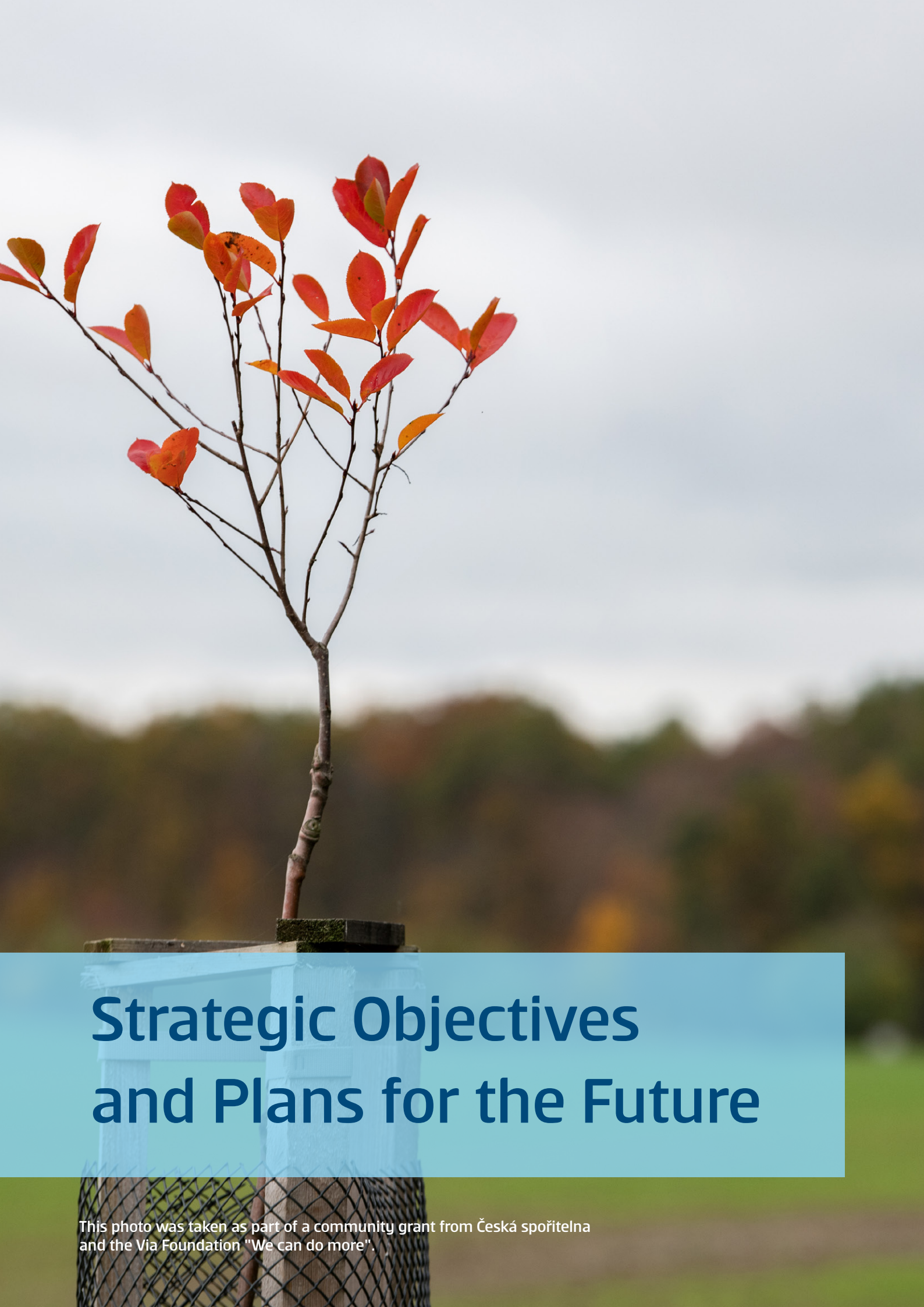
An important goal for Česká spořitelna is to present itself to talented candidates as a top employer. Even though 2020 was not an easy year, Česká spořitelna has succeeded at communicating better and presenting itself. With the project "Poznej řemeslo/profesi" ("Know Your Trade/Profession"), it showcases not only its employer culture and brand, but also professionals, managers, and teams of which they could be a part of. To that end, it uses Instagram, Facebook, LinkedIn and other social networks. In 2020, the Bank managed to increase the number of its LinkedIn followers by 13,000, which means an increase by just under 35%. The Bank continues to focus on working with students, having expanded its successful programme "Můj potenciál" ("My Potential") to university students. Everything is in an online form, making it possible to address a larger audience and to link students with colleagues from practice. The career webpages have also undergone a major transformation – in addition to a new design, there are new tools improving communication with candidates.

In August 2020, Česká spořitelna launched a new portal for employees, EMMA, the starting point of all topics concerning human resource management. It is a modern platform authored by SAP/SuccessFactors that supports key personnel processes. This new work tool is self-serviced and offers employees fast searches for information and change management. Its great advantages include accessibility and up to date information. This new personnel system will be developed further in accordance with the needs of Česká spořitelna and its employees and with regard to current trends in caring for employees.

The average headcount of the consolidated entity increased in 2020 by 0.2%, to 9,892. In Česká spořitelna alone, the average headcount was 9,292. The proportion of women was at 68% of all employees. The proportion of part-time employees reached 8.5%. The Bank successfully integrated 150 employees returning from parental leave. The average length of employment remained at 10 years, the average age increased to 41 years. Employees older than fifty years accounted for 23% of Česká spořitelna's population.

Average number of employees





Strategic Objectives and Plans for the Future

This photo was taken as part of a community grant from Česká spořitelna and the Via Foundation "We can do more".

Strategic Plans for the Future

Strategic Objectives

Nearly 200 years ago, when Česká spořitelna's predecessor was established, the cornerstone idea was to lead its clients and the whole society to prosperity. This objective has remained very relevant for how Česká spořitelna has operated to this day. The idea is manifested in a unique advisory concept named "My Healthy Finances" which has so far gained over 1.5 million clients. This concept not only helps clients better manage and use their financial products, but also, for example, optimise their utility payments. Česká spořitelna plans to continue to develop the concept, primarily in light of the "financial health" of its clients that it wants to define on the local market, helping to fulfil its nearly 200-year-old purpose. To achieve the ambitious goal, Česká spořitelna will focus in the near future on its ability to achieve personalisation vis-à-vis its clients and omnichannel service abilities will continue to be an object of Česká spořitelna's interest.

> My Healthy Finances are used by over 1.5 million clients.

In 2021, Česká spořitelna's domestic market, the Czech Republic, will again be its key market, with a traditional overlap with all the countries of Central and Eastern Europe, in particular in the corporate area. There, Česká spořitelna will take advantage of the synergy opportunities offered by the Erste Group Bank, of which Česká spořitelna is a member. In terms of its product portfolio, Česká spořitelna will pay particular attention to continuous development of its digital banking platform named George. In addition to the possibility to purchase new products, ČS will also develop the platform's service capability, to allow clients to adjust product parameters without the need to visit a branch or call the info line. Great emphasis will also be placed on George's advisory skills, in order that it be able to advise clients no matter where they are.

Macroeconomic Assumptions

Current macroeconomic development is still plagued by extreme uncertainty arising from the COVID-19 pandemic; nevertheless, ongoing vaccination with new vaccines increases the likelihood of the global economy gradually returning to functioning normally in 2021. This route will, however, not be fast, due to the limited production of vaccines, and will run for at least the first half of 2021. That will have an impact on economic development, as well, which will not improve in one hike but rather will come in the form of gradual improvements in its development. In terms of the development of interest rates, Spořitelna expects their first increase only at the end of 2021, when the pandemic should be waning and when stronger GDP growth will be reflected in inflation development. However, the risks remain significant and in both directions.

For 2021, Česká spořitelna operates on the basis of the following basic macroeconomic assumptions:

- Real GDP growth will reach 3.9% [20]. Compared to the significant decline in the economy in 2020, there will be significant recovery in both domestic demand and in foreign trade. During the year, economic confidence of both households and corporations will improve gradually, driving consumption as well as investment activities. Moods in the Eurozone will also improve, which will support export growth. Other pro-growth factors will also operate, such as income tax reduction in the Czech Republic or the EU fiscal package;
- Inflation will slow down significantly in 2021; but on average, it will remain above the 2% ČNB inflation target. During the 2020 crisis year, the impairment of the labour market was not so serious as to cause a major increase in unemployment rate or wage cuts. Furthermore, during the year, inflation pressures will gradually strengthen, driven by economic recovery, which will have an impact on monetary policy set-up at the end of the year;
- The labour market deteriorated very gradually during 2020 and should carry on with that trend throughout the first half of 2021, as delayed influences related to a strong decline in economic activity in 2020 will contribute to unemployment rate growth. From the second half of 2021, however, the situation on the labour market will again start to improve, with a reduction in the unemployment rate and acceleration of wage growth being driven primarily by higher demand for workers;
- The ČNB might first increase its rates at the end of 2021. An important assumption in this regard is decreased uncertainty associated with the end of the COVID-19 pandemic. The economic recovery expected during the year will also be manifested in the form of inflationary pressures and, by increasing its rates, the ČNB will anchor inflation around the inflation target. The risks cut both ways. The approved tax changes will work to increase inflation through greater household consumption, which increases the likelihood that the ČNB may be forced to increase its rates earlier. The COVID-19 pandemic,

(20) Česká spořitelna's prognosis as at 8 December 2020.
https://cz.products.erstegroup.com/Retail/cs/AnaluC3uBDzy_a_prognuC3uB3zy/VyhleduC3uA1vuC3uA1nuC3uAD_analuC3uBDz/Detail_analuC3uBDzy/index.phtml?ID_ENTRY=204707

on the other hand, would work to delay rate increase, should it continue to strongly influence economic developments in the second half of 2021;
- The CZK exchange rate strengthened at the end of 2020, being affected primarily by the quietening on the markets after favourable vaccine testing and the outcome of the US election. The koruna should carry on with gradual strengthening throughout 2021 – this development will be aided primarily by further improvements in market sentiments following the start of economic recovery and, in the second half of the year, also the expected ČNB rate increase.

Outline of Business Policy and Expected Economic and Financial Situation in 2021 and an Outlook for Upcoming Years

Retail Banking

Even though 2020 was not standard for Czech society due to the COVID-19 pandemic and all anti-pandemic measures, Česká spořitelna showed itself to be a partner prepared to flexibly respond even to such extensive social changes. Even though ČS is convinced that 2021 will be far "more standard", it is not afraid of the challenges that the non-standard time puts in front of it, and in 2021, it will smoothly continue to fulfil its 3 key strategic priorities:
- Expanding its fan base and client satisfaction growth;
- Digitisation and cashless transformation;
- Enhancing Česká spořitelna's image as a pleasant, safe, smart, high-quality, and quickly available partner for addressing a broad range of its clients' needs.

And it will do so primarily through the following activities:
- More than one million clients will experience their own financial advisor in practice with the entirely unique and constantly developing concept My Healthy Finances;
- More interactive advisory services through tablets – since 2020, they have made many service and trade operations available to Česká spořitelna clients and allow for its services and products to materialise in their hands;
- Expansion of service and sales operations in George, aiming to offer clients broader "self-serve" functions;
- Cashless principles – not only in an educative form, but also practically emphasising the security, and today also the health benefits, of cashless transactions; the network of dual ATMs will be extended and subsequently they will replace face-to-face contact at cash-desks in less exposed locations.

Client relations are the alpha and the omega of all that happens at Česká spořitelna and they govern not only client communication and service, but also, naturally, the product and service offering.

> Client relations are the alpha and the omega of all that happens at Česká spořitelna.

In the sphere of personal finance administration and management, Spořitelna offers attractive current accounts. Apple Pay, Goole Pay, and other payment applications constitute an undeniable standard today, even though they are still only in their infancy in the Czech Republic. Spořitelna has been expanding the possibilities offered in George, advantageously linking FX accounts, and transposing the healthy finances concept even into the accounts of small businesses and will also focus on expanding the base of its clients actively using transactional banking.

Restrictions in society in 2020 strongly affected also the sphere of consumer finance. As the Czech market leader, Česká spořitelna stands by and supports its clients and, thanks to them, its market shares strengthen. Spořitelna wants to be supportive of its clients even in this adverse situation and enhance their security while being prudently conscious of risks. It will strive to further increase its market shares, not only through traditional products but also through successful micro-loans and digital innovation.

Housing financing has experienced a boom despite the crisis. With the support of its partners, Česká spořitelna granted the greatest number of new mortgages to its clients and in 2021 it will continue in its patient and mutually beneficial co-operation with partner networks in order to help its clients make their dreams come true. This includes faster service and a more comprehensive client experience.

Wealth appreciation is a financial concern to all client groups and Spořitelna is happy that, with its assistance, everyone finds a solution. The tradition and professionalism of premium (Erste Premier) and private banking (Erste Private Banking) bankers are assets for all clients who require solutions to very specific needs and a high level of professionalism and who appreciate a long-term open relationship. A network of investment advisors and personal bankers supported by targeted investment products can introduce the world of investments in a comprehensible manner to hundreds of thousands of other clients, offering them a prudential investment in terms of risk and an optimum yield for their profile and possibilities. That is Česká spořitelna's investment mission, which it will employ in giving advice to its clients for the appreciation of their assets.

In 2020, Spořitelna offered life insurance even to older clients, expanded its insurance broker network and brought insurance products closer to its clients through tablets. It will carry on with expanding this offer, in particular risk insurance, and by broadening the competences of its advisors.

Modernisation of branches in line with the Erste Group concept will carry on in 2021. Customers appreciate their friendly and discrete environment. In combination with the advisory abilities of their staff, they form the basis of an increasing number of advisory meetings. The abilities of Česká spořitelna advisors grow with their satisfaction, which Spořitelna strives to ensure by offering a pleasant work environment, fair pay and attractive employee benefits, and also by quality professional training, including certified courses.

Spořitelna's tradition of nearly two hundred years involves a great commitment. A commitment not only to carry on with the legacy started by past generations, but also a commitment to mutual respect and respect for the work and success of others, to a socially responsible approach and to being useful. Česká spořitelna believes in these values and likes to share them with its clients. It enjoys their success and tries to help them in difficult times. It will be its honour to be with its clients in 2021 and beyond.

Corporate Banking

In corporate banking, Česká spořitelna wants to profile itself as a partner for the financial health and prosperity of its clients, building on a history of nearly 200 years and on its original mission. It still has the ambition to be the first-choice bank for clients in the small and medium-sized enterprise (SME) segment, to continue to be a key bank in the segment of large corporate and supranational companies, and to carry on with strengthening its long-term partnership with public and non-profit sector clients.

Česká spořitelna wants to be a partner for corporate clients on their way to growth and prosperity. The strategy tied to this objective will include emphasis on detailed knowledge of the client's needs at all stages of its corporate life, the problems it faces, and the method by which the client interacts with the Bank. The aim of continued transformation is to develop the ability to respond quickly to client feedback. The Bank wants to optimise its service channels, which is why digitisation and automation of processes in an intuitive and client-oriented environment are becoming priority areas. All this will allow Spořitelna to invest yet more of its advisors' time in personal and highly customised advice with an accent on its clients' financial health.

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

In connection with that, it will continue to further digitise service and business transactions. In parallel, Česká spořitelna in co-operation with Erste will launch into the development of a group solution under a brand already known to retail clients: "George Business". 2021 will be a year of analyses and development of basic building blocks for the planned gradual roll-out from 2023.

In the sphere of open banking, Česká spořitelna bases its new sales models on banking processes and data. Thanks to that, it can improve companies' digital sales processes, for example, thorough the "KYC API" digital banking identity. Together with other major market players, it newly offers the "we.trade" blockchain platform.

In the SME segment, the Bank's main goal for 2021 and beyond is to become the first-choice partner in all aspects of client interaction. The main topic in this regard will be financial advisory services ("Financial Health Advisory"), where the Bank plans to focus on the financial health of its clients and their comparison on a relevant market. Related to this is the development of the competence of corporate bankers such that they may become partners for both a client's everyday operating requirements and for its future development and prosperity. Process digitisation and building an online platform for both advisory activities and for financing remain a priority theme. Česká spořitelna strives to improve the customer experience of its clients by continuously simplifying processes and communication and making them more efficient. The goal is to find the optimal solution in all spheres of a client's needs. The Bank intends to provide special care to clients affected by the situation related to COVID-19.

Česká spořitelna, a key bank for large corporations operating in the Czech Republic, will carry on in 2021 with its strategic effort to become a long-term and reliable partner to large corporate firms. Better understanding of its clients' needs and greater professionalism will be supported by further industry specialisation of its bankers. In financial advisory services for large corporations, Spořitelna plans to focus on an individualised approach to client service and on the possibility to improve their financial health. In serving supranational corporations, Spořitelna will provide banking products and financial services with support from Erste Group Bank, to help its clients manage client needs across the Central and Eastern Europe region in which Erste Group Bank operates.

In the sphere of structured financing, Česká spořitelna will fully profile itself in 2021 to continue to offer its clients a comprehensive range of services and customised solutions for their wishes and needs in this sphere. Acquisition financing, supplemented in many cases with M&A advisory services, remains one of the key product solutions where Česká spořitelna is, thanks to its extensive experience and unique expertise, able to offer its partners perfect service and foreseeability, which is a must in this type of transaction. Given the continued generational change and the resonating topic of successorship in many successful corporations, professional advice in these contemplations and their subsequent implementation remains an integral part of ČS´s offer to clients. Furthermore, the Bank wishes in no way to compromise its ambition to be a part of all major transactions in the sphere of structured financing on the Czech market, to continue to play a major role in supporting exporters through export and trade financing tools and products, and to play a major role in the development of support programmes, solutions, and tools that will, in an era influenced by the global pandemic, help Czech businesses and manufacturers bridge the difficult period and ensure future prosperity for themselves. An initiative that is important at this time is the active offering and participation in the use of the international digital "we.trade" platform facilitating trading between companies, ensuring transparency, speed, security and availability in supplier-client relations.

In terms of corporate real estate project financing, Česká spořitelna has been a key market player for a long time. On the general level, the Bank will carry on with its long-term strategy of maintaining a portfolio that is balanced in terms of segments, with an emphasis on high-yield properties. A special goal for 2021 is

intensive communication with existing clients and in justified cases searching for individual support measures to mitigate the impact of the pandemic on their business or, more precisely, on projects financed by Spořitelna. Česká spořitelna will continue to strive to deepen its co-operation with colleagues from other segments and from Erste Bank, in order to attain synergy effects in client service across defined regional markets and segments. In terms of the types of assets financed, it will focus particularly on the sphere of logistics, which is becoming a very prosperous property type, both in terms of investor yield and increased tenant demand. In residential development financing, the financing of tenant housing is successfully developing. Furthermore, Spořitelna is enhancing its expertise in co-operative housing financing, which is a potentially interesting segment not only for the corporate clientele but also for the municipal segment.

In the public and non-profit sector segment, Česká spořitelna's main priority will be support for clients in operating and investment financing, to ensure that investments need not be cut due to the drop in tax income, that subsidies can be drawn, and that municipal cashflows are stabilised. At the same time, it wants to focus on debt financing for important investment projects in the healthcare, transport, housing and key infrastructure sectors through the National Development Fund. In co-operation with competent government institutions and the Czech Banking Association, it will also develop cashless payment systems in key public administration areas and online communication of citizens with authorities, through the Banking Identity project.

Česká spořitelna is also the first bank in the Czech Republic to offer a Social Banking programme. The programme supports non-profit organisations and social enterprises through education, consulting, and financing. Its objective is to support organisations so that they become self-sufficient and not dependent on grants and subsidies, thereby securing a long-term existence for themselves.

Financial Markets

The objective of the Financial Markets (FM) and Financial Institutions (FI) department in 2021 will be to strengthen its 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 added value not only for Česká spořitelna's clients, but also for their end customers. A brand-new product in 2021 will be Banking Identity and its potential use by retail as well as corporate clients.

On capital markets, FM's objective in 2021 is to continue to be the primary bank for the subscription and distribution of new corporate bond issues and to secure its position among the three largest primary dealers of government bonds of the Czech Republic.

Asset management for institutional clients is an important product in the comprehensive offer of Česká spořitelna's services. The basic solution still consists of a diversified portfolio of investment instruments where – with a view to clients' mostly conservative risk profiles – a major goal is to retain the real value of assets under management while achieving appreciation higher than deposits on the inter-bank market. Long-term success for the client continues to be based on quality portfolio management, quality diversification, competitive appreciation of funds, an above-standard client approach and above-standard reporting. Spořitelna offers those pillars and provides them to all its institutional clients, for whom it manages nearly CZK 140 bn in aggregate. It will build on these pillars in the future, as well. In the present low interest-rate environment, lower absolute yield may be expected in 2021 compared to previous years, which is why positive aspects of active management and quality asset diversification will be manifested yet more evidently.

The sale of financial market products in 2021 will fundamentally concentrate around individual client needs related to the impact of the COVID-19 pandemic, in particular the loss of companies' planned cashflows. In terms of sales, Česká spořitelna will focus on selling products hedging medium- and longer-term risks related to FX rate and interest rate fluctuations. With a view to the low deposit rates, it also sees potential in alternative products for short-term appreciation of available assets.

> The sale of financial market products will fundamentally concentrate around individual client needs.

Expected Economic and Financial Situation

The environment in which Česká spořitelna operates changed in an unprecedented way in 2020 due to the global COVID-19 pandemic. The ČNB's decision to reduce the two-week repo rate from 2.00% as at 1 January 2020 to 0.25% from 11 May 2020 had a direct impact on Česká spořitelna's net interest income. In 2021, Česká spořitelna expects a stable or slightly growing development of its operating result, as the drop in interest rates in 2020 will be gradually offset by the growth in the client loan portfolio. Česká spořitelna's operating expenses will grow slightly compared to 2020, due to the lower comparable basis of 2020. Hence, a small increase in the cost-income ratio may be expected, but it will still hold below 50%. Overall, Česká spořitelna expects its operating result in 2021 to achieve a level similar to that of 2020.

Deposits from customers and loans to customers will continue to dominate in Česká spořitelna's balance sheet. It expects a single-digit percentage growth of both items.

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 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, the Bank ensures independent entity supervision of the internal rating methodology validation process.

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 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 re-assessed 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. 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. This initiative was subsequently replaced by a government moratorium, which allowed clients to defer loan repayments for up to six months. The Bank offered individual loan restructuring to the clients who were unable to use the government moratorium 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 was expected, were reclassified to stage 2 in 2020. 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 Energie ČS 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.

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. As a result of this measure, the Bank had a capital reserve, which enabled 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 3% above the basic requirement and the other applicable regulatory capital reserves.

Capital Adequacy*

2020	2019	2018	2017	2016
24.73%	21.77%	19.03%	18.61%	20.07%

*data per ČNB methodology

Information on Capital and Ratio Indicators Pursuant to Annex No. 14 of Regulation No. 163/2014 Coll.

The following table shows capital for the Bank's capital adequacy calculation on a standalone basis, as reported to the regulator pursuant to the valid regulations.

Data on Capital and Capital Requirements

a) Pursuant to Article 437(1)(a) of EU Regulation No. 575/2013

In CZK thousand	Standalone data 31. 12. 2020	Standalone data 31. 12. 2019
Capital	130,445,537	112,790,176
Tier 1 (T1) Capital	127,853,811	110,627,774
Common Equity 1 (CET1) Capital	110,707,276	93,481,240
Instruments usable for CET1 Capital	15,201,688	15,201,688
Paid up CET1 instruments	15,200,000	15,200,000
Share premium	1,688	1,688
Retained earnings	100,825,910	85,949,678
Accumulated other comprehensive income (OCI)	1,237,105	(1,784,119)
Other reserve funds	0	0
CET1 Capital adjustments for prudential filters	(954,593)	1,755,619
Reserve fund for cash flow hedges	(861,950)	2,114,657
Accumulated profit / loss from changes in fair value of liabilities in the event of a change in credit risk	(3,225)	(4,577)
Fair value of profit / loss from own credit risk related to derivative liabilities	(27,254)	(23,707)
(–) Value adjustments per requirements for prudential valuation	(62,164)	(330,754)
(–) Other intangible assets – gross value	(5,837,405)	(5,539,950)
Deferred tax liabilities associated with other intangible assets	348,063	348,063
(–) Lack of coverage of expected loss by credit risk adjustments under IRB approach	0	(1,948,257)
(–) Securitized exposures (alternatively with a risk weight of 1250%)	(113,492)	(501,484)
Other temporary adjustments of CET1 Capital	0	0
Other CET1 Capital instruments and other CET1 Capital deductions	0	0
Additional Tier 1 (AT1) Capital	17,146,534	17,146,534
Paid AT1 instruments	17,146,534	17,146,534
Tier 2 (T2) Capital	2,591,727	2,162,402
Paid T2 instruments and subordinated debt	0	0
Excess coverage of expected losses under IRB approach	2,591,727	2,162,402

b) Pursuant to article 438(c) through (f) of EU Regulation No. 575/2013

In CZK thousand		Standalone data 31. 12. 2020	Standalone data 31. 12. 2019
Risk-weighted exposure cases specified in Article 112 of Regulation (EU) No. 2013/575	Exposures to central governments or central banks	354,011	227,791
	Exposures to regional governments or local authorities	0	0
	Exposures to public sector entities	3,355	3,437
	Exposures to institutions	1,814,124	2,323,725
	Exposures to corporates	21,720,536	21,035,928
	Retail exposures	10,218,470	9,405,722
	Exposures in default	73	0
	Exposures in the form of units or shares of collective investment undertakings	0	0
	Equity exposures	2,017,909	1,912,485
	Items representing securitisation positions	248,664	386,697
	Other items	1,305,489	1,422,738
Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) of Regulation (EU) 2013/575	for position risk	395,391	603,615
Own funds requirements calculated in accordance with Regulation (EU) 2013/575 Part III, Chapters 2,3 and 4 and disclosed separately	Own funds requirements calculated in accordance with Part III, Chapter 4 of Regulation (EU) 2013/575	4,118,588	4,130,437

Capital Indicators

In %	Standalone data 31. 12. 2020	Standalone data 31. 12. 2019
Tier 1 common equity ratio	20.99	18.04
Tier 1 capital ratio	24.24	21.35
Total capital ratio	24.73	21.77

Ratio Indicators [21]

In CZK thousand	Standalone data 31. 12. 2020	Standalone data 31. 12. 2019
Return on average assets (ROAA) (in %)	0.57	1.18
Return on average equity Tier 1 (ROAE) (in %)	7.20	16.50
Assets per employee	153,315	148,401
Administrative expenses per employee	1,582	1,651
Net profit or loss per employee	918	1,833

(21) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 326

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, is the legal successor of the Czech State Savings Bank and 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.

§ 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 199 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 63 of the Annual Report).

Shareholder structure of Česká spořitelna as at 31 December 2020

	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 executed ISDA Master Agreements, which include the condition that if the ownership of either party changes, the other party shall have the right to terminate the agreement. The foregoing applies to agreements entered into with these counterparties: BNP Paribas, Paris; ING Bank, Amsterdam; Morgan Stanley & Co. (International); UBS AG, London; KM BEV CZ s.r.o.; KM BEV SK s.r.o.; GPE III Pohorelice (CZ) s.r.o.; and CTP Industrial Property CZ s.r.o.

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 63 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 a 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 298 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 2020, 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 1,828 thousand shares with a total purchase price of CZK 1,030 million and sold 1,828 thousand shares with at an aggregate selling price of CZK 1,030 million. In 2020, the minimum price for the purchase and sale of one share was CZK 423.00 resp. CZK 423.00, the maximum price for the purchase and sale of one share in 2020 was CZK 885.56 resp. 889.60 CZK. Neither at the beginning nor at the end of 2020 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2020.

Information on the Guarantee Fund Contribution

Česká spořitelna, as a trader with securities, 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 2020 was CZK 2,188.7 million. The contribution itself amounted to CZK 43.8 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 2020.

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. 163/2014 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 since their issue date. No other securities are traded on any regulated market. Issued debt securities are summarised in the separate financial statements. 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 2020

§ 118, paragraph 4 letter k)

CZK million without VAT	Audit services	Other assurance services	Other services	Total
Česká spořitelna	16	5	1	22
Other consolidated companies	11	1	0	12
Total	**27**	**6**	**1**	**34**

Services in Addition to the Statutory Audit Provided by the Statutory Auditor and Its Network in 2020

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	4,082,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Preparation of a report on the adequacy of measures taken to protect customer's assets (MiFID)	316,930
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated annual and half-year financial statement for Czech regulatory purposes	288,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Agreed-upon-procedures on fee calculation for guarantee for loans received from European Investment Bank	174,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor's confirmations for insolvency proceedings	36,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Assurance on the contribution process for the PRIBOR rates	450,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Assurance on the methodology, model and reported fraud rates according to PSD2 SCA	588,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Training and seminars	285,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Support in defining model taxonomy	90,000
ProcewaterhouseCoopers Audit, s.r.o.	brokerjet České spořitelny, a.s. v likvidaci	Preparation of a report on the adequacy of measures taken to protect customer's assets (MiFID)	100,268
PricewaterhouseCoopers Audit, s.r.o.	ČS NHQ, s.r.o.	Voluntary audit for the year ended 31 December 2020	233,100
PricewaterhouseCoopers Audit, s.r.o.	CEE Property Development Portfolio 2 a.s.	Voluntary audit for the year ended 31 December 2020	153,444
PricewaterhouseCoopers Audit, s.r.o.	Budějovická Development, s. r. o.	Voluntary audit for the year ended 31 December 2020	60,800
PricewaterhouseCoopers Audit, s.r.o.	BP Budějovická, s. r. o.	Voluntary audit for the year ended 31 December 2020	91,960
PricewaterhouseCoopers Audit, s.r.o.	BP Poláčkova, s. r. o.	Voluntary audit for the year ended 31 December 2020	91,960
PricewaterhouseCoopers Audit, s.r.o.	BP Olbrachtova, s. r. o.	Voluntary audit for the year ended 31 December 2020	91,960
PricewaterhouseCoopers Audit, s.r.o.	Energie ČS, a.s.	Voluntary audit of special purpose financial information as at 30 November 2020	312,000
Total			**7,445,422**

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

Česká spořitelna Bonus Pool

The overall Česká spořitelna bonus pool is formed on the Bank level with a view to 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 with a view to a combination of all four criteria and is corrected by 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 place 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 end of the year, provided that set performance indicators are met, with the so-called bonus multiplier, whose 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 2020 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 of the Board of Directors, the Vice-Chairman of the Board of Directors, 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, and the Chairman and the 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 adheres to 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: [22]

- Financial remuneration for statutory body members of CZK 63.180 m;
- Bonuses for managing a division (cash part), of CZK 16.625 m;
- Bonuses for managing a division (non-financial part – certificates and phantom EGB shares), of CZK 13.884 m; and
- In-kind income for Board members of CZK 2.398 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 2020, 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):

- 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 employees, brand, focus on the "Future Bank";
- Vice-Chairman of the Board of Directors responsible for financial management: operational objectives – operating result, return on allocated capital, data management; strategic and business-specific objectives – the "Spring" project and Group data platform, credit RWA target, focus on the "Future Bank";
- 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, credit RWA target, focus on the "Future Bank";
- Board member responsible for corporate banking: operational objectives - operating result of the Corporate Banking division, operating result, return on allocated capital, Customer Experience Index of SME customers; strategic and business-specific objectives – development of the strategic Group initiative corporate digital proposition, priorities of the strategic development programme for the Corporate division, credit RWA target, focus on the "Future Bank" with the launch of the "we.trade" platform;
- Board member responsible for operations and IT: operational objectives – operating result, return on allocated capital, data management; strategic and business-specific objectives – digital transformation, progressive modernisation of IT and IT security, Group projects, focus on the "Future Bank";
- Board member 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 and AML, strategic risk management projects, contribution to strategic Group priorities, credit RWA target, focus on the "Future Bank".

Each of the indicators specified above had a target value set to be achieved in 2020, and a weight in the overall evaluation for the "Strategy and Business" area.

The management results achieved, qualitative evaluation by the Chairman of the Management Board, 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, the granting of 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 50% comprised of phantom Erste Group Bank shares and 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 will be 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 Management Board in the execution of the Company's business. The Supervisory Board checks, above all, whether the Management Board 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 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 2020, all members of the Supervisory Board received a total of: [22]

- Financial remuneration for being members of the Supervisory Board of CZK 7.694 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 2.052 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, and Aleš Veverka) who do not hold any executive position in the Company. The Committee met seven times in 2020. 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 the "Agreement"). 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 No. 90/2012 Coll., on Business Corporations and Co-operatives (hereinafter referred to as the "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 is concluded or an amendment or an updated appendix. 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 a member of a body;
- Obligations of the Company;
- Location of performance;
- Remuneration;
- Duration of the Agreement;
- Ways of termination of the Agreement;
- Confidentiality obligation;
- Non-competition commitment; and
- Final provisions.

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

The particulars specified in 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 – 2. 1. 2023
Wolfgang Schopf, Vice-Chairman	1. 8. 2017 – 1. 8. 2021
Pavel Kráčmar, member	2. 2. 2020 – 2. 2. 2024
Karel Mourek, member	1. 8. 2017 – 1. 8. 2021
Daniela Pešková, member	2. 2. 2020 – 2. 2. 2024
Petr Brávek, member	1. 2. 2020 – 1. 2. 2023
Bohuslav Šolta, member	1. 1. 2020 – 31. 1. 2020

Supervisory Board	
John James Stack, Chairman	26. 4. 2017 – 26. 4. 2021
Bernhard Spalt, Vice-Chairman	1. 11. 2019 – 1. 11. 2023
Štefan Máj, Vice-Chairman	1. 11. 2019 – 1. 11. 2023
Stefan Dörfler, member	1. 11. 2019 – 1. 11. 2023
Petr Brázda, member	15. 1. 2019 – 15. 1. 2023
Helena Černá, member	15. 1. 2019 – 15. 1. 2023
Zlata Gröningerová, member	26. 4. 2017 – 26. 4. 2021
Maximilian Hardegg, member	26. 5. 2020 – 26. 5. 2024
Aleš Veverka, member	15. 1. 2019 – 15. 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.

Prague, 26 March 2021



Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-Chairman of the Board of Directors

(22) - 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 a 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 ("the Code") Based on OECD Principles

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

No major changes adversely affecting the Company's corporate governance standards and matters were made in 2020. 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 Company's governance standards are set out below.

Following with 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, 35% of the positions on the Supervisory Board and in the top management of ČS (Board of Directors and B-1 Management) should have been staffed by women by 2019. Unfortunately, this goal has not been achieved yet. One of the six seats in the Board of Directors was occupied by a woman and a further nine women were members of the top management positions out of a total of 57 positions (level B-1) as at 31 December 2020. In subsidiaries of the Česká spořitelna Financial Group was one more 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 2021.

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 2021 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%.

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 the 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 Company'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. By the end of the first quarter 2021, Česká spořitelna will have prepared 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.

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 Company

The Board of Directors of the Company has 6 members. It is the Company's statutory body, which manages the Company 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 Company'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 Company'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 Company 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 Company.

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 2020, the Board of Directors held 44 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 the Vice-Chairman be absent, a delegated Board member shall chair the meeting. All Board members, the Company Secretary and invited guests take part in meetings.

The Board of Directors only achieves a quorum if more than a half of all its members are 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 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 the 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 14 of the Annual Report.

The Supervisory Board of the Company 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 Company 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 Company and maintain confidentiality with respect to confidential information and facts. Pursuant to the applicable Articles of Association of the Company, members of the Supervisory Board are elected by the General Meeting. As Česká spořitelna has had the sole shareholder since November 2018, the new members of the Supervisory Board were elected by the sole shareholder's decision in 2020.

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 Company's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Company's Articles of Association, has the right to opine in advance on certain acts impacting the Company's assets (including, inter alia, real estate capital expenditures, plans (projects) to acquire tangible and intangible assets for the Company in excess of a designated limit, the transfer of title to Company assets, the Company's equity investments, etc.). The Supervisory Board also provides an advance opinion on the strategic plan on Company activities and development, planning tools and regular financial statements of the Company. 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 2020, the Supervisory Board convened in five meetings.

Supervisory Board Decision-making Procedures

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

The Supervisory Board only achieves a quorum if more than a half of all its members are 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 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 Company body that shall perform the tasks assigned to it by law or the Company'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 Company'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 22 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 2020. 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 a 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 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 Company 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 Company 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 Company's principles and rules of corporate governance after their election.

The Company's management bodies, i.e. the Board of Directors, Supervisory Board and 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 Company 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, Supervisory Board and Audit Committee may solicit a legal opinion on individual materials under discussion from the Company's Legal Services Unit or may seek the services of independent advisors. The Company 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 Company **Secretary** has long existed within the Company. The Secretary of the Company'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 Company's corporate governance process. The Company Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company'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 Company's Board of Directors, Supervisory Board and Audit Committee. The Company has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board, Board of Directors and 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, Supervisory Board and Audit Committee. The Company maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Company's internal archiving system.

The Company Secretary is a member, inter alia, of the CGI (Corporate Governance Institute) and its steering committee. The mission of the CGI is to create and continually develop a respected professional platform for secretaries of business companies and other organisations and for other corporate governance professionals working in the fields of compliance, business ethics management, administration and support of administrative body activities, the management of business groups and equity investments, and related administrative functions.

B. Company's Relations with Shareholders

The Company 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 Company's shares are held in book-entry form. A list of shareholders is maintained by the Central Securities Depository. The Company currently has only common shares. The Company complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout the year via the media and the Company's website. The Company posts information on its current financial results, shareholder structure, planned events and more on the 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 Company are issued on a regular basis. All material information the Company publishes on its website is available in Czech and English.

C. Information Disclosure and Transparency

The Company has established a Compliance unit that ensures compliance of Company's activities and its internal rules with regulatory requirements applicable to the banks' activities. Compliance unit ensures that all employees of the Company 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. 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 Compliance unit but it is the responsibility of every manager, employee and the Company as a whole. Compliance with regulatory and internal rules is subject to three-line control. The first line is represented by employees 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 most risky from the perspective of consumer protection, reputation risk and conflicts of interest management. The third line of controls is represented by 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 identifies potential as well as real conflicts of interests and advises acceptance of such measures that eliminate or prevent identified conflicts of interests.

The Company 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 Company.

The Compliance unit also provides the possibility to anonymously report illegal, prohibited or unethical conduct in the workplace by current or former employees to point out illegal, prohibited or unethical behaviour (so-called Whistleblowing). The Company 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 Supervisory Board.

One of the main objectives of the Compliance unit in 2020 was monitoring of existing, updated and new regulatory texts and responsibilities of individual departments of the Company 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 Compliance unit work in the following period.

The Company must also fulfil its obligations in the area of prevention money laundering and financing of terrorism and controls compliance of the Company's business and activities with the applicable sanctioning regimes announced by the Czech Republic, EU, UN and OFAC. The AML and International Sanctions Team is responsible for the proper performance of these activities in the Company or its compliance with legal requirements and sanction regimes.

The Company diligently fulfils and complies with all legal regulations of the Czech Republic, principles of the Corporate Governance Code of the Czech Republic 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 Company'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 Company discloses a great deal more information than the statutory requirements so that shareholder and investors may make informed decisions concerning ownership of the Company's securities. To disclose this information the Company uses the Company's website, where the information is published in Czech and English language.

The Company 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 Company's financial position, business activities and the Company's financial results. The annual report also provides information on the Board of Directors and Supervisory Board member remuneration policy in compliance with the legislation. The Company 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 2020 on the Company's website under Investor Relations/Reports/Financial Reporting (https://www.erstegroup.com/en/investors/reports/financial-reports).

D. Committees of Company Statutory Bodies

The Company has established committees under the Board of Directors and Supervisory Board to support the Company'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. In specific credit-related cases, the Committee 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 member 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. The Remuneration Committee members are Maximilian Hardegg, John James Stack and Aleš Veverka.

Nomination Committee

The Nomination Committee primarily assesses the suitability of nominated and appointed members of the Board of Directors and evaluates the activities of the members of the Board of Directors and the Management Body as a whole. The members of the Committee are John James Stack and Bernhard Spalt.

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 Company employees. All committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

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

Asset and Liability Management Committee

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

Products and Pricing Committee

The Committee is a body that:

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. Company's Stakeholder Policy

Information on this topic is available in the section Report of the Board of Directors (see page 40).

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 the 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 sub-ledger accounts whose contents are subject to regular review. Bookkeeping operations on analytical accounts are controlled for accuracy on an ongoing basis.

The 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 Company is concentrated in a single unit, which is advantageous, inter alia, from the perspective of conducting controls (logic, operational and reconciliation controls). The 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 Company's statutory body on a monthly basis. The Company's Supervisory Board has the aggregated consolidated and separate financial statements on hand at every one of its meetings. The consolidated and individual financial statements of the Company are tested at an irregular interval by the internal audit. The procedure for the preparation of consolidated and individual 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

In this photo there are Česká spořitelna´s employees as the volunteers during the Different Day.

Organizational Structure

as at 31 December 2020

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

Units in stable organizational structure

Units in agile organizational structure

Supervisory Board Report

for the Year 2020



John James Stack

Chairman of the Supervisory Board
Chairman of the Audit Committee

In 2020 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, reviewed the Financial Statements and the proposed profit distribution for 2020, and discussed regularly the financial and business results of the Česká spořitelna Financial Group, the transformation of the internal Bank organisation and its ways of management, macroeconomic development in the Czech Republic, the development of the loan portfolio, Group strategy and asset management. Further, the Supervisory Board discussed the organization of IT activities in the Company, revised principles of remuneration as well as approval of the 2021 budget. In particular, the year 2020 will be remembered for the outbreak 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 our clients survive the economic crisis, and to co-ordinate 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 to respond 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 2020 the Board of Directors duly fulfilled its tasks arising mainly from the law, the Articles of Association and decisions of the Supervisory Board and decisions of the sole shareholder within performance of scope of authority of the General Meeting.

In 2020 the Supervisory Board held four meetings and one extraordinary meeting; besides these meetings, the Supervisory Board also made use of "per rollam" resolutions.

During the year, 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 Company.

During 2020 no changes in the Supervisory Board's membership took place. In April the sole shareholder within performance of scope of authority of the General Meeting re-elected Supervisory Board Member Mr. Maximilian Hardegg.

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. 2020 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with 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. 2020. 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. 2020, of their financial performance and their cash flows for the year that ended 31. 12. 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The Supervisory Board took into account this auditor's opinion.

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.

Report of the Audit Committee

In 2020, the Audit Committee of Česká spořitelna, a.s., operated as an independent body of the Company.

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 in the preparation of the separate and consolidated financial statements; monitored the effectiveness of the internal control of the Company, the risk management system and the internal audit including its independence; monitored the process of the statutory audit; pre-approved the non-audit services provided by the auditor; assessed the independence of the auditor and recommended PricewaterhouseCoopers Audit, s.r.o. for the performance of the audit of annual financial statements for 2020.

In compliance with the regulatory requirements, the Audit Committee performed the evaluation of the functionality and effectiveness of the internal control system in the Company. In 2020 the Audit Committee discussed at its regularly held meetings the internal audit plan, the report on the focus and activities of the internal audit and the information about the fulfilment of measures from the audits and inspections adopted by the management of the Company; the Audit Committee evaluated the Internal Audit Strategy and approved its update. The Audit Committee also focused its attention on the system of risk management, activities of the compliance function, prevention of frauds, issue of anti-money laundering and international sanctions, conflict of interests assessment, anti-bribery and anti-corruption rules, update of risk models, IS/IT security strategy and the impact of COVID-19 on the Company. The Audit Committee elaborated the report, in which it assessed its activities and submitted it to the Public Audit Oversight Board.



John James Stack
Chairman of the Supervisory Board
Chairman of the Audit Committee



Financial Section

In this photo there are Česká spořitelna´s employees as the volunteers during the Different Day.

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 2020, of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (IFRS) 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 2020, of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2020 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 2020;
- the consolidated statement of other comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the consolidated statement of cash flows for the year ended 31 December 2020; 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 2020;
- the separate statement of other comprehensive income for the year ended 31 December 2020;
- the separate statement of financial position as at 31 December 2020;
- the separate statement of changes in equity for the year ended 31 December 2020;
- the separate statement of cash flows for the year ended 31 December 2020; and
- the notes to the separate financial statements including significant accounting policies and other explanatory information.

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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.

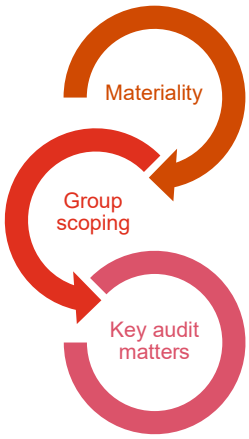
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, Act on Auditors and EU Regulation.

Our audit approach

Overview



The overall materiality for the Bank and the Group is determined as 5% of the three-year average of the profit before tax in the separate financial statements for the years 2018 – 2020, which represents CZK 842 million.
Our audit covered 97.5% of the total assets and 93.6% of the net profits of the Group. We covered further 2.3% of the total assets of the Group by applying other assurance procedures 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 the 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 the 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 the financial statements as a whole.

Overall materiality for the Group and the Bank	CZK 842 million (CZK 1,050 million for the previous period)
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 2018 - 2020.
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 Bank and the Group is to achieve profits and the users of the financial statements focus on this performance measure. The COVID-19 pandemic has a significant impact on the profitability of the Bank and the Group 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 matter

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 and in Note 16 of the consolidated financial statements, the Group presents its customer loan portfolio of CZK 749,415 million, of which CZK 700,585 million (93%) 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	When assessing credit risk and loan impairment during the current year, we specifically focused on the 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 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

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 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.

The ongoing COVID-19 pandemic had a major impact on credit risk and the Group's performance in 2020: it led to introduction of a credit moratorium on loan repayments, a year-on-year decline in the Czech gross domestic product by 5.6%, it significantly impacted the sales and profitability of many industries and borrowers at risk and contributed to an increased uncertainty.

This specific situation required an update of credit risk models, identification of industries and borrowers at risk and applying a more critical approach to identification of significant increase in credit risk. Due to uniqueness of the current situation, back-testing of the credit risk models had a limited impact this year.

for collateral valuation, their 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 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 who applied for the credit moratorium as well as to contractual modifications of loan contracts, rating process and the identification of significant increase in credit risk, taking into account the regulatory recommendations and best practices. We also familiarised 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, changes to ratings due to the impact of the COVID-19 pandemic 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 forward looking information, as these factors have fundamental impact on the calculation of credit losses, both incurred and expected. We also verified 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 the financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, the share of individual subsidiaries in the Group's financial position and performance and specifics of the industry in which the Group and the Bank operate.

For the audit of the consolidated financial statements, we performed full scope audits of the Bank and Stavební spořitelna České spořitelny, a.s. These banks generate 93.6% of the Group net profits. Additionally, we verified selected items of the financial statements of other Group companies, thus increasing the share of total audited assets of the Group to 99.8%. I am personally responsible for the audits of all public interest entities in the Group. 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 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 the 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 compliance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and the Bank and its 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 controls.
- obtain an understanding of internal controls 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 controls.
- 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 notes, 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

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

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

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

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Bank for year 2020 by the general meeting of shareholders of the Bank on 23 April 2020. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 4 years.

Provided non-audit services

To the best of our knowledge and belief, we declare that PwC Network has not provided to the Bank and its subsidiaries non-audit services 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 we have provided to the Bank and its subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in Section "Other Information for Shareholders" of the Annual Report.

26 March 2021

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 2020

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

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The Consolidated Statement of Income

for the Year Ended 31 December 2020

in CZK million	Notes	2020	2019
Net interest income	2	29,099	30,261
Interest income		32,256	38,266
Other similar income		5,278	3,624
Interest expenses		(3,944)	(8,024)
Other similar expenses		(4,491)	(3,605)
Net fee and commission income	3	8,243	8,591
Fee and commission income		9,967	10,187
Fee and commission expense		(1,724)	(1,596)
Dividend income	4	57	65
Net trading result	5	1,906	2,670
Gains/losses from financial instruments measured at fair value through profit or loss	6	598	(9)
Net result from equity method investments		31	105
Rental income from investment properties & other operating leases	7	213	216
Personnel expenses	8	(9,892)	(10,156)
Other administrative expenses	8	(6,469)	(6,592)
Depreciation and amortisation	8	(2,749)	(2,604)
Gains/losses from derecognition of financial assets measured at amortised cost	9	-	6
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	(1)	(28)
Impairment result from financial instruments	11	(7,930)	160
Other operating result	12	(611)	(687)
Pre-tax result from continuing operations		**12,495**	**21,998**
Taxes on income	13	(2,478)	(4,229)
Net result for the period		**10,017**	**17,769**
Net result attributable to non-controlling interests		11	26
Net result attributable to owners of the parent		**10,006**	**17,743**

The Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2020

in CZK million	Notes	2020	2019
Net result for the period		**10,017**	**17,769**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(1)**	**341**
Fair value reserve of equity instruments		-	419
Own credit risk reserve	13	(1)	1
Deferred taxes relating to items that may not be reclassified		-	(79)
Items that may be reclassified to profit or loss		**3,051**	**(302)**
Fair Value reserve of debt instruments	13	72	273
Gain/(loss) during the period		6	236
Reclassification adjustments		-	28
Credit loss allowances	11	66	9
Cash flow hedge reserve		3,675	(637)
Gain/(loss) during the period	13, 26	3,675	(637)
Currency reserve		16	(7)
Gain/(loss) during the period		16	(7)
Deferred taxes relating to items that may be reclassified	13	(712)	69
Gain/(loss) during the period		(712)	74
Reclassification adjustments		-	(5)
Total other comprehensive income	**13**	**3,050**	**39**
Total comprehensive income		**13,067**	**17,808**
Total comprehensive income attributable to non-controlling interests		11	26
Total comprehensive income attributable to owners of the parent		**13,056**	**17,782**

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 of 31 December 2020

in CZK million	Notes	2020	2019
Assets			
Cash and cash balances	15	38,075	40,526
Financial assets held for trading		11,382	9,705
Derivatives	20	11,281	9,568
Other financial assets held for trading	21	101	137
Thereof pledged as collateral		-	8
Non-trading financial assets at fair value through profit or loss	22	2,490	3,531
Equity instruments		982	744
Debt securities		1,025	1,347
Loans and advances to banks		443	645
Loans and advances to customers		40	795
Financial assets at fair value through other comprehensive income	24	20,838	21,166
Debt securities		20,838	21,166
Financial assets at amortised cost	16	1,428,953	1,351,296
Thereof pledged as collateral		57,783	99,677
Debt securities		254,700	218,907
Loans and advances to banks		424,838	411,650
Loans and advances to customers		749,415	720,739
Finance lease receivables	40	1,411	1,875
Hedge accounting derivatives	20	2,654	980
Fair value changes of the hedged items in portfolio hedge of interest rate risk		12	-
Property, equipment and right-of-use asset	37	12,735	12,543
Investment property	37	2,282	2,282
Intangible assets	28	6,083	5,801
Investments in associates	47	981	929
Current tax assets	13	1,417	9
Deferred tax assets	13	1,020	1,110
Assets held for sale	51	24	242
Trade and other receivables	18	6,458	5,797
Other assets	39	965	858
Total assets		**1,537,780**	**1,458,650**

in CZK million	Notes	2020	2019
Liabilities and equity			
Financial liabilities held for trading	20	12,895	9,794
Derivatives		12,895	9,794
Financial liabilities at fair value through profit or loss	23	3,784	3,557
Deposits from customers		3,784	3,557
Financial liabilities at amortised cost	19	1,360,570	1,294,989
Deposits from banks		91,335	292,111
Deposits from customers		1,096,666	993,257
Debt securities issued		169,498	5,634
Other financial liabilities		3,071	3,987
Lease liabilities	40	3,361	3,187
Hedge accounting derivatives		267	2,180
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1	-
Provisions	42	3,120	2,697
Current tax liabilities	13	60	327
Deferred tax liabilities	13	167	192
Other liabilities	39	4,209	4,388
Total equity	**42**	**149,346**	**137,339**
Equity attributable to non-controlling interests		221	210
Equity attributable to owners of the parent		149,125	137,129
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		17,147	17,147
Retained earnings and other reserves		116,766	104,770
Total liabilities and equity		**1,537,780**	**1,458,650**

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 16 March 2021 and are subject to approval at the General Meeting.



Tomáš Salomon
Chairman of the Board of Directors



Wolfgang Schopf
Vice-chairman of the Board of Directors

The Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

in CZK million	Share capital	Additional paid-in-capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2019	**15,200**	**12**	**99,689**	**8,107**	**387**	**(1,612)**	**877**	**4**	**(191)**	**122,473**	**184**	**122,657**
Dividends paid	-	-	(12,174)	-	-	-	-	-	-	(12,174)	-	(12,174)
Capital increases	-	-	(8)	9,040	-	-	-	-	-	9,032	-	9,032
Reclassification from OCI to RE	-	-	1,106	-	-	-	(1,106)	-	-	-	-	-
Other changes	-	-	17	-	-	-	-	-	(1)	16	-	16
Total comprehensive income	-	-	17,743	-	-	(516)	561	1	(7)	17,782	26	17,808
Net result for the period	-	-	17,743	-	-	-	-	-	-	17,743	26	17,769
Other comprehensive income	-	-	-	-	-	(516)	561	1	(7)	39	-	39
Change in fair value reserve	-	-	-	-	-	-	692	-	-	692	-	692
Changes in tax	-	-	-	-	-	121	(131)	-	-	(10)	-	(10)
Change in cash flow hedge reserve (Note 13, 26)	-	-	-	-	-	(637)	-	-	-	(637)	-	(637)
Change in currency translation reserve	-	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Change in own credit risk reserve	-	-	-	-	-	-	-	1	-	1	-	1
As of 31 December 2019	**15,200**	**12**	**106,373**	**17,147**	**387**	**(2,128)**	**332**	**5**	**(199)**	**137,129**	**210**	**137,339**
As of 1 January 2020	**15,200**	**12**	**106,373**	**17,147**	**387**	**(2,128)**	**332**	**5**	**(199)**	**137,129**	**210**	**137,339**
AT1 distribution (Note 44)	-	-	(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 (Note 13, 26)	-	-	-	-	-	3,675	-	-	-	3,675	-	3,675
Change in currency translation reserve	-	-	-	-	-	-	-	-	16	16	-	16
Change in own credit risk reserve	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
As of 31 December 2020	**15,200**	**12**	**115,319**	**17,147**	**387**	**849**	**390**	**4**	**(183)**	**149,125**	**221**	**149,346**

The Consolidated Statement of Cash Flows

for the year ended 31 December 2020

in CZK million	Notes	2020	2019
Pre-tax result from continuing operations		**12,495**	**21,998**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	42	2,756	2,649
Net allocation to provisions (including risk provisions)	8	7,788	(318)
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		30	1,038
Gains/(losses) from the sale of non-financial assets		(66)	(118)
Change in fair values of derivatives		1,391	143
Accrued interest, amortisation of discount and premium		779	1,068
Other adjustments		18	201
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		124	66
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(238)	11
Debt securities		322	(719)
Loans and advances to customers		957	(1,371)
Financial assets – at fair value through other comprehensive income: debt instruments		446	17,333
Financial assets at amortized cost			
Debt securities		(34,832)	(13,670)
Loans and advances to banks		(13,865)	(23,018)
Loans and advances to customers		(32,009)	(37,033)
Finance lease receivables		477	152
Hedge accounting derivatives		88	(394)
Other assets from operating activities		(466)	908
Financial liabilities at amortised cost			
Deposits from banks		(203,594)	(25,706)
Deposits from customers		102,960	41,005
Financial liabilities held for trading		-	(12)
Financial liabilities at fair value through profit or loss		260	1,578
Payments for taxes on income		(4,799)	(4,328)
Other liabilities from operating activities		163	(1,188)
Cash flow from operating activities		**(158,815)**	**(19,725)**
Financial assets – at fair value through other comprehensive income: equity instruments		-	1,249
Proceeds of disposal			
Property, equipment and intangible assets	37,38	1,600	512
Acquisition of			
Property and equipment, intangible assets and investment properties	37,38	(4,028)	(3,008)
Disposal of joint ventures and associates		(52)	(105)
Cash flow from investing activities	12	**(2,480)**	**(1,352)**
Capital increase		-	9,032
Dividends paid to equity holders of the parent		(1,068)	(12,174)
Payments of lease liability		(629)	(615)
Repayments of bonds in issue		(11)	(4,076)
Proceeds from bonds issued		163,864	4,252
Cash flow from financing activities		**162,156**	**(3,581)**
Cash and cash equivalents at beginning of period	15	**40,526**	**63,914**
Cash flow from operating activities		(158,815)	(19,725)
Cash flow from investing activities		(2,480)	(1,352)
Cash flow from financing activities		162,156	(3,581)
Effect of currency translation		(3,312)	1,270
Cash and cash equivalents at end of period	15	**38,075**	**40,526**

in CZK million	Notes	2020	2019
Payments for taxes on income (included in cash flow from operating activities)		(4,799)	(4,328)
Interest received		38,042	42,503
Dividends received		57	48
Interest paid		(8,984)	(11,417)
Dividends paid to equity holders of the parent		(1,068)	(12,174)

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

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 2020 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 ('CNB'), 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, collective investment and brokerage services.

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 2020 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. As a consequence of the COVID-19 crisis, the European Central Bank as well as some local national banks issued recommendations to restrict dividend payouts. As a result, no dividends were paid out by the Group to the parent Erste Group Bank AG in 2020. 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 in 2020.
- 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 Own funds and capital requirements discusses the adjustments to the regulatory framework due to the current COVID-19 crisis.
- 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 analyses 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 coronavirus 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 CNB 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, 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 Českomoravská záruční a rozvojová banka, a.s. ("ČMZRB"), the Group also enabled entrepreneurs to quickly draw bridging loans supported by the ČMZRB'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 coronavirus 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. 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".

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 further adjusted the forward looking information (FLI) in the calculation of ECL, which was reflected in portfolio allowances for credit losses, and at the same time adjusted individual allowances for credit losses for selected exposures to significant defaulted customers in Stage 3.

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 2020 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 2020. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2020 and have been endorsed by the EU:

- Amendments to IFRS 3: Definition of a Business.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendment to IFRS 16: Leases COVID-19 Related Rent Concessions
- Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform were applied early in 2019. Related disclosures are provided in Note 26 Hedge Accounting. Application of the above mentioned amendments in 2020 did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

Following standards, amendments and interpretations have not yet been endorsed by the EU until 19 February 2021:

- IFRS 17: Insurance contracts
- Annual Improvements to IFRSs 2018-2020 Cycle
- Amendments to IAS 1: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2. The amendments were issued in August 2020 and are effective for annual periods beginning on or after 1 January 2021. The amendments introduce a practical expedient that modifications of financial assets and financial liabilities required by the reform are accounted for by updating the effective interest rate. A similar practical expedient is provided for lessee accounting applying IFRS 16. Regarding hedge accounting the hedge designation and documentation is amended and the effects of the benchmark rate change are included in the measurement of the hedging instrument and the hedged item. IFRS 7 disclosures requirements have been extended in order to allow users to understand the nature, extent and management of risks arising from the IBOR reform as well as progress in transitioning to alternative benchmark rates.

Application of these amendments will simplify the treatment compared to previous IFRS requirements which would have led to a more complex modification gain/loss or derecognition accounting or hedge accounting discontinuations. The less complex treatment is not expected to have a significant impact on the Group's financial statements. However, the amendments will result in new disclosures.

The Group has decided not to apply the amendments early since no replacement of the benchmark rates occurred in 2020. Centrally cleared derivatives were subject to switch in the discounting curve since the cash collateral remuneration changed for the new overnight benchmark rates. However, the valuation effect was compensated by one-off payments without affecting the value of hedging derivatives. Also, there was no change in the designated interest rate risk portion on the hedged items. As a result, the hedge designations and documentations were not considered to be affected by the reform during 2020.

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.

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 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 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 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.

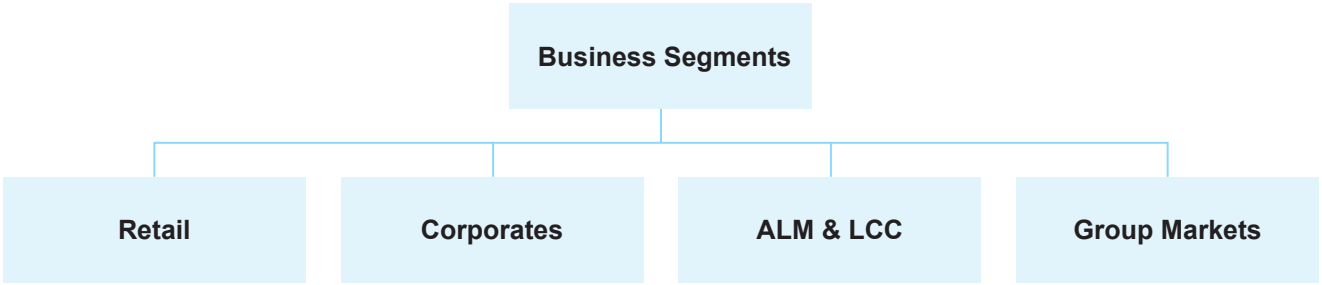
PERFORMANCE / RETURN

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., Energie ČS, a.s., CS Seed Starter, a.s., VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci 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., Erste Leasing, a.s., REICO investiční společnost České spořitelny, a.s., s Autoleasing, a.s., s Autoleasing SK, s.r.o. and Erste Grantika Advisory, a.s.

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, Czech TOP Venture Fund B.V., 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. and Bankovní identita a.s.

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	18,565	20,297	6,452	6,863	3,611	2,162	471	939	29,099	30,261
Net fee and commission income	5,931	6,473	1,419	1,521	(440)	(795)	1,333	1,392	8,243	8,591
Dividend income	-	-	-	-	57	65	-	-	57	65
Net trading result	1,000	1,267	629	812	(209)	(18)	486	609	1,906	2,670
Gains/losses from financial instruments at FVPL	11	1	-	1	587	(11)	-	-	598	(9)
Net result from equity method investments	-	-	-	-	31	105	-	-	31	105
Rental income from investment properties & other operating leases	7	9	174	168	32	39	-	-	213	216
General administrative expenses	(15,200)	(15,333)	(2,922)	(2,989)	(413)	(411)	(575)	(619)	(19,110)	(19,352)
thereof: depreciation and amortization	(2,413)	(2,301)	(269)	(259)	(10)	10	(57)	(54)	(2,749)	(2,604)
Gains/losses from derecognition of financial assets at AC	-	(1)	-	-	-	7	-	-	-	6
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	(1)	(28)	-	-	(1)	(28)
Impairment result from financial instruments	(4,357)	(547)	(3,521)	715	25	18	(77)	(26)	(7,930)	160
Other operating result	42	142	(282)	(277)	(71)	(335)	(300)	(217)	(611)	(687)
Pre-tax result from continuing operations	**5,999**	**12,308**	**1,949**	**6,814**	**3,209**	**798**	**1,338**	**2,078**	**12,495**	**21,998**
Taxes on income	(1,117)	(2,291)	(421)	(1,336)	(686)	(207)	(254)	(395)	(2,478)	(4,229)
Net result for the period	**4,882**	**10,017**	**1,528**	**5,478**	**2,523**	**591**	**1,084**	**1,683**	**10,017**	**17,769**
Net result attributable to non-controlling interests	-	-	-	-	(11)	(26)	-	-	(11)	(26)
Net result attributable to owners of the parent	**4,882**	**10,017**	**1,528**	**5,478**	**2,512**	**565**	**1,084**	**1,683**	**10,006**	**17,743**
Operating income	25,514	28,047	8,674	9,365	3,669	1,547	2,290	2,940	40,147	41,899
Operating expenses	(15,200)	(15,333)	(2,922)	(2,989)	(413)	(411)	(575)	(619)	(19,110)	(19,352)
Operating result	**10,314**	**12,714**	**5,752**	**6,376**	**3,256**	**1,136**	**1,715**	**2,321**	**21,037**	**22,547**
Risk-weighted assets (credit risk, pillar 1, eop)	152,733	164,219	289,409	272,530	17,199	15,672	6,042	9,691	465,383	462,112
Average allocated capital	23,422	25,597	27,224	24,657	92,044	77,454	2,751	2,553	145,441	130,261
Cost/income ratio	59.60%	54.70%	33.70%	31.90%	11.30%	26.60%	25.10%	21.10%	47.60%	46.20%
Return on allocated capital	20.80%	39.10%	5.60%	22.20%	2.70%	0.80%	39.40%	65.90%	6.90%	13.60%
Total assets (eop)	525,541	506,149	294,870	290,758	702,130	640,571	15,239	21,278	1,537,780	1,458,756
Total liabilities excluding equity (eop)	846,902	748,350	209,555	194,397	52,277	66,429	279,700	312,135	1,388,434	1,321,311

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	2020	2019
Interest and other similar income		
Financial assets at fair value through other comprehensive income	390	552
Financial assets at amortised cost	31,866	37,714
Interest income	**32,256**	**38,266**
Financial assets held for trading	4,798	3,843
Non-trading financial assets at fair value through profit or loss	13	17
Derivatives – Hedge accounting, interest rate risk	182	(479)
Other assets	71	80
Negative interest from financial liabilities	214	163
Other similar income	**5,278**	**3,624**
Total interest and other similar income	**37,534**	**41,890**
Interest and other similar expense		
Financial liabilities at amortised cost	(3,944)	(8,024)
Interest expenses	**(3,944)**	**(8,024)**
Financial liabilities at fair value through profit or loss	(5)	(1)
Financial liabilities held for trading	(4,310)	(3,352)
Derivatives – Hedge accounting, interest rate risk	18	14
Other liabilities	(49)	(164)
Negative interest from financial assets	(145)	(102)
Other similar expenses	**(4,491)**	**(3,605)**
Total interest and other similar expense	**(8,435)**	**(11,629)**
Net interest income	**29,099**	**30,261**

Interest income on impaired financial assets amounted to CZK 408 million (2019: CZK 273 million). In addition modification gains or losses of financial instruments allocated to Stage 1 in the amount of CZK 287 million (2019: CZK 0 million) is reported in line item 'Financial assets at AC'. 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.

in CZK million	2020		2019	
	Income	Expenses	Income	Expenses
Securities	1,567	(117)	1,367	(109)
Clearing and settlement	-	(4)	-	-
Asset management	1,307	(33)	1,157	(51)
Custody	274	(41)	326	(37)
Payment services	3,602	(545)	4,040	(490)
Customer resources distributed but not managed	1,474	(10)	1,862	(185)
Insurance products	1,474	(10)	1,512	(10)
Building society brokerage	-	-	350	(175)
Lending business	1,135	(371)	1,016	(341)
Other	608	(603)	419	(383)
Total fee and commission income and expenses	**9,967**	**(1,724)**	**10,187**	**(1,596)**
Net fee and commission income	**8,243**		**8,591**	

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 and amount to CZK 2,086 billion (2019: CZK 1,000 billion).

Net fee and commission income above include income of CZK 3,217 million (2019: CZK 726 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	2020	2019
Non-trading financial assets at fair value through profit or loss	54	54
Financial assets at cost	-	1
Financial assets at fair value through other comprehensive income	3	10
Dividend income	**57**	**65**

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	2020	2019
Securities and derivatives trading	133	680
Foreign exchange transactions	1,725	1,868
Gains or losses from hedge accounting	48	122
Net trading result	**1,906**	**2,670**

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	2020	2019
Realised and unrealised gains on trading assets	270	481
Foreign exchange trading	173	164
Total	**443**	**645**

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	2020	2019
Result from measurement/sale of financial assets designated at fair value through profit or loss	14	(14)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(28)	(54)
Result from financial assets and liabilities designated at fair value through profit or loss	**(14)**	**(68)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	612	59
Gains/losses from financial instruments measured at fair value through profit or loss	**598**	**(9)**

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'. For further details refer to Note 12 Other operating result.

in CZK million	2020	2019
Investment properties	174	168
Other operating leases	39	48
Rental income from investment properties & other operating leases	**213**	**216**

8. General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment. Furthermore, restructuring provision expenses are part of personnel expenses. The other personnel expenses include mainly employee benefits for pensions, employee benefit programmes and jubilee benefits.

Detailed information about remuneration of management including performance-linked remuneration can be found in Note 49 Related-party transactions and principal shareholders.

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	2020	2019
Personnel expenses	**(9,892)**	**(10,156)**
Wages and salaries	(6,992)	(7,306)
Compulsory social security	(2,249)	(2,293)
Other personnel expenses	(651)	(557)
Other administrative expenses	**(6,469)**	**(6,592)**
Deposit insurance contribution	(268)	(266)
IT expenses	(3,097)	(2,902)
Expenses for office space	(750)	(744)
Office operating expenses	(665)	(619)
Advertising / marketing	(834)	(1,006)
Legal and consulting costs	(268)	(305)
Sundry administrative expenses	(587)	(750)
Depreciation and amortization	**(2,749)**	**(2,604)**
Software and other intangible assets	(1,042)	(1,052)
Owner occupied real estate	(656)	(579)
Investment property	(61)	(63)
Office furniture and equipment and sundry property and equipment	(427)	(399)
Right of use asset	(563)	(511)
General administrative expenses	**(19,110)**	**(19,352)**

Personnel expenses include expenses of CZK 2,249 million (2019: CZK 2,293 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	2020	2019
Remuneration	106	96

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.

Average headcount of full time employees per reporting date

in CZK million	2020	2019
Staff	9,892	9,873

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	2020	2019
Gains from sale of financial assets at amortised cost	-	9
Losses from sale of financial assets at amortised cost	-	(3)
Gains/losses from derecognition of financial assets measured at amortised cost	**-**	**6**

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	2020	2019
Other gains from sale of financial assets at fair value through other comprehensive income	(1)	(28)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(1)**	**(28)**

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.

in CZK million	2020	2019
Financial assets at fair value through other comprehensive income	(66)	(9)
Financial assets at amortised cost	(7,425)	(626)
Net allocation to risk provisions	(7,898)	(1,490)
Direct write-offs	(9)	(17)
Recoveries recorded directly to the income statement	569	881
Modification losses	(87)	-
Finance lease receivables	13	21
Net allocation of provisions for commitments and guarantees given	(452)	774
Impairment result from financial instruments	**(7,930)**	**160**

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	2020	2019
Other operating expenses	**(791)**	**(691)**
Allocation to other provision	(3)	(2)
Other taxes	(18)	(7)
Recovery and Resolution fund contributions	(770)	(682)
Other operating income	**48**	**89**
Release of other provision	48	89
Result from properties/movables/other intangible assets other than goodwill	**107**	**64**
Result from other operating expenses/income	**25**	**(149)**
Other operating result	**(611)**	**(687)**

In 2020 the Group released the impairment of the HQ buildings in Prague of CZK 166 million. No indications for impairment were identified in 2019.

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 2020 the final annual contributions paid to resolution fund of CZK 770 million (2019: CZK 682 million) was reported within the line "Recovery and resolution fund contributions".

Result from other operating expenses/ income includes sales of electricity and gas by former subsidiary Energie ČS, a.s. of CZK 3,242 million (2019: CZK 1,789 million), the related cost of sales for 2020 were CZK 3,130 million (2019: CZK 1,673 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	2020	2019
Current tax expense / income	(3,124)	(4,390)
current period	(3,076)	(4,346)
prior period	(48)	(44)
Deferred tax expense / income (+)	646	161
current period	646	161
Total taxes on income	**(2,478)**	**(4,229)**

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	2020	2019
Pre-tax profit/loss	12,495	21,998
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(2,374)	(4,180)
Non-taxable income	1,061	327
Non-deductible expenses	(1,143)	(366)
Other	(35)	32
Prior period over/(under) accrual	17	(42)
Total	**(2,478)**	**(4,229)**
Effective tax rate	**19.83%**	**19.23%**

Tax effects relating to each component of other comprehensive income:

	2020			2019		
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 equity instrument	-	-	-	419	(79)	340
Fair value reserve on debt instrument	72	(14)	58	273	(52)	221
Own credit risk reserve	(1)	-	(1)	1	-	1
Cash flow hedge reserve	3,675	(698)	2,977	(637)	121	(516)
Currency translation	16	-	16	(7)	-	(7)
Other comprehensive income	**3,762**	**(712)**	**3,050**	**49**	**(10)**	**39**

Major components of deferred tax assets and deferred tax liabilities

	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**		

	Tax assets		Tax liabilities		Net variance 2019		
In CZK million	**Dec 2019**	**Jan 2019**	**Dec 2019**	**Jan 2019**	**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	-	-	(67)	(15)	(52)	-	(52)
Financial assets at FVOCI	-	-	(63)	(195)	132	211	(79)
Financial assets at AC	233	295	-	-	(62)	(62)	-
Property and equipment (useful life in tax law different)	234	236	-	-	(2)	(2)	-
Intangible assets other than goodwill	-	-	(16)	(8)	(8)	(8)	-
Hedge accounting derivatives	496	375	-	-	121	-	121
Other assets and liabilities	147	80	(46)	-	21	21	-
Total deferred taxes	**1,110**	**986**	**(192)**	**(218)**	**150**	**160**	**(10)**
Current taxes	**9**	**499**	**(327)**	**(69)**	**(748)**		
Total taxes	**1,119**	**1,485**	**(519)**	**(287)**	**(598)**		

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 66 million (2019: CZK 150 million) an amount of CZK –646 million (2019: CZK 160 million) is reflected as net deferred tax income in the Group's income statement for the year 2020, whilst an expense amount of CZK 712 million (2019: expense CZK 10 million) represents the impact in the Group's other comprehensive income for the year. Deferred tax expense in 2019 of CZK 211 million representing accumulated OCI in respect of deferred tax recognized for cumulative changes in the fair value of FVOCI equity instruments sold during the year has been transferred into retained earnings, consequent to the related temporary differences reversing upon sale.

The Group's deferred tax asset position in amount of CZK 853 million as of 31 December 2020 (2019: CZK 918 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 - with fiscal profit forecasts for a time horizon of a maximum 5 years.

14. Appropriation of profit

In the reporting period, the Group posted a post-tax profit of CZK 10,017 million under the Czech accounting regulations, which increased its distributable capital accordingly (2019: CZK 17,769 million). The equity increased accordingly.

Due to high uncertainty regarding further economic developments, CNB adopted stabilising measures in connection with the corona-virus epidemic in the last year, which includes among others also recommendation to refrain from any dividend payouts or any other steps that might jeopardise individual banks' resilience. As a result and based on the sole shareholder decision from 23 April 2020, no dividend was paid for 2019 except for payment of coupons on AT1 instruments in the amount of CZK 1,068 million.

The decision of a profit allocation for 2020 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 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 (a Day 1 profit) in the income statement in line item 'Net trading result'.

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 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 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 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 9,449 million (2019: CZK 7,374 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	2020	2019
Cash on hand	20,021	25,348
Cash balances at central banks	16,276	13,254
Other deposits on demand	1,778	1,924
Cash and cash balances	**38,075**	**40,526**

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 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 2020 and 2019 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
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**
2019									
General governments	206,643	-	-	206,643	(10)	-	-	(10)	206,633
Credit institutions	12,274	-	-	12,274	(7)	-	-	(7)	12,267
Non-financial corporations	3	4	-	7	-	-	-	-	7
Total	**218,920**	**4**	**-**	**218,924**	**(17)**	**-**	**-**	**(17)**	**218,907**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2020 and 2019.

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	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	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)**
	Jan 2019						**Dec 2019**
Stage 1	(16)	(1)	2	-	(2)	-	(17)
Total	**(16)**	**(1)**	**2**	**-**	**(2)**	**-**	**(17)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized in the table below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	456	-
To Stage 1 from Stage 2	659	-

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2020 and not sold by 31 December 2020 amounts to CZK 42,194 million (2019: CZK 1,491 million). The GCA of AC debt securities that were held at 1 January 2020 and de-recognized (matured/sold) during the year 2020 amounts to CZK 16,421 million (2019: CZK 26,281 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 2020 and 2019 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
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**
2019									
Central banks	393,062	-	-	393,062	(2)	-	-	(2)	393,060
Credit institutions	18,598	-	-	18,598	(8)	-	-	(8)	18,590
Total	**411,660**	**-**	**-**	**411,660**	**(10)**	**-**	**-**	**(10)**	**411,650**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020 and 2019.

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	As of
	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)**
	Jan 2019					**Dec 2019**
Stage 1	(12)	(635)	573	-	64	(10)
Stage 2	-	(8)	10	-	(2)	-
Total	**(12)**	**(643)**	**583**	**-**	**62**	**(10)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 435,285 million (2019: CZK 410,687 million). The GCA of AC loans and advances to banks that were held at 1 January 2020 and fully de-recognized (matured) during the year 2020 amounts to CZK 403,717 million (2019: CZK 387,686 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 2020 and 2019 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**
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**
2019											
General governments	20,184	1,117	-	-	21,301	(13)	(11)	-	-	(24)	21,277
Other financial corporations	16,968	55	3	-	17,026	(26)	(1)	(2)	-	(29)	16,997
Non-financial corporations	240,013	18,323	6,109	748	265,193	(954)	(783)	(4,130)	(466)	(6,333)	258,860
Households	406,891	16,529	5,906	63	429,389	(716)	(1,048)	(3,999)	(21)	(5,784)	423,605
Total	**684,056**	**36,024**	**12,018**	**811**	**732,909**	**(1,709)**	**(1,843)**	**(8,131)**	**(487)**	**(12,170)**	**720,739**

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 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)**
	Jan 2019							Dec 2019
Stage 1	**(1,962)**	**(1,515)**	**501**	**1,166**	**96**	**1**	**4**	**(1,709)**
General governments	(4)	(6)	2	13	(18)	-	-	(13)
Other financial corporations	(27)	(79)	82	1	(3)	-	-	(26)
Non-financial corporations	(1,163)	(1,166)	293	594	484	-	4	(954)
Households	(768)	(264)	124	558	(367)	1	-	(716)
Stage 2	**(1,905)**	**(332)**	**276**	**(1,312)**	**1,416**	**11**	**3**	**(1,843)**
General governments	(39)	-	3	(3)	28	-	-	(11)
Other financial corporations	(3)	(31)	7	-	26	-	-	(1)
Non-financial corporations	(770)	(49)	182	(521)	371	1	3	(783)
Households	(1,093)	(252)	84	(788)	991	10	-	(1,048)
Stage 3	**(7,934)**	**(92)**	**743**	**(569)**	**(1,380)**	**1,083**	**18**	**(8,131)**
Other financial corporations	(6)	-	-	-	1	3	-	(2)
Non-financial corporations	(4,508)	(31)	323	(222)	(280)	570	18	(4,130)
Households	(3,420)	(61)	420	(347)	(1,101)	510	-	(3,999)
POCI	**(244)**	**-**	**37**	**-**	**(287)**	**5**	**2**	**(487)**
Non-financial corporations	(242)	-	36	-	(266)	4	2	(466)
Households	(2)	-	1	-	(21)	1	-	(21)
Total	**(12,045)**	**(1,939)**	**1,557**	**(715)**	**(155)**	**1,100**	**27**	**(12,170)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 220 million cumulatively for the year 2020 (2019: CZK 173 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 2020 to a different stage compared to 1 January 2020 (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
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**
2019								
General governments	100	286	-	-	-	-	-	-
Other financial corporations	52	64	-	-	-	-	-	-
Non-financial corporations	12,969	7,903	706	103	1,091	189	17	20
Households	10,616	7,847	990	145	1,807	375	-	1
Total	**23,737**	**16,100**	**1,696**	**248**	**2,898**	**564**	**17**	**21**

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 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 192,981 million (2019: CZK 180,770 million). The GCA of the AC loans and advances to customers that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to CZK 108,868 million (2019: CZK 110,314 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 2020 amounted to CZK 497 million (2019: CZK 98 million).

17. Debt instruments subject to contractual modifications

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

in CZK million	2020		2019	
	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)**	**-**	**-**

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
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**
2019									
General governments	84	2	-	86	-	(2)	-	(2)	84
Credit institutions	18	12	6	36	-	(12)	(6)	(18)	18
Other financial corporations	277	1	-	278	-	(1)	-	(1)	277
Non-financial corporations	4,279	1,082	225	5,586	(21)	(10)	(222)	(253)	5,333
Households	78	115	30	223	-	(109)	(29)	(138)	85
Total	**4,736**	**1,212**	**261**	**6,209**	**(21)**	**(134)**	**(257)**	**(412)**	**5,797**

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 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)**
	Jan 2019							**Dec 2019**
Stage 1	(13)	(10)	6	-	(5)	-	1	(21)
Stage 2	(278)	(8)	-	-	2	150	-	(134)
Stage 3	(312)	(1)	91	(26)	(10)	1	-	(257)
Total	**(603)**	**(19)**	**97**	**(26)**	**(13)**	**151**	**1**	**(412)**

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	2020	2019
Deposits	1,188,001	1,285,368
Deposits from banks	91,335	292,111
Deposits from customers	1,096,666	993,257
Debt securities issued	169,498	5,634
Bonds	169,498	5,634
Other financial liabilities	3,071	3,987
Financial liabilities measured at amortised costs	**1,360,570**	**1,294,989**

In 2020 Other financial liabilities included mainly payables to card associations of CZK 484 million (2019: CZK 1,102 million), unbilled supplies of CZK 843 million (2019: CZK 1,067 million) and received margin for futures of CZK 724 million.

Deposits from banks

in CZK million	2020	2019
Overnight deposits	4,338	6,262
Term deposits	20,785	21,276
Repurchase agreements	66,212	264,573
Deposits from banks	**91,335**	**292,111**

Deposits from customers

in CZK million	2020	2019
Current accounts/Overnight deposits	956,093	817,981
General governments	65,723	63,258
Other financial corporations	24,434	27,618
Non-financial corporations	151,033	119,227
Households	714,903	607,878
Term deposits	107,285	143,864
General governments	768	7,016
Other financial corporations	17,407	18,039
Non-financial corporations	3,247	20,097
Households	85,863	98,712
Repurchase agreements	33,288	31,412
General governments	62	236
Other financial corporations	33,066	31,176
Non-financial corporations	160	-
Deposits from customers	**1,096,666**	**993,257**
General governments	66,553	70,510
Other financial corporations	74,907	76,833
Non-financial corporations	154,440	139,324
Households	800,766	706,590

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	2020	2019
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	438	440
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	41	51
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	5,002	4,729
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	408	414
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						**169,498**	**5,634**

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in the table above.

Assets in cover pools used for covered bond issuance amounted to CZK 157,615 million (2019: CZK 143,060 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

	2020			2019		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the trading book	**781,688**	**10,738**	**(10,274)**	**793,372**	**9,003**	**(8,387)**
Interest rate	447,128	6,912	(6,611)	400,945	5,619	(5,125)
Foreign exchange	334,560	3,826	(3,663)	392,427	3,384	(3,262)
Derivatives held in the banking book	**90,753**	**543**	**(2,621)**	**56,524**	**565**	**(1,407)**
Interest rate	20,763	321	(17)	7,579	413	(11)
Foreign exchange	69,990	222	(2,604)	48,945	152	(1,396)
Total	**872,441**	**11,281**	**(12,895)**	**849,896**	**9,568**	**(9,794)**

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).

Hedge accounting derivatives held

in CZK million	2020			2019		
	Notional value	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**6,661**	**160**	**(12)**	**9,194**	**154**	**(3)**
Interest rate	6,661	160	(12)	9,194	154	(3)
Cash flow hedge	**107,037**	**2,494**	**(255)**	**118,383**	**826**	**(2,177)**
Interest rate	72,024	2,237	(22)	84,482	508	(1,834)
Foreign exchange	35,013	257	(233)	33,901	318	(343)
Total	**113,698**	**2,654**	**(267)**	**127,577**	**980**	**(2,180)**

21. Other financial assets held for trading

in CZK million	2020	2019
Debt securities	101	137
General governments	24	91
Credit institutions	74	44
Other financial corporations	3	2
Other financial assets held for trading	**101**	**137**

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

	2020		2019	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	982	-	744
Debt securities	-	1,025	265	1,082
Credit institutions	-	-	265	-
Other financial corporations	-	1,025	-	1,082
Loans and advances to banks	-	443	-	645
Loans and advances to customers	-	40	-	795
Non-financial corporations	-	40	-	795
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**2,490**	**265**	**3,266**
Non-trading financial assets at fair value through profit or loss	**2,490**		**3,531**	

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 Group has designated debt securities at FVPL. The maximum exposure to credit risk on these securities is its fair value.

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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Deposits	3,784	3,557	3,637	3,402	147	155
Financial liabilities at FVPL	**3,784**	**3,557**	**3,637**	**3,402**	**147**	**155**

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	
	2020	**2019**	**2020**	**2019**
Financial liabilities – at fair value through profit or loss				
Deposits from customers	1	(1)	(3)	(5)

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'.

Equity instruments

The carrying amount of the Group's equity instruments at FVOCI as at 31 December 2020 amounts to CZK 0 million (2019: CZK 0 million). These equity instruments were unlisted instruments denominated in USD (US based issuers) and their portfolio was sold during 2019.

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 2020 and 2019 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**
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**
2019											
Debt securities											
General governments	7,567	-	-	7,567	(1)	-	-	(1)	7,566	204	7,771
Credit institutions	3,307	-	-	3,307	(2)	-	-	(2)	3,305	13	3,320
Other financial corporations	1,148	708	-	1,856	(1)	(16)	-	(17)	1,839	87	1,943
Non-financial corporations	6,256	1,829	-	8,085	(9)	(31)	-	(40)	8,045	47	8,132
Total	**18,278**	**2,537**	**-**	**20,815**	**(13)**	**(47)**	**-**	**(60)**	**20,755**	**351**	**21,166**

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 2020 and 2019.

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 2020					Dec 2020
Stage 1	(12)	(2)	1	-	6	(7)
Stage 2	(47)	-	-	(74)	2	(119)
Total	**(59)**	**(2)**	**1**	**(74)**	**8**	**(126)**
	Jan 2019					Dec 2019
Stage 1	(11)	(3)	2	-	-	(12)
Stage 2	(40)	(2)	1	(46)	40	(47)
Total	**(51)**	**(5)**	**3**	**(46)**	**40**	**(59)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	5,264	622
To Stage 1 from Stage 2	-	-

C) FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

25. Fair value of financial instruments

Determination of fair value

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.

Fair values of financial instruments

All financial instruments 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

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.

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 where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. 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.

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 (103) million (2019: CZK (137) million) and the total DVA-adjustment amounted to CZK 27 million (2019: CZK 24 million).

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. 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.

These include exchange traded derivatives (futures, 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.

These 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. For Level 3 valuations besides observable parameters 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.

These include shares, participations and funds not quoted, illiquid bonds as well as loans, own issues and deposits.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

	2020				2019			
In CZK million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS								
Financial assets – held for trading	19	11,263	100	11,382	82	9,452	171	9,705
Derivatives	-	11,182	99	11,281	-	9,397	171	9,568
Other trading assets	19	81	1	101	82	55	-	137
Non-trading financial assets – FVPL	81	-	2,409	2,490	39	265	3,227	3,531
Equity instruments	-	-	982	982		-	744	744
Debt securities	81	-	944	1,025	39	265	1,043	1,347
Loans and advances	-	-	483	483	-	-	1,440	1,440
Financial assets - FVOCI	11,564	7,018	2,256	20,838	12,636	7,169	1,361	21,166
Debt securities	11,564	7,018	2,256	20,838	12,636	7,169	1,361	21,166
Derivatives Hedge Accounting	-	2,654	-	2,654	-	961	19	980
Total assets	**11,664**	**20,935**	**4,765**	**37,364**	**12,757**	**17,847**	**4,778**	**35,382**
LIABILITIES								
Financial liabilities held for trading	-	12,836	59	12,895	-	9,777	17	9,794
Derivatives	-	12,836	59	12,895	-	9,777	17	9,794
Financial liabilities designated at fair value through profit or loss	-	3,784	-	3,784	-	3,557	-	3,557
Deposits from customers	-	3,784	-	3,784	-	3,557	-	3,557
Derivatives Hedge Accounting	-	267	-	267	-	2,180	-	2,180
Total liabilities	**-**	**16,887**	**59**	**16,946**	**-**	**15,514**	**17**	**15,531**

The allocation of the appropriate level of positions is determined at the end of the reporting period.

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.

	2020		2019	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	5,264	-	622
Net transfer from Level 2	(5,264)	-	(622)	-
Purchases/sales/expiries	4,171	(5,654)	(16,281)	(409)
Changes in derivatives	-	3,478	-	(503)
Total year-to-date change	**(1,093)**	**3,088**	**(16,903)**	**(290)**

In 2020 the relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements in Level 3 of financial instruments measured at fair value

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 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	-	13	1,036	(2)	-	(152)	2,256
Debt securities	1,361	-	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**
	Jan 2019							**Dec 2019**
Assets								
Financial assets – HfT	349	(29)	-	31	(120)	-	(60)	171
Derivatives	349	(29)	-	31	(120)	-	(60)	171
Non-trading financial assets at fair value through profit or loss	1,160	701	-	904	(116)	578	-	3,227
Equity instruments	755	(10)	-	-	(1)	-	-	744
Debt securities	337	65	-	109	(41)	573	-	1,043
Loans and advances	68	646	-	795	(74)	5	-	1,440
Financial assets – FVOCI	3,229	-	618	-	(1,131)	169	(1,524)	1,361
Equity instruments	1,252	-	562	-	(1,110)	-	(704)	-
Debt securities	1,977	-	56	-	(21)	169	(820)	1,361
Hedge accounting derivatives	33	-	-	19	-	-	(33)	19
Total assets	**4,771**	**672**	**618**	**954**	**(1,367)**	**747**	**(1,617)**	**4,778**

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. In 2020 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:

	2020	2019
in CZK million	**Unrealized gain/ loss in profit or loss**	**Unrealized gain/ loss in profit or loss**
ASSETS		
Financial assets - held for trading	(57)	(29)
Derivatives	(57)	(29)
Non-trading financial assets at fair value through profit or loss	906	701
Equity instruments	259	(10)
Debt securities	164	65
Loans and advances	483	646
Financial assets at fair value through other comprehensive income	6	-
Debt securities	6	-
Hedge accounting derivatives	(18)	-
Total	**837**	**672**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit valuation adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares 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.

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	**2020**	**2019**	**2020**	**2019**
Derivatives	9	4	(3)	(5)
Income statement	9	4	(3)	(5)
Debt securities	22	29	(29)	(38)
Other comprehensive income	22	29	(29)	(38)
Equity instruments	96	59	(191)	(118)
Income statement	96	59	(191)	(118)
Total	**127**	**92**	**(224)**	**(161)**
Income statement	**105**	**63**	**(195)**	**(123)**
Other comprehensive income	**22**	**29**	**(29)**	**(38)**

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 2020 and for the year-end 2019. 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
2020					
ASSETS					
Cash and cash balances	38,075	38,075	-	-	-
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
2019					
ASSETS					
Cash and cash balances	40,526	40,526	-	-	-
Financial assets at amortised costs	1,351,296	1,363,580	211,717	12,107	1,139,757
Loans and advances to banks	411,650	411,975	-	-	411,975
Loans and advances to customers	720,739	727,773	-	-	727,773
Debt securities	218,907	223,832	211,717	12,107	9
Finance lease receivables	1,875	1,875	-	-	1,875
Trade and other receivables	5,797	5,966	-	-	5,966
LIABILITIES					
Financial liabilities measured at amortised costs	1,294,989	1,294,808	-	5,538	1,289,270
Deposits from banks	292,111	295,295	-	-	295,295
Deposits from customers	993,257	989,988	-	-	989,988
Debt securities issued	5,634	5,538	-	5,538	-
Other financial liabilities	3,987	3,987	-	-	3,987
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	911	-	-	911
Irrevocable commitments	n/a	1,908	-	-	1,908

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 and hedges the interest rate risk of repayable loans in respect of the so called bottom layer amount. With this approach, prepayments, other derecognitions and impairments are considered as not affecting the hedge effectiveness unless their amount hits the designated hedged bottom layer level. The change in the fair value of the hedged items attributable to the hedged interest risk 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 129 million (2019: income of CZK 114 million) was taken from the cash flow hedge reserve and recognised in the income statement; while gain of CZK 1,064 million (2019: loss CZK 2,611 million) was recognised directly in other comprehensive income.

As at 31 December 2020, the loss on hedging derivatives used for fair value hedging was CZK 97 million (2019: gain CZK 82 million); the gain due to changes in the fair value of hedged items was CZK 16 million (2019: loss CZK 74 million).

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

	2020		2019	
in CZK million	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Hedging instrument – fair value hedge	160	(12)	154	3
Hedging instrument – cash flow hedge	2,494	(255)	826	2,177
Total	**2,654**	**(267)**	**980**	**2,180**

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**

At the end of 2019 the Group had 250 cash flow hedge structures with maturity from 2020 to 2027. 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
2020	1,000	110	-
2021	9,910	558	-
2022	9,600	156	-
2023	19,550	319	50
2024	12,100	133	-
2025	24,100	41	-
2026	1,797	109	-
2027	3,200	-	-
Total	**81,257**	**1,426**	**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 2020 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
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**
2019								
Fair value hedges								
Interest rate risk	153	(3)	-	9,194	-	-	8,994	200
Cash flow hedges								
Interest rate risk	508	(1,835)	605	84,482	-	1,000	54,342	29,140
Foreign exchange risk	319	(342)	32	33,901	254	1,326	28,449	3,872
Total	**980**	**(2,180)**	**637**	**127,577**	**254**	**2,326**	**91,785**	**33,212**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

in CZK million	Carrying amount	Hedge adjustments: included in the carrying amount of assets/liabilities	Hedge adjustments: Thereof: for the period used for recognition of hedge ineffectiveness	Hedge adjustments: Remaining adjustments for terminated hedges
2020				
Liabilities				
Financial liabilities at AC				
Interest rate risk	6,750	(188)	-	(6)
2019				
Liabilities				
Financial liabilities at AC				
Interest rate risk	9,076	(182)	(71)	(9)

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
2020				
Interest rate risk		(2,952)	(1,720)	(32)
Foreign exchange risk		(3)	656	11
Total		**(2,955)**	**(1,064)**	**(21)**
2019				
Interest rate risk		605	1,468	(16)
Foreign exchange risk		32	1,159	-
Total		**637**	**2,627**	**(16)**

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

in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	Cash flow hedge reclassified to profit or loss because: the hedged item has affected profit or loss	Cash flow hedge reclassified to profit or loss because: the hedged future cash flows are no longer expected to occur
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)**
2019				
Fair value hedges				
Interest rate risk	(8)	-	-	-
Cash flow hedges				
Interest rate risk	(114)	617	11	(47)
Foreign exchange risk	-	20	-	-
Total	**(122)**	**637**	**11**	**(47)**

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

27. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets subject to offsetting and potential offsetting agreements

			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
2020						
Derivatives (Note 20)	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**
2019						
Derivatives (Note 20)	10,547	10,547	6,065	347	-	4,135
Reverse repurchase agreements (Note 16)	395,161	395,161	-	-	392,612	2,549
Other financial instruments	52,976	52,976	-	-	52,976	-
Total	**458,684**	**458,684**	**6,065**	**347**	**445,588**	**6,684**

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
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**
2019						
Derivatives (Note 20)	11,974	11,974	6,065	209	-	5,700
Repurchase agreements (Note 19)	295,986	295,986	-	-	295,986	-
Total	**307,960**	**307,960**	**6,065**	**209**	**295,986**	**5,700**

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'.

	2020		2019	
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	38,114	36,088	46,702	44,676
Trading assets	-	-	8	8
Total – repurchase agreements	**38,114**	**36,088**	**46,710**	**44,684**
Securities lendings				
Financial assets at AC	19,669	-	52,976	-
Total - securities lendings	**19,669**	**-**	**52,976**	**-**
Total	**57,783**	**36,088**	**99,686**	**44,684**

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

The total amount of CZK 38,114 million (2019: CZK 46,710 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 36,088 million (2019: CZK 44,684 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.

	2020			2019		
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	39,732	36,095	3,637	47,984	44,668	3,316
Trading assets	-	-	-	8	7	1
Total	**39,732**	**36,095**	**3,637**	**47,992**	**44,675**	**3,317**

29. Collateral

Carrying amount of financial assets pledged as collaterals

in CZK million	2020	2019
Financial assets at AC	70,302	111,981
Trading assets	-	8
Total	**70,302**	**111,989**

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 199,034 million (2019: CZK 201,447 million). Collateral with fair value of CZK 63,450 million (2019: CZK 251,127 million) was resold. Collateral with fair value of CZK 171,861 million (2019: CZK 0 million) was repledged. The Bank is obliged to return the resold and repledged collateral.

30. Securities

	2020					2019				
			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	**254,700**	**101**	**1,025**	**-**	**20,838**	**218,907**	**137**	**509**	**838**	**21,166**
Listed	235,406	19	81	-	11,564	206,944	82	39	-	12,636
Unlisted	19,294	82	944	-	9,274	11,963	55	470	838	8,530
Equity-related securities	**-**	**-**	**982**	**-**	**-**	**-**	**-**	**744**	**-**	**-**
Unlisted	-	-	982	-	-	-	-	744	-	-
Total	**254,700**	**101**	**2,007**	**-**	**20,838**	**218,907**	**137**	**1,253**	**838**	**21,166**

RISK AND CAPITAL MANAGEMENT

31. 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.

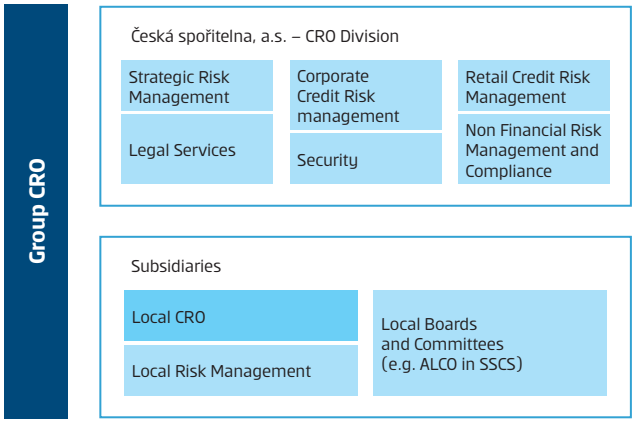
The Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent 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 Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the Bank at www. https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB.

Risk management organization



Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

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, Enterprise wide 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 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

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the 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 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 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 for 2020 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 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 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 2020 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 and reputational risk are explicitly considered within the economic capital requirements via internal models in the context of Pillar 2. At the end of 2020, the economic capital adequacy was at 40.8% (2019: 45.9%). 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.

Credit risk accounts for 65.1% of total economic capital requirements at the end of 2020 (2019: 64.5%). Reflecting conservative risk management policy and strategy, the group does not offset diversification effects between the risk types. Starting with 2019, the economic capital requirements for unexpected losses are computed on a one-year time horizon with a 99.92% confidence level, ensuring group-wide consistency (across Erste Group Bank and local entities) and coherence between ICAAP and processes where ICAAP is integrated.

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 %	2020	2019
Credit risk	65.10%	64.50%
Market risk	21.50%	14.70%
Operational risk	7.70%	8.10%
Other risks	5.70%	12.70%

Other risks include business 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 CNB 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") is under approval process and the endorsement is expected during 2021. 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 2020 and as of 31 December 2019:

in CZK million	2020	2019
Tier 1 capital	127,854	110,628
Tier 1 + Tier 2 capital	130,446	112,790
Exposure to credit risk	471,047	458,983
Exposure to market risk	4,943	7,545
Exposure to operational risk	51,482	51,630
Total risk exposure	**527,472**	**518,158**
Capital adequacy ratio for the year (Tier 1 ratio)	**24.2%**	**21.4%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**24.7%**	**21.8%**

*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 2020 and 2019.

Regulatory Scope of Application

Among others, the Bank 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 2014, the Bank has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirement Directive - CRD IV for short). The CRD IV was enacted in national law in the Banking Act and the CNB´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 EBA are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Bank 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 (for details see the following chapter "Comparison of consolidation for accounting purposes and regulatory purposes" for items where the regulatory treatment is not equal to the accounting requirements).

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Scope of Consolidation

Details regarding the financial scope of consolidation are disclosed in chapter "Scope of consolidation" especially under section "Basis of consolidation".

Regulatory scope of consolidation

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the Banking Act:

- Based on the CRR mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, must be included in the scope of consolidation, as far as they fall under IFRS 10.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 Million or 1% of the total amount and off-balance sheet items of the parent company. The Group makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. The Group does not apply Article 19 (2) CRR.

The difference between the accounting and the regulatory scope of consolidation shows in the difference between the IFRS balance sheet and the regulatory balance sheet as shown in the section Balance sheet reconciliation below.

Consolidation methods

For the calculation of consolidated own funds, the Group generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. The Group does not apply proportional consolidation for any entity.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope

of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. The Group made use of Article 84 CRR. Amounts that relate to minority interests in other comprehensive income are included in the consolidated own funds of the Group according to the CRR provisions.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of the Group

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art, 56 (c) and 59 CRR and Tier 2 items according to Art, 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

The Group did not exceed any of the aforementioned thresholds at the reporting date. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of the Group and therefore are considered in RWAs.

Threshold calculations according to Articles 46 and 48 CRR

in CZK million	2020	2019
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	11,764	9,817
Holdings in CET1	(968)	(709)
Distance to threshold	**10,796**	**9,108**
Significant investments in financial sector entities		
Threshold (10% of CET1)	11,764	9,817
Holdings in CET1	(785)	(2)
Distance to threshold	**10,979**	**9,815**
Deferred tax assets		
Threshold (10% of CET1)	11,764	9,817
Deferred tax assets that are dependent on future profitability and arise from temporary differences	(1,310)	(1,370)
Distance to threshold	**10,454**	**8,447**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	20,763	17,327
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(2,094)	(1,372)
Distance to threshold	**18,669**	**15,955**

Presentation of the scope of consolidation

Number of entities within the different scopes of consolidation

	IFRS		CRR			
	Full	Equity	Full	Proportional	De Minimis	Equity
2020						
Credit institutions	2	-	2	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	14	-	14	-	2	-
Ancillary service undertakings, investment firms and asset management companies	7	2	5	-	3	-
Others	3	-	-	-	-	-
2019						
Credit institutions	2	-	2	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	11	-	11	-	2	-
Ancillary service undertakings, investment firms and asset management companies	7	1	6	-	3	-
Others	5	-	-	-	-	-

The number of companies consolidated pursuant to IFRS was 26 as of 31 December 2020 (2019: 26). The number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR), was 21 as of 31 December 2020 (2019: 19).

Impediments to the transfer of own funds

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the credit institutions of the Group.

Total capital shortfall of all subsidiaries not included in the consolidation

As of 31 December 2020, there was no capital shortfall at any of the companies included in consolidation of the Group.

Own funds

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

The regulatory minimum capital ratios including the regulatory buffers as of December 2020 amount to 11.4% for CET 1 (4.5% for CET1, 2.5% capital conservation buffer, 3.0% buffer for systemic vulnerability and for systemic concentration risk and 1.44% countercyclical capital buffer), 12.9% for tier 1 capital (sum from CET1 and AT1) and 14.9% 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 CNB´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 CNB´s decision the Group has to establish a systemic risk buffer in the amount of 3%.

The capital buffer requirement for the countercyclical capital buffer is regulated as follows:

- The institution specific request for the countercyclical buffer results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated multiplied by the total amount of risk in accordance with Art. 92 (3), of CRR.
- For the calculation of the weighted average the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of CRR.
- If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5%, a rate of 2.5% has to be applied.
- If the responsible third country authority increases a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate; however, this does not apply if the rate decreases.

The CRD IV enables Member States since 2014 to require banks to create and maintain three types of buffers – the capital conservation buffer, the systemic risk buffer and the countercyclical capital buffer. The CNB decided to implement these buffer requirements already during 2014. It adopts a differentiated approach to the individual buffers. As regards the capital conservation buffer, the CNB applies it to all institutions in the full amount of 2.5% of common equity Tier 1 from the start. The systemic risk buffer is applied to only five institutions including the Bank. CNB sets countercyclical capital buffer since 2015.

Overview of capital requirements and buffers

	2020	2019
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.49%	1.44%
O-SII capital buffer	0.00%	0.00%
Systemic risk buffer (SRB)	3.00%	3.00%
Combined buffer requirement (CBR)	5.99%	6.94%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Pillar 2		
Pillar 2 requirement (P2R)	1.40%	1.40%
Total CET 1 requirement for Pillar 1 and Pillar 2	**11.54%**	**12.49%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.39%**	**14.34%**
Total Capital requirement for Pillar 1 and Pillar 2	**15.39%**	**16.34%**

The combined buffer requirement is 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 directive 575/2013 (CRR) for the Group (consolidated)

in CZK million	Article pursuant to CRR	2020	2019
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	15,202	15,202
Own CET1 instruments	36 (1) (f), 42	-	-
Retained earnings	26 (1) (c), 26 (2)	105,175	87,707
Interim profit	26 (2)	2,555	3,154
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	1,064	(1,987)
Other reserve funds	26 (1) (e)	414	401
Prudential filter: cash flow hedge reserve	33 (1) (a)	(862)	2,115
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(3)	(5)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	(27)	(24)
Value adjustments due to the requirements for prudent valuation	34, 105	(56)	(331)
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(5,712)	(5,430)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-	(2,133)
Development of unaudited risk provisions during the year (EU No 183/2014)		(113)	(499)
Common equity tier 1 capital (CET1)	**50**	**117,637**	**98,170**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	17,147	17,147
Additional tier 1 capital (AT1)	**61**	**17,147**	**17,147**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**134,784**	**115,317**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	-	-
IRB excess of provisions over expected losses eligible	62 (d)	2,595	2,226
Other transitional adjustments to T2	476, 477, 478, 481	-	-
Tier 2 capital (T2)	**71**	**2,595**	**2,226**
Total own funds	**4 (1) (118) and 72**	**137,379**	**117,543**
Capital requirement	**92 (3), 95, 96, 98**	**42,885**	**42,710**
CET1 capital ratio	**92 (2) (a)**	**21.94%**	**18.39%**
Tier 1 capital ratio	**92 (2) (b)**	**25.14%**	**21.60%**
Total capital ratio	**92 (2) (c)**	**25.63%**	**22.02%**

The capital structure table above is based on EBA´s final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions, which are not relevant for the Group are not disclosed. Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available. The percentage rates of the transitional provisions refer to the current year.

With the approval granted by the CNB on 11 February 2021, the Group considers the annual profit within its own funds.

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

in CZK million	Article pursuant to CRR	2020 Total risk (calc. base)	2020 Capital requirement	2019 Total risk (calc. base)	2019 Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	536,063	42,885	533,879	42,710
Risk weighted assets (credit risk)	92 (3) (a) (f)	471,703	37,736	464,939	37,195
Standardised approach		39,229	3,138	26,882	2,151
IRB approach		432,474	34,598	438,057	35,045
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	4,942	395	7,545	604
Operational Risk	92 (3) (e), 92 (4) (b)	56,672	4,534	56,748	4,540
Exposure for CVA	92 (3) (d)	2,746	220	4,647	372
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500	-	-	-	-

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 'Risk management organisation'.

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 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 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 2019 and 31 December 2020, the credit risk exposure increased from CZK 1,544 billion to CZK 1,645 billion. This is an increase of 6,6% or CZK 101.4 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
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)	-	N/A
Total	**1,644,720**	**(21,101)**	**356**	**1,474,982**

2019				
Cash and cash balances – demand deposits to credit institutions	1,925	(1)	-	1,924
Debt instruments held for trading	9,705	-	-	9,705
Non-trading debt instruments at FVPL	2,787	-	-	2,787
Debt securities	1,347	-	-	1,347
Loans and advances to banks	645	-	-	645
Loans and advances to customers	795	-	-	795
Debt instruments at FVOCI	20,815	(60)	351	21,166
Debt securities	20,815	(60)	351	21,166
Debt instruments at AC	1,363,493	(12,197)	-	1,351,296
Debt securities	218,924	(17)	-	218,907
Loans and advances to banks	411,660	(10)	-	411,650
Loans and advances to customers	732,909	(12,170)	-	720,739
Trade and other receivables	6,209	(412)	-	5,797
Finance lease receivables	2,006	(131)	-	1,875
Positive fair value of hedge accounting derivatives	980	-	-	980
Off balance-sheet exposures	135,979	(799)	-	N/A
Total	**1,543,899**	**(13,600)**	**351**	**1,395,530**

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;
- composition of credit loss allowances;
- forbearance exposure and credit loss allowances;
- types of forbearance exposure;
- business segment and collateral;
- financial instrument and collateral;
- credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

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					
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**
2019												
Central banks	-	-	-	-	-	393,062	-	-	-	-	-	393,062
General governments	-	1,990	-	7,567	206,643	-	21,300	86	3	-	8,689	246,278
Credit institutions	1,925	6,159	910	3,307	12,274	18,598	-	37	(1)	959	1,395	45,563
Other financial corporations	-	189	509	1,856	-	-	17,026	278	6	-	4,913	24,777
Non-financial corporations	-	1,367	1,368	8,085	7	-	265,193	5,585	1,739	21	71,440	354,805
Households	-	-	-	-	-	-	429,390	223	259	-	49,542	479,414
Total	**1,925**	**9,705**	**2,787**	**20,815**	**218,924**	**411,660**	**732,909**	**6,209**	**2,006**	**980**	**135,979**	**1,543,899**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	2020	2019
Financial guarantees	25,129	23,025
Loan commitments	124,573	112,328
Other commitments	671	626
Total	**150,373**	**135,979**

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
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**
2019							
Agriculture and forestry	19,672	1,040	377	5	21,094	9	21,103
Mining	275	607	6	-	888	1	889
Manufacturing	70,696	6,155	2,644	406	79,901	411	80,312
Energy and water supply	22,139	3,938	584	41	26,702	202	26,904
Construction	26,979	1,079	1,232	215	29,505	9	29,514
Development of building projects	11,929	354	709	193	13,185	-	13,185
Trade	52,368	4,170	1,795	51	58,384	350	58,734
Transport and communication	28,214	726	163	-	29,103	240	29,343
Hotels and restaurants	7,152	555	277	7	7,991	35	8,026
Financial and insurance services	453,632	790	583	-	455,005	8,996	464,001
Holding companies	5,428	615	-	-	6,043	277	6,320
Real estate and housing	99,569	5,528	350	31	105,478	1,217	106,695
Services	23,024	3,258	438	1	26,721	25	26,746
Public administration	241,247	1,134	-	-	242,381	1,990	244,371
Education, health and art	7,756	604	123	-	8,483	39	8,522
Households	418,551	14,784	5,348	56	438,739	-	438,739
Total	**1,471,274**	**44,368**	**13,920**	**813**	**1,530,375**	**13,524**	**1,543,899**

From industry and financial instrument point of view, the highest exposure is represented by financing and insurance services (exposure of 477 billion, representing 29.0% from total) followed by household in loans and advances to customers (exposure of 469 billion, representing 28.5% 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 1,067 million (2019: CZK 745 million), the non-defaulted part to CZK 170 million (2019: CZK 65 million).

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
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**
2019					
Agriculture and forestry	11,387	7,135	2,200	381	21,103
Mining	779	96	8	6	889
Manufacturing	57,508	17,449	2,317	3,037	80,311
Energy and water supply	23,918	2,113	247	626	26,904
Construction	19,658	6,427	1,984	1,445	29,514
Development of building projects	8,610	3,022	651	902	13,185
Trade	39,804	13,844	3,218	1,868	58,734
Transport and communication	23,109	5,319	752	163	29,343
Hotels and restaurants	5,055	1,654	1,040	277	8,026
Financial and insurance services	461,761	2,156	74	10	464,001
Holding companies	5,134	1,186	-	-	6,320
Real estate and housing	65,097	33,693	7,524	381	106,695
Services	16,208	8,158	1,941	439	26,746
Public administration	243,122	1,224	24	0	244,370
Education, health and art	6,572	1,354	473	124	8,523
Households	409,529	16,146	7,696	5,369	438,740
Total	**1,383,507**	**116,768**	**29,498**	**14,126**	**1,543,899**

The low risk exposure has the highest proportion in total credit risk exposure, with 87.04%, while management attention represents 9.63%, The substandard exposure represents 2.24% and the non-performing 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
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**
2019					
Retail	453,294	45,263	24,348	6,686	529,591
Corporates	286,707	69,884	5,043	7,407	369,041
Group Markets	20,999	1,206	-	-	22,205
ALM & LCC	622,507	415	107	33	623,062
Total	**1,383,507**	**116,768**	**29,498**	**14,126**	**1,543,899**

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
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**
2019							
Retail	500,936	21,885	6,643	98	529,562	29	529,591
Corporates	334,963	21,710	7,243	715	364,631	4,410	369,041
Group Markets	14,583	642	-	-	15,225	6,980	22,205
ALM & LCC	620,792	131	34	-	620,957	2,105	623,062
Total	**1,471,274**	**44,368**	**13,920**	**813**	**1,530,375**	**13,524**	**1,543,899**

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 117.6% (2019: 96.3%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2020. 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 2020, the non-performing credit risk exposure increased by CZK 3,833 million (2019: decrease by 306 million), or 27.1% (2019: 2.1%). The substantial deterioration of asset quality resulted on economic downturn due to COVID-19 pandemic. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 7,496 million (2019: decreased by CZK 852 million), or 55.3% (2019: 5.9%). The huge credit loss allowances creation to performing loans and advances due to change in staging rules resulted on substantion increase in the coverage of non-performing credit risk exposures by credit risk allowances.

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 2020 and 31 December 2019. 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**
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%**
2019												
Retail	6,686	6,686	529,592	529,563	6,869	1,608	1,608	1.3%	1.3%	102.7%	24.0%	24.0%
Corporates	7,407	7,373	369,041	364,058	6,433	1,676	1,676	2.0%	2.0%	87.3%	22.6%	22.7%
Group Markets	-	-	22,205	15,225	19	-	-	0.0%	0.0%	N/A	N/A	N/A
ALM & LCC	33	33	623,061	620,956	244	-	-	0.0%	0.0%	733.0%	0.0%	0.0%
Total	**14,126**	**14,092**	**1,543,899**	**1,529,802**	**13,565**	**3,284**	**3,284**	**0.9%**	**0.9%**	**96.3%**	**23.2%**	**23.3%**

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 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.

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 positively concluded.

Qualitative criteria. Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. 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 2020, in the Group, the corresponding exposure amounted to CZK 271.2 billion (2019: CZK 261.8 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repo excluded) of 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, and credit rating band.

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. We are disclosing sensitivity of the staging and ECL on macro scenarios in the COVID-19 section below.

The Group expects a gradual recovery from 2Q21 thereafter, supported by improved sentiment and weaking the COVID-19 pandemic. Solid development in both domestic and foreign demand, as the vaccination process affects willingness of firms to invest and a propensity of households to consume on the one side and foreign trade on the other. However, monetary conditions will stay loosen in the Euro Area affecting the yield curves. In the Czech economy the CNB will start policy tightening from 4Q21 thereafter, mainly as a result of gradually increasing inflationary pressures. EUR/CZK will return on the appreciation path, due to renewed convergence process and positive interest rate differential.

Due to still high uncertainty related to COVID pandemic, these scenarios weights were assumed:

- baseline scenario was decreased from 50% to 40%,
- downside probability was increased from 37% to 56%,
- upside probability was reduced from 13% to 4%.

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 the chapter Effect on Expected Credit Loss.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
2020	**Scenario**	**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
2019		**2020**	**2021–22**	**2019**	**2020**	**2021**	**2022**
	Upside	13%	13%	2.6	4.6	4.7	4.8
Czech Republic	Baseline	50%	50%	2.6	2.6	2.7	2.8
	Downside	37%	37%	2.6	0.1	0.2	0.3

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.

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

in CZK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantees received in the context of the COVID-19 crisis
2020				
Agriculture and forestry	-	5	67	67
Mining	-	-	15	15
Manufacturing	-	229	1,505	1,448
Energy and water supply	-	-	51	41
Construction	-	-	274	274
Trade	-	37	1,557	1,537
Transport and communication	-	-	436	382
Hotels and restaurants	20	-	168	167
Financial and insurance services	-	-	4	4
Real estate and housing	17	1,402	61	61
Services	-	2	396	391
Education, health and art	-	1	103	102
Total	**37**	**1,676**	**4,637**	**4,489**

Loans and advances of non-financial corporations to which the measures applied in the response to COVID-19 were granted and are currently valid (have not been expired), amounted to CZK 6,350 million as of 31 December 2020. Measures mostly refer to newly originated loans subject to public guarantees. The highest amount of newly originated loans in non-financial corporations refers to manufacturing and wholesale and retail trade. The majority of EBA-compliant moratoria finished in October 2020. Total exposure of loans with COVID-19 related measures provided during year 2020 accounted for CZK 38,899 million.

Loans and advances of households to which the measures applied in the response to COVID-19 were granted and are currently valid (have not been expired), amounted to CZK 2,086 million as of 31 December 2020. This amount consists of CZK 0.3 million of loans and advances subject to EBA-compliant moratoria, CZK 1,935 million of other loans and advances subject to COVID-19-related forbearance measures and CZK 151 million of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis. Total exposure of loans with COVID-19 related measures provided during year 2020 accounted for CZK 46,403 million.

Effect on business

In March, 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 drivers for assigning corresponding low, moderate, high and critical industry classification was the assessment of both, short-term as well as medium-term impacts of the crisis on the specific (sub)industry. E.g. a complete lock-down of businesses like hotels or passenger air transport resulted in a "critical" classification on short-term view and based on expected re-opening/ recovery remained on "critical" or was assessed as "high", "moderate" or "low" on medium-term view. The classifications are regularly reviewed to take current developments into account. A respective business and risk strategy for the (sub)industries was formulated based on the assessment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to temporarily limit financing for specific categories to existing clients only) and/or the revision of underwriting standards. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of the Group.

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	Not subject to IFRS 9 impairment	Total	Credit loss allowances
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)**
2019								
Agriculture and forestry	19,672	1,040	377	5	21,094	9	21,103	(478)
Mining	275	607	6	-	888	1	889	(13)
Manufacturing	70,696	6,155	2,644	406	79,901	411	80,312	(2,388)
Energy and water supply	22,139	3,938	584	41	26,702	202	26,905	(552)
Construction	26,979	1,079	1,232	215	29,505	9	29,514	(949)
Trade	52,368	4,170	1,795	51	58,384	350	58,734	(2,046)
Transport and communication	28,214	726	163	-	29,103	240	29,343	(202)
Hotels and restaurants	7,152	555	277	7	7,991	35	8,026	(201)
Financial and insurance services	453,632	790	583	-	455,005	8,996	464,001	(142)
Real estate and housing	99,569	5,528	350	31	105,478	1,217	106,695	(771)
Services	23,024	3,258	438	1	26,721	25	26,746	(500)
Public administration	241,247	1,134	-	-	242,381	1,990	244,371	(35)
Education, health and art	7,756	604	123	-	8,483	39	8,522	(74)
Private households	418,551	14,784	5,348	56	438,739	-	438,739	(5,214)
Total	**1,471,274**	**44,368**	**13,920**	**813**	**1,530,375**	**13,524**	**1,543,899**	**(13,565)**

Effect on Expected Credit Loss

As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

The Group concluded so far that all moratoria fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic transfers from Stage 1 to Stage 2. However, the Group continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

The Group re-assessed credit risk parameters based on the new macro-scenarios FLI overlay. The Group will continue monitoring of the micro and macro-prediction development in order to reflect up-to-date information in our credit risk parameters. GDP scenarios and weights are shown in the table above (section Baseline, upside and downside scenarios of GDP growth).

The Group has addressed expected SICR by introducing COVID-19 portfolio overlays. The Group divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by taking into account any COVID-19 related relieve measure granted as well as the internal industry heatmap and corresponding PD levels. The industry heatmap and the portfolio overlays are subject to regular reviews. The impact of forbearance to Stage 2 rules remained unchanged.

In case of accounts in moratoria the DPD prior to payment holidays was one of the inputs for potential Stage 2 overlays determination, specifically in case DPD > 30 days during 3 months before data of application the account was moved to Stage 2. In case account had DPD > 30 days as of 31 December 2020 the account got Stage 2 according to standard rules.

An internal industry heatmap consists of 4 grades (according to degree of impacts on the business of client – critical, high, moderate, low). The loans of the most affected (critical) industry sector are automatically migrated to Stage 2. The accounts with some moratorium during 2020 of client from highly affected sectors or clients from highly affected sectors and worse ratings are migrated to stage 2. Finally accounts with some moratorium during 2020 from moderate sectors fulfilling simultaneously condition for worse rating are assigned to Stage 2.

As of 31 October 2020 most of the moratoria were terminated. The credit quality of corporate clients under terminated moratoria was assessed as usually individually, the quality of retail clients moratoria was assessed by early collection team that actively contacted the clients with the aim to find out if the single clients would be able starting to repay their loans. Based on the results the clients that were evaluated as clients with potential repayment problems had at the end of 2020 either new type of moratoria (COVID restructuring) or obtained standard restructuring default or obtained default rating "unlikely-to-pay". This prevented that significant amount of loans with terminated moratoria as of 31 October 2020 would fall to payment default during February 2021. Account of clients who received COVID restructuring are migrated to Stage 2.

The Group will assess releases of COVID-19 portfolio overlays for PI portfolios once the moratoria lifted. When moratoria do no longer distort DPD information, behavioural scoring will allow proper SICR assessment. In case of non-PI portfolios, release of the overlays will be assessed after a consistent improvement of the macro indicators is observed.

During 2020 the Group created an additional loan loss provisions for COVID impacts in overall sums of 0.8 billion CZK for Stage 2 overlays and 2.6 billion CZK due to expected macroeconomic worsening (FLI component).

Impact of different scenarios on credit risk exposure (CRE)

Probability of default	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**
2020								
Impact on CRE	14,130	(14,130)	8,069	(8,069)	4,342	(4,342)	(4,340)	4,340
2019								
Impact on CRE	2,177	(2,177)						

Impact of different scenarios on credit loss allowances (CLA)

Probability of default	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**
2020								
Impact on CLA	1,082	1,489	41	672	28	460	(4)	(431)
2019								
Impact on CLA	28	123						

The tables show the impact of FLI: If FLI will not be applied, total exposure in Stage 2 would be decreased by CZK 14 billion to the benefit of Stage 1. The second table shows the impact on credit loss allowance. Total CLA would be improved by CZK 2.6 billion (CLA in Stage 1 would

be improved by CZK 1.1 billion and Stage 2 by CZK 1.4 billion). Upside, baseline and downside scenario show potential impact if probability of weights for given scenario would be 100%.

Composition of credit loss allowances

in CZK million	2020	2019
Credit loss allowances	19,848	12,800
Loss allowances for loan commitments and financial guarantees	1,213	765
Provisions for other commitments	40	35
Total	**21,101**	**13,600**

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.

Impairment result from financial instruments by industry

in CZK million	On-balance	Off-balance	Total
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 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 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
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)
2019					
Gross exposure	**1,154,224**	**240,513**	**36,260**	**112,329**	**1,543,326**
thereof gross forborne exposure	3,435	-	-	17	3,452
Performing exposure	1,141,038	240,513	35,488	112,161	1,529,200
thereof performing forborne exposure	776	-	-	-	776
Credit loss allowances for performing exposure	(3,733)	(77)	(12)	(311)	(4,133)
thereof credit loss allowances for performing forborne exposure	(29)	-	-	-	(29)
Non-performing exposure	13,186	-	772	168	14,126
thereof non-performing forborne exposure	2,659	-	-	17	2,676
Credit loss allowances for non-performing exposure	(8,990)	-	(432)	(53)	(9,475)
thereof credit loss allowances for non-performing forborne exposure	(1,671)	-	-	(13)	(1,684)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2020			
Loans and advances	31,350	31,303	-
Debt securities	-	-	1
Loan commitments	185	185	2
Total	**31,535**	**31,488**	**3**
2019			
Loans and advances	3,435	3,372	63
Loan commitments	17	17	-
Total	**3,452**	**3,389**	**63**

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 Bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis for all segment of financing.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Mechanism for regular update is described in Collateral Management Policy.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software application COLMAN. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. The Bank is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from 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.

The following tables compare the credit risk exposure broken down by business and geographical segments 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 business segment and collateral

			Collateralised by			
in CZK million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2020						
Retail	559,318	307,030	5,222	292,200	9,608	252,288
Corporates	390,686	112,240	15,858	88,880	7,502	278,446
Group Markets	14,598	1,520	1,517	1	2	13,078
ALM & LCC	680,118	405,606	5,982	-	399,624	274,512
Total	**1,644,720**	**826,396**	**28,579**	**381,081**	**416,736**	**818,324**
2019						
Retail	529,592	284,129	4,618	263,153	16,358	245,463
Corporates	369,041	109,688	15,464	84,813	9,411	259,353
Group Markets	22,205	9,111	2,165	220	6,726	13,094
ALM & LCC	623,061	379,811	7,419	-	372,392	243,250
Total	**1,543,899**	**782,739**	**29,666**	**348,186**	**404,887**	**761,160**

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
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	16,694
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	16,694
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	148,856	44	802
Off balance-sheet exposures	150,373	8,920	2,000	5,518	1,402	141,453	-	-	-
Total	**1,644,720**	**826,396**	**28,579**	**381,081**	**416,736**	**818,324**	**1,606,174**	**4,430**	**17,901**
2019									
Cash and cash balances - demand deposits to credit institutions	1,925	-	-	-	-	1,925	1,503	422	-
Debt instruments held for trading	9,705	-	-	-	-	9,705	-	-	-
Non-trading debt instruments at FVPL	2,787	841	262	579	-	1,946	-	-	-
Debt instruments at FVOCI	20,815	1,925	1,925	-	-	18,890	20,815	-	-
Debt instruments at AC	1,363,493	770,735	25,939	341,423	403,373	592,758	1,345,451	5,279	12,763
Debt securities	218,924	5,232	5,232	-	-	213,692	218,924	-	-
Loans and advances to banks	411,660	391,442	1,168	-	390,274	20,218	411,660	-	-
Loans and advances to customers	732,909	374,061	19,539	341,423	13,099	358,848	714,867	5,279	12,763
Trade and other receivables	6,209	-	-	-	-	6,209	5,212	736	261
Finance lease receivables	2,006	-	-	-	-	2,006	1,693	152	163
Positive fair value of hedge accounting derivatives	980	-	-	-	-	980	134,375	73	905
Off balance-sheet exposures	135,979	9,238	1,540	6,184	1,514	126,741	-	-	-
Total	**1,543,899**	**782,739**	**29,666**	**348,186**	**404,887**	**761,160**	**1,509,049**	**6,662**	**14,092**

The collateral attributable to exposures that are credit-impaired at 31 December 2020 amounts to CZK 4,756 million (2019: 3,284 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
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**
2019					
Retail	384,676	41,093	22,188	6,609	454,566
Corporates	211,767	57,363	4,572	6,544	280,246
Group Markets	4,445	702	-	-	5,147
ALM&LCC	1,629	163	105	27	1,924
Total	**602,517**	**99,321**	**26,865**	**13,180**	**741,883**

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 1,060 million (2019: 745 million), the non-defaulted part to CZK 168 million (2019: 65 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**
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	285,185	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%	N/A	N/A	N/A
ALM&LCC	31	31	1,666	1,666	154	-	-	1.86%	1.86%	496.77%	0.00%	0.00%
Total	**17,093**	**17,093**	**776,988**	**776,948**	**19,676**	**4,670**	**4,670**	**2.20%**	**2.20%**	**115.1%**	**27.3%**	**27.3%**
2019												
Retail	6,610	6,610	454,565	454,565	6,657	1,601	1,601	1.45%	1.45%	100.71%	24.22%	24.22%
Corporates	6,544	6,544	280,246	279,450	5,875	1,557	1,557	2.34%	2.34%	89.77%	23.79%	23.79%
Group Markets	-	-	5,147	5,147	16	-	-	0.00%	0.00%	N/A	N/A	N/A
ALM&LCC	27	27	1,925	1,925	147	-	-	1.40%	1.40%	536.80%	0.00%	0.00%
Total	**13,181**	**13,181**	**741,883**	**741,087**	**12,695**	**3,158**	**3,158**	**1.78%**	**1.78%**	**96.3%**	**24.0%**	**24.0%**

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'.

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**
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%	N/A	N/A
ALM&LCC	1,436	199	31	-	-	8	116	31	-	58.20%	97.88%	N/A
Total	**655,824**	**103,862**	**16,033**	**1,229**	**40**	**2,172**	**6,101**	**10,836**	**566**	**5.87%**	**67.59%**	**46.09%**
2019												
Retail	428,286	19,618	6,566	95	-	926	1,362	4,338	31	6.90%	66.10%	32.97%
Corporates	255,993	16,900	5,842	715	795	800	483	4,136	456	2.90%	70.81%	63.70%
Group Markets	4,510	637	-	-	-	4	12	-	-	1.90%	N/A	N/A
ALM&LCC	1,779	119	27	-	-	7	112	27	-	94.80%	100.00%	N/A
Total	**690,568**	**37,274**	**12,435**	**810**	**795**	**1,737**	**1,969**	**8,501**	**487**	**5.30%**	**68.37%**	**60.15%**

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 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 2020 and 2019 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
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							
Daily value	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Monthly value	1,486	(714)	1,565	4	-	421	210
Average of daily values per year	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average of monthly values per year	1,538	(874)	1,366	6	-	834	206
2019							
Trading book							
Daily value	7	-	6	-	-	-	1
Monthly value	31	(1)	30	-	1	-	3
Average of daily values per year	14	(1)	14	1	-	-	1
Average of monthly values per year	66	(5)	66	4	1	-	3
Banking book							
Daily value	283	(139)	314	6	-	76	26
Monthly value	1,330	(650)	1,472	29	-	357	121
Average of daily values per year	129	(51)	140	7	-	3	31
Average of monthly values per year	605	(239)	655	31	-	14	144

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.

	2021		2020	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	1,844	(1,783)	1,143	(1,391)
Other comprehensive income	(3,334)	3,523	(3,752)	3,973
EUR				
Income statement	(14)	223	(165)	461
Other comprehensive income	799	(850)	432	(457)

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 Banks 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 2020, 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 complements 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 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 is provided by ALM and also used for FTP.

The following table shows the liquidity gaps as of 31 December 2020 and 31 December 2019:

	< 1 month		1 –12 months		1–5 years		> 5 years	
In CZK million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Liquidity GAP	341,025	219,603	(12,982)	(11,406)	(303,352)	(208,820)	62,828	82,042

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 2020 and year-end 2019 are shown in the tables below:

	< 1 week	
in CZK million	**2020**	**2019**
Cash, excess reserve	20,965	25,348
Liquid assets	376,701	266,685
Counterbalancing capacity	**397,666**	**292,033**

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 2020 and 31 December 2019 respectively, were as follows:

in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
2020						
Non-derivative liabilities	**1,364,354**	**1,365,528**	**1,214,044**	**110,134**	**32,469**	**8,881**
Deposits from banks	91,335	91,823	46,359	34,757	7,592	3,115
Deposits from customers	1,100,450	1,100,907	1,027,535	43,674	23,932	5,766
Debt securities issued	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**
2019						
Non-derivative liabilities	**1,298,547**	**1,299,988**	**1,157,970**	**91,397**	**38,995**	**11,626**
Deposits from banks	292,111	292,007	233,796	39,022	16,634	2,555
Deposits from customers	996,815	998,183	920,187	52,211	16,714	9,071
Debt securities issued	5,634	5,811	-	164	5,647	-
Other financial liabilities	3,987	3,987	3,987	-	-	-
Derivative liabilities	**9,794**	**11,575**	**604**	**2,041**	**6,978**	**1,952**
Contingent liabilities	**135,979**	**135,979**	**135,979**	**-**	**-**	**-**
Financial guarantees	23,025	23,025	23,025	-	-	-
Irrevocable commitments	112,954	112,954	112,954	-	-	-
Total	**1,444,320**	**1,447,542**	**1,294,553**	**93,439**	**45,973**	**13,578**

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 (Product Approval Process) relevant topics. The significant Risk Return Decisions are also evaluated by 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 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 2019	**18,542**	**4,299**	**2,109**	**24,950**	**3,625**
Additions in current year (+)	818	291	222	1,331	64
Disposals (–)	(1,081)	(460)	(155)	(1,696)	-
Reclassification (+/–)	3	(144)	137	(4)	-
Assets held for sale (–)	(38)	-	-	(38)	-
Balance as of 31 Dec 2019	**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**

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 2019	**(11,034)**	**(3,022)**	**(1,498)**	**(15,554)**	**(1,298)**
Depreciation (–)	(579)	(188)	(211)	(978)	(63)
Disposals (+)	838	441	155	1,434	-
Impairment (–)	-	-	-	-	(46)
Reversal of impairment (+)	(3)	89	(86)	-	-
Assets held for sale (+)	27	-	-	27	-
Balance as of 31 Dec 2019	**(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)**

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 2019	**2,807**	**23**	**20**	**2,850**
Additions	803	5	-	808
Disposals	(84)	-	-	(84)
Reclassification	-	2	(2)	-
Balance as of 31 Dec 2019	**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**

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 2019				
Amortisation and depreciation	(490)	(13)	(8)	(511)
Disposals	8	-	-	8
Balance as of 31 Dec 2019	**(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)**

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 2019	**7,493**	**1,306**	**673**	**9,472**	**2,282**
Dec 2020	**7,573**	**1,303**	**806**	**9,682**	**2,282**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 489 million (2019: CZK 473 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 2019	**3,044**	**17**	**10**	**3,071**	**-**
Dec 2020	**3,022**	**27**	**4**	**3,053**	**-**

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 2019	**7,508**	**1,277**	**611**	**9,396**	**2,327**
Balance as of 31 Dec 2019	**10,537**	**1,323**	**683**	**12,543**	**2,282**
Balance as of 31 Dec 2020	**10,595**	**1,330**	**810**	**12,735**	**2,282**

In 2020, rental income arising from investment property amounted to CZK 174 million (2019: CZK 168 million), see Note 7. Operating expenses related to investment property amounted to CZK 61 million (2019: CZK 63 million).

As at 31 December 2020, the fair value of investment property amounted to CZK 2,282 million (2019: CZK 2,282 million).

The balances as at 31 December 2020 shown above include CZK 850 million (2019: CZK 764 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,758 million as at 31 December 2020 (2019: CZK 3,881 million).

As at 31 December 2020, land and buildings were impaired in the amount of CZK 812 million (2019: CZK 2,232 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 2020 and 2019:

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
2020					
Assets whose fair value is disclosed in the notes					
Investment property	2,282	2,282	-	-	2,282
2019					
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

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 2019	**108**	**15,470**	**1,959**	**17,537**
Additions in current year (+)	-	1,590	24	1,614
Disposals (–)	(8)	(132)	(51)	(191)
Reclassification (+/–)	-	5	(2)	3
Balance as of 31 Dec 2019	**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**

Accumulated depreciation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total Intangible assets
Balance as of 1 Jan 2019	**(74)**	**(10,554)**	**(1,662)**	**(12,290)**
Amortisation charge (–)	-	(986)	(66)	(1,052)
Disposals (+)	8	114	49	171
Reclassification	-	9	-	9
Balance as of 31 Dec 2019	**(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)**

Carrying amounts

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2019	**34**	**4,916**	**297**	**5,247**
Balance as of 31 Dec 2019	**34**	**5,516**	**251**	**5,801**
Balance as of 31 Dec 2020	**34**	**5,810**	**239**	**6,083**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,490 million as at 31 December 2020 (2019: CZK 1,629 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,822 million as at 31 December 2020 (2019: CZK 3,194 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	2020	2019
Prepayments	338	307
Assets under construction/unfinished goods/inventory	48	57
Sundry assets	579	494
Other assets	**965**	**858**

'Sundry assets' consist mainly of long-term advances of CZK 233 million (2019: CZK 291 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	2020	2019
Outstanding minimum lease payments	1,627	2,132
Gross investment	**1,627**	**2,132**
Unrealised financial income	(98)	(126)
Net investment	**1,529**	**2,006**
Present value of minimum lease payments	**1,529**	**2,006**

Maturity analysis by residual maturities

	2020		2019	
in CZK million	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	415	388	487	461
1–2 years	294	276	354	334
2–3 years	383	360	434	408
3–4 years	270	254	396	371
4–5 years	131	125	270	254
> 5 years	134	126	191	178
Total	**1,627**	**1,529**	**2,132**	**2,006**

During 2020, the Group recognised interest income on finance lease receivables in the amount of CZK 63 million (2019: CZK 62 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 2020 and 2019 is provided in the table below:

Gross carrying amounts and credit loss allowances 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
2020									
General governments	2	-	-	2	-	-	-	-	2
Other financial corporations	4	-	-	4	-	-	-	-	4
Non-financial corporations	1,122	82	144	1,348	(3)	(3)	(102)	(108)	1,240
Households	161	3	11	175	(1)	-	(9)	(10)	165
Total	**1,289**	**85**	**155**	**1,529**	**(4)**	**(3)**	**(111)**	**(118)**	**1,411**
2019									
General governments	3	-	-	3	-	-	-	-	3
Other financial corporations	6	-	-	6	-	-	-	-	6
Non-financial corporations	1,555	38	145	1,738	(6)	(3)	(103)	(112)	1,626
Households	230	12	17	259	(2)	(1)	(16)	(19)	240
Total	**1,794**	**50**	**162**	**2,006**	**(8)**	**(4)**	**(119)**	**(131)**	**1,875**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	As of
	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)**
	Jan 2019					Dec 2019
Stage 1	(11)	(5)	1	11	(4)	(8)
Stage 2	(15)	-	2	(3)	12	(4)
Stage 3	(140)	-	26	(11)	6	(119)
Total	**(166)**	**(5)**	**29**	**(3)**	**14**	**(131)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	79	32
To Stage 1 from Stage 2	10	159
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	13	18
To Stage 2 from Stage 3	2	1
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	41	23
To Stage 1 from Stage 3	2	9

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 70 million (2019: CZK 559 million). The GCA of the finance lease receivables that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to CZK 194 million (2019: CZK 153 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	2020	2019
< 1 year	219	216
1-2 years	217	209
2-3 years	215	208
3-4 years	214	205
4-5 years	215	205
> 5 years	973	1,139
Total	**2,053**	**2,182**

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

	2020		2019	
in CZK million	**Nominal values**	**Present values**	**Nominal values**	**Present values**
< 1 year	(595)	(565)	(577)	(533)
1–5 years	(1,810)	(1,730)	(1,640)	(1,540)
> 5 years	(1,128)	(1,066)	(1,200)	(1,114)
Total	**(3,533)**	**(3,361)**	**(3,417)**	**(3,187)**

During 2020, interest expenses on lease liabilities were recognised in the amount of CZK 47 million (2019: CZK 161 million). In 2020, expenses in the amount of CZK 59 million (2019: CZK 50 million) relating to short term leases, for which the recognition exemption of IFRS 16 applies, were recognised. In addition, expenses amounting to CZK 58 million (2019: CZK 63 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 21 million (2019: CZK 89 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 109 million (2019: CZK 37 million). Total cash outflow for leases in

2020 was CZK 744 million (2019: CZK 726 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 2020.

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

41. Other liabilities

in CZK million	2020	2019
Deferred income	463	376
Sundry liabilities	3,746	4,012
Other liabilities	**4,209**	**4,388**

Sundry liabilities consist mainly of suspense account of CZK 861 million (2019: CZK 899 million) and costs of staff bonuses for 2020 amounting to CZK 1,626 million (2019: CZK 1,879 million).

Deferred income outstanding at 31 December 2020 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 463 million (2019: CZK 376 million). Revenue recognised in the reporting year 2020 that was included in the contract liability balance at the beginning of the period amounts to 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 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. 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	2020	2019
Restructuring	93	79
Pending legal issues	1,770	1,815
Loan commitments and financial guarantees given	1,214	765
CLA for loan commitments and financial guarantees in Stage 1	431	217
CLA for loan commitments and financial guarantees in Stage 2	368	105
CLA for loan commitments and financial guarantees in Stage 3	415	443
Provision for onerous contracts	3	2
Other provisions	40	36
Provisions	**3,120**	**2,697**

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 2021. The restructuring reserve created in 2016 due to former phase reorganization related to HQ departments was fully utilized in 2019.

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 2020						**Dec 2020**
Stage 1	217	2,588	(734)	(331)	(1,309)	-	431
Stage 2	105	-	(419)	286	396	-	368
Stage 3	443	-	(173)	14	131	-	415
Total	**765**	**2,588**	**(1,326)**	**(31)**	**(782)**	**-**	**1,214**
	Jan 2019						**Dec 2019**
Stage 1	499	1,005	(512)	(229)	(545)	(1)	217
Stage 2	119	-	(179)	120	45	-	105
Stage 3	906	2	(712)	12	236	(1)	443
Total	**1,524**	**1,007**	**(1,403)**	**(97)**	**(264)**	**(2)**	**765**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	15,143	3,104
To Stage 1 from Stage 2	2,479	5,026
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	135	38
To Stage 2 from Stage 3	217	52
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	294	463
To Stage 1 from Stage 3	269	449

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 66,133 million (2019: CZK 52,906 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to CZK 40,397 million (2019: CZK 51,715 million).

Sundry provisions

in CZK million	As of	Allocations	Use	Releases	Exchange rate and other changes (+/–)	As of
	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**
	Jan 2019					**Dec 2019**
Provision for restructuring	59	79	(59)	-	-	79
Pending legal issues and tax litigation	1,872	-	(1)	(88)	-	1,783
Other provisions	129	954	(1,008)	(5)	-	70
Provisions	**2,060**	**1,033**	**(1,068)**	**(93)**	**-**	**1,932**

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.

In 2020, 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 2020, the aggregate balance of these allowances was CZK 1,214 million (2019: CZK 765 million). Refer to Note 42 Provisions.

in CZK million	2020	2019
Amounts owed under guarantees and letters of credit	28,198	23,025
Undrawn loan commitments	125,245	112,954
Total	**153,443**	**135,979**

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	2020	2019
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	17,147	17,147
Retained earnings and other reserves	116,766	104,876
Owners of the parent	**149,125**	**137,235**
Non-controlling interests	221	210
Total equity	**149,346**	**137,445**

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 2020, 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). 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.

On 26 April 2019 shareholders´ meeting decided to transfer all preference shares to ordinary shares in 1:1 ratio.

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.

Number of shares and share capital

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

	2020		2019	
	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	**2020**	**2019**
At 1 January	**210**	**184**
Profit for the year	11	26
At 31 December	**221**	**210**

SCOPE OF CONSOLIDATION

Basis of consolidation

As at 31 December 2020, the Group includes in its IFRS scope of consolidation a total of 26 subsidiaries (31 December 2019: 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 2020, 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 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 December 1, 2020 the Group has deconsolidated the subsidiary Energie ČS, a.s. as a result of its sale.

Additions in 2019

Starting August 2019 a new company Budějovická Development, s. r. o. was included in the Group's IFRS consolidation scope.

Disposals in 2019

No disposals of subsidiaries occurred during 2019.

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 2020 and for the year then ended.

Associates are entities over which Group exercises significant influence. Significant influence is the power to participate in the financial and operating business decisions of the investee but is not control or joint control of those decisions. As a general rule, significant influence is presumed to mean a share on voting rights between 20% and 50%.

Additions in 2020

Since November 2020, the new associate Bankovní identita, a.s. has been consolidated using the equity method.

in CZK million	2020	2019
Financial institutions	981	929
Total	**981**	**929**

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

in CZK million	2020	2019
Total assets	2,803	2,852
Total liabilities	784	956
Income	2,512	2,531
Profit (Loss)	59	215

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

	2020		2019
in CZK million	Global Payments s.r.o.	Bankovní identita, a.s.	Global Payments s.r.o.
Country of Incorporation / Place of business	Czech Republic	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services	Payment services
Ownership% held	49%	33.33%	49%
Voting rights held%	49%	33.33%	49%
IFRS Classification (JV/A)	Associate	Associate	Associate
Reporting currency	CZK	CZK	CZK
Cash and cash balances	529	35	331
Other current assets	743	5	1,199
Non-current assets	1,460	31	1,322
Current liabilities	529	12	956
Non-current liabilities	237	7	-
Operating income	956	-	1,036
Post-tax result from continuing operations	70	(10)	215
Total comprehensive income	-	-	-
Depreciation and amortization	(145)	(1)	(150)
Interest expense	(16)	-	(17)
Tax expense/income	(32)	-	(87)
Net assets attributable to the Group	550	18	516
Carrying goodwill included in the cost of investment	413	-	413
Carrying amount	963	18	929

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	2020	2019
Carrying amount of assets	766	566
Fair value of liquidity support drawn	641	483
Total	**1,406**	**1,049**

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 CNB'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

	2020			2019		
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	1,451	36	-	1,151	56	-
Financial assets – held for trading	5,070	-	-	4,221	-	-
Financial assets – amortised costs	9,475	398	25	14,710	267	28
Derivatives Hedge Accounting	732	-	-	589	-	-
Other assets	-	1	-	-	2	-
Liabilities						
Financial liabilities held for trading	4,940	-	-	2,969	-	
Financial liabilities measured at amortised costs	62,238	416	77	263,757	768	54
Debt securities in issue	163,609	-	-	-	-	-
Derivatives Hedge Accounting	234	-	-	204	-	
Other Liabilities	-	1	-	-	1	
Profit&Loss statement	**01-12 2020**			**01-12 2019**		
Net interest income	(1,000)	3	1	(2,677)	4	1
Net fee and commission income	61	945	-	57	854	-
Dividend income	-	11	-	-	-	-
Net trading result and fair value result	(2,569)	-	-	4,514	-	-
Other administrative expenses	(209)	(860)	(106)	(233)	(704)	(96)
Other operating result	27	21	-	88	51	-
Loans commitments, financial guarantees and other commitments given	**1,134**	**563**	**-**	**1,015**	**394**	**-**
Loan commitments, financial guarantees and other commitments received	**-**	**-**	**-**		**-**	**-**

Financial liabilities measured at amortized costs as at 31 December 2020 include primarily repurchase agreements in CZK 61,127 million (2019: CZK 259,715 million) and term deposits of CZK 18 million (2019: CZK 219 million).

The repurchase agreements are mainly denominated in CZK (CZK 30,000 million as at 31 December 2020 (2019: CZK 218,000 million) and EUR (CZK 30,725 million as at 31 December 2020 (2019: CZK 39,842 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 2020 financial assets and financial liabilities held for trading includes mainly derivative instruments (currency and interest rate derivatives). In 2020 and 2019, 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, denominated in EUR (CZK 7,951 million as at 31 December 2020 (2019: CZK 8,429 million) and CZK (CZK 453 million as at 31 December 2020 (2019: CZK 5,026 million).

Board remuneration

Board 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 Member of the Board of Directors (herein after Board Member) for any given year is comprised of Board Member's fixed pay, variable income, and benefits/ in-kind performances.

in CZK million			Performance linked remuneration	
Board total	Fixed salaries	Other remuneration (in kind)	Previous years (cash)	Previous years (non-cash)
2020	63	2	17	14
2019	52	3	22	11

Variable income for Board Members for reporting period 2020 was estimated at CZK 31 million (2019: CZK 33 million).

All of the above mentioned income is paid-out by the Bank. Board Members do not have any income from any of the companies controlled by the Bank.

Regarding the variable component of remuneration to Board Members, 60% of the variable component of remuneration is deferred (regardless the amount of their bonus). The period of deferral is five years. The variable component of remuneration is then granted as follows: 40% upfront part + 12% in the first year of deferral + 12% in the second year of deferral + 12% in the third year of deferral + 12% in the fourth year of deferral + 12% in the fifth year of deferral. At least 50% of the upfront and deferred parts of variable remuneration is granted in non-cash performance linked instruments. As a non-cash performance linked instruments, the Bank uses CS Performance certificates (hereinafter referred to as „certificates"), the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014 and since 2020 phantom Erste Group Bank shares (hereinafter referred to as „phantom shares"). The part of bonuses that is granted in non-cash performance linked instruments is paid out in cash, when due.

At year-end 2020 total liability from bonus programme for management is CZK 39 million (2019: CZK 36 million), expected to be paid 50% in the form of certificates and 50% in the form of phantom shares.

Key management personnel is not included in pension plan benefit. No termination benefit was paid out in 2020 and 2019 to Board of Directors.

Variable Remuneration of Managers

The variable remuneration component is calculated as the fixed income multiplied by the bonus potential (100%) multiplied 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 Members as managers normally amounts for less than 4% of the aggregate annual volume of variable remuneration at the Bank as a whole.

Evaluation of the performance of Board Members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The TEAC is a Group committee comprised of Board Members of the Erste Group Bank that evaluates the performance of each key performance indicator (KPI) of each Board Member; the overall evaluation is the sum of the results attained in the sphere of competence of each Board Member, in the form of financial, non-financial, strategic, operative, and managerial results. The inputs for TEAC evaluation are assessed indicators from the Controlling and Strategy departments, a self-evaluation of each Board Member, and a qualitative evaluation by the Chairman of the Board, both in terms of the Member's KPI results in the previous year and in terms of an evaluation of the Member's future potential. The outputs from the TEAC are then assessed by the Remuneration Committee. 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.

Non-cash performance linked instruments

Certificates
The valuation of the certificate is based on an annual impairment test of the Group which has to be performed for year-end closure efforts. 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 years 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. Moreover, capital and liquidity parameters are considered as one of the key entry points for the plan.

Phantom shares
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 Board members is calculated by division of respective gross bonus amount by the average daily weighted price of Erste Group Bank shares stock in the reference period. 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.

Deferral of Variable Remuneration and Method of Payment

The total variable remuneration – taking into account both current remuneration and possible reductions in payouts of amounts previously earned – is 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. 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.

The Bank set specific criteria for the application of malus and clawback. Such criteria, in particular, cover situation where the Board members:
(i) participated in or was responsible for conduct with intent or severe negligence or in cases of fraud which resulted in significant losses to the institution;
(ii) failed to meet appropriate standards of fitness and propriety;
(iii) provided misleading information, if such information had or could reasonably have had an impact on the performance assessment;
(iv) is dismissed by way of termination without notice period, according to the respective local law (in the valid constitutional edition).

Ex post adjustments to the total variable remuneration should always be performance or risk related.

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	2020	2019
Audit fees	27	31
Other assurance, tax and consultancy fees	7	6
Total	**34**	**37**

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	2020	2019
Assets held for sale	24	242

For year-end 2019 Energie ČS, a.s. in amount of CZK 184 million was reclassified from subsidiaries to asset held for sale. The remaining part of 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
2020					
Assets whose fair value is disclosed in the notes					
Assets held for sale (IFRS 5)	24	24	-	-	24
2019					
Assets whose fair value is disclosed in the notes					
Assets held for sale (IFRS 5)	242	242	-	-	242

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 residual contractual maturities as at 31 December 2020 and 2019 was as follows:

in CZK million	2020		2019	
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	38,075	-	40,526	-
Financial assets – held for trading	11,382	-	9,705	-
Derivatives	11,281	-	9,568	-
Other financial assets held for trading	101	-	137	-
Financial assets designated at FVPL	-	-	265	-
Non-trading financial assets at fair value through profit or loss	1,508	982	1,951	1,315
Equity instruments	-	982	2	742
Debt securities	1,025	-	509	573
Loans and advances to banks	443	-	645	-
Loans and advances to customers	40	-	795	-
Financial assets at FVOCI	2,864	17,974	3,004	18,162
Debt securities	2,864	17,974	3,004	18,162
Financial assets at AC	530,670	898,283	540,042	811,254
Loans and receivables to credit institutions	423,152	1,686	402,226	9,424
Loans and receivables to customers	73,175	676,240	120,680	600,059
Debt securities	34,343	220,357	17,136	201,771
Finance lease receivables	334	1,077	518	1,357
Hedge accounting derivatives	2,654	-	980	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	-	-	-
Property and equipment	-	12,735	-	12,543
Investment properties	-	2,282	-	2,282
Intangible assets	-	6,083	-	5,801
Investments in associates and joint ventures	-	981	-	929
Tax assets	1,417	1,020	9	1,110
Assets held for sale	24	-	242	-
Trade and other receivables	6,458	-	5,306	491
Other assets	1,058	(93)	972	(114)
Total Assets	**596,456**	**941,324**	**603,520**	**855,130**
Financial liabilities – held for trading	12,895	-	9,794	-
Financial liabilities designated at FVPL	3,784	-	3,557	-
Financial liabilities measured at AC	675,569	685,001	722,346	572,643
Deposits from banks	77,044	14,291	270,552	21,559
Deposits from customers	426,843	669,823	447,827	545,430
Debt securities issued	168,611	887	-	5,634
Other financial liabilities	3,071	-	3,967	20
Finance lease liabilities	68	3,293	518	2,669
Derivatives – hedge accounting	267	-	2,180	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1	-	-	-
Provisions	9	3,111	10	2,687
Tax liabilities	60	167	327	192
Other liabilities	4,209	-	4,388	-
Total Liabilities	**696,862**	**691,572**	**743,120**	**578,191**

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	2020	2019
Opening balance of debt securities issued as of 1 January (Note 19)	5,634	5,458
Cash-flows reported within the cash-flow from financing activities	163,864	176
Closing balance of debt securities issued as of 31 December	**169,498**	**5,634**

Cash-flows from lease liabilities

in CZK million	2020	2019
Opening balance of lease liabilities as of 1 January	3,187	2,850
Cash-flows reported within the cash-flow from financing activities	(629)	(615)
Non-cash adjustments	803	952
Closing balance of lease liabilities as of 31 December	**3,361**	**3,187**

Non-cash adjustments includes the interest expense and the lease liability from the newly concluded and modified contracts in 2019 and 2020.

54. Events after the balance sheet date

As at 1 January 2021, the Bank took over the Czech branch of the Waldviertler Sparkasse (WSPK) bank, which operates mainly in the region of South Bohemia and South Moravia. The acquisition represents the transaction under common control, which is exempted from IFRS 3. The Bank decided to use pooling of interest accounting principles (or so-called „predecessor accounting"), with no restatement of comparative balances (so called "prospective method"), and also no revaluation of assets and liabilities acquired to fair value. The transaction is a non-adjusting post-balance sheet event and the estimated financial impact in line with IAS 10 is represented by increase of assets by CZK 9.8 billion and decrease of equity by CZK 267 million.

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		2020 Interest in %	2019 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%	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%	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%	84.00%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.00%	100.00%
Erste Leasing, a.s.	Znojmo	100.00%	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%
s Autoleasing, a.s.	Prague	100.00%	100.00%
Other			
BGA Czech, s.r.o., v likvidaci	Prague	-	100.00%
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%
Energie ČS, a.s.	Prague	-	100.00%
Erste Grantika Advisory, a.s.	Brno	100.00%	100.00%
Holding Card Service, s.r.o.	Prague	75.40%	75.40%
VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci	Prague	-	100.00%
ČS NHQ s.r.o.	Prague	100.00%	100.00%
Budějovická Development, s .r. o.	Prague	100.00%	100.00%
BP Budějovická, s. r. o.	Prague	100.00%	-
BP Olbrachtova, s. r. o.	Prague	100.00%	-
BP Poláčkova, s. r. o.	Prague	100.00%	-
Realitní společnost České spořitelny, a.s.	Prague	100.00%	100.00%
REICO nemovitostní fond SICAV a.s.	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%
Bankovní identita, a.s.	Prague	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 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.

During the year ended 31 December 2019, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In January 2019 the Bank increased its investments in ČS NHQ, s.r.o. by CZK 50 million.
- In April 2019 the Bank decreased its investment in Česká spořitelna – penzijní společnost, a.s. by CZK 200 million through repayment of additional paid-in-capital.
- In July 2019 the Bank decreased its investment in REICO investiční společnost České spořitelny, a.s. by CZK 40 million through repayment of additional paid-in-capital.
- As of 22 July 2019 new company Budějovická development, s.r.o. was established and included in the Group's IFRS consolidation scope since 1 August 2019. The Bank contributed CZK 1 million of share equity.
- In August 2019 the Bank increased its investment in MOPET CZ, a.s. by CZK 19 million.
- In October 2019 the Bank increased its investment in Budějovická development by CZK 10 million.
- In December 2019 the Bank sold the investment in Investičníweb s.r.o.

Separate Financial Statements

for the Year Ended 31 December 2020

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

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The Separate Statement of Income

for the Year Ended 31 December 2020

in CZK million	Notes	2020	2019
Net interest income	1	27,095	28,162
Interest income	1	29,782	35,679
Other similar income	1	5,210	3,549
Interest expenses	1	(3,406)	(7,460)
Other similar expenses	1	(4,491)	(3,606)
Net fee and commission income	2	7,277	7,732
Fee and commission income	2	8,661	9,099
Fee and commission expense	2	(1,384)	(1,367)
Dividend income	3	154	1,012
Net trading result	4	1,926	2,667
Gains/losses from financial instruments measured at fair value through profit or loss	5	569	(11)
Rental income from other operating leases	6	60	73
Personnel expenses	7	(9,177)	(9,441)
Other administrative expenses	7	(6,179)	(6,225)
Depreciation and amortisation	7	(2,601)	(2,412)
Gains/losses from derecognition of financial assets measured at amortised cost	8	-	8
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	(1)	(28)
Impairment result from financial instruments	10	(7,748)	128
Other operating result	11	(448)	(547)
Pre-tax result from continuing operations		**10,927**	**21,118**
Taxes on income	12	(2,135)	(3,906)
Net result for the period		**8,792**	**17,212**

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 2020

in CZK million	Notes	2020	2019
Net result for the period		**8,792**	**17,212**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**(1)**	**341**
Fair value reserve of equity instruments at FVOCI	12	-	419
Own credit risk reserve	12	(1)	2
Deferred taxes relating to items that may not be reclassified	12	-	(80)
Items that may be reclassified to profit or loss		**3,022**	**(295)**
Fair value reserve of debt instruments	12	56	273
Gains/losses during the period		(10)	236
Reclassification adjustments		-	28
Credit loss allowances	10	66	9
Cash flow hedge reserve		3,675	(637)
Gains/losses during the period	12, 25	3,675	(637)
Deferred tax relating to items that may be reclassified	12	(709)	69
Gains/losses during the period		(709)	74
Reclassification adjustments		-	(5)
Total other comprehensive income	**12**	**3,021**	**46**
Total comprehensive income for the year		**11,813**	**17,258**

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

The Separate Statement of Financial Position

as of 31 December 2020

in CZK million	Notes	2020	2019
Assets			
Cash and cash balances	14	36,459	38,868
Financial assets held for trading		11,382	9,710
Derivatives	19	11,281	9,572
Other financial assets held for trading	21	101	138
Thereof pledged as collateral		-	8
Non-trading financial assets at fair value through profit or loss	20	2,403	3,485
Equity instruments		976	738
Debt securities		944	1,307
Loans and advances to customers		40	795
Loans and advances to banks		443	645
Financial assets at fair value through other comprehensive income	23	19,517	20,953
Debt securities		19,517	20,953
Financial assets at amortised cost	15	1,366,244	1,291,115
Thereof pledged as collateral		57,783	99,677
Debt securities		247,553	214,446
Loans and advances to banks		418,106	398,411
Loans and advances to customers		700,585	678,258
Finance lease receivables	39	216	28
Hedge accounting derivatives	19	2,654	980
Fair value changes of the hedged items in portfolio hedge of interest rate risk		12	-
Property, equipment and right-of-use assets	36	11,561	12,122
Intangible assets	37	5,837	5,540
Investments in subsidiaries and associates	40	9,248	8,788
Current tax assets	12	1,403	-
Deferred tax assets	12	629	741
Assets held for sale	47	24	184
Trade and other receivables	17	555	595
Other assets	38	770	671
Total assets		**1,468,914**	**1,393,780**

in CZK million	Notes	2020	2019
Liabilities and equity			
Financial liabilities held for trading	19	12,895	9,795
Derivatives		12,895	9,795
Financial liabilities at fair value through profit or loss	22	3,784	3,557
Deposits from customers		3,784	3,557
Financial liabilities at amortised cost	18	1,299,256	1,237,112
Deposits from banks		88,909	292,182
Deposits from customers		1,031,851	929,150
Debt securities issued		176,128	12,304
Other financial liabilities		2,368	3,476
Lease liabilities	39	3,988	3,192
Hedge accounting derivatives	19	267	2,180
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1	-
Provisions	42	3,066	2,604
Tax liabilities	12	-	246
Other liabilities	41	3,679	3,864
Total equity	**44**	**141,978**	**131,230**
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		17,147	17,147
Retained earnings and other reserves		109,619	98,871
Total liabilities and equity		**1,468,914**	**1,393,780**

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 16 March 2021 and are subject to approval at the General Meeting.



Tomáš Salomon
Chairman of the Board of Directors



Wolfgang Schopf
Vice-chairman of the Board of Directors

The Separate Statement of Changes in Equity

for the Year Ended 31 December 2020

in CZK million	Share capital	Additional paid-in-capital	Retained earnings	Additional equity instruments	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Total equity
As of 1 January 2019	**15,200**	**12**	**94,503**	**8,107**	**(1,599)**	**872**	**3**	**117,098**
Dividends paid	-	-	(12,174)	-	-	-	-	(12,174)
Capital increase	-	-	-	9,039	-	-	-	9,039
Reclassification from OCI to RE	-	-	1,106	-	-	(1,106)	-	-
Other changes	-	-	9	-	-	-	-	9
Total comprehensive income	-	-	17,212	-	(516)	560	2	17,258
Net result for the period	-	-	17,212	-	-	-		17,212
Other comprehensive income	-	-	-	-	(516)	560	2	46
Change in fair value reserve	-	-	-	-	-	692		692
Change in cash flow hedge reserve	-	-	-	-	(637)	-	-	(637)
Change in tax	-	-	-	-	121	(132)		(11)
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk	-	-	-	-	-	-	2	2
As of 31 December 2019	**15,200**	**12**	**100,656**	**17,146**	**(2,115)**	**326**	**5**	**131,230**
As of 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 of 31 December 2020	**15,200**	**12**	**108,383**	**17,146**	**861**	**372**	**4**	**141,978**

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

The Separate Statement of Cash Flows

for the Year Ended 31 December 2020

in CZK million	Notes	2020	2019
Pre-tax result from continuing operations		**10,927**	**21,118**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	7	2,529	2,413
Net allocation to provisions (including credit risk provisions)	11,32	7,671	(192)
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		24	543
Gains/(losses) from the sale of non-financial assets		(64)	(115)
Change in fair values of derivatives		1,356	105
Accrued interest, amortisation of discount and premium		747	1,068
Other adjustments		(68)	(245)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		66	65
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(271)	11
Debt securities		421	(692)
Loans and advances to customers		958	(1,372)
Financial assets at fair value through other comprehensive income: debt instruments		1,604	17,396
Financial assets at amortised cost			
Debt securities		(32,137)	(15,839)
Loans and advances to banks		(20,305)	(22,035)
Loans and advances to customers		(25,504)	(34,268)
Finance lease receivables		(187)	(28)
Hedge accounting derivatives		88	(394)
Other assets from operating activities		467	837
Financial liabilities at amortised costs			
Deposits from banks		(206,090)	(24,681)
Deposits from customers		102,313	41,528
Financial liabilities at fair value through profit or loss		199	1,576
Payments for taxes on income		(4,381)	(3,078)
Other liabilities from operating activities		(35)	(1,231)
Cash flow from operating activities		**(159,672)**	**(17,510)**
Financial assets at fair value through other comprehensive income: equity instruments		-	1,249
Proceeds of disposal			
Property and equipment, intangible assets and investment properties	36, 37	1,493	315
Investment securities		32	
Acquisition of			
Property and equipment, intangible assets and investment properties	36,37	(2,497)	(2,822)
Disposal of subsidiaries	40	(460)	352
Cash flow from investing activities		**(1,432)**	**(906)**
Capital increase		-	9,040
Dividends paid to equity holders of the parent		(1,068)	(12,174)
Proceeds from bonds issued		163,825	4,262
Repayments of bonds in issue	48	-	(4,089)
Payments of lease liability		(751)	(609)
Cash flow from financing activities		**162,006**	**(3,570)**
Cash and cash equivalents at beginning of period	**14**	**38,868**	**59,569**
Cash flow from operating activities		(159,672)	(17,510)
Cash flow from investing activities		(1,432)	(906)
Cash flow from financing activities		162,006	(3,570)
Effect of currency translation		(3,311)	1,285
Cash and cash equivalents at end of period	**14**	**36,459**	**38,868**

in CZK million	Notes	2020	2019
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(4,381)	(3,078)
Interest received		35,482	(39,793)
Dividends received	3	154	1,012
Interest paid		(7,986)	10,835
Dividends paid to equity holders of the parent		(1,068)	(12,174)

Notes to the Separate Financial Statements

for the year ended 31 December 2020

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 2020 or the actual information on the Erste Group Bank homepage.

The Bank is subject to the regulatory requirements of the Czech National Bank ('CNB'), 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 are being prepared as required by the Czech accounting legislation.

The separate financial statements of the Bank for the 2020 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 consolidated 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 2020 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. As a consequence of the COVID-19 crisis, the European Central Bank as well as some local national banks issued recommendations to restrict dividend payouts. As a result, no dividends were paid out by the Bank to the parent Erste Group Bank AG in 2020. 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 financial statements in 2020.
- 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 expected credit losses (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 coronavirus pandemic, a voluntary (individual) deferral of repayments for 3 months in the case of a housing loans, i.e. mortgage and consumer loans (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 coronavirus 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 CNB 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, 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 and justified by the Group, the conditions were modified to suits clients' needs.

In cooperation with Českomoravská záruční a rozvojová banka, a.s. ("ČMZRB"), the Bank also enabled entrepreneurs to quickly draw bridging loans supported by the ČMZRB's guarantee (COVID II., COVID Prague, COVID III.) And in cooperation with the state Exportní garanční a pojišťovací společnost, 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 coronavirus 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. 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 further adjusted the forward looking information (FLI) in the calculation of ECL, which was reflected in portfolio allowances for credit losses, and at the same time adjusted individual allowances for credit losses for selected exposures to significant defaulted customers in Stage 3.

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.

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 2020 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 2020. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2020 and have been endorsed by the EU:

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform;
- Amendment to IFRS 16: Leases COVID-19 Related Rent Concessions;
- Amendments to IAS 1 and IAS 8: Definition of Material.

The amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform were applied early in 2019. Related disclosures are provided in Note 25 Hedge Accounting. Application of the above mentioned amendments in 2020 did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 19 February 2021:

- IFRS 17: Insurance contracts;
- Annual Improvements to IFRSs 2018-2020 Cycle;
- Amendments to IAS 1: Disclosure of Accounting Policies;
- Amendments to IAS 8: Definition of Accounting Estimates.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2. The amendments were issued in August 2020 and are effective for annual periods beginning on or after 1 January 2021. The amendments introduce a practical expedient that modifications of financial assets and financial

liabilities required by the reform are accounted for by updating the effective interest rate. A similar practical expedient is provided for lessee accounting applying IFRS 16. Regarding hedge accounting the hedge designation and documentation is amended and the effects of the benchmark rate change are included in the measurement of the hedging instrument and the hedged item. IFRS 7 disclosures requirements have been extended in order to allow users to understand the nature, extent and management of risks arising from the IBOR reform as well as progress in transitioning to alternative benchmark rates.

Application of these amendments will simplify the treatment compared to previous IFRS requirements which would have led to a more complex modification gain/loss or derecognition accounting or hedge accounting discontinuations. The less complex treatment is not expected to have a significant impact on the Bank's financial statements. However, the amendments will result in new disclosures.

The Bank has decided not to apply the amendments early since no replacement of the benchmark rates occurred in 2020. Centrally cleared derivatives were subject to switch in the discounting curve since the cash collateral remuneration changed for the new overnight benchmark rates. However, the valuation effect was compensated by one-off payments without affecting the value of hedging derivatives. Also, there was no change in the designated interest rate risk portion on the hedged items. As a result, the hedge designations and documentations were not considered to be affected by the reform during 2020.

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.)

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 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 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 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.

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	2020	2019
Interest and other similar income		
Financial assets at fair value through other comprehensive income	377	547
Financial assets at amortised cost	29,405	35,132
Interest income	**29,782**	**35,679**
Financial assets held for trading	4,799	3,843
Non-trading financial assets at fair value through profit or loss	13	17
Derivatives – Hedge accounting, interest rate risk	182	(479)
Other assets	2	5
Negative interest from financial liabilities	214	163
Other similar income	**5,210**	**3,549**
Total interest and other similar income	**34,992**	**39,228**
Interest and other similar expense		
Financial liabilities at amortised cost	(3,406)	(7,460)
Interest expenses	**(3,406)**	**(7,460)**
Financial liabilities at fair value through profit or loss	(5)	(1)
Financial liabilities held for trading	(4,310)	(3,352)
Derivatives – Hedge accounting, interest rate risk	18	14
Other liabilities	(49)	(165)
Negative interest from financial assets	(145)	(102)
Other similar expenses	**(4,491)**	**(3,606)**
Total interest and other similar expense	**(7,897)**	**(11,066)**
Net interest income	**27,095**	**28,162**

Interest income on impaired financial assets amounted to CZK 352 million (2019: CZK 208 million). In addition modification gains or losses of financial instruments allocated to Stage 1 in the amount of CZK 248 million (2019: CZK 0 million) is reported in line item 'Financial assets at AC'.

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	2020		2019	
	Income	Expenses	Income	Expenses
Securities	1,848	(117)	1,594	(109)
Clearing and settlement	-	(4)	-	-
Asset management	205	(33)	219	(51)
Custody	134	(16)	142	(13)
Payment services	3,609	(536)	4,046	(521)
Customer resources distributed but not managed	1,684	-	1,956	(158)
Insurance products	1,458	-	1,495	-
Building society brokerage	154	-	348	(158)
Other	72	-	113	-
Servicing fees from securitization activities	-	(54)	-	(5)
Lending business	860	(261)	823	(194)
Other	321	(363)	319	(316)
Total fee and commission income and expenses	**8,661**	**(1,384)**	**9,099**	**(1,367)**
Net Fee and commission income	**7,277**		**7,732**	

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 1,014 billion (2019: CZK 904,053 million).

Net fee and commission income above include income of CZK 3,192 million (2019: CZK 628 million) relating to other financial instruments not measured at FVPL.

3. Dividend income

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

in CZK million	2020	2019
Non-trading financial assets at fair value through profit or loss	54	54
Financial assets at fair value through other comprehensive income	2	10
Financial assets at cost	98	948
Dividend income	**154**	**1,012**

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	2020	2019
Securities and derivatives trading	133	680
Foreign exchange transactions	1,745	1,864
Gains or losses from hedge accounting	48	123
Net trading result	**1,926**	**2,667**

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	2020	2019
Realised and unrealised gains on trading assets	270	481
Foreign exchange trading	173	164
Total	**443**	**645**

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	2020	2019
Result from measurement/sale of financial assets designated at fair value through profit or loss	14	(14)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(28)	(54)
Result from financial assets and liabilities designated at fair value through profit or loss	**(14)**	**(68)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	583	57
Gains/losses from financial instruments measured at fair value through profit or loss	**569**	**(11)**

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	2020	2019
Other operating leases (real estate and cars)	60	73
Rental income from other operating leases	**60**	**73**

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.

Detailed information about remuneration of management including performance-linked remuneration can be found in Note 45 Related party transactions.

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	2020	2019
Personnel expenses	**(9,177)**	**(9,441)**
Wages and salaries	(6,476)	(6,785)
Compulsory social security	(2,084)	(2,128)
Other personnel expenses	(617)	(528)
Other administrative expenses	**(6,179)**	**(6,225)**
Deposit insurance contribution	(243)	(236)
IT expenses	(2,973)	(2,780)
Expenses for office space	(799)	(793)
Office operating expenses	(619)	(566)
Advertising / marketing	(762)	(888)
Legal and consulting costs	(230)	(256)
Sundry administrative expenses	(553)	(706)
Depreciation and amortisation	**(2,601)**	**(2,412)**
Software and other intangible assets	(979)	(966)
Owner occupied real estate	(642)	(568)
Office furniture and equipment and sundry property and equipment	(402)	(372)
Right-of-use assets	(578)	(506)
General administrative expenses	**(17,957)**	**(18,078)**

Personnel expenses include expenses of CZK 2,084 million (2019: CZK 2,128 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	2020	2019
Remuneration	106	96

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.

Average headcount of full time employees per reporting date

in CZK million	2020	2019
Staff	9,292	9,057

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	2020	2019
Gains from sale of financial assets at amortised cost	-	9
Losses from sale of financial assets at amortised cost	-	(1)
Gains from derecognition of financial assets measured at amortised cost	**-**	**8**

Any derecognition of financial assets measured at AC does not breach the business 'Hold to collect' model.

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

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

in CZK million	2020	2019
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	(1)	(28)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(1)**	**(28)**

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 direct write-offs are presented as part of the impairment result.

in CZK million	2020	2019
Financial assets at fair value through other comprehensive income	(66)	(9)
Financial assets at amortised cost	(7,235)	(632)
Net allocation to risk provisions	(7,628)	(1,328)
Direct write-offs	(7)	(15)
Recoveries recorded directly to the income statement	480	711
Modification gain or losses	(80)	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(447)	769
Impairment result from financial instruments	**(7,748)**	**128**

11. Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities. The other operating result includes impairment losses or any reversal of impairment losses on non-financial assets as well as results on their sale.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund according to Act 374/2015 Coll.

in CZK million	2020	2019
Other operating expenses	**(788)**	**(688)**
Allocation to other provisions	(2)	(2)
Other taxes	(16)	(4)
Recovery and resolution fund	(770)	(682)
Other operating income	**2**	**79**
Release of other provisions	2	79
Result from properties/movables/other intangible assets other than goodwill	**198**	**115**
Result from other operating expenses/income	**140**	**(53)**
Other operating result	**(448)**	**(547)**

In 2020 the Bank released the impairment of the HQ buildings in Prague of CZK 166 million which related to the 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.), see Note 36 for more details.

No indications for impairment were identified in 2019.

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 2020 the final annual contribution paid to resolution fund of CZK 770 million was reported within the line "Recovery and resolution fund" (2019: CZK 682 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	2020	2019
Current tax expense / income	(2,732)	(4,005)
current period	(2,685)	(3,964)
prior period	(47)	(41)
Deferred tax expense / income (+)	597	99
current period	597	99
Total taxes on income	**(2,135)**	**(3,906)**

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	2020	2019
Pre-tax profit/loss	10,927	21,118
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(2,076)	(4,012)
Non-taxable income	988	360
Non-deductible expenses	(1,030)	(249)
Other	(17)	(5)
Total	**(2,135)**	**(3,906)**
Effective tax rate	**19,54%**	**18,50%**

Tax effects relating to each component of other comprehensive income:

in CZK million	2020			2019		
	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit	Net-of-tax amount
Cash flow hedge reserve	3,675	(699)	2,976	(637)	121	(516)
Fair value reserve on debt instrument	56	(10)	46	273	(52)	221
Fair value reserve on equity instrument	-	-	-	419	(80)	339
Own credit risk reserve	(1)	-	(1)	2	-	2
Other comprehensive income	**3,730**	**(709)**	**3,021**	**57**	**(11)**	**46**

In the following tables the major components of deferred tax assets and deferred tax liabilities are shown.

	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	0	496	(203)	0	(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**		

	Tax assets		Tax liabilities		Net variance 2019		
in CZK million	Dec 2019	Dec 2018	Dec 2019	Dec 2018	Total	Through P&L	Through OCI
Temporary differences related to the following items:							
Debt instruments at FVOCI	-	-	(66)	(14)	(52)	-	(52)
Other financial assets at FVOCI	-	-	(109)	(241)	132	212	(80)
Financial assets at AC	233	295	-	-	(62)	(62)	-
Property and equipment (useful life in tax law different)	234	237	-	-	(3)	(3)	-
Intangible assets other than goodwill	-	-	(348)	(278)	(70)	(70)	-
Hedge accounting derivatives	496	375		-	121	-	121
Other liabilities	301	279	-	-	22	22	-
Total deferred taxes	**1,264**	**1,186**	**(523)**	**(533)**	**88**	**99**	**(11)**
Current taxes	**-**	**494**	**(246)**	**-**	**(740)**		
Total taxes	**1,264**	**1,680**	**(769)**	**(533)**	**(652)**		

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 112 million (2019: CZK 740 million) an amount of CZK 597 million (2019: income CZK 99 million) is reflected as net deferred tax income in the Bank's income statement for the year 2020, whilst an expense amount of CZK 709 million (2019: expense CZK 11 million) represents the impact in the Bank's other comprehensive income for the year. Deferred tax expense of CZK 211 million in 2019 representing accumulated OCI in respect of deferred tax recognized for cumulative changes in the fair value of FVOCI equity instruments sold during the year has been transferred into retained earnings, consequent to the related temporary differences reversing upon sale.

The Bank's deferred tax asset position in amount of CZK 629 million as of 31 December 2020 (2019: CZK 741 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 8,792 million under the Czech accounting regulations, which increased its distributable capital accordingly (2019: CZK 17,212 million). The equity increased accordingly.

Due to high uncertainty regarding further economic developments, CNB adopted stabilising measures in connection with the coronavirus epidemic in the last year, which includes among others also recommendation to refrain from any dividend payouts or any other steps that might jeopardise individual banks' resilience. As a result and based on the sole shareholder decision from 23 April 2020, no

dividend was paid for 2019 except for payment of coupons on AT1 instruments in the amount of CZK 1,068 million.

The decision of a profit allocation for 2020 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 (a Day 1 profit) in the income statement in line item 'Net trading result'.

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 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 theBank, 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 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 8,778 million (2019: CZK 7,328 million). Mandatory reserve deposits accrue interest at the CNB'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	2020	2019
Cash on hand	20,020	25,348
Cash balances at central banks	14,778	11,779
Other demand deposits	1,661	1,741
Cash and cash balances	**36,459**	**38,868**

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 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 2020 and 2019 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**
2020							
General governments	236,823	-	236,823	(12)	-	(12)	236,811
Credit institutions	10,289	453	10,742	(6)	(1)	(7)	10,735
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	4	3	7	-	-	-	7
Total	**247,116**	**456**	**247,572**	**(18)**	**(1)**	**(19)**	**247,553**
2019							
General governments	202,183	-	202,183	(10)	-	(10)	202,173
Credit institutions	12,273	-	12,273	(7)	-	(7)	12,266
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	3	4	7	-	-	-	7
Total	**214,459**	**4**	**214,463**	**(17)**	**-**	**(17)**	**214,446**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2020 and 2019.

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 2020						**Dec 2020**
Stage 1	(17)	(86)	2	-	84	(1)	(18)
Stage 2	-	-	-	(2)	1	-	(1)
Total	**(17)**	**(86)**	**2**	**(2)**	**85**	**(1)**	**(19)**
	Jan 2019						**Dec 2019**
Stage 1	(15)	(1)	1	-	(2)	-	(17)
Stage 2	-	-	-	-	-	-	-
Total	**(15)**	**(1)**	**1**	**-**	**(2)**	**-**	**(17)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized in the table below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	456	-
To Stage 1 from Stage 2	4	-

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2020 and not sold by 31 December 2020 amounts to CZK 50,330 million (2019: CZK 1,491 million). The GCA of AC debt securities that were held at 1 January 2020 and de-recognized (matured/sold) during the year 2020 amounts to CZK 17,608 million (2019: CZK 24,624 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 2020 and 2019 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
2020			
Central banks	406,717	(2)	406,715
Credit institutions	11,396	(5)	11,391
Total	**418,113**	**(7)**	**418,106**
2019			
Central banks	379,823	(2)	379,821
Credit institutions	18,598	(8)	18,590
Total	**398,421**	**(10)**	**398,411**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020 and 2019.

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Other changes in credit risk (net)	As of
	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)**
	Jan 2019				**Dec 2019**
Stage 1	(12)	(633)	570	65	(10)
Stage 2	-	(8)	11	(3)	-
Total	**(12)**	**(641)**	**581**	**62**	**(10)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 428,056 million (2019: CZK 397,448 million). The GCA of AC loans and advances to banks that were held at 1 January 2020 and fully de-recognized (matured) during the year 2020 amounts to CZK 389,975 million (2019: CZK 375,638 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 2020 and 2019 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**
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**
2019											
General governments	20,182	1,117	-	-	21,299	(12)	(11)	-	-	(23)	21,276
Other financial corporations	36,793	55	3	-	36,851	(26)	(1)	(2)	-	(29)	36,822
Non-financial corporations	229,127	17,878	5,680	748	253,433	(829)	(695)	(3,855)	(466)	(5,845)	247,588
Households	357,678	14,956	4,986	62	377,682	(645)	(970)	(3,474)	(21)	(5,110)	372,572
Total	**643,780**	**34,006**	**10,669**	**810**	**689,265**	**(1,512)**	**(1,677)**	**(7,331)**	**(487)**	**(11,007)**	**678,258**

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 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)**
	Jan 2019							Dec 2019
Stage 1	**(1,702)**	**(1,150)**	**356**	**1,001**	**(21)**	**-**	**4**	**(1,512)**
General governments	(4)	(6)	2	13	(17)	-	-	(12)
Other financial corporations	(27)	(79)	82	1	(3)	-	-	(26)
Non-financial corporations	(1,004)	(842)	161	521	331	(1)	4	(830)
Households	(667)	(223)	111	466	(332)	1	0	(644)
Stage 2	**(1,735)**	**(295)**	**150**	**(1,248)**	**1,440**	**8**	**3**	**(1,677)**
General governments	(39)	-	3	(2)	27	-	-	(11)
Other financial corporations	(3)	(31)	7	-	26	-	-	(1)
Non-financial corporations	(701)	(49)	71	(510)	490	1	3	(695)
Households	(992)	(215)	69	(736)	897	7	-	(970)
Stage 3	**(7,144)**	**(79)**	**545**	**(436)**	**(1,287)**	**1,052**	**18**	**(7,331)**
Other financial corporations	(5)	-	-	-	0	3	-	(2)
Non-financial corporations	(4,198)	(30)	212	(152)	(276)	571	18	(3,855)
Households	(2,941)	(49)	333	(284)	(1,011)	478	-	(3,474)
POCI	**(244)**	**-**	**37**	**-**	**(287)**	**5**	**2**	**(487)**
Non-financial corporations	(242)	-	37	-	(267)	4	2	(466)
Households	(2)	-	1	-	(21)	1	-	(21)
Total	**(10,825)**	**(1,524)**	**1,088**	**(683)**	**(155)**	**1,065**	**27**	**(11,007)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 206 million cumulatively for the year 2020 (2019: CZK 160 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 2020 to a different stage compared to 1 January 2020 (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
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**
2019								
General governments	100	286	-	-	-	-	-	-
Other financial corporations	52	64	-	-	-	-	-	-
Non-financial corporations	12,847	7,666	644	102	966	151	17	20
Households	9,660	5,314	810	108	1,592	327	-	1
Total	**22,659**	**13,330**	**1,454**	**210**	**2,558**	**478**	**17**	**21**

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 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 165,842 million (2019: CZK 165,949 million). The GCA of the AC loans and advances to customers that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to CZK 94,100 million (2019: CZK 102,840 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 2020 amounted to CZK 497 million (2019: CZK 98 million).

16. Debt instruments subject to contractual modifications

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

	2020		2019	
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)**	**-**	**-**

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 2	Stage 3	Total	Carrying amount
2020								
General governments	51	2	-	53	(1)	-	(1)	52
Credit institutions	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**
2019								
General governments	84	2	-	86	(2)	-	(2)	84
Credit institutions	47	12	6	65	(12)	(6)	(18)	47
Other financial corporations	180	1	-	181	(1)	-	(1)	180
Non-financial corporations	272	1	7	280	(1)	(7)	(8)	272
Households	6	115	20	141	(109)	(20)	(129)	12
Total	**589**	**131**	**33**	**753**	**(125)**	**(33)**	**(158)**	**595**

Movement in credit loss allowances

in CZK million	As of	Additions	Derecognitions	Other changes in credit risk (net)	Write-offs	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)**
	Jan 2019					**Dec 2019**
Stage 2	(278)	(7)	-	10	150	**(125)**
Stage 3	(26)	(1)	2	(9)	1	**(33)**
Total	**(304)**	**(8)**	**2**	**1**	**151**	**(158)**

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 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	2020	2019
Deposits	1,120,760	1,221,332
Deposits from banks	88,909	292,182
Deposits from customers	1,031,851	929,150
Debt securities issued	176,128	12,304
Bonds	176,128	12,304
Other financial liabilities	2,368	3,476
Financial liabilities measured at amortised costs	**1,299,256**	**1,237,112**

In 2020 Other financial liabilities included mainly payables to card associations in amount of CZK 484 million (2019: CZK 1,102 million), unbilled supplies in amount of CZK 843 million (2019: CZK 1,067 million) and received margin for futures of CZK 724 million (2019: CZK 370 million).

Deposits from banks

in CZK million	2020	2019
Current accounts/Overnight deposits	4,373	6,298
Term deposits	18,324	21,310
Repurchase agreements	66,212	264,574
Deposits from banks	**88,909**	**292,182**

Deposits from customers

in CZK million	2020	2019
Current accounts/Overnight deposits	956,509	818,748
General governments	65,723	63,257
Other financial corporations	24,858	28,349
Non financial corporations	151,286	119,474
Households	714,642	607,668
Term deposits	42,054	78,990
General governments	768	7,016
Other financial corporations	16,111	16,343
Non financial corporations	3,233	20,213
Households	21,942	35,418
Repurchase agreements	33,288	31,412
General governments	62	236
Other financial corporations	33,066	31,176
Non-financial corporations	160	-
Deposits from customers	**1,031,851**	**929,150**
General governments	66,553	70,509
Other financial corporations	74,035	75,868
Non financial corporations	154,679	139,687
Households	736,584	643,086

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

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	2020	2019
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	4,000	4,003
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	Yes	2,002	2,020
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	1,066	1,087
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	41	51
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	5,002	4729
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	408	414
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						**176,128**	**12,304**

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in the table above.

Assets in cover pools used for covered bond issuance amounted to CZK 157,615 million (2019: CZK 143,060 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 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 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

	2020			2019		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the trading book	**781,282**	**10,738**	**(10,274)**	**793,205**	**9,007**	**(8,388)**
Interest rate	446,722	6,911	(6,611)	400,302	5,619	(5,125)
Foreign exchange	334,560	3,827	(3,663)	392,903	3,388	(3,263)
Derivatives held in the banking book	**90,754**	**543**	**(2,621)**	**56,525**	**565**	**(1,407)**
Interest rate	20,763	321	(17)	7,579	412	(11)
Foreign exchange	69,991	222	(2,604)	48,946	153	(1,396)
Total	**872,036**	**11,281**	**(12,895)**	**849,730**	**9,572**	**(9,795)**

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

	2020			2019		
in CZK million	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Fair value hedges	**6,761**	**160**	**(12)**	**9,194**	**154**	**(3)**
Interest rate	6,761	160	(12)	9,194	154	(3)
Cash flow hedge	**107,037**	**2,494**	**(255)**	**118,382**	**826**	**(2,177)**
Interest rate	72,024	2,237	(22)	84,482	508	(1,835)
Foreign exchange	35,013	257	(233)	33,900	318	(342)
Total	**113,798**	**2,654**	**(267)**	**127,576**	**980**	**(2,180)**

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

	2020		2019	
in CZK million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	976	-	738
Debt securities	-	944	264	1,043
Credit institutions	-	-	264	-
Other financial corporations	-	944		1,043
Loans and advances to banks	-	443	-	645
Loans and advances to customers	-	40	-	795
Nonfinancial corporations	-	40	-	795
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**2,403**	**264**	**3,221**
Non-trading financial assets at fair value through profit or loss	**2,403**		**3,485**	

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 Bank has designated debt securities at FVPL. The maximum exposure to credit risk on these securities is its fair value.

21. Other financial assets held for trading

in CZK million	**2020**	**2019**
Debt securities	101	138
General governments	24	92
Credit institutions	74	44
Other financial corporations	3	2
Other trading assets	**101**	**138**

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	
	2020	2019	2020	2019	2020	2019
Deposits	3,784	3,557	3,637	3,402	147	155
Financial liabilities at fair value through profit and loss	**3,784**	**3,557**	**3,637**	**3,402**	**147**	**155**

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	
	2020	2019	2020	2019
Financial liabilities at fair value through profit or loss				
Deposits from customers	(1)	1	(3)	(5)

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'.

Equity instruments

The carrying amount of Bank's equity instruments at FVOCI as at 31 December 2020 and 2019 amounts to nil. These equity instruments were unlisted instruments denominated in USD (US based issuers) and their portfolio was sold during 2019.

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 2020 and 2019 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 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**
Dec 2019									
Debt securities	**18,073**	**2,537**	**20,610**	**(13)**	**(47)**	**(60)**	**20,550**	**343**	**20,953**
General governments	7,362	-	7,362	-	-	-	7,362	197	7,559
Credit institutions	3,307	-	3,307	(2)	-	(2)	3,305	13	3,320
Other financial corporations	1,149	708	1,857	(1)	(16)	(17)	1,840	86	1,943
Non-financial corporations	6,255	1,829	8,084	(10)	(31)	(41)	8,043	47	8,131
Total	**18,073**	**2,537**	**20,610**	**(13)**	**(47)**	**(60)**	**20,550**	**343**	**20,953**

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 2020 and 2019.

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 2020					Dec 2020
Stage 1	(12)	(2)	1	-	7	(6)
Stage 2	(48)	-	-	(74)	2	(120)
Total	**(60)**	**(2)**	**1**	**(74)**	**9**	**(126)**
	Jan 2019					Dec 2019
Stage 1	(11)	(3)	2	-	-	(12)
Stage 2	(40)	(2)	-	(46)	40	(48)
Total	**(51)**	**(5)**	**2**	**(46)**	**40**	**(60)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	5,264	622

C) FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

24. Fair value of financial instruments

Determination of fair value

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.

Fair values of financial instruments

All financial instruments 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

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.

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 where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. 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.

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 (103) million (2019: CZK (153) million) and the total DVA-adjustment amounted to CZK 27 million (2019: CZK 28 million).

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.

These include exchange traded derivatives (futures, 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.

These 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. For Level 3 valuations besides observable parameters 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. These include shares, participations and funds not quoted, illiquid bonds as well as loans, own issues and deposits.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

in CZK million	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Financial assets – held for trading	19	11,263	100	11,382	82	9,457	171	9,710
Derivatives	-	11,181	100	11,281	-	9,401	171	9,572
Other trading assets	19	82	-	101	82	56	-	138
Non-trading financial assets - FVPL	-	-	2,403	2,403	-	265	3,220	3,485
Equity instruments	-	-	976	976	-	-	738	738
Debt securities	-	-	944	944	-	265	1,042	1,307
Loans and advances	-	-	483	483	-	-	1,440	1,440
Financial assets – FVOCI	13,656	3,605	2,256	19,517	12,423	7,169	1,361	20,953
Debt securities	13,656	3,605	2,256	19,517	12,423	7,169	1,361	20,953
Derivatives Hedge Accounting	-	2,654	-	2,654	-	961	19	980
Total assets	**13,675**	**17,522**	**4,759**	**35,956**	**12,505**	**17,852**	**4,771**	**35,128**
LIABILITIES								
Financial liabilities held for trading	-	12,836	59	12,895	-	9,778	17	9,795
Derivatives	-	12,836	59	12,895	-	9,778	17	9,795
Financial liabilities designated at fair value through profit or loss	-	3,784	-	3,784	-	3,557	-	3,557
Deposits from customers	-	3,784	-	3,784	-	3,557	-	3,557
Derivatives Hedge Accounting	-	267	-	267	-	2,180	-	2,180
Total liabilities	**-**	**16,887**	**59**	**16,946**	**-**	**15,515**	**17**	**15,532**

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

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	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	-	5,264	-	622
Net transfer from Level 2	(5,264)	-	(622)	-
Purchases/sales/expiries	3,021	(5,654)	(16,281)	(409)
Changes in derivatives	-	3,473	-	(503)
Total year-to-date change	**(2,243)**	**3,083**	**(16,903)**	**(290)**

In 2020 the relevant unquoted bonds were reclassified from Level 2 to Level 1 due to higher market activity.

Movements in Level 3 of financial instruments measured at fair value

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 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**
	Jan 2019							**Dec 2019**
Assets								
Financial assets HfT	349	(29)	-	31	(119)	(1)	(60)	171
Derivatives	349	(29)	-	31	(119)	(1)	(60)	171
Other financial assets held for trading	-	-	-	-	-	-	-	-
Non-trading financial assets at FVPL	1,154	701	-	904	(117)	578	-	3,220
Equity instruments	749	(10)	-	-	(1)	-	-	738
Debt securities	337	65	-	108	(41)	573	-	1,042
Loans and advances	68	646	-	796	(75)	5	-	1,440
Financial assets at FVOCI	3,230	-	618	-	(1,131)	168	(1,524)	1,361
Equity instruments	1,252	-	562	-	(1,110)	-	(704)	-
Debt securities	1,978	-	56	-	(21)	168	(820)	1,361
Hedge accounting derivatives	33	-	-	19	0	-	(33)	19
Total assets	**4,766**	**672**	**618**	**954**	**(1,367)**	**745**	**(1,617)**	**4,771**

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. In 2019 FVOCI financial assets (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	2020	2019
	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets – held for trading	(57)	(29)
Derivatives	(57)	(29)
Non-trading financial assets at fair value through profit or loss	940	701
Equity instruments	258	(10)
Debt securities	199	65
Loans and advances	483	646
Hedge accounting derivatives	(18)	-
Total	**865**	**672**

The volume of Level 3 financial assets can be allocated to the following two categories:

Market values of 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 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.

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	**2020**	**2019**	**2020**	**2019**
Derivatives	9	4	(3)	(5)
Income statement	9	4	(3)	(5)
Debt securities	22	29	(29)	(38)
Other comprehensive income	22	29	(29)	(38)
Equity instruments	96	59	(191)	(118)
Income statement	96	59	(191)	(118)
Total	**127**	**92**	**(223)**	**(161)**
Income statement	**105**	**63**	**(195)**	**(123)**
Other comprehensive income	**22**	**29**	**(28)**	**(38)**

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 2020 and for the year-end 2019. 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-obser-vable inputs Level 3
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
2019					
ASSETS					
Cash and cash balances	38,868	38,868	-	-	-
Financial assets at amortised costs	1,291,115	1,299,839	207,074	12,107	1,080,658
Loans and advances to banks	398,411	398,759			398,759
Loans and advances to customers	678,258	681,890			681,890
Debt securities	214,446	219,190	207,074	12,107	9
Finance lease receivables	28	28	-	-	28
Trade and other receivables	595	595	-	-	595
LIABILITIES					
Financial liabilities measured at amortised costs	1,237,112	1,237,079	-	12,270	1,224,809
Deposits from banks	292,182	292,228	-	-	292,228
Deposits from customers	929,150	929,103	-	-	929,103
Debt securities issued	12,304	12,270	-	12,270	-
Other financial liabilities	3,476	3,477	-	-	3,477
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	1,044	-	-	1,044
Irrevocable commitments	n/a	1,919	-	-	1,919

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 and hedges the interest rate risk of prepayable loans in respect of the so called bottom layer amount. With this approach, prepayments, other derecognitions and impairments are considered as not affecting the hedge effectiveness unless their amount hits the designated hedged bottom layer level. The change in the fair value of the hedged items attributable to the hedged interest risk 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's 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 129 million (2019: income of amount CZK 114 million) was taken from the cash flow hedge reserve and recognised in the income statement; while gain CZK 1,064 million (2019: loss CZK 2,611 million) was recognised directly in other comprehensive income.

As at 31 December 2020, the loss on hedging derivatives used for fair value hedging was gain CZK 97 million (2019: gain CZK 82 million); the gain due to changes in the fair value of hedged items was gain CZK 16 million (2019: loss CZK 74 million).

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

	2020		2019	
in CZK million	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Hedging instrument – fair value hedge	160	12	154	3
Hedging instrument – cash flow hedge	2,494	255	826	2,177
Total	**2,654**	**267**	**980**	**2,180**

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), 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**
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**

At the end of 2019 the Bank had 250 cash flow hedge structures with maturity from 2020 to 2027. 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
2020	1,000	110	-
2021	9,910	558	-
2022	9,600	156	-
2023	19,550	319,5	50
2024	12,100	132,9	-
2025	24,100	41,4	-
2026	1,797	108,6	-
2027	3,200	-	-
Total	**81,257**	**1,426**	**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
2020								
Fair value hedges								
Interest rate risk	160	(12)	-	6,761	-	2,624	3,937	200
Cash flow hedges								
Interest rate risk	2237	(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**
2019								
Fair value hedges								
Interest rate risk	153	(3)	-	9,194	-	-	8,994	200
Cash flow hedges								
Interest rate risk	508	(1,835)	605	84,482	-	1	54,342	2,914
Foreign exchange risk	319	(342)	32	339	254	1,326	28,448	3,872
Total	**980**	**(2,180)**	**637**	**127,576**	**254**	**2,326**	**91,784**	**33,212**

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
2020				
Liabilities				
Financial liabilities at AC				
Interest rate risk	(6,750)	(188)	-	(8)
2019				
Liabilities				
Financial liabilities at AC				
Interest rate risk	(9,076)	(182)	(71)	-

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
2020			
Interest rate risk	(2,952)	(1,688)	(32)
Foreign exchange risk	(3)	645	11
Total	(2,955)	**(1,043)**	**(21)**
2019			
Interest rate risk	605	1,468	(16)
Foreign exchange risk	32	1,159	-
Total	637	**2,627**	**(16)**

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:	
			hedged item affected profit or loss	hedged item no longer expected
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)**
2019				
Fair value hedges				
Interest rate risk	(8)	-	-	-
Cash flow hedges				
Interest rate risk	(114)	617	11	(47)
Foreign exchange risk	(1)	20	-	-
Total	**(123)**	**637**	**11**	**(47)**

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

26. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets subject to offsetting and potential offsetting agreements

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
	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
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**
2019						
Derivatives	10,552	10,552	6,066	1,365	-	3,121
Reverse repurchase agreements	381,922	381,922	-	10	379,469	2,443
Other financial instruments	52,975	52,975	-	-	52,975	-
Total	**445,449**	**445,449**	**6,066**	**1,375**	**432,444**	**5,564**

Financial liabilities subject to offsetting and potential offsetting agreements

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
	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
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**
2019						
Derivatives	11,975	11,975	6,066	3,125	-	2,784
Repurchase agreements	295,986	295,986	-	850	295,136	-
Total	**307,961**	**307,961**	**6,066**	**3,975**	**295,136**	**2,784**

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'.

	2020		2019	
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				
Trading assets	-	-	8	8
Financial assets at AC	38,114	36,088	46,702	44,676
Financial assets at FVOCI	-	-	-	-
Total – repurchase agreements	**38,114**	**36,088**	**46,710**	**44,684**
Securities lendings				
Financial assets at AC	19,669	-	52,976	-
Trading assets	-	-	-	-
Total – securities lendings	**19,669**	**-**	**52,976**	**-**

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

The total amount of CZK 38,114 million (2019: CZK 46,710 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 36,088 million (2019: CZK 44,676 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.

	2020			2019		
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
Trading assets	-	-	-	8	7	1
Financial assets at AC	39,732	36,095	3,637	47,984	44,668	3,316
Total	**39,732**	**36,095**	**3,637**	**47,992**	**44,675**	**3,317**

28. Collateral

in CZK million	2020	2019
Financial assets at AC	70,302	111,981
Trading assets	-	9
Total	**70,302**	**111,990**

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 191.2 billion (2019: CZK 186.7 billion). Collateral with fair value of CZK 63.5 billion (2019: CZK 251.1 billion) was resold. Collateral with fair value of CZK 171.9 billion (2019: CZK 0 million) was repledged. The Bank is obliged to return the resold and repledged collateral.

29. Securities

	2020				2019				
			Financial assets				Financial assets		
in CZK million	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	At AC	Trading assets	Mandatorilyat FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**247,553**	**101**	**944**	**19,517**	**214,446**	**138**	**470**	**837**	**20,953**
Listed	228,259	19	-	10,243	202,483	82	-	-	12,423
Unlisted	19,294	82	944	9,274	11,963	56	470	837	8,530
Equity-related securities	**-**	**-**	**976**	**-**	**-**	**-**	**738**	**-**	**-**
Unlisted	-	-	976	-	-	-	738	-	-
Total	**247,553**	**101**	**1,920**	**19,517**	**214,446**	**138**	**1,208**	**837**	**20,953**

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.

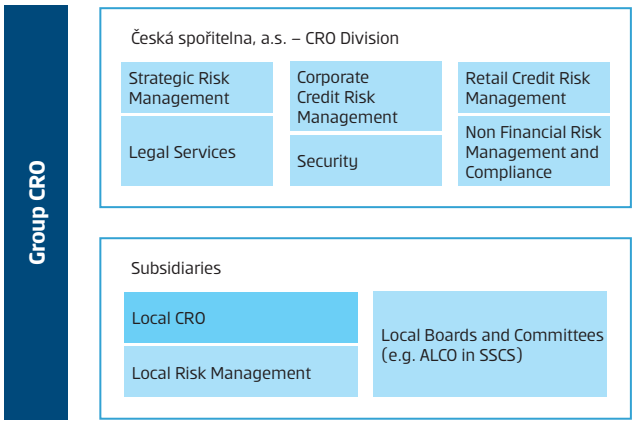
The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy 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 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 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, Enterprise wide 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 is responsible for management of operational, compliance 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 risk 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 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

and also legal entities), 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

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the 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 Bank risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- ensure that the Bank has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Bank's risk target setting;
- support the Bank's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, the Bank creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Bank is willing to accept. In order to ensure that the Bank remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a predefined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a predefined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the Risk Strategy based on Bank RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Bank risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Bank remains within its RAS.

Bank RAS for 2020 was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The Bank further developed an aggregated and consolidated risk appetite dashboard (Risk report) illustrating the group's and bank's risk profile developments by comparing the risk exposure and risk limits. The Risk report is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Portfolio and risk analytics

The Bank uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across the Group 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 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 2020 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 and reputational risk are explicitly considered within the economic capital requirements via internal models in the context of Pillar 2. At the end of 2020, the economic capital adequacy was at 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.

Credit risk accounts for 73.9% of total economic capital requirements at the end of 2020. Reflecting conservative risk management policy and strategy, the Bank does not offset diversification effects between the risk types. Starting with 2019, the economic capital requirements for unexpected losses are computed on a one-year time horizon with a 99.92% confidence level, ensuring group-wide consistency (across Erste Group Bank and local entities) and coherence between ICAAP and processes where ICAAP is integrated.

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 %	2020	2019
Credit risk	70.5%	73.4%
Market risk	6.6%	10.4%
Operational risk	8.4%	11.5%
Other risk	14.5%	4.7%

Other risks include business 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 Bank 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 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") is currently in approval process and is expected to be endorsed during 2021. 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 2020 and as of 31 December 2019:

in CZK million	2020	2019
Tier 1 capital	127,854	110,628
Tier 1 + Tier 2 capital	130,446	112,790
Exposure to credit risk	471,047	458,983
Exposure to market risk	4,943	7,545
Exposure to operational risk	51,482	51,630
Total risk exposure	**527,472**	**518,158**
Capital adequacy ratio for the year (Tier 1 ratio)	**24.2%**	**21.4%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**24.7%**	**21.8%**

*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 2020 and 2019.

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 'Risk management organisation'.

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 Enterprise wide 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 Erste Group Bank as a whole. Credit risk reporting comprises regular reports on the Bank's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

The Bank has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Bank is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed more frequently.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 or 2.

For entities of the Group that use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment 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 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

Enterprisewide Risk Management conducts periodical reviews of the loan portfolio for each entity to ensure an adequate portfolio quality and to monitor the compliance of local portfolios with the principles and parameters as stipulated by credit risk policies.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning signals are monitored by Corporate and Retail Credit Risk Management for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of the Bank are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

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 2019 and 31 December 2020, the credit risk exposure increased from CZK 1,476 billion to CZK 1,576 billion. This is an increase of 6.7% or CZK 100 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
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)	-	N/A
Total	**1,575,692**	**(19,360)**	**333**	**1,403,656**
2019				
Cash and cash balances – demand deposits to central banks and credit institutions	1,741	-	-	1,741
Debt instruments held for trading	9,710	-	-	9,710
Non-trading debt instruments at FVPL	2,747	-	-	2,747
Debt securities	1,307	-	-	1,307
Loans and advances to customers	795	-	-	795
Loans and advances to banks	645			645
Debt instruments at FVOCI	20,610	(60)	343	20,953
Debt securities	20,610	(60)	343	20,953
Debt instruments at AC	1,302,149	(11,034)	-	1,291,115
Debt securities	214,463	(17)	-	214,446
Loans and advances to banks	398,421	(10)	-	398,411
Loans and advances to customers	689,265	(11,007)	-	678,258
Trade and other receivables	753	(158)	-	595
Finance lease receivables	28	-	-	28
Positive fair value of hedge accounting derivatives	980	-	-	980
Off balance-sheet exposures	138,098	(795)	-	N/A
Total	**1,476,816**	**(12,047)**	**343**	**1,327,869**

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 neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

					At amortised cost							
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**	**Debt securities**	**Loans and advances to banks**	**Loans and advances to customers**	**Trade and other receivables**	**Finance lease receivables**	**Positive fair value of hedge accounting derivatives**	**Off balance-sheet exposures**	**Gross exposure**
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**
2019												
Central banks	-	-	-	-	-	379,823	-	-	-	-	-	379,823
General governments	-	1,990	-	7,362	202,182	-	21,299	86	-	-	8,689	241,608
Credit institutions	1,741	6,160	909	3,307	12,274	18,598	-	64	-	960	1,395	45,408
Other financial corporations	-	188	470	1,856	-	-	36,853	181	-	-	10,273	49,821
Non-financial corporations	-	1,372	1,368	8,085	7	-	253,433	280	28	20	71,676	336,269
Households	-	-	-	-	-	-	377,680	142		0	46,065	423,887
Total	**1,741**	**9,710**	**2,747**	**20,610**	**214,463**	**398,421**	**689,265**	**753**	**28**	**980**	**138,098**	**1,476,816**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	**2020**	**2019**
Financial guarantees	32,397	28,889
Loan commitments	121,152	108,583
Other commitments	830	626
Total	**154,379**	**138,098**

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
2020							
Agriculture and forestry	12,263	3,348	140	26	15,777	51	15,828
Mining	767	5	5	0	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**
2019							
Agriculture and forestry	14,846	840	214	5	15,905	10	15,915
Mining	223	607	6	-	836	1	837
Manufacturing	66,250	5,568	2,407	406	74,631	410	75,041
Energy and water supply	22,436	3,934	582	41	26,993	205	27,198
Construction	25,694	1,046	1,196	215	28,151	9	28,160
Development of building projects	11,810	348	708	193	13,059	(1)	13,058
Trade	45,607	3,339	1,495	51	50,492	350	50,842
Transport and communication	26,948	703	117	-	27,768	241	28,009
Hotels and restaurants	6,821	550	251	7	7,629	34	7,663
Financial and insurance services	465,302	787	582	-	466,671	8,959	475,630
Holding companies	5,424	615	-	-	6,039	277	6,316
Real estate and housing	92,002	5,161	314	31	97,508	1,216	98,724
Services	21,281	3,236	327	1	24,845	25	24,870
Public administration	236,573	1,133	-	-	237,706	1,991	239,697
Education, health and art	7,537	601	110	-	8,248	39	8,287
Households	377,719	13,590	4,578	56	395,943	-	395,943
Total	**1,409,239**	**41,095**	**12,179**	**813**	**1,463,326**	**13,490**	**1,476,816**

From industry and financial instrument point of view, the highest exposure is represented by financing and insurance services (exposure of 496 billion, representing 31.5% from total) followed by household in loans and advances to customers (exposure of 423 billion, representing 26.8% 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 1,066 million (2019: CZK 748 million), the non-defaulted part to CZK 170 million (2019: CZK 65 million).

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
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**
2019					
Agriculture and forestry	9,555	5,203	938	219	15,915
Mining	771	52	8	6	837
Manufacturing	54,519	15,770	1,951	2,801	75,041
Energy and water supply	24,385	1,980	210	623	27,198
Construction	19,334	5,765	1,652	1,409	28,160
Trade	36,068	10,742	2,464	1,568	50,842
Transport and communication	22,711	4,656	525	117	28,009
Hotels and restaurants	5,031	1,467	914	251	7,663
Financial and insurance services	473,415	2,141	65	9	475,630
Real estate and housing	65,136	27,400	5,843	345	98,724
Services	15,691	7,277	1,574	328	24,870
Public administration	238,450	1,223	24	-	239,697
Education, health and art	6,547	1,223	407	110	8,287
Private households	370,042	14,229	7,073	4,599	395,943
Total	**1,341,655**	**99,128**	**23,648**	**12,385**	**1,476,816**

The low risk exposure has the highest proportion in total credit risk exposure, with 87.68 %, while management attention represents 9.27 %, The substandard exposure represents 2.04 % and the non-performing 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 121.1 % (2019: 97.3%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2020. 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 2020, the non-performing credit risk exposure increased by CZK 3,627 million, or 29.3%, from CZK 12,385 million to CZK 16,012 million. The substantial deterioration of asset quality resulted on economic downturn due to COVID-19 pandemic. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 7,309 million, or 60.8%. The huge credit loss allowances creation to performing loans and advances due to change in staging rules resulted on substation increase in the coverage of non-performing credit risk exposures by credit risk allowances.

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.

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 positively concluded.

Qualitative criteria. Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. 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 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 2020, in the Bank, the corresponding exposure amounted to CZK 255.6 billion (2019: CZK 261.8 billion) with 1Y PDs up to 0.5%. The rest of the securities exposure (reverse repos excluded) in the amount 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 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, and credit rating band.

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. We are disclosing sensitivity of the staging and ECL on macro scenarios in the COVID-19 section below.

The Bank expects a gradual recovery from 2Q21 thereafter, supported by improved sentiment and weaking the COVID-19 pandemic. Solid development in both domestic and foreign demand, as the vaccination process affects willingness of firms to invest and a propensity of households to consume on the one side and foreign trade on the other. However, monetary conditions will stay loosen in the Euro Area affecting the yield curves. In the Czech economy the CNB will start policy tightening from 4Q21 thereafter, mainly as a result of gradually increasing inflationary pressures. EUR/CZK will return on the appreciation path, due to renewed convergence process and positive interest rate differential.

Due to still high uncertainty related to COVID pandemic, these scenarios weights were assumed:

- baseline scenario was decreased from 50% to 40%,
- downside probability was increased from 37% to 56%,
- upside probability was reduced from 13% to 4%.

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.

Baseline, upside and downside scenarios of GDP growth

		Probability weights		GDP growth in %			
2020	**Scenario**	**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
2019		**2020**	**2021–22**	**2019**	**2020**	**2021**	**2022**
Czech Republic	Upside	13%	13%	2.6	4.6	4.7	4.8
	Baseline	50%	50%	2.6	2.6	2.7	2.8
	Downside	37%	37%	2.6	0.1	0.2	0.3

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 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.

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

in CZK million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to COVID-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	Public guarantees received in the context of the COVID-19 crisis
2020				
Agriculture and forestry	-	5	67	67
Mining	-	-	15	15
Manufacturing	-	229	1,505	1,448
Energy and water supply	-	-	51	41
Construction	-	-	274	274
Trade	-	31	1,557	1,537
Transport and communication	-	1	521	466
Hotels and restaurants	20	-	168	167
Financial and insurance services	-	-	4	4
Real estate and housing	17	1,402	61	61
Services	-	1	237	233
Education, health and art	-	1	102	102
Other	-	-	74	74
Total	**37**	**1,670**	**4,636**	**4,489**

Loans and advances of non-financial corporations to which the measures applied in the response to COVID-19 were granted and are currently valid (have not been expired), amounted to CZK 6,350 million as of 31 December 2020. Measures mostly refer to newly originated loans subject to public guarantees. The highest amount of newly originated loans in non-financial corporations refers to manufacturing

and wholesale and retail trade. The majority of EBA-compliant moratoria finished in October 2020. Total exposure of loans with COVID-19 related measures provided during year 2020 accounted for CZK 38,899 million.

Loans and advances of households to which the measures applied in the response to COVID-19 were granted and are currently valid (have not been expired), amounted to CZK 2,086 million as of 31 December 2020. This amount consists of CZK 0.3 million of loans and advances subject to EBA-compliant moratoria, CZK 1,935 million of other loans and advances subject to COVID-19-related forbearance measures and CZK 151 million of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis. Total exposure of loans with COVID-19 related measures provided during year 2020 accounted for CZK 46,403 million.

Effect on business

In March, 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 drivers for assigning corresponding low, moderate, high and critical industry classification was the assessment of both, short-term as well as medium-term impacts of the crisis on the specific (sub)industry. E.g. a complete lock-down of businesses like hotels or passenger air transport resulted in a "critical" classification on short-term view and based on expected re-opening/ recovery remained on "critical" or was assessed as "high", "moderate" or "low" on medium-term view. The classifications are regularly reviewed to take current developments into account. A respective business and risk strategy for the (sub)industries was formulated based on the assessment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to temporarily limit financing for specific categories to existing clients only) and/or the revision of underwriting standards. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of the Group.

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 IFRS9 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
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)**

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
2019								
Agriculture and forestry	14,847	840	214	5	15,906	9	15,915	(252)
Mining	223	607	6	-	836	1	837	(13)
Manufacturing	66,249	5,568	2,407	406	74,630	411	75,041	(2,238)
Energy and water supply	22,435	3,934	582	41	26,992	205	27,197	(547)
Construction	25,694	1,046	1,196	215	28,151	9	28,160	(914)
Trade	45,606	3,340	1,495	51	50,492	350	50,842	(1,640)
Transport and communication	26,948	703	117	-	27,768	240	28,008	(159)
Hotels and restaurants	6,821	550	251	7	7,629	34	7,663	(176)
Financial and insurance services	465,303	787	9	-	466,099	8,957	475,056	(140)
Real estate and housing	92,002	5,161	314	31	97,508	1,217	98,725	(729)
Services	21,282	3,236	327	1	24,846	24	24,870	(390)
Public administration	236,574	1,133	-	-	237,707	1,990	239,697	(34)
Education, health and art	7,536	601	110	-	8,247	43	8,290	(62)
Private households	377,719	13,589	4,578	56	395,942	-	395,942	(4,718)
Total	**1,409,239**	**41,095**	**11,606**	**813**	**1,462,753**	**13,490**	**1,476,243**	**(12,012)**

Effect on Expected Credit Loss

As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

We have concluded so far that all moratoria fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic transfers from Stage 1 to Stage 2. However, the Bank continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

We have re-assessed credit risk parameters based on the new macro-scenarios FLI overlay. We will continue monitoring of the micro and macro-prediction development in order to reflect up-to-date information in our credit risk parameters. GDP scenarios and weights are shown in the table on page 75.

The Bank has 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 taking into account any COVID-19 related relieve measure granted as well as the internal industry heat-map and corresponding PD levels. The industry heat map and the portfolio overlays are subject to regular reviews. The impact of forbearance to Stage 2 rules remained unchanged.

In case of accounts in moratoria the DPD prior to payment holidays was one of the inputs for potential Stage 2 overlays determination, specifically in case DPD > 30 days during 3 months before data of application the account was moved to Stage 2. In case account had DPD > 30 days as of 31.12.2020 the account got Stage2 according to standard rules.

An internal industry heat-map consists of 4 grades (according to degree of impacts on the business of client – critical, high, moderate, low). The loans of the most affected (critical) industry sector are automatically migrated to Stage 2. The accounts with some moratorium during 2020 of client from highly affected sectors or clients from highly affected sectors and worse ratings are migrated to Stage 2. Finally accounts with some moratorium during 2020 from moderate sectors fulfilling simultaneously condition for worse rating are assigned to Stage 2.

As of 31.10.2020 most of moratoria were terminated. The credit quality of corporate clients under terminated moratoria was assessed as usually individually, the quality of retail clients moratoria was assessed by early collection team that actively contacted the clients with the aim to find out if the single clients would be able starting to repay their loans. Based on the results the clients that were evaluated as clients with potential repayment problems had at the end of 2020 either new type of moratoria (COVID restructuring) or obtained standard restructuring default or obtained default rating "unlikely-to-pay". This prevented that significant amount of loans with terminated moratoria as of 31.10.2020 would fall to payment default during February 2021. Account of clients who received COVID restructuring are migrated to Stage 2.

The Bank will assess releases of COVID-19 portfolio overlays for PI portfolios during 2021. When moratoria do no longer distort DPD information, behavioural scoring will allow proper SICR assessment. In case of non-PI portfolios, release of the overlays will be assessed after a consistent improvement of the macro indicators is observed.

During 2020 the Bank created an additional loan loss provisions for COVID impacts in overall sums of CZK 0.8 billion for Stage 2 overlays and CZK 2.6 billion due to expected macroeconomic worsening (FLI component).

Composition of credit loss allowances

in CZK million	2020	2019
Loan loss allowances	(18,116)	(11,252)
Loss allowances for loan commitments and financial guarantees	(1,204)	(760)
Provisions for other commitments	(40)	(35)
Total	**(19,360)**	**(12,047)**

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
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**

in CZK million	On-balance	Off-balance	Total
2019			
Agriculture and forestry	(13)	(4)	(17)
Mining	(58)	(1)	(59)
Manufacturing	(85)	(290)	(375)
Energy and water supply	(23)	-	(23)
Construction	155	(435)	(280)
Development of building projects	91	(48)	43
Trade	223	(12)	211
Transport and communication	(86)	(3)	(89)
Hotels and restaurants	(4)	(1)	(5)
Financial and insurance services	18	10	28
Real estate and housing	(15)	(4)	(19)
Services	10	(3)	7
Public administration	(33)	(5)	(38)
Education, health and art	(13)	-	(13)
Households	554	(21)	533
Other	11	-	11
Total	**641**	**(769)**	**(128)**

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
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)
2019					
Gross exposure	**1,089,906**	**235,808**	**41,946**	**108,583**	**1,476,243**
thereof gross forborne exposure	3,105	-	-	17	3,122
Performing exposure	1,078,459	235,808	41,174	108,417	1,463,858
thereof performing forborne exposure	685	-	-	-	685
Credit loss allowances for performing exposure	(3,328)	(77)	(12)	(308)	(3,725)
thereof credit loss allowances for performing forborne exposure	(28)	-	-	-	(28)
Non-performing exposure	11,447	-	772	166	12,385
thereof non-performing forborne exposure	2,420	-	0	17	2,437
Credit loss allowances for non-performing exposure	(7,846)	-	(424)	(53)	(8,323)
thereof credit loss allowances for non-performing forborne exposure	(1,522)	-	-	(13)	(1,535)

Types of forbearance exposure

in CZK million	Gross forborne exposure	Modification in terms and conditions	Refinancing
2020			
Loans and advances	29,398	29,352	47
Loan commitments	182	182	-
Total	**29,580**	**29,534**	**47**
2019			
Loans and advances	3,105	3,042	63
Loan commitments	17	17	-
Total	**3,122**	**3,059**	**63**

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
2020									
Cash and cash balances – demand deposits to central banks and credit institutions	1,661	-	-	-	-	1,661	1,661	-	-
Debt instruments 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**
2019									
Cash and cash balances – demand deposits to central banks and credit institutions	1,741	-	-	-	-	1,741	1,319	422	-
Financial assets held for trading	9,710	-	-	-	-	9,710	-	-	-
Non-trading debt instruments at FVPL	2,174	841	262	579	-	1,333	-	-	-
Debt instruments at FVOCI	20,610	1,925	1,925	-	-	18,685	20,610	-	-
Debt instruments at AC	1,302,149	745,999	25,939	331,407	388,653	556,150	1,287,188	3,549	11,414
Debt securities	214,463	5,232	5,232	-	-	209,231	214,463	-	-
Loans and advances to banks	398,421	378,299	1,168	-	377,131	20,122	398,421	-	-
Loans and advances to customers	689,265	362,468	19,539	331,407	11,522	326,797	674,304	3,549	11,414
Trade and other receivables	753	-	-	-	-	753	598	121	33
Finance lease receivables	28	-	-			28	28	-	-
Positive fair value of hedge accounting derivatives	980	-	-	-	-	980	-	-	-
Off balance-sheet exposures	138,098	9,085	1,540	6,031	1,514	129,013	136,515	53	904
out of which: loan commitments	108,583	6,222	1,167	4,649	406	102,361	108,373	44	166
financial guarantees	28,889	2,814	373	1,350	1,091	26,075	28,142	9	738
other commitments	626	49	-	32	17	577	-	-	-
Total	**1,476,242**	**757,850**	**29,666**	**338,017**	**390,167**	**718,392**	**1,446,258**	**4,145**	**12,351**

The collateral attributable to exposures that are credit-impaired at 31 December 2020 amounts to CZK 4,684 million (2019: CZK 3,187 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 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) 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 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 2020 and 2019 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
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								
Daily value	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Monthly value	1,486	(714)	1,565	4	-	421	-	210
Average of daily values per year	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Average of monthly values per year	1,538	(874)	1,366	6	-	834	-	206
2019								
Trading book								
Daily value	7	-	6	-	-	-	-	1
Monthly value	31	(1)	30	-	1	-	-	3
Average of daily values per year	14	(1)	14	1	-	-	-	1
Average of monthly values per year	66	(5)	66	4	1	-	-	3
Banking book								
Daily value	283	(139)	314	6	-	76	-	26
Monthly value	1,330	(650)	1,472	29	-	357	-	121
Average of daily values per year	129	(51)	140	7	-	3	-	31
Average of monthly values per year	605	(239)	655	31	1	14	-	144

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	1,822	(1,737)	1,110	(1,357)
Other comprehensive income	(3,334)	3,523	(3,752)	3,973
EUR				
Income statement	(14)	223	(165)	461
Other comprehensive income	799	(850)	432	(457)

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 Banks 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 2020, 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 ratios 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 Erste 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 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.

The following table shows the liquidity gaps as of 31 December 2020 and 31 December 2019

In CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2020	2019	2020	2019	2020	2019	2020	2019
Liquidity GAP	357,364	230,731	18,221	30,433	(295,178)	(206,332)	10,926	40,214

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 2020 and year-end 2019 are shown in the tables below:

	< 1 week	
in CZK million	**2020**	**2019**
Cash, excess reserve	20,021	25,347
Liquid assets	362,131	253,542
Counterbalancing capacity	**382,152**	**278,890**

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 2020 and 31 December 2019 respectively, were as follows:

in CZK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1–12 months**	**1–5 years**	**> 5 years**
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**
2019						
Non-derivative liabilities	**1,240,670**	**1,241,958**	**1,151,365**	**53,364**	**32,845**	**4,384**
Deposits by banks	292,182	292,122	232,188	39,534	17,845	2,555
Customer deposits	932,707	933,416	915,679	13,525	2,383	1,829
Debt securities in issue	12,304	12,943	21	305	12,617	-
Other financial liabilities	3,477	3,477	3,477	-	-	-
Derivative liabilities	**9,795**	**11,575**	**604**	**2,041**	**6,978**	**1,952**
Contingent liabilities	**140,689**	**140,689**	**140,689**	**-**	**-**	**-**
Financial guarantees	31,481	31,481	31,481	-	-	-
Irrevocable commitments	109,208	109,208	109,208	-	-	-
Total	**1,391,154**	**1,394,222**	**1,292,658**	**55,405**	**39,823**	**6,336**

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 (Product Approval Process) relevant topics. The significant Risk Return Decisions are also evaluated by 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 (chairmen – 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 2019	**18,033**	**4,172**	**1,975**	**24,180**
Additions in current year (+)	770	281	216	1,267
Disposals (–)	(1,081)	(445)	(153)	(1,679)
Reclassification (+/–)	3	(144)	137	(4)
Assets held for sale (–)	(38)	-	-	(38)
Balance as of 31 Dec 2019	**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**

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. which are subsidiaries of Budějovická Development, s. r. o. fully owned by the Bank). From the value of total disposals 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 2019	**(10,850)**	**(2,940)**	**(1,395)**	**(15,185)**
Depreciation (–)	(567)	(174)	(199)	(940)
Disposals (+)	838	429	152	1,419
Impairment (–)	(3)	89	(86)	-
Assets held for sale (+)	27	-	-	27
Balance as of 31 Dec 2019	**(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)**

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 2019	**2,795**	**23**	**20**	**2,838**
Additions in current year (+)	778	5	-	783
Disposals (–)	(42)	-	-	(42)
Reclassification (+/–)	-	2	(2)	-
Balance as of 31 Dec 2019	**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**

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 2019	**-**	**-**	**-**	**-**
Depreciation (–)	(485)	(13)	(8)	(506)
Disposals (+)	2	-	-	2
Balance as of 31 Dec 2019	**(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)**

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 2019	**7,183**	**1,232**	**580**	**8,995**
Balance as of 31 Dec 2019	**7,132**	**1,268**	**647**	**9,047**
Balance as of 31 Dec 2020	**5,889**	**1,274**	**789**	**7,952**

The carrying amount of property and equipment (category office and plant equipment/other fixed assets) includes properties subject to operating leases of CZK 409 million (2019: CZK 574 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 2019	**2,795**	**23**	**20**	**2,838**
Balance as of 31 Dec 2019	**3,048**	**17**	**10**	**3,075**
Balance as of 31 Dec 2020	**3,580**	**26**	**3**	**3,609**

The balances as at 31 December 2020 shown above include CZK 850 million (2019: CZK 764 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 3,646 million as at 31 December 2020 (2019: CZK 3,758 million).

As at 31 December 2020, land and buildings were impaired in the amount of CZK 812 million (2019: CZK 2,232 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

Brands have been impaired to nil carrying amount.

Acquisition and production cost

in CZK million	Acquisition and production costs Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2019	**14,233**	**1,904**	**16,137**
Additions in current year (+)	1,534	21	1,555
Disposals (–)	(33)	(43)	(76)
Reclassification (+/–)	5	(2)	3
Balance as of 31 Dec 2019	**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**

Accumulated amortization

in CZK million	Amortisation Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2019	**(9,567)**	**(1,621)**	**(11,188)**
Amortisation charge (–)	(904)	(63)	(967)
Disposals (+)	33	43	76
Balance as of 31 Dec 2019	**(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)**

Carrying amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible sassets
Balance as of 1 Jan 2019	**4,666**	**283**	**4,949**
Balance as of 31 Dec 2019	**5,301**	**239**	**5,540**
Balance as of 31 Dec 2020	**5,609**	**228**	**5,837**

Other intangible assets include licenses and know-how.

Software acquired and other intangible assets include also intangibles under construction of CZK 1,490 million as at 31 December 2020 (2019: CZK 1,629 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,506 as at 31 December 2020 (2019: CZK 2,830 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	2020	2019
Prepayments	268	254
Sundry assets	502	417
Other assets	**770**	**671**

'Sundry assets' consist mainly of long-term advances of CZK 233 million (2019: CZK 291 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	2020	2019
Outstanding minimum lease payments	221	30
Gross investment	**221**	**30**
Unrealised financial income	(5)	(2)
Net investment	**216**	**28**
Present value of minimum lease payments	**216**	**28**

Maturity analysis of leases by residual maturities

in CZK million	Gross investment	Present value
2020		
< 1 year	41	41
1-5 years	138	136
> 5 years	42	39
Total	**221**	**216**
2019		
< 1 year	7	7
1-5 years	18	17
> 5 years	5	4
Total	**30**	**28**

During 2020, the Bank recognised interest income on finance lease receivables in the amount of CZK 1,4 million (2019: CZK 1,2 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 2020 and 2019 is provided in the table below:

In CZK million	GCA Stage 1	Carrying amount
2020		
Other financial corporation	76	76
Non-financial corporations	140	140
Total	**216**	**216**
2019		
Non-financial corporations	28	28
Total	**28**	**28**

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 2020 and not fully de-recognized by 31 December 2020 and the GCA of the finance lease receivables that were held at 1 January 2020 and fully de-recognized during the year 2020 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	2020	2019
< 1 year	68	72
1-5 years	210	209
> 5 years	57	58
Total	**335**	**339**

During 2020, the Bank recognised income relating to variable lease payments in the amount of CZK 0 million. 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 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'.

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

in CZK million	Gross value	Present value
2020		
< 1 year	738	708
1-5 years	2,295	2,214
> 5 years	1,128	1,066
Total	**4,161**	**3,988**
2019		
< 1 year	579	536
1-5 years	1,640	1,542
> 5 years	1,200	1,114
Total	**3,419**	**3,192**

During 2020, interest expenses on lease liabilities were recognised in the amount of CZK 47 million (2019: CZK 162 million). In 2020, expenses in the amount of CZK 56 million (2019: CZK 60 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 (2019: CZK 42 million) relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, arose.

Loss arising from sale and leaseback transactions in the amount of CZK 21 million (2019: loss in amount of CZK 89 million) were recognised. Income from subleasing right-of-use assets was recognized in the amount of CZK 205 million (2019: CZK 37 million) in Other operating result. Total cash outflow for leases in 2020 was CZK 751 million (2019: CZK 706 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 2020.

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 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%	1272
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%	2313
Erste leasing, a.s.	200.0	CZK	100%	100%	942
Stavební spořitelna České spořitelny, a.s.	750.0	CZK	100%	100%	1515
Holding Card Service, s.r.o.	773.0	CZK	75%	75%	583
ČS NHQ, s.r.o.	10	CZK	100%	100%	210
ČS Seed Starter, s.r.o.	6	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	CZK	33%	33%	21
Subtotal					21
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 subsidiaries of Budějovická Development, s.r.o. – 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. Since November 2020, the new associate Bankovní identita, a.s. was established.

During the year, the Bank completed the planned liquidation of the company VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci.

As of 31 December 2019	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%	2313
Erste leasing, a.s.	200.0	CZK	100%	100%	942
Stavební spořitelna České spořitelny, a.s.	750.0	CZK	100%	100%	1515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	50
Holding Card Service, s.r.o.	773.0	CZK	75%	75%	583
ČS NHQ, s.r.o.	10	CZK	100%	100%	80
Budějovická Development, s.r.o.	1.0	CZK	100%	100%	11
Subtotal					**8,788**
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%	-
Subtotal					-
Total					**8,788**

*) While the Bank holds 20% of the issued share capital of the funds and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investments

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

41. Other liabilities

in CZK million	2020	2019
Deferred income	389	301
Sundry liabilities	3,290	3,563
Other liabilities	**3,679**	**3,864**

Sundry liabilities consist mainly of suspense account amounting to CZK 861 million (2019: CZK 899 million) and costs of staff bonuses for 2020 amounting to CZK 1,626 million (2019: CZK 1,879 million).

Deferred income outstanding at 31 December 2020 includes 'contract liabilities' in accordance with IFRS 15 in amount of CZK 389 million (2019: CZK 301 million). Revenue recognised in the reporting year 2020 that was included in the contract liability balance at the beginning of the period amounts to 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. 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	2020	2019
Restructuring	93	79
Pending legal issues	1,727	1,727
Commitments and guarantees given	1,204	760
CLA for loan commitments and financial guarantees in Stage 1	427	215
CLA for loan commitments and financial guarantees in Stage 2	362	103
CLA for loan commitments and financial guarantees in Stage 3	415	442
Provisions for onerous contracts	3	2
Other provisions	39	36
Provisions	**3,066**	**2,604**

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 2021. The restructuring reserve created in 2016 due to former phase reorganization related to HQ departments was fully utilized in 2019.

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 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**
	Jan 2019						**Dec 2019**
Stage 1	495	1,000	(484)	(193)	(602)	(1)	215
Stage 2	113	-	(174)	118	46	-	103
Defaulted	906	2	(711)	10	236	(1)	442
Total	**1,514**	**1,002**	**(1,369)**	**(65)**	**(320)**	**(2)**	**760**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2020	2019
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	15,025	2,369
To Stage 1 from Stage 2	1,766	3,854
Transfers between Stage 2 and Defaulted		
To Defaulted from Stage 2	135	29
To Stage 2 from Defaulted	217	10
Transfers between Stage 1 and Defaulted		
To Defaulted from Stage 1	294	535
To Stage 1 from Defaulted	269	8

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2020 and not fully de-recognized by 31 December 2020 amounts to CZK 63,539 million (2019: CZK 50,371 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to CZK 38,182 million (2019: CZK 49,626 million).

Sundry provision

in CZK million		Allocations	Use	Releases	Exchange rate and other changes	
	Jan 2020					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**
	Jan 2019					**Dec 2019**
Pending legal issues	1,808	-	(2)	(79)	-	1,727
Provision for restructuring	59	79	(59)	-	-	79
Other provisions	50	2	(14)	-	-	38
Provisions	**1,917**	**81**	**(75)**	**(79)**	**-**	**1,844**

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 2020, 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 2020 the aggregate balance of these allowances was CZK 1,204 million (2019: CZK 760 million). Refer to Note 42 Provisions.

in CZK million	2020	2019
Amounts owed under guarantees and letters of credit	35,466	31,481
Undrawn loan commitments	121,982	109,208
Total	**157,448**	**140,689**

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

44. Total equity

Details on equity are provided in Section IV, Statement of Changes in Equity.

in CZK million	2020	2019
Share capital	15,200	15,200
Additional paid-in capital	12	12
Additional equity instruments	17,147	17,147
Retained earnings and other reserves	109,619	98,871
Total equity	**141,978**	**131,230**

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 2020, 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). 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).

26 April 2019 shareholders´ meeting decided to transfer all preference shares to ordinary shares in 1:1 ratio with no influence to amount of share capital.

Distributions on own equity instruments are recognised as a liability and deducted from equity when they are approved by the Bank shareholder. For dividends on ordinary shares the decision is taken by the Annual General Meeting. For coupons on Additional Tier 1 instruments the payouts recorded in equity do not need approvals of Annual General Meeting but an event of non-payment would require a decision of the Bank's Board.

Number of shares and share capital

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

	2020		2019	
	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 CNB'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

	2020					2019				
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	1,451	-		36	-	1,151	-		56	-
Financial assets - held for trading	5,070	-		-	-	4,265	5		-	-
Financial assets - FVPL	443					645				
Financial assets – amortised costs	9,022	21,426	-	311	25	14,706	21,836	6	259	28
Trade and other receivables	10	106		87		16	171		41	
Derivatives Hedge Accounting	732	-		-	-	589	-		-	-
Other assets	-	649		1	-	-	26		1	-
Liabilities										
Financial liabilities held for trading	4,940	-				2,969	1			
Financial liabilities measured at amortised costs	62,220	2,870	6	363	77	263,744	3,321	7	581	54
Debt securities in issue	163,609	6,630					6,670			
Derivatives Hedge Accounting	234					204				
Other financial liabilities	19	646	-	44		13	24	3	264	
Other Liabilities	-	75		1		0	72		1	
Profit&Loss statement										
Net interest income	(1,000)	99		3	1	(2,678)	19		68	1
Net fee and commission income	61	785		945	-	57	862		862	-
Dividend income	-	(97)		(11)	-	0	(950)		(7)	-
Net trading result and fair value result	(2,569)	8		-	-	3,028	(1)		(2)	-
Rental income from other operating lease	-	21	8	4	-	-	23		14	-
Other administrative expenses	(209)	(99)	(44)	(814)	(106)	(232)	(83)	(45)	(702)	(96)
Other operating result	27	300	2	-	-	48	87	10	0	-
Loans commitments, financial guarantees and other commitments given	1,134	13,157	**8**	555	-	1,015	5,864		46	-

'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 sAutoleasing, a.s., Factoring České spořitelny, a.s. and Erste leasing, a.s. of CZK 19,049 million (2019: CZK 20,816 million).

Financial liabilities measured at amortized costs as at 31 December 2020 include primarily repurchase agreements in CZK 61,088 million (2019: CZK 259,709 million).

Financial assets at amortized costs to Erste Group Bank AG as at 31 December 2020 include primarily term deposits of CZK 8,968 million (2019: CZK 13,798 million).

The repurchase agreements are mainly denominated in CZK (CZK 29,984 million as at 31 December 2020, (2019: CZK 218,011 million)) and EUR (CZK 30,701 million as at 31 December 2020, 2019: CZK 39,824 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 2020 financial assets and financial liabilities held for trading include mainly derivative instruments (currency and interest rate derivatives). In 2020 and 2019, 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 sAutoleasing, a.s., Erste Leasing, a.s. and Factoring, a.s. in amount of CZK 3,482 million as at 31 December 2020 (2019: CZK 4,543 million) which were concluded on arms-length conditions.

Board remuneration

Board 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 Member for any given year is comprised of Board Member's fixed pay, variable income, and benefits/ in-kind performances.

			Performance linked remuneration	
Board total	**Fixed salaries**	**Other remuneration (in kind)**	**Previous years (cash part)**	**Previous years (certificate)**
2020	63	2	17	14
2019	52	3	22	11

Variable income for Board Members for reporting period 2020 was estimated at CZK 31 million (2019: CZK 33 million).

All of the above mentioned income is paid-out by the Bank. Board Members do not have any income from any of the companies controlled by the Bank.

Regarding the variable component of remuneration to Board Members (), 60% of the variable component of remuneration is deferred (regardless the amount of their bonus). The period of deferral is five years. The variable component of remuneration is then granted as follows: 40% upfront part + 12% in the first year of deferral + 12% in the second year of deferral + 12% in the third year of deferral + 12% in the fourth year of deferral + 12% in the fifth year of deferral. At least 50% of the upfront and deferred parts of variable remuneration is granted in non-cash performance linked instruments. As a non-cash performance linked instruments, the Bank uses CS Performance certificates (hereinafter referred to as „certificates"), the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014 and since 2020 phantom Erste Group Bank shares (hereinafter referred to as „phantom shares"). The part of bonuses that is granted in non-cash performance linked instruments is paid out in cash, when due.

At year-end 2020 total liability from bonus programme for management is CZK 39 million (2019: CZK 33 million) , expected to be paid 50% in the form of certificates and 50% in the form of phantom shares.

Key management personnel is not included in pension plan benefit. No termination benefit was paid out in 2020 to the Board Members.

Variable Remuneration of Managers

The variable remuneration component is calculated as the fixed income multiplied by the bonus potential (100%) multiplied 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 Members as managers normally amounts for less than 4% of the aggregate annual volume of variable remuneration at the Bank as a whole.

Evaluation of the performance of Board Members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The TEAC is a group committee comprised of Board Members of the Erste Group Bank that evaluates the performance of each key performance indicator (KPI) by each Board Member; the overall evaluation is the sum of the results attained in the sphere of competence of each Board Member, in the form of financial, non-financial, strategic, operative, and managerial results. The inputs for TEAC evaluation are assessed indicators from the Controlling and Strategy departments, a self-evaluation of each Board Member, and a qualitative evaluation by the Chairman of the Board, both in terms of the Member's KPI results in the previous year and in terms of an evaluation of the Member's future potential. 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.

Non-cash performance linked instruments

CS Performance Certificates

The valuation of the certificate is based on an annual impairment test of FGČS which has to be performed for year-end closure efforts. 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 years plan which is prepared by the Bank using several state

of the art parameters to justify the financial performance over the following 5 consecutive years. Moreover, capital and liquidity parameters are considered as one of the key entry points for the plan.

Phantom shares

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 Board members is calculated by division of respective gross bonus amount by the average daily weighted price of Erste Group Bank shares stock in the reference period. 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.

Deferral of Variable Remuneration and Method of Payment

The total variable remuneration – taking into account both current remuneration and possible reductions in payouts of amounts previously earned – is 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. 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.

The Bank set specific criteria for the application of malus and clawback. Such criteria, in particular, cover situations where the Board members:

(i) participated in or was responsible for conduct with intent or severe negligence or in cases of fraud which resulted in significant losses to the institution;
(ii) failed to meet appropriate standards of fitness and propriety;
(iii) provided misleading information, if such information had or could reasonably have had an impact on the performance assessment;
(iv) is dismissed by way of termination without notice period, according to the respective local law (in the valid constitutional edition)

Ex post adjustments to the total variable remuneration should always be performance or risk related.

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	2020	2019
Audit fees	16	21
Other assurance, tax and consultancy fees	6	6
Total	**22**	**27**

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	2020	2019
Assets held for sale	24	184

For year end 2020 Energie ČS, a.s. has been already sold (at year end 2019 was classified as Asset held for sale in amount CZK 173 million). 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 contractual maturities as at 31 December 2020 and 2019 was as follows:

	2020		2019	
in CZK million	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	36,459	-	38,868	-
Financial assets held for trading	11,382	-	9,710	-
Financial assets designated at fair value through profit or loss	-	-	265	-
Non-trading financial assets at FVPL	1,427	976	1,909	1,311
Equity instruments	-	976	-	738
Debt instruments	944	-	469	573
Loans and advances to customers	40	-	795	-
Loans and advances to banks	443	-	645	-
Financial assets at FVOCI	2,864	16,653	3,000	17,953
Debt securities	2,864	16,653	3,000	17,953
Financial assets at amortized cost	522,438	843,806	528,548	762,567
Loans and advances to banks	416,422	1,684	388,987	9,424
Loans and advances to customers	73,257	627,328	122,426	555,832
Debt securities	32,759	214,794	17,135	197,311
Hedge accounting derivatives	2,654	-	980	-
Finance lease receivables	-	216	28	-
Property, equipment and right-of-use assets	-	11,561	-	12,122
Intangible assets	-	5,837	-	5,540
Investments in subsidiaries and associates	-	9,248	-	8,788
Tax assets	1,403	629	-	741
Other assets	770	-	671	-
Trade and other receivables	555	-	106	489
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	-	-	-
Non current assets held for sale	24	-	184	-
TOTAL ASSETS	**579,988**	**888,926**	**584,269**	**809,511**
Financial liabilities held for trading	12,895	-	9,795	-
Financial liabilities at fair value through profit or loss	3,784	-	3,557	-
Financial liabilities measured at amortised cost	636,154	663,102	679,569	557,543
Lease liabilities	708	3,280	536	2,656
Hedge accounting derivatives	267	-	2,180	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1			
Commitments and guarantees given	-	1,203	-	760
Other provisions	-	1,863	-	1,844
Tax liabilities	-	-	246	-
Other liabilities	3,679	-	3,864	-
TOTAL LIABILITIES	**657,488**	**669,448**	**699,747**	**562,803**

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	2020	2019
Opening balance of debt securities issued as of 1 January (Note 18)	12,304	12,130
Cash-flows reported within the cash-flow from financing activities	163,825	173
Non-cash adjustments	(1)	1
Closing balance of debt securities issued as of 31 December (Note 18)	**176,128**	**12,304**

Cash-flows from lease liabilities

in CZK million	2020	2019
Opening balance of finance lease liabilities as of 1 January (Note 39)	3,192	2,838
Cash-flows reported within the cash-flow from financing activities	(751)	(609)
Non-cash adjustments	1,547	963
Closing balance of finance lease as of 31 December (Note 39)	**3,988**	**3,192**

49. Events after the balance sheet date

As at 1 January 2021, the Bank took over the Czech branch Waldviertler Sparkasse (WSPK) bank, which operates mainly in the region of South Bohemia and South Moravia. The acquisition represents the transaction under common control, which is exempted from IFRS 3. The Bank decided to use pooling of interest accounting principles (or so-called „predecessor accounting"), with no restatement of comparative balances (so called "prospective method"), and also no revaluation of assets and liabilities acquired to fair value. The transaction is a non-adjusting post-balance sheet event and the estimated financial impact in line with IAS 10 is represented by increase of assets by CZK 9.8 billion and decrease of equity by CZK 267 million.

50. Details of companies wholly or partly owned by Česká spořitelna, a.s.

Name of company	Registered office	Principal activities
Investments in subsidiaries		
brokerjet ČS, a.s. v likvidaci	Prague	Investment services
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
CS Property Investment Limited	Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Czech TOP Venture Fund B.V.	The Netherlands	Management and financing services
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, a.s.	Prague	Mobile payment services
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
sAutoleasing, a.s.	Prague	Leasing
Erste leasing, a.s.	Znojmo	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
Bankovní identita, a.s.	Prague	Provision of bank identity services

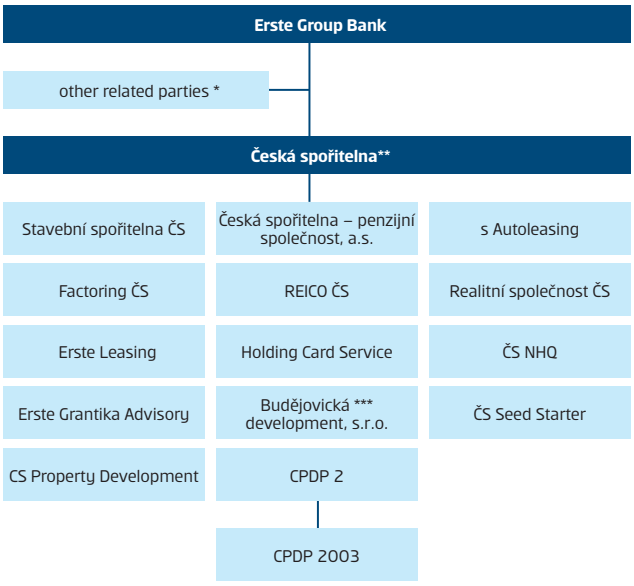
Report on Relations between Related Parties

Pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations for the accounting period from 1.1.2020 to 31.12.2020

Česká spořitelna, a. s., a corporation with its registered seat in Prague 4, Olbrachtova 1929/62, postal code 140 00, ID No.: 45244782, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry 1171 (hereinafter referred to as **"Česká spořitelna"** or the **"Bank"**), is a member of a business group in which the following 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"**).

This Report on Relations between the parties listed below has been prepared in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended for the year ended 31 December 2020 (hereinafter the **"Reporting Period"**). The valid agreements set out below were made by and between Česká spořitelna and the parties stated below, and the following 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 2020 to 31 December 2020.

A. Chart of Parties of which Relationships are Described



* Enterprises listed in Part C, Other related parties, Erste Group Bank

** Only significant entities with 100% ownership presented, all entities listed in Part C, Other related parties, Česká spořitelna Group

*** Controls the companies that own the buildings where some FGČS companies are located

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, 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 2020 and current information is also available on the Erste Group Bank website.

C. Other Related Parties, of which Relationships Are Described

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
- **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 der oesterreichischen Sparkassen AG**, Am Belvedere 1, 1100 Vienna, Austria
- **Erste Bank Hungary Zrt**, Népfürdő u. 24-26, Budapest, Hungary
- **Erste Befektetesi Zrt.**, Nepfuerd Utca 24-26. 8. EM, Budapest, Hungary
- **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, Vienna, Austria
- **Erste Group Shared Services (EGSS), s.r.o.**, Národní třída 44, Hodonín, Czech Republic
- **Erste Securities Polska S.A.**, ul. Królewska 16, Warsaw, Poland
- **Immorent Orion, s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Immorent PTC, s.r.o.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **Intermarket Bank AG**, Am Belvedere 1, Vienna, Austria
- **Invalidovna centrum, a.s.**, Budějovická 1518/13a, Praha 4, Czech Republic
- **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
- **S IT Solutions AT Spardat GmbH**, Geiselbergstrasse 21-25, Vienna, Austria
- **Slovenská sporiteľňa, a.s.**, Tomášikova 48, Bratislava, Slovakia
- **Sparkasse Bank dd Bosna i Hercegovina**, Zmaja od Bosne 7, Sarajevo, Bosnia a 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

Other related parties, 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, Prague 4, Czech Republic („Brokerjet ČS")
- **Budějovická Development, s. r. o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **CEE Property Development B.V.**, Naritaweg 165, Amsterdam, Netherlands
- **CEE Property Development Portfolio 2 a.s.**, Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2")
- **CPDP 2003 s.r.o.**, Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2003")
- **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.**, Postweg 11, Groesbeek, Netherlands
- **Česká spořitelna-penzijní společnost, a.s.**, Poláčkova 1976/2, Prague 4, Czech Republic („ČSPS")
- **ČS NHQ, s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic („ČS NHQ")
- **ČS Seed Starter, a.s.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4
- **Dinesia a.s.**, Střelničná 8, Prague 8, Czech Republic („Dinesia")
- **Erste Grantika Advisory, a.s.**, Jánská 448/10, Brno, Czech Republic („Erste Grantika")

- **Erste Leasing, a.s.**, Horní náměstí 264/18, Znojmo, Czech Republic („Erste Leasing")
- **Factoring České spořitelny, a.s.**, Budějovická 1518/13B, Prague 4, Czech Republic („Factoring ČS")
- **Holding Card Service s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Praha 4, Czech Republic
- **Mopet CZ a.s.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Realitní společnost České spořitelny, a.s.**, Vinohradská 180/1632, Prague 3, Czech Republic („Realitní společnost ČS")
- **Reico investiční společnost České spořitelny, a.s.**, Antala Staška 2027/79, Prague 4, Czech Republic („Reico ČS")
- **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, Slovakia
- **s Autoleasing, a.s.**, Budějovická 1912/64B, Prague 4, Czech Republic („s Autoleasing")
- **S SERVIS, s.r.o.**, Horní náměstí 3561/14, Znojmo, Czech Republic
- **Stavební spořitelna České spořitelny, a.s.**, Vinohradská 180/1632, Prague 3, Czech Republic („Stavební spořitelna ČS")

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 Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Financial asset at amortized cost

Loans and Advances to Credit Institutions
Česká spořitelna provided funds to related parties that are credit institutions, on the basis of contracts for, inter alia, the provision of loans, term deposits, current account administration and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 10,623 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Loans and Advances to Customers
Česká spořitelna provided funds to related parties that are not credit institutions, on the basis of contracts for, inter alia, the provision of loans and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 21,624 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Loans and Advances to Credit Institutions at Fair Value through Profit and Loss
Česká spořitelna provided funds to related parties that are credit institutions, on the basis of contracts for, inter alia, the provision

of loans, term deposits, current account administration and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 443 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Financial Assets – Held for Trading
Česká spořitelna holds held-for-trading bonds and similar securities issued by related parties, which were purchased under standard market conditions in an aggregate amount of CZK 5,070 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Positive Fair Value of Derivative Transactions
Česká spořitelna entered into contracts for trading or hedging derivatives with related parties under standard market conditions, the positive fair value of which at the end of the accounting period was CZK 732 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Trade and Other Receivables and Other Assets
Trade and Other Receivables and Other Assets include financial assets resulted from contracts for providing goods and services to the related parties of Česká spořitelna's in an aggregate amount of CZK 853 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Financial liabilities measured at amortised costs

Deposits from Credit institutions
During the reporting period, Česká spořitelna provided related parties that are credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and loro accounts based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 63,589 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Deposits from Customers
During the reporting period, Česká spořitelna provided related parties that are not credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, loans received, and credit balances on overdraft facilities, based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 1,869 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Debt Securities Issued
Related parties hold bonds and similar securities issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 170,238 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other liabilities
Other financial liabilities include other trade payables from contracts for receiving goods and services from related parties of Česká spořitelna's in an aggregate amount of CZK 784 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Negative Fair Value of Derivative Transactions
Česká spořitelna entered into contracts for trading or hedging financial derivatives under standard market conditions with related parties, the negative fair value of which at the end of the accounting period was CZK 5,173 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Interest Income
During the reporting period, Česká spořitelna generated total interest income of CZK 2,666 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Interest Expense
During the reporting period, Česká spořitelna incurred a total interest expense of CZK 3,564 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Income
During the reporting period, Česká spořitelna received fee and commission income, primarily comprising fees and commissions for asset management, depository services, and sale of subsidiaries' products, in an aggregate amount of CZK 1,861 million, as a part of transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Expense
During the reporting period, Česká spořitelna incurred fee and commission expenses, primarily comprising transaction fees, in an aggregate amount of CZK 70 million, as a part of transactions with related parties enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividend Income
Česká spořitelna received dividends in an aggregate amount of CZK 97 million from related parties of which Česká spořitelna is a shareholder. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Net trading and fair value result
During the reporting period, Česká spořitelna made a net loss of CZK 2,560 million as a result of securities transactions, foreign currency transactions and similar transactions with related parties which were concluded under the normal conditions. The loss resulted from client derivative transactions concluded on a back to back basis with Erste Group Bank, which closed Česká spořitelna's open currency position and thus Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Rental Income from Operating Leases
During the reporting period, Česká spořitelna received income amounting to CZK 33 million from related parties from leasing executed under standard market conditions. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

General Administrative Expenses
During the reporting period, Česká spořitelna incurred CZK 1,166 million in general administrative expenses in respect of related parties, in particular for purchase of goods, materials, insurance and advisory, professional, consulting or maintenance services under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Income/Expenses
During the reporting period, Česká spořitelna reported a positive balance of other income and expenses in an aggregate amount of CZK 333 million as part of other transactions with related parties, in particular the provision of outsourcing services and client shared services centers, etc., all executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Banking and Trading Relationships with Related Parties

Guarantees Provided
Česká spořitelna provided related parties with guarantees based on guarantee contracts entered into under ordinary market terms. Guarantees provided totalled CZK 7,461 million as at 31 December 2020. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fixed-term Contracts
During the reporting period, Česká spořitelna entered into fixed-term contracts with related parties under ordinary market terms. The nominal value of fixed-term contracts concluded in 2020 was 493,834 million CZK.

Equity investments with Related Parties
During the reporting period, Česká spořitelna, increased its investments in related parties as in the amount of CZK 2,061 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividends and Additional Tier 1 Notes interest
Based on the decision of the General Meeting of 23 April 2020, Česká spořitelna did not pay any dividends to related parties during the accounting period. Interest on Additional Tier 1 capital instruments in the amount of CZK 1,068 million was paid out based on the decision of the General Meeting. Česká spořitelna did not suffer any loss in the given accounting period as a result of compliance with this decision.

F. Contractual Relationships

In prior years, Česká spořitelna entered into contracts with related parties listed in Sections B and C pertaining to banking and non-banking relations, the financial details of which are presented in Section E for the reporting period. A list of valid contracts and agreements with the related parties discussed in Sections B and C is presented below. Contracts of a similar nature entered into with a particular related party are grouped.

Name	Contractual party	Description	Date	Detriment
Current account agreement	DINESIA a.s.	Current account management	2012	None incurred
Contract for the provision of registered office services	BP Budějovická, s. r. o.	Residence	2020	None incurred
Account agreement 4x	BP Budějovická, s. r. o.	Account agreement in CZK	2020	None incurred
BUSINESS 24	BP Budějovická, s. r. o.	Providing internet banking services	2020	None incurred
Purchase contract for real estate	BP Budějovická, s. r. o.	Purchase of real estate	2020	None incurred
Lease agreement	BP Budějovická, s. r. o.	Lease agreement	2020	None incurred
Loan agreement	BP Budějovická, s. r. o.	Loan agreement	2020	None incurred
Agreement on the establishment of a lien on immovable property	BP Budějovická, s. r. o.	Pledge to real estate	2020	None incurred
Agreement on the establishment of a lien on receivables from lease agreements	BP Budějovická, s. r. o.	Pledge to receivables from lease agreements	2020	None incurred
Contract on the establishment of a lien on receivables from insurance contracts	BP Budějovická, s. r. o.	Pledge to receivables from insurance contracts	2020	None incurred
Agreement on the establishment of a lien on receivables from agreements on the maintenance of bank accounts	BP Budějovická, s. r. o.	Pledge to receivables from bank account management agreements	2020	None incurred
Agreement on the establishment of a lien on a stake in BP Budějovická, s.r.o.	BP Budějovická, s. r. o.	Pledge to share	2020	None incurred
Agreement on subordination of BP Budějovická, s.r.o.	BP Budějovická, s. r. o.	Subordination agreement	2020	None incurred
Contract for the provision of registered office services	BP Budějovická, s. r. o.	Residence	2021	None incurred
Contract for the provision of registered office services	BP Olbrachtova, s. r. o.	Residence	2020	None incurred
Account agreement 4×	BP Olbrachtova, s. r. o.	Account agreement in CZK	2020	None incurred
BUSINESS 24	BP Olbrachtova, s. r. o.	Providing internet banking services	2020	None incurred
Purchase contract for real estate	BP Olbrachtova, s. r. o.	Purchase of real estate	2020	None incurred
Lease agreement	BP Olbrachtova, s. r. o.	Lease agreement	2020	None incurred
Loan agreement	BP Olbrachtova, s. r. o.	Loan agreement	2020	None incurred
Agreement on the establishment of a lien on immovable property	BP Olbrachtova, s. r. o.	Pledge to real estate	2020	None incurred
Agreement on the establishment of a lien on receivables from lease agreements	BP Olbrachtova, s. r. o.	Pledge to receivables from lease agreements	2020	None incurred
Contract on the establishment of a lien on receivables from insurance contracts	BP Olbrachtova, s. r. o.	Pledge to receivables from insurance contracts	2020	None incurred
Agreement on the establishment of a lien on receivables from agreements on the maintenance of bank accounts	BP Olbrachtova, s. r. o.	Pledge to receivables from bank account management agreements	2020	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the establishment of a lien on a stake in BP Olbrachtova, s.r.o.	BP Olbrachtova, s. r. o.	Pledge to share	2020	None incurred
Agreement on subordination of BP Olbrachtova s.r.o.	BP Olbrachtova, s. r. o.	Subordination agreement	2020	None incurred
Contract for the provision of registered office services	BP Olbrachtova, s. r. o.	Residence	2021	None incurred
Contract for the provision of registered office services	BP Poláčkova, s. r. o.	Residence	2020	None incurred
Account agreement 4×	BP Poláčkova, s. r. o.	Account agreement in CZK	2020	None incurred
BUSINESS 24	BP Poláčkova, s. r. o.	Providing internet banking services	2020	None incurred
Purchase contract for real estate	BP Poláčkova, s. r. o.	Purchase of real estate	2020	None incurred
Lease agreement	BP Poláčkova, s. r. o.	Lease agreement	2020	None incurred
Loan agreement	BP Poláčkova, s. r. o.	Loan agreement	2020	None incurred
Agreement on the establishment of a lien on immovable property	BP Poláčkova, s. r. o.	Pledge to real estate	2020	None incurred
Agreement on the establishment of a lien on receivables from lease agreements	BP Poláčkova, s. r. o.	Pledge to receivables from lease agreements	2020	None incurred
Contract on the establishment of a lien on receivables from insurance contracts	BP Poláčkova, s. r. o.	Pledge to receivables from insurance contracts	2020	None incurred
Agreement on the establishment of a lien on receivables from agreements on the maintenance of bank accounts	BP Poláčkova, s. r. o.	Pledge to receivables from bank account management agreements	2020	None incurred
Agreement on the establishment of a lien on a stake in BP Poláčkova, s.r.o.	BP Poláčkova, s. r. o.	Pledge to share	2020	None incurred
Agreement on subordination of BP Poláčkova s.r.o.	BP Poláčkova, s. r. o.	Subordination agreement	2020	None incurred
Contract for the provision of registered office services	BP Poláčkova, s. r. o.	Residence	2021	None incurred
Securities management contract	brokerjet ČS, a.s. v likvidaci	Securities management	2006	None incurred
4x Investment Block Account Agreement	brokerjet ČS, a.s. v likvidaci	Investment Block Account Agreement	2006	None incurred
MultiCash Service Agreement	brokerjet ČS, a.s. v likvidaci	Electronic data exchange via MultiCash	2009	None incurred
Contract on the provision of IT, telephone and data services	brokerjet ČS, a.s. v likvidaci	Provision of IT services	2015	None incurred
Agreement on the transmission of information	brokerjet ČS, a.s. v likvidaci	Agreement on the transfer of information in the field of deposit insurance	2016	None incurred
Contract on the custody and administration of investment instruments	brokerjet ČS, a.s. v likvidaci	Safekeeping and management of investment instruments	2016	None incurred
Contract on the sublease of non-residential premises and the lease of movable assets	brokerjet ČS, a.s. v likvidaci	Sublease of non-residential premises and rental of movables	2016	None incurred
Contract on the transfer of tangible and intangible assets	brokerjet ČS, a.s. v likvidaci	Transfer of assets	2016	None incurred
Personal data maintenance contract	brokerjet ČS, a.s. v likvidaci	Manage personal information	2017	None incurred
2× Multicash protocol	brokerjet ČS, a.s. v likvidaci	Maintain security of data exchange via MultiCash	2018	None incurred
Assignment Agreement	brokerjet ČS, a.s. v likvidaci	Transfer of rights and obligations associated with brokerjetGO application	2018	None incurred
Master agreement on opening and maintaining a term deposit account	brokerjet ČS, a.s. v likvidaci	Opening and maintenance of client holding accounts	2018	None incurred
Overview of signature specimens and account authorization	brokerjet ČS, a.s. v likvidaci	Manage specimen signatures and maintain account power	2018	None incurred

Name	Contractual party	Description	Date	Detriment
Contract on the lease of premises serving business	brokerjet ČS, a.s. v likvidaci	Contract on sublease of premises serving business	2019	None incurred
14 x Current Account Agreement	brokerjet ČS, a.s. v likvidaci	Current account contract	2009–2015	None incurred
Outsourcing services contract (including amendments)	brokerjet ČS, a.s. v likvidaci	Providing selected outsourcing services	2016–2018	None incurred
2x Internal Audit Contract	brokerjet ČS, a.s. v likvidaci	Provision of selected services	2017–2018	None incurred
Account agreement	Budějovická Development, s. r. o	Account agreement in CZK	2019	None incurred
BUSINESS 24	Budějovická Development, s. r. o	Providing internet banking services	2019	None incurred
Contract for the provision of registered office services	Budějovická Development, s. r. o	Residence	2019	None incurred
Agreement on the provision of a surcharge outside the share capital	Budějovická Development, s. r. o	Providing a surcharge outside the share capital	2019	None incurred
Cooperation agreement	Budějovická Development, s. r. o	Agreement on cooperation in real estate transactions	2019	None incurred
Contract for the provision of outsourcing services	Budějovická Development, s. r. o	Providing selected services	2020	None incurred
Agreement on the provision of a surcharge outside the share capital	Budějovická Development, s. r. o	Providing a surcharge outside the share capital	2020	None incurred
Agreement on subordination of BP Budějovická, s.r.o.	Budějovická Development, s. r. o	Subordination agreement	2020	None incurred
Agreement on subordination of BP Olbrachtova, s.r.o.	Budějovická Development, s. r. o	Subordination agreement	2020	None incurred
Agreement on subordination of BP Poláčkova s.r.o.	Budějovická Development, s. r. o	Subordination agreement	2020	None incurred
Agreement on the establishment of a lien on a stake in BP Budějovická, s.r.o.	Budějovická Development, s. r. o	Pledge to share	2020	None incurred
Agreement on the establishment of a lien on a share in BP Olbrachtova, s.r.o.,	Budějovická Development, s. r. o	Pledge to share	2020	None incurred
Agreement on the establishment of a lien on a stake in BP Poláčkova, s.r.o.	Budějovická Development, s. r. o	Pledge to share	2020	None incurred
Agreement on the establishment and maintenance of a current account	CEE Property Development Portfolio 2 a.s.	Agreement on the establishment and maintenance of a current account	2011	None incurred
Service contract	CEE Property Development Portfolio 2 a.s.	Contract for the provision of telephone and data services	2014	None incurred
Business Service Agreement 24	CEE Property Development Portfolio 2 a.s.	Business Service Agreement 24	2017	None incurred
Contract for the lease of non-residential premises (including amendments)	CEE Property Development Portfolio 2 a.s.	Contract for the lease of commercial space	2018	None incurred
Outsourcing agreement (including amendments)	CEE Property Development Portfolio 2 a.s.	Providing selected outsourcing services	2018	None incurred
Framework agreement on trading on the financial market	CEE Property Development Portfolio 2 a.s.	trading on FT	2018	None incurred
Amendment No. 4 to the contract on the establishment of a lien on receivables from insurance contracts	CPDP2003, s. r. o.	Securing a bank loan	2019	None incurred
Contract for the provision of outsourcing services	CPDP2003, s. r. o.	Providing selected services	2020	None incurred
Amendment No. 5 to the contract on the establishment of a lien on receivables from insurance contracts	CPDP2003, s. r. o.	Securing a bank loan	2020	None incurred

Name	Contractual party	Description	Date	Detriment
Contract for the provision of outsourcing services	CPDP2003, s. r. o.	Providing selected services	2020	None incurred
Agreement on the establishment and maintenance of current accounts	CS Property Investment Limited	Agreement on the establishment and maintenance of current accounts	2005	None incurred
Agreement on the establishment and maintenance of current accounts	Czech and Slovak Property Fund B.V.	Agreement on the establishment and maintenance of current accounts	2004	None incurred
Business 24 Service Agreement (Including Addendum)	Czech and Slovak Property Fund B.V.	Business Service Agreement 24	2018	None incurred
Framework agreement on trading on the financial market	Czech and Slovak Property Fund B.V.	trading on FT	2019	None incurred
Agreement on the establishment, maintenance and termination of a current account	Czech TOP Venture Fund B.V.	Agreement on the establishment, maintenance and termination of a current account	2020	None incurred
Commission contract for the procurement of purchase or sale of investment instruments	Czech TOP Venture Fund B.V.	Commission contract for the procurement of purchase or sale of investment instruments	2020	None incurred
Agreement on custody and administration of an investment instrument	Czech TOP Venture Fund B.V.	Agreement on custody and administration of an investment instrument	2020	None incurred
Contract for the lease of non-residential premises and movables	Česká spořitelna – penzijní společnost, a.s.	Renting building Poláčkova 1976/2, Prague	2000	None incurred
Contract for the lease of safe cabinets	Česká spořitelna – penzijní společnost, a.s.	Rental of 2 safe cabinets	2003	None incurred
Agreement on access to Intranet ČS	Česká spořitelna – penzijní společnost, a.s.	Access to Intranet for CSC ZC	2003	None incurred
Confidentiality Agreement	Česká spořitelna – penzijní společnost, a.s.	Protection of confidential information between partners	2003	None incurred
Service Agreement	Česká spořitelna – penzijní společnost, a.s.	Sending tax receipts, confirmation letters	2003	None incurred
Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Provision of ČS Client Center for ČSPS	2005	None incurred
Contract for the lease of commercial space	Česká spořitelna – penzijní společnost, a.s.	Rental of premises - archive, Olbrachtova ul., Prague	2006	None incurred
Agreement on mutual exchange of information through special access to the CLIENT application	Česká spořitelna – penzijní společnost, a.s.	Use of the CLIENT application	2009	None incurred
Cooperation Agreement	Česká spořitelna – penzijní společnost, a.s.	Participation in the financing of the Pension Solutions campaign 2	2011	None incurred
Contract for Post-Warranty Service Česká spořitelna, a.s.	Česká spořitelna – penzijní společnost, a.s.	Post-warranty hardware service	2011	None incurred
Master Agreement for Provisioning of IT Services for Post-Warranty Service	Česká spořitelna – penzijní společnost, a.s.	Contract on Cooperation in Provision	2011	None incurred
Contract on the provision of information technology activities	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of IT activities	2012	None incurred
Agreement on cooperation in the operation of the Partner24 service	Česká spořitelna – penzijní společnost, a.s.	Provision of certain activities in the operation of the Partner 24 service	2012	None incurred
Outsourcing contract for processing and paying commissions and providing product support and central partner management activities	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2013	None incurred
Contract on the provision of outsourcing services for processing requests for cooperation and processing of execution orders	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2014	None incurred
Agreement on the lease of premises serving Česká spořitelna, a.s. to business	Česká spořitelna – penzijní společnost, a.s.	Commercial space for rent in Antala Staška street, Prague	2014	None incurred
Agreement on the lease of premises serving Česká spořitelna, a.s.	Česká spořitelna – penzijní společnost, a.s.	Rental office in Jihlava	2015	None incurred
Agreement on the lease of premises serving Česká spořitelna, a.s.	Česká spořitelna – penzijní společnost, a.s.	Office for rent in Pilsen	2015	None incurred

Name	Contractual party	Description	Date	Detriment
Dealership Agreement	Česká spořitelna – penzijní společnost, a.s.	Sales agency for branch network	2016	None incurred
Agreement on the management of investment instruments	Česká spořitelna – penzijní společnost, a.s.	Management of client's property	2016	None incurred
Framework agreement on financial market trading	Česká spořitelna – penzijní společnost, a.s.	Trading in the financial market	2016	None incurred
Agreement on the lease of premises serving Česká spořitelna, a.s	Česká spořitelna – penzijní společnost, a.s.	Office for rent in Brno	2017	None incurred
Personal data processing agreement	Česká spořitelna – penzijní společnost, a.s.	Rights and obligations of the parties in the area of personal data processing	2018	None incurred
Contract for the lease of business premises	Česká spořitelna – penzijní společnost, a.s.	Office space for rent in Veseli nad Moravou	2018	None incurred
Outsourcing services contract for 1. provision of certain pension management obligations related to fund management, 2. bookkeeping of pension, participation funds and transformed fund, 3. back office activity	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2018	None incurred
Outsourcing contract	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2018	None incurred
Outsourcing services contract	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2018	None incurred
Agreement on Use of Premium API Products of Česká spořitelna, as	Česká spořitelna – penzijní společnost, a.s.	Linking the Provider's Application with the Information of the Česká spořitelna, a.s.	2019	None incurred
Outsourcing services contract	ČS NHQ, s.r.o.	Provision of selected services	2018	None incurred
Appendix 1 to the Outsourcing Services Agreement	ČS NHQ, s.r.o.	Provision of selected services	2018	None incurred
Contract for the lease of premises serving business	ČS NHQ, s.r.o.	Commercial space for rent in Prague 4, Olbrachtova	2018	None incurred
Amendment No. 1 to the Agreement on the lease of premises serving business	ČS NHQ, s.r.o.	Commercial space for rent in Prague 4, Olbrachtova	2018	None incurred
Contract for the lease of premises serving business	ČS NHQ, s.r.o.	Commercial space for rent in Prague 4, Trianon	2018	None incurred
Agreement on the provision of a bonus beyond the share capital	ČS NHQ, s.r.o.	Providing a bonus beyond the registered capital	2018	None incurred
Account agreement	ČS NHQ, s.r.o.	Account agreement in CZK	2018	None incurred
BUSINESS 24	ČS NHQ, s.r.o.	Providing internet banking services	2018	None incurred
Contract for the provision of outsourcing services	ČS NHQ, s.r.o.	Providing selected services	2019	None incurred
Contract for the provision of IT services	ČS NHQ, s.r.o.	Providing IT services	2019	None incurred
Framework agreement on trading on the financial market	ČS NHQ, s.r.o.	Trading on the financial market	2019	None incurred
Account agreement	ČS NHQ, s.r.o.	Account agreement in EUR	2019	None incurred
Appendix No. 1 of the Agreement on the Provision of Outsourcing Services	ČS NHQ, s.r.o.	Providing selected services	2020	None incurred
Appendix No.2 to the Agreement on the Lease of Business Premises	ČS NHQ, s.r.o.	Lease of non-residential premises in Prague 4, Olbrachtova	2020	None incurred
Appendix No.3 to the Agreement on the Lease of Business Premises	ČS NHQ, s.r.o.	Lease of non-residential premises in Prague 4, Olbrachtova	2020	None incurred
Agreement on the provision of a surcharge outside the share capital	ČS NHQ, s.r.o.	Providing a surcharge outside the share capital	2020	None incurred
Appendix No. 4 to the Agreement on the Lease of Premises for Business	ČS NHQ, s.r.o.	Lease of non-residential premises in Prague 4, Olbrachtova	2021	None incurred
Agreement on the provision of a surcharge outside the share capital	ČS NHQ, s.r.o.	Providing a surcharge outside the share capital	2021	None incurred
Contract for the provision of outsourcing services	ČS Seed Starter, a. s.	Providing selected services	2020	None incurred

Name	Contractual party	Description	Date	Detriment
Contract for the lease of business premises	ČS Seed Starter, a. s.	Lease of non-residential premises in Prague 4, Olbrachtova	2020	None incurred
Agreement on the provision of a surcharge outside the share capital	ČS Seed Starter, a. s.	Providing a surcharge outside the share capital	2020	None incurred
Personal data processing agreement	Erste Asset Management GmbH, pobočka ČR	Processing of personal data in connection with Outsourcing services contracts – HR (GDPR)	2018	None incurred
IT cost sharing agreement for Reporting Module and Arbes Topas Limits Module	Erste Asset Management GmbH, pobočka ČR	cost sharing for implementation of reporting module and module limits and for licenses (between EAM, ČS, REICO and ČSPS)	2019	None incurred
IFRS Training Cost Sharing Agreement	Erste Asset Management GmbH, pobočka ČR	agreement between ČS, EAM, REICO and ČSPS	2019	None incurred
Agreement on Establishing the Right of Lien to the Commission Agreement – Futures	Erste Asset Management GmbH, pobočka ČR	establishment of a lien	2019	None incurred
Brokerage contract on futures trading (including amendments)	Erste Asset Management GmbH, pobočka ČR	provision of futures deals	2008–2019	None incurred
Contract on the provision of daily calculation of equity PL, calculation of the current values of participation certificates, bookkeeping mutual funds and related. Activities (incl. Amendments)	Erste Asset Management GmbH, pobočka ČR	provision of NAV calculation and fund accounting	2012–2019	None incurred
IT Service Agreement (including amendments)	Erste Asset Management GmbH, pobočka ČR	IT Services Remuneration Agreement (including amendments)	2013–2019	None incurred
Depositary Agreement (incl. Amendments)	Erste Asset Management GmbH, pobočka ČR	Securing depository activities for investment funds according to ZISIF	2014–2019	None incurred
Storage contract	Erste Asset Management GmbH, pobočka ČR	storage of archival records	2015–2019	None incurred
Brokerage contract for purchase or sale of investment instruments (incl. Appendices)	Erste Asset Management GmbH, pobočka ČR	arranging the purchase or sale of investment instruments	2016–2019	None incurred
Contract for the sublease of business premises (Trianon) incl. Appendices	Erste Asset Management GmbH, pobočka ČR	sublease Trianon	2016–2019	None incurred
Agreement on ensuring cooperation in risk management	Erste Asset Management GmbH, pobočka ČR	Ensuring synergies in risk management	2016–2019	None incurred
Contract on provision of selected back-office activities (including amendments)	Erste Asset Management GmbH, pobočka ČR	provision of selected back-office activities	2016–2019	None incurred
Framework agreement on financial market trading (including amendments)	Erste Asset Management GmbH, pobočka ČR	trading on FT	2017–2019	None incurred
Contract on distribution of mutual funds and provision of related services (including amendments)	Erste Asset Management GmbH, pobočka ČR	Distribution Agreement laying down the terms and conditions of services relating to collective investment	2017–2019	None incurred
Contract on keeping separate records of dematerialized participation certificates, issue and repurchase of PL and provision of related activities (including amendments)	Erste Asset Management GmbH, pobočka ČR	keeping separate records of dematerialized unit certificates	2017–2019	None incurred
Personal Data Processing Agreement (GDPR)	Erste Asset Management GmbH, pobočka ČR	to the contract on keeping separate records	2017–2019	None incurred
Contract on the custody and administration of investment instruments	Erste Asset Management GmbH, pobočka ČR	Custody contract – Custody services provided to bank clients	2017–2019	None incurred
Service Level Agreement (SLA) – Sales Support	Erste Asset Management GmbH, pobočka ČR	sales promotion share. Funds EAM and the distribution of their PL	2017–2019	None incurred
Contract on the provision of outsourcing services for the management of assets of ČS clients (incl. Amendments)	Erste Asset Management GmbH, pobočka ČR	DPM contract	2018–2019	None incurred
Outsourcing services contract (including amendments)	Erste Asset Management GmbH, pobočka ČR	Large Outsourcing Contract – Outsourcing Services Reward (Including Amendments)	2018–2019	None incurred
Credit Line Agreement (incl. Amendments)	Erste Asset Management GmbH, pobočka ČR	credit line for TOP STOCK	2018–2019	None incurred

Name	Contractual party	Description	Date	Detriment
Personal Data Processing Agreement (GDPR)	Erste Asset Management GmbH, pobočka ČR	to the DPM contract	2018–2019	None incurred
SA FASCOR	Erste Bank Hungary Zrt	Provision of services	2018	None incurred
Personal data processing agreement	Erste Grantika Advisory, a.s.	Processing of personal data in connection with Outsourcing services contracts	2018	None incurred
Outsourcing contract (including amendments)	Erste Grantika Advisory, a.s.	Providing selected outsourcing services	2019	None incurred
Trademark License Agreement (including amendments)	Erste Group Bank AG	Trademark Use Agreement	2002	None incurred
Framework agreement on cooperation in the field of services (including amendments)	Erste Group Bank AG	Contract for consulting services for various projects	2019	None incurred
Service Level Agreement (including amendments)	Erste Group Bank AG	Sales support in the large corporate clients segment	2019	None incurred
Master Agreement for Provision of Services (including amendments)	Erste Group Bank AG	Erste Group Bank services contract for Česká spořitelna	2019	None incurred
2× Group Capital Markets Web Portal (including supplements)	Erste Group Bank AG	Contract on the operation of the web portal including 2 amendments to the contracts	2019	None incurred
3× IT Services Contract (including amendments)	Erste Group Bank AG	IT services	2019	None incurred
ARIS SLA – Recognition of termination (including amendments)	Erste Group Bank AG	Recognition of SLA termination	2019	None incurred
Colman Master agreement EMIR (including amendments)	Erste Group Bank AG	Remuneration for services provided in connection with Collateral Management system	2019	None incurred
MIFID2	Erste Group Bank AG	Provision of central services in connection with MIFID	2019	None incurred
2× Agreement on transfer of personal data (including amendments)	Erste Group Bank AG	Protection of personal data in accordance with GDPR	2019	None incurred
Contract for S logo (including amendments)	Erste Group Bank AG	Contract for S logo	2019	None incurred
ARIS SLA (as amended)	Erste Group Bank AG	Process documentation and process performance management including contract amendments	2015–2019	None incurred
4× Cost cooperation agreement (including amendments)	Erste Group Bank AG	Cost sharing contracts for centralized services	2016–2019	None incurred
GEORGE license agreement (including amendments)	Erste Group Bank AG	License agreement	2016–2019	None incurred
Data Processing Agreement	Erste Group Card Processor d.o.o.	Provision of services	2018	None incurred
Card Processing Services Agreement (including amendments)	Erste Group Card Processor d.o.o.	Provision of services	2016–2019	None incurred
Preliminary contract	Erste Group IT International, Gmbh, o.z.	Setting conditions for future services	2016	None incurred
40× Contract in the field of IT services and IT solutions	Erste Group IT International, Gmbh, o.z.	Provision of IT solutions	2017	None incurred
Group service agreement (including amendments)	Erste Group IT International, Gmbh, o.z.	Provision of services	2018	None incurred
29x Contract for IT services and IT solutions	Erste Group IT International, Gmbh, o.z.	Provision of IT solutions	2018	None incurred
Agreement on the processing of personal data	Erste Group IT International, Gmbh, o.z.	Processing of personal data in connection with Outsourcing services contracts	2018	None incurred
Termination of Interim Agreement	Erste Group IT International, Gmbh, o.z.	Termination of Interim Agreement	2018	None incurred
Outsourcing contract	Erste Group IT International, Gmbh, o.z.	Provision of selected outsourcing services	2018	None incurred
Service level agreement	Erste Group Shared Services, s.r.o.	Provision of selected services	2010	None incurred
Personal data processing agreement	Erste Group Shared Services, s.r.o.	Processing of personal data in connection with Outsourcing services contracts	2018	None incurred
Personal data processing agreement	Erste Group Shared Services, s.r.o.	Processing of personal data in accordance with GDPR	2018	None incurred
Contract for the provision of domestic payment processing services (including amendments)	Erste Group Shared Services, s.r.o.	Processing domestic payments	2013, 2015	None incurred

Name	Contractual party	Description	Date	Detriment
IT Service Agreement (including amendments)	Erste Group Shared Services, s.r.o.	Provision of selected services	2013, 2016	None incurred
Non-residential lease (including amendments)	Erste Group Shared Services, s.r.o.	Rental of non-residential premises	2010, 2016	None incurred
Outsourcing services contract (including amendments)	Erste Group Shared Services, s.r.o.	Provision of services	2017, 2018	None incurred
Mandate contract for monitoring the portfolio of receivables	Erste Leasing, a.s.	Provision of selected services	2012	None incurred
Service contract	Factoring České spořitelny, a.s.	Contract for the Provision of Direct Electronic Banking Service, as amended	2002	None incurred
Service contract	Factoring České spořitelny, a.s.	Agreement on the use of the ISIR_CS application and its development, support and operation	2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Dealing with risky receivables	2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Contract on restructuring factoring cooperation	2009	None incurred
Service contract	Factoring České spořitelny, a.s.	Created system environment Linux server farm.	2010	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Rental of safety deposit box of petrol station Budějovická	2011	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Sublease of non-residential premises – Antala Staška	2014	None incurred
An agreement to provide a bonus beyond the company's registered capital	Factoring České spořitelny, a.s.	Provision of a bonus beyond the company's registered capital	2014	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Verification of pledged invoices; monitoring and evaluation of clients / pledges.	2015	None incurred
License agreement	Factoring České spořitelny, a.s.	Use of the Sparkassen brand	2017	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Agreement on business cooperation in the area of factoring trade approval	2017	None incurred
Other	Factoring České spořitelny, a.s.	Personal Data Processing Agreement – GDPR in relation to receivables and leases monitoring	2018	None incurred
Subparticipation contract	Factoring České spořitelny, a.s.	Framework agreement on sub-participation for reverse factoring	2018	None incurred
License Agreement	Factoring České spořitelny, a.s.	Agreement on terms of use of license and support for software – Tableau server	2019	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Rental of safety deposit box of petrol station Jugoslávská	2019	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Contract for the sublease of parking spaces – Trianon	2019	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Sublease of non-residential premises – Budějovická 1912 / 64b	2019	None incurred
Service contract	Factoring České spořitelny, a.s.	Outsourcing services contract	2019	None incurred
Current account contracts	Factoring České spořitelny, a.s.	Current account contracts (CZK, EUR, USD, GBP, CHF, PLN, NOK, HUF, RON, JPY, SEK, DKK, HRK) as amended	2001– 2019	None incurred
Service contract	Factoring České spořitelny, a.s.	Agreement on the assignment of the right to use the Company's logo as amended	2002– 2006	None incurred
Confidentiality agreements	Factoring České spořitelny, a.s.	Confidentiality Agreement	2003– 2005	None incurred
Credit Line Agreement	Factoring České spořitelny, a.s.	Provision of credit as amended	2003– 2019	None incurred
Contracts for issuing and using payment cards	Factoring České spořitelny, a.s.	Contracts for the Issuance and Use of Debit Cards, as amended	2005– 2018	None incurred
Subparticipation contracts	Factoring České spořitelny, a.s.	Risk Participation for Selected Clients, as amended	2005– 2018	None incurred
Cooperation agreements	Factoring České spořitelny, a.s.	Agreement on Data Transfer to DWH	2007– 2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Exchange of information via CLIENT as amended	2009– 2019	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Monitoring of receivables	2013– 2017	None incurred
Service contract	Factoring České spořitelny, a.s.	IT Services (IP Telephony) as amended (TEL Internet access)	2014– 2016	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Sublease of non-residential premises – Trianon, as amended – This contract was terminated in 2019	2014– 2018	None incurred

Name	Contractual party	Description	Date	Detriment
Account agreement	Holding Card Service s.r.o.	Setting up an account	2015	None incurred
Business Service Agreement 24	Holding Card Service s.r.o.	Provision of Business24 services	2015	None incurred
Amendment No. 1 to the Account Agreement	Holding Card Service s.r.o.	Modification of sending statements and notifications	2017	None incurred
Business Cooperation Agreement between MOPET CZ and Partner Bank dated 28 April 2012 in the field of mobile payments and Mobito system solutions	MOPET CZ a.s.	Business Cooperation Agreement between MOPET CZ and Partner Bank dated 28 April 2012 in the field of mobile payments and Mobito system solutions	2012	None incurred
Agreement on Accepting Payment Cards for Payment of Goods and Services E-commerce Transaction dated 25 April 2014	MOPET CZ a.s.	Agreement on Accepting Payment Cards for Payment of Goods and Services E-commerce Transaction dated 25 April 2014	2014	None incurred
Cooperation Agreement of 13 October 2014, defining in particular the issue of payment instruments	MOPET CZ a.s.	Cooperation Agreement of 13 October 2014, defining in particular the issue of payment instruments	2014	None incurred
Oracle Services and License Agreement of 19 August 2014	MOPET CZ a.s.	Oracle Services and License Agreement of 19 August 2014	2014	None incurred
Google Apps Access Agreement of 13/02/2014	MOPET CZ a.s.	Google Apps Access Agreement of 13/02/2014	2014	None incurred
Contract on Provision of Outsourcing Services for Internal Audit, Debt Recovery, Card Center, Payment System and Contract Documentation, concluded on 31 December 2015.	MOPET CZ a.s.	Contract on Provision of Outsourcing Services for Internal Audit, Debt Recovery, Card Center, Payment System and Contract Documentation, concluded on 31 December 2015.	2015	None incurred
Agreement on Overdraft Account of 26 February 2015	MOPET CZ a.s.	Agreement on Overdraft Account of 26 February 2015	2015	None incurred
Option Contract of 14 December 2015	MOPET CZ a.s.	Option Contract of 14 December 2015	2015	None incurred
IT Services Agreement dated 30 December 2015	MOPET CZ a.s.	IT Services Agreement dated 30 December 2015	2015	None incurred
Amendment No. 2 to the Overdraft Loan Agreement No. 1358/14 / LCD of 27 March 2015 of 3 February 2016	MOPET CZ a.s.	Amendment No. 2 to the Overdraft Loan Agreement No. 1358/14 / LCD of 27 March 2015 of 3 February 2016	2016	None incurred
Framework outsourcing contract dated 22/02/2016	MOPET CZ a.s.	Framework outsourcing contract dated 22/02/2016	2016	None incurred
Czech Banking Association – Framework Agreement on Trading on the Financial Market of 2 March 2016	MOPET CZ a.s.	Czech Banking Association - Framework Agreement on Trading on the Financial Market of 2 March 2016	2016	None incurred
Framework Outsourcing Contract 1800 / NEL / 1/2016 of 17 March 2016	MOPET CZ a.s.	Framework Outsourcing Contract 1800 / NEL / 1/2016 of 17 March 2016	2016	None incurred
Contract on Infrastructure Provision and Maintenance as Implementation Contract to Framework Outsourcing Contract of 17 March 2016 (NEL)	MOPET CZ a.s.	Contract on Infrastructure Provision and Maintenance as Implementation Contract to Framework Outsourcing Contract of 17 March 2016 (NEL)	2016	None incurred
Cooperation Agreement (Marketing Agreement on Biip Support) dated June 1, 2016	MOPET CZ a.s.	Cooperation Agreement (Marketing Agreement on Biip Support) dated June 1, 2016	2016	None incurred
Amendment No. 1 to the Outsourcing Services Agreement of 15 June 2016	MOPET CZ a.s.	Amendment No. 1 to the Outsourcing Services Agreement of 15 June 2016	2016	None incurred
Amendment No. 2 to the Outsourcing Services Agreement dated 29 July 2016	MOPET CZ a.s.	Amendment No. 2 to the Outsourcing Services Agreement dated 29 July 2016	2016	None incurred
Amendment No. 5 to the Multicash Electronic Banking Service Agreement of 25 August 2016	MOPET CZ a.s.	Amendment No. 5 to the Multicash Electronic Banking Service Agreement of 25 August 2016	2016	None incurred
Amendment No. 3 to the Overdraft Loan Agreement No. 1358/14 / LCD dated 26 August 2016	MOPET CZ a.s.	Amendment No. 3 to the Overdraft Loan Agreement No. 1358/14 / LCD dated 26 August 2016	2016	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the provision of advisory services Bank Innovation – HUB dated 4 November 2016	MOPET CZ a.s.	Agreement on the provision of advisory services Bank Innovation – HUB dated 4 November 2016	2016	None incurred
Amendment to the BUSINESS24 Service Agreement dated 22 November 2016	MOPET CZ a.s.	Amendment to the BUSINESS24 Service Agreement dated 22 November 2016	2016	None incurred
Agreement on the verification of the potential of operating prepaid VISA payment cards, the study of its technical implementation and the option right of 25 November 2016	MOPET CZ a.s.	Agreement on the verification of the potential of operating prepaid VISA payment cards, the study of its technical implementation and the option right of 25 November 2016	2016	None incurred
Amendment No. 1 to the Contract on Option Right (Biip) dated 1 December 2016	MOPET CZ a.s.	Amendment No. 1 to the Contract on Option Right (Biip) dated 1 December 2016	2016	None incurred
Contract on the provision of outsourcing services dated 20 December 2016	MOPET CZ a.s.	Contract on the provision of outsourcing services dated 20 December 2016	2016	None incurred
Amendment No. 6 to the Multicash Electronic Banking Service Agreement of 21 December 2016	MOPET CZ a.s.	Amendment No. 6 to the Multicash Electronic Banking Service Agreement of 21 December 2016	2016	None incurred
Amendment No. 7 to the Multicash Electronic Banking Service Agreement of 22 December 2016	MOPET CZ a.s.	Amendment No. 7 to the Multicash Electronic Banking Service Agreement of 22 December 2016	2016	None incurred
Application Operation Agreement as Implementation Agreement to the Framework Outsourcing Agreement of 17 March 2016	MOPET CZ a.s.	Application Operation Agreement as Implementation Agreement to the Framework Outsourcing Agreement of 17 March 2016	2016	None incurred
Amendment to the Business Service Agreement 24 3628609309/0800 of 31 January 2017	MOPET CZ a.s.	Amendment to the Business Service Agreement 24 3628609309/0800 of 31 January 2017	2017	None incurred
Amendment to BUSINESS 24 Service Agreement dated 20 April 2017	MOPET CZ a.s.	Amendment to BUSINESS 24 Service Agreement dated 20 April 2017	2017	None incurred
Service Agreement – NEL of April 30, 2017	MOPET CZ a.s.	Service Agreement - NEL of April 30, 2017	2017	None incurred
F24 Software Support Services Agreement of 5 June 2017	MOPET CZ a.s.	F24 Software Support Services Agreement of 5 June 2017	2017	None incurred
Amendment to BUSINESS 24 Service Agreement dated 19 June 2017	MOPET CZ a.s.	Amendment to BUSINESS 24 Service Agreement dated 19 June 2017	2017	None incurred
Amendment No. 1 to the Agreement on the Provision of IT Services as of 31 August 2017	MOPET CZ a.s.	Amendment No. 1 to the Agreement on the Provision of IT Services as of 31 August 2017	2017	None incurred
Contract for the sublease of non-residential premises (Trianon Building) of 13 September 2017	MOPET CZ a.s.	Contract for the sublease of non-residential premises (Trianon Building) of 13 September 2017	2017	None incurred
Amendment No. 4 to the Overdraft Loan Agreement No. 1358/14 / LCD dated 18 September 2017	MOPET CZ a.s.	Amendment No. 4 to the Overdraft Loan Agreement No. 1358/14 / LCD dated 18 September 2017	2017	None incurred
Service Agreement – Wi-Fi Metronome Festival Prague, September 20, 2017	MOPET CZ a.s.	Service Agreement - Wi-Fi Metronome Festival Prague, September 20, 2017	2017	None incurred
Service Agreement - Wi-Fi Colors of Ostrava dated 20 September 2017	MOPET CZ a.s.	Service Agreement – Wi-Fi Colors of Ostrava dated 20 September 2017	2017	None incurred
Amendment No. 1 to the Contract for the Sublease of Non-Residential Premises Trianon Building of 20 October 2017	MOPET CZ a.s.	Amendment No. 1 to the Contract for the Sublease of Non-Residential Premises Trianon Building of 20 October 2017	2017	None incurred
Contract on the provision of outsourcing services dated 1 December 2017	MOPET CZ a.s.	Contract on the provision of outsourcing services dated 1 December 2017	2017	None incurred

Name	Contractual party	Description	Date	Detriment
Amendment to the Contract on Verification of the Potential of Operation of Visa Prepaid Payment Cards, Study of its Technical Implementation and Option of 20 December 2017	MOPET CZ a.s.	Amendment to the Contract on Verification of the Potential of Operation of Visa Prepaid Payment Cards, Study of its Technical Implementation and Option of 20 December 2017	2017	None incurred
Contract on verification of potential in the area of digitization of Česká spořitelna clients dated 20 December 2017	MOPET CZ a.s.	Contract on verification of potential in the area of digitization of Česká spořitelna clients dated 20 December 2017	2017	None incurred
Framework Contract for the Provision of Services (Specialist and IT Services Capacity) of 20 December 2017	MOPET CZ a.s.	Framework Contract for the Provision of Services (Specialist and IT Services Capacity) of 20 December 2017	2017	None incurred
Amendment No. 1 to the Agreement on Provision of Infrastructure and its Maintenance (NEL) of 28 December 2017	MOPET CZ a.s.	Amendment No. 1 to the Agreement on Provision of Infrastructure and its Maintenance (NEL) of 28 December 2017	2017	None incurred
Amendment No. 1 to the Contract for the Provision of NEL Services of 1 January 2018	MOPET CZ a.s.	Amendment No. 1 to the Contract for the Provision of NEL Services of 1 January 2018	2018	None incurred
Amendment No. 2 to the Agreement on Provision of Infrastructure and its Maintenance (NEL) of March 27, 2018	MOPET CZ a.s.	Amendment No. 2 to the Agreement on Provision of Infrastructure and its Maintenance (NEL) of March 27, 2018	2018	None incurred
Agreement on Termination of Agreement No. UP / 1358/14 / LCD of May 3, 2018	MOPET CZ a.s.	Agreement on Termination of Agreement No. UP / 1358/14 / LCD of May 3, 2018	2018	None incurred
Amendment No. 2 to the Contract on Verification of Potential in the Area of Digitization of Česká spořitelna, a.s. of 14 May 2018	MOPET CZ a.s.	Amendment No. 2 to the Contract on Verification of Potential in the Area of Digitization of Česká spořitelna, a.s. of 14 May 2018	2018	None incurred
Account Agreement 7953832/0800 dated September 11, 2018	MOPET CZ a.s.	Account Agreement 7953832/0800 dated September 11, 2018	2018	None incurred
Agreement on Related Cooperation in the Field of Digitization of ČS Clients dated 7 December 2018	MOPET CZ a.s.	Agreement on Related Cooperation in the Field of Digitization of ČS Clients dated 7 December 2018	2018	None incurred
Amendment No. 1 to the Agreement on the operation of the Poketka application as an Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016, dated 6 December 2018	MOPET CZ a.s.	Amendment No. 1 to the Agreement on the operation of the Poketka application as an Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016, dated 6 December 2018	2018	None incurred
Contract on the provision of outsourcing services dated 18 December 2018	MOPET CZ a.s.	Contract on the provision of outsourcing services dated 18 December 2018	2018	None incurred
Amendment No. 3 to the Service Agreement (NEL) of 27 December 2018	MOPET CZ a.s.	Amendment No. 3 to the Service Agreement (NEL) of 27 December 2018	2018	None incurred
Outsourcing services contract	MOPET CZ a.s.	Outsourcing services contract	2018	None incurred
Amendment 3 to the Service Agreement (NEL)	MOPET CZ a.s.	Amendment 3 to the Service Agreement (NEL)	2018	None incurred
Amendment 2 to the IT Service Agreement	MOPET CZ a.s.	Amendment 2 to the IT Service Agreement	2019	None incurred
Amendment No. 2 to the Contract for the Sublease of Non-Residential Premises	MOPET CZ a.s.	Amendment No. 2 to the Contract for the Sublease of Non-Residential Premises	2019	None incurred
Amendment 3 to the Treaty on the Provision and Maintenance of Infrastructure (NEL)	MOPET CZ a.s.	Amendment 3 to the Treaty on the Provision and Maintenance of Infrastructure (NEL)	2019	None incurred
Contract on cooperation in the area of testing credit propositions and digitization of ČS clients	MOPET CZ a.s.	Contract on cooperation in the area of testing credit propositions and digitization of ČS clients	2019	None incurred

Name	Contractual party	Description	Date	Detriment
Amendment No. 2 to the Application Operation Agreement as the Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016	MOPET CZ a.s.	Amendment No. 2 to the Application Operation Agreement as the Implementation Agreement to the Framework Outsourcing Agreement dated 17 March 2016	2019	None incurred
Outsourcing Services Agreement	MOPET CZ a.s.	Outsourcing Services Agreement	2019	None incurred
Current account contracts in Czech currency and euros. Some of them are kept in a special regime registering the funds of MOPET CZ clients, which represent a special claim on deposits with a special regime.	MOPET CZ a.s.	Current account contracts in Czech currency and euros. Some of them are kept in a special regime registering the funds of MOPET CZ clients, which represent a special claim on deposits with a special regime.	2011–2018	None incurred
Service contract	Procurement Services CZ, s.r.o.	Outsourcing of purchasing services	2012	None incurred
Agreement	Procurement Services CZ, s.r.o.	Agreement on the allocation of powers	2012	None incurred
Contract for the lease of commercial space	Procurement Services CZ, s.r.o.	Rental of non-residential premises	2015	None incurred
Personal data processing agreement	Procurement Services CZ, s.r.o.	Processing of personal data in connection with Outsourcing services contracts	2018	None incurred
Provision of IT services (including amendments)	Procurement Services CZ, s.r.o.	Operation of IT services and support	2013, 2017	None incurred
Lease Agreement (including amendments)	Procurement Services CZ, s.r.o.	Rental of parking spaces in Trianon	2015–2017	None incurred
Service Agreement (including amendments)	Procurement Services CZ, s.r.o.	outsourcing services in financial accounting, asset management, purchasing support, human resources, internal audit and IS / IT security	2017–2018	None incurred
Agreement on the assignment of the right to use the company logo	Realitní společnost České spořitelny, a.s.	Modification of rights and obligations with regard to the use of the CS logo	2004	None incurred
Confidentiality Agreement	Realitní společnost České spořitelny, a.s.	Protection of confidential information	2005	None incurred
MultiCash Direct Banking Service Agreement	Realitní společnost České spořitelny, a.s.	International multibank system service	2009	None incurred
RSČS IT Services Contract	Realitní společnost České spořitelny, a.s.	Access Google Apps services	2016	None incurred
Cooperation agreement - tipster	Realitní společnost České spořitelny, a.s.	Cooperation between ČS – tipster of real estate transactions and RSČS	2018	None incurred
Overdraft Loan Agreement + Amendment No. 1	Realitní společnost České spořitelny, a.s.	Providing KTK up to the limit	2018	None incurred
Order service	Realitní společnost České spořitelny, a.s.	Providing real estate advisory services in connection with the sale of selected real estate owned by ČS	2019	None incurred
Order service	Realitní společnost České spořitelny, a.s.	Providing real estate advisory services in connection with the lease of selected real estate owned by ČS	2019	None incurred
Mediation contract	Realitní společnost České spořitelny, a.s.	Procurement of sale of the real estate in question ČS, a.s.	2019	None incurred
Current account contracts in Czech currency	Realitní společnost České spořitelny, a.s.	Bank fees associated with opening and maintaining bank accounts	2019	None incurred
Framework contracts on financial services	Realitní společnost České spořitelny, a.s.	Use of financial services	2019	None incurred
Outsourcing contract	Realitní společnost České spořitelny, a.s.	Provision of outsourcing services in the areas of financial accounting and reporting, human resources, marketing, communication, IT operational security, compliance, operational risk and personal data protection, fire protection and health and safety, contractual documentation	2019	None incurred
IT services contract – HW lease	Realitní společnost České spořitelny, a.s.	HW rental	2019	None incurred
Agreement on trades in financial markets	Reico investiční společnost ČS, a.s.	Providing services in the field of trading on financial markets	2007	None incurred
Agreement on access to the ČS intranet	Reico investiční společnost ČS, a.s.	Providing access to the company's employees on the ČS intranet	2007	None incurred
Contract for the provision of outsourcing services for the area of file services and company documentation	Reico investiční společnost ČS, a.s.	Activities related to the management of the company's archives	2014	None incurred

Name	Contractual party	Description	Date	Detriment
Contract for the lease of premises used for business No. 2014/2310_02 / 1357	Reico investiční společnost ČS, a.s.	Sublease of non-residential premises to provide a replacement workplace	2014	None incurred
Agreement on the provision of activities in the field of information technology	Reico investiční společnost ČS, a.s.	Providing services in the field of information technology	2015	None incurred
Commission contract for the procurement of purchase or sale of investment instruments, incl. amendments	Reico investiční společnost ČS, a.s.	Providing services in the purchase or sale of domestic and foreign securities	2016	None incurred
Agreement on cooperation in the field of risk management	Reico investiční společnost ČS, a.s.	Support activities related to fund risk management	2017	None incurred
Contract on personal data processing	Reico investiční společnost ČS, a.s.	Processing of personal data in connection with contracts for the provision of outsourcing services	2018	None incurred
Sublicense Agreement	Reico investiční společnost ČS, a.s.	Using the new logo	2018	None incurred
Creating a new website on the Emil platform	Reico investiční společnost ČS, a.s.	Creating a new website	2018	None incurred
Agreement on arranging the client's participation in the Short-Term Bond System organized by the CNB	Reico investiční společnost ČS, a.s.	Mediation of participation in the Short-Term Bond System organized by the CNB	2020	None incurred
Contract for providing back-office activities incl. amendments	Reico investiční společnost ČS, a.s.	Providing back-office services	2020	None incurred
Agreement on keeping separate records of book-entry collective investment securities and securing related activities, including amendments	Reico investiční společnost ČS, a.s.	Keeping separate records of book-entry securities of funds and providing related activities	2020	None incurred
Agreement on the procurement of purchase and sale of securities issued by collective investment undertakings, incl. amendments	Reico investiční společnost ČS, a.s.	Provision of services in the field of purchase or sale of securities issued by collective investment undertakings	2020	None incurred
Agreement on ensuring the daily calculation of PL's equity, calculation of current values of PL and current values of shares of investment funds and bookkeeping of funds and related. tin. incl. amendments	Reico investiční společnost ČS, a.s.	Ensuring the daily calculation of PL's equity, calculation of current values of PL and current values of shares of investment funds and bookkeeping of funds and related activities	2020	None incurred
Depository agreement (ČS real estate fund), incl. Appendices	Reico investiční společnost ČS, a.s.	Provision of depository services	2020	None incurred
Contract for the provision of outsourcing services (as amended)	Reico investiční společnost ČS, a.s.	Provision of outsourcing services by Česká spořitelna for the benefit of REICO investment company ČS in selected areas.	2020	None incurred
Addendum to the contract for the provision of the BUSINESS 24 – LIGHT service	Reico investiční společnost ČS, a.s.	Provision of BUSINESS 24 – LIGHT service	2020	None incurred
Trade Cooperation Agreement	s Autoleasing, a.s.	Commission	2006	None incurred
Framework Mandate Contract on the Management of the Debt Portfolio	s Autoleasing, a.s.	Managing the portfolio of receivables	2006	None incurred
Trade Cooperation Agreement	s Autoleasing, a.s.	Risk participation	2006	None incurred
Contract on cooperation in securing sources of financing	s Autoleasing, a.s.	Patronate statement	2007	None incurred
Credit Line Agreement No. 839/09 / LCD	s Autoleasing, a.s.	Providing credit, bank guarantees	2009	None incurred
Contract for the lease of commercial space	s Autoleasing, a.s.	Commercial premises for Rent in Brno	2012	None incurred
Lease of non-residential premises	s Autoleasing, a.s.	Commercial space for rent in Prague 4, Budějovická 13B, Trianon	2014	None incurred
Contract for the lease of premises serving business	s Autoleasing, a.s.	Commercial space for rent Praha 4, Antala Staška	2014	None incurred
IT Service Agreement	s Autoleasing, a.s.	Providing HW and SW infrastructure	2014	None incurred

Name	Contractual party	Description	Date	Detriment
Master order agreement relating to the debt portfolio	s Autoleasing, a.s.	Managing the portfolio of receivables	2014	None incurred
Contract for the lease of premises serving business	s Autoleasing, a.s.	Lease of non-residential premises, Budějovická 1912 / 64b	2016	None incurred
Outsourcing Services Agreement (as amended)	s Autoleasing, a.s.	Provision of outsourcing services by Česká spořitelna in favor of Autoleasing in selected areas.	2019	None incurred
Current account contracts	s Autoleasing, a.s.	Maintenance of current accounts	2004–2011	None incurred
Agreement on mutual exchange of information through special access to CLIENT application (including amendments)	s Autoleasing, a.s.	Using CLIENT application	2008–2018	None incurred
Safety deposit box lease	s Autoleasing, a.s.	Rental of safety deposit box	2013–2015	None incurred
6× Service Agreement	s IT Solutions AT Spardat GmbH	IT services	2017	None incurred
2× Service Agreement	s IT Solutions AT Spardat GmbH	IT services	2018	None incurred
3× IT Service Agreement	Slovenská sporiteľna, a.s.	Services related to the operation of some IT applications and other IT services	2017	None incurred
3× Termination of IT services	Slovenská sporiteľna, a.s.	Services related to the operation of some IT applications and other IT services	2018	None incurred
eCommerce 3-D Secure Issuing	Slovenská sporiteľna, a.s.	Breakdown of works	2018	None incurred
Provision of communication and decentralized services	Slovenská sporiteľna, a.s.	Provision of services	2018	None incurred
Aggregation API	Slovenská sporiteľna, a.s.	Pilot and license	2018	None incurred
E-Commerce - Issuing	Slovenská sporiteľna, a.s.	Provision of services	2018	None incurred
Contract on mediation of client's participation in TKD	Stavební spořitelna České spořitelny, a.s.	Mediation of participation in the short-term bond market	1995	None incurred
Agreement on the assignment of the right to use the logo	Stavební spořitelna České spořitelny, a.s.	Assignment of authorization to exercise the right to use the logo and business name	2001	None incurred
Accessibility Agreement	Stavební spořitelna České spořitelny, a.s.	Modifying conditions to allow access to the Customer File	2003	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Collaboration in data transfer from XEF templates	2004	None incurred
Data Processing Agreement	Stavební spořitelna České spořitelny, a.s.	Data processing, printing of forms, personalization, completion of shipments, enveloping and handing over to the Czech Post	2005	None incurred
Securities Management Agreement	Stavební spořitelna České spořitelny, a.s.	Securities management and settlement	2005	None incurred
Contract for the lease of commercial space	Stavební spořitelna České spořitelny, a.s.	Abandonment of non-residential premises (offices) for use	2006	None incurred
Brokerage contract on the management of securities and the settlement of trades in them	Stavební spořitelna České spořitelny, a.s.	Maintenance of securities account and procurement of revenue collection	2006	None incurred
Power of Attorney	Stavební spořitelna České spořitelny, a.s.	Power of Attorney to conclude "Contract on Processing of Building Savings Acts Made Through Direct Banking Services SERVIS 24"	2006	None incurred
Service Agreement	Stavební spořitelna České spořitelny, a.s.	Provision of direct banking services Home Banking	2006	None incurred
Intranet Access Agreement	Stavební spořitelna České spořitelny, a.s.	Employee access to Česká spořitelna Intranet	2006	None incurred
DWH Data Transfer Agreement	Stavební spořitelna České spořitelny, a.s.	Adjustment of mutual rights and obligations related to transfer of data about SSČS stores and clients to DWH and further handling with them	2007	None incurred
Contract for the provision of services in the field of filing and shredding services of product documentation	Stavební spořitelna České spořitelny, a.s.	Document filing and shredding services	2008	None incurred
Agreement on Terms of Use of the Client Application Service (including amendments)	Stavební spořitelna České spořitelny, a.s.	Setting conditions for using the Client application service	2008	None incurred
Service Level Agreement	Stavební spořitelna České spořitelny, a.s.	Provision of services - certificates and certification services	2009	None incurred

Name	Contractual party	Description	Date	Detriment
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in the operation of SERVIS 24 and the SIS 24 module	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in the processing of secured loans of SSČS	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation in the operation of the Partner 24 system – adjustment of rights and obligations in connection with the operation and use of the system services	2013	None incurred
Contract on mediation of payouts	Stavební spořitelna České spořitelny, a.s.	Mediation of payments that SSČS pays to authorized persons (processing of the submitted list; mediation of payments on the date of the respective tranche at ČS branches; processing of the list after the end of payments; return of unpaid funds to the SSČS account)	2013	None incurred
Contract for cooperation in the operation of the REV module	Stavební spořitelna České spořitelny, a.s.	Adjustment of the rights and obligations of the contracting parties from the use of the SSČS credit products module	2013	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in the operation of the CPS (Central Office Sporoservis) application for support of the credit transaction approval process	2014	None incurred
Cooperation Agreement – three – agreement (as amended)	Stavební spořitelna České spořitelny, a.s.	regulation of cooperation – confirmation of Kooperativa's obligations as an insurer) in favor of ČS or SSČS; insurance indemnification means: in case of an insured event from Kooperativa real estate insurance, ČS or SSČS will pay insurance indemnity exceeding the amount specified in the induction document	2014	None incurred
Contract on sublease of premises serving business	Stavební spořitelna České spořitelny, a.s.	Contract on sublease of premises serving business	2015	None incurred
General agency contract	Stavební spořitelna České spořitelny, a.s.	Offer and mediation of the sale of selected products and services through the EXPA network	2015	None incurred
Implementation agreement on commercial representation for US mortgages	Stavební spořitelna České spořitelny, a.s.	Pursuing American Mortgage Contracts	2015	None incurred
Implementation contract for commercial representation for Mortgage loans ČS	Stavební spořitelna České spořitelny, a.s.	Pursuit of contracting of mortgage loans	2015	None incurred
Outsourcing services contract	Stavební spořitelna České spořitelny, a.s.	Performance, methodology and power of attorney - for financial accounting, reporting, controlling, asset management, purchasing management, human resources, marketing, communications, payment and client accounting, computer user support. program my SAP.com, AMOS and PDS, support and administration of computer users. GRC program, IS / IT security, compliance, loan approval, property estimation management, 3rd party request processing, risk management, VKL and Ú accounts management, loan application processing, internal network vendor support, building society partner support and services – central partners, internal audit, client center, debt collection for retail clients in the pre-payment phase, debt collection for retail clients in the post-payment phase.	2015	None incurred
4x Contract for opening and maintaining a current account	Stavební spořitelna České spořitelny, a.s.	Opening and maintenance of a current account	2015	None incurred
Lease contract	Stavební spořitelna České spořitelny, a.s.	Rental of safety deposit box No. 20750	2015	None incurred
DWH Data Transfer Agreement (including Appendices)	Stavební spořitelna České spořitelny, a.s.	Adjustment of mutual rights and obligations related to transfer of Risk Data and Data to SSČS and further handling thereof	2015	None incurred
IP Phone Service Agreement	Stavební spořitelna České spořitelny, a.s.	Providing IP telephony services for the operation of telephone services and infrastructure operation	2015	None incurred
Service Agreement @ FAKTURA 24	Stavební spořitelna České spořitelny, a.s.	Adjustment of rights and obligations of provision of the @ FAKTURA 24 service within the scope of the Business Terms and Conditions for the @ FAKTURA 24 ČS service; transfer of documents to electronic banking applications and other services specified in the terms and conditions	2015	None incurred
Agreement on Access of Česká spořitelna, a.s. Employees to the Intranet of Stavební spořitelna České spořitelny, a.s.	Stavební spořitelna České spořitelny, a.s.	Enabling Intranet access	2015	None incurred

Name	Contractual party	Description	Date	Detriment
Implementation Agreement on Commercial Representation Personal Account of Česká spořitelna	Stavební spořitelna České spořitelny, a.s.	Implementation Agreement on Commercial Representation Personal Account of Česká spořitelna	2015	None incurred
Implementing contract on commercial representation – loans to individuals	Stavební spořitelna České spořitelny, a.s.	Implementing contract on commercial representation – loans to individuals	2015	None incurred
Execution contract for commercial representation – Commercial mortgage	Stavební spořitelna České spořitelny, a.s.	Execution contract for commercial representation – Commercial mortgage	2015	None incurred
Execution contract for commercial representation – Corporate loans Professional	Stavební spořitelna České spořitelny, a.s.	Execution contract for commercial representation – Corporate loans Professional	2015	None incurred
Execution contract for commercial representation – Investment loans	Stavební spořitelna České spořitelny, a.s.	Implementation agreement on agency – Investment loans	2015	None incurred
Execution Agreement on Commercial Representation – Private Business Mortgages	Stavební spořitelna České spořitelny, a.s.	Execution Agreement on Commercial Representation – Private Business Mortgages	2015	None incurred
Dealership Agreement	Stavební spořitelna České spořitelny, a.s.	Development of activities leading to the conclusion of contracts on the product of building savings	2016	None incurred
IT Interoperability Agreement	Stavební spořitelna České spořitelny, a.s.	Mutual cooperation of SSČS and ČS in fulfilling the outsourcing contract for selected activities	2016	None incurred
2× Agreement on payment of extraordinary commission	Stavební spořitelna České spořitelny, a.s.	Organization of motivation event for mediation and support of sale of products and services of SSČS (retail and commercial loans)	2016	None incurred
Framework agreement on financial market trading	Stavební spořitelna České spořitelny, a.s.	Trading in the financial market	2016	None incurred
Contract on the sublease of office space and two parking spaces	Stavební spořitelna České spořitelny, a.s.	Rental of office space and parking spaces in the Trianon building	2016	None incurred
Application Access Agreement	Stavební spořitelna České spořitelny, a.s.	Access to Visual Analytics	2017	None incurred
Service Agreement	Stavební spořitelna České spořitelny, a.s.	LIC Application Services Agreement	2017	None incurred
Outsourcing contract for internal audits	Stavební spořitelna České spořitelny, a.s.	Outsourcing contract for internal audits in Stavební Spořitelna České spořitelny, 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
Personal data processing agreement	Stavební spořitelna České spořitelny, a.s.	following the Contract on the Provision of Outsourcing Services 39/2017	2018	None incurred
Contract for the lease of commercial space	Stavební spořitelna České spořitelny, a.s.	Lease of non-residential premises, ČS branch in SSČS headquarters	2018	None incurred
Contract for the lease of commercial space	Stavební spořitelna České spořitelny, a.s.	Abandonment of non-residential premises (Central Education Team) for use	2018	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 instigation 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). Due to the recommendation of the Czech National Bank, no dividends were paid in 2020.

H. Other Legal Acts

As at 1 December 2020, Česká spořitelna sold its subsidiary Energie ČS, a.s. of the company Europe Easy Energy a.s. Furthermore, the sole shareholder within the scope of the General Meeting of the company VĚRNOSTNÍ PROGRAM IBOD, a.s. decided to dissolve the company in liquidation on 1 January 2020. This company was liquidated in the course of 2020 and deleted from the Commercial Register on 25 September 2020. In the course of 2020, two companies belonging to the FGČS group, namely BGA Czech, s.r.o., were also deleted from the Commercial Register deleted on 26 November 2020 and RVG Czech, s.r.o. deleted on 16 September 2020. At the same time, in the course of 2020, four companies were established to which Česká spořitelna transferred its headquarters buildings, namely Budějovická Development, s. r. o. and its subsidiaries BP Budějovická, s. r. o., BP Poláčkova, s. r. o., BP Olbrachtova, s. r. o. In September 2020, the Board of Directors and the Supervisory Board approved the purchase of the Czech branch of Waldviertler Sparkasse Bank AG (WSPK). The purchase was realised at the beginning of 2021. In 2020, Erste Corporate Finance, a.s. was renamed ČS Seed Starter, a.s. and changed its subject of business to production, trade and services not listed in Annexes 1 to 3 of the Trade Licensing Act. During the accounting period, Česká spořitelna did not accept or carry out any other legal actions in the interest of or at the initiative of related parties.

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 2020 to 31 December 2020 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 16 March 2021



Tomáš Salomon
Chairman of the Board of Directors



Wolfgang Schopf
Vice-Chairman of the Board of Directors



Česká spořitelna Financial Group

This photo was taken within the series of bicycle races Bike for Life, for which Česká spořitelna has been a long-term partner.

Česká spořitelna Financial Group

Overview of the Major Members of Česká spořitelna Financial Group, Figures are Unaudited and in Accordance with International Financial Reporting Standards (IFRS), Unless Otherwise Stated

Stavební spořitelna České spořitelny, a.s.

Stavební spořitelna České spořitelny, a.s. was established on 22 June 1994. Its registered office is at Vinohradská 180, 130 11 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. Stavební spořitelna offers clients building savings with government support and with a statutory right to a loan from building savings. Česká spořitelna, a.s. has been its sole shareholder since the end of 2014.

As at the end of 2020, Stavební spořitelna České spořitelny had approximately 121 thous loan accounts, having lent its clients CZK 49.6 bn for better housing. It maintained nearly 568 thous building savings accounts for its clients with a target amount of almost CZK 171 bn and savings currently amounting to CZK 64 bn.

The year 2020 in Stavební spořitelna Česká spořitelna was marked by an increase in the volume and number of loans. In comparison with 2019, its loan production grew by 38% in terms of volume, whereas the entire building society market recorded a growth of 35%. The number of concluded loan agreements increased by 28% year-on-year, whereas the whole market achieved only a 1% growth. The opposite situation occurred in 2020 for the building savings product, where Stavební spořitelna České spořitelny recorded a year-on-year drop by 31%, as compared to the 5% drop of the entire market.

The year 2020 was a break-through year in marketing and communication, as well. Stavební spořitelna České spořitelny abandoned its typical product communication, replacing it with image-based communication built on a combination of concrete 3D print in the construction business and the "Prvok od Buřinky" project ("Protozoan project"). It relied on the co-operation with architects and scientists, with whom the first Czech 3D printed floating house – Prvok ("Protozoan") was printed in June. The communication campaign for this project earned the prestigious European Excellence Award, having impressed the jury by its courage and innovative approach.

Stavební spořitelna České spořitelny in co-operation with Česká spořitelna paid great attention to improving and simplifying services for its clients by extending the options for electronic communication and electronic service. It newly enables its clients to conclude building savings agreements and obtain unsecured loans for home renovations financing fully online, through the George Internet banking.

Stavební spořitelna České spořitelny, a.s.	2020	2019	2018	2017	2016
Registered capital (CZK m)	750	750	750	750	750
Total assets (CZK bn)	73.9	73.0	72.3	75.5	82.6
Amounts owed by clients (CZK bn)	49.6	44.7	41.0	37.0	35.3
Amounts owed to clients (CZK bn)	63.8	63.4	62.5	65.4	69.7
Net profit (CZK m)	746	972	866	691	601
Number of accounts (m)	0.7	0.7	0.7	0.7	0.7
Average headcount	189	192	191	183	177

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PENZIJNÍ České spořitelny

Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s. was established on 1 January 2013 by a transformation of Penzijní fond České spořitelny, a.s., which was founded by a deed of establishment as a joint-stock company on 24 August 1994 and came into existence on its registration in the Commercial Register of a court in Prague on 23 December 1994. Česká spořitelna, a.s. has been its 100% shareholder since March 2001. Prior to the 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 by Act No. 36/2004 Coll. Česká spořitelna – penzijní společnost has been managing the savings of participants of the transformed fund since 2013 and offers 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 been the number one on the supplementary pension savings market on a long-term basis, managing the largest conservative participation fund, with assets in excess of CZK 12.2 bn. As at the end of 2020, it had more than 949 thous unique participants with an aggregate volume of funds of CZK 103.1 bn. The Company successfully appreciated its clients' savings in 2020, despite the high volatility that affected the financial markets, with all supplementary pension savings funds achieving positive appreciation. In recent years, it has successfully been bringing its clients one of the highest rates of appreciation among all pension companies on the market.

The greatest innovation that the Company presented to its clients is the possibility of managing pension savings in the George Internet banking, where they can newly request also the arrangement of pension savings. Furthermore, online arrangement of supplementary pension savings on the website in co-operation with Česká spořitelna has been accelerated, thanks to the new possibility of identity verification using Banking Identity. In 2020, the Company received a bronze in "Zlatá koruna" (the "Golden Crown") competition in the Pension Savings category and it came first in the Finparáda competition in the Supplementary Pension Savings category.

Česká spořitelna – penzijní společnost, a.s.	**2020**	**2019**	**2018**	**2017**	**2016**
Registered capital (CZK m)	350	350	350	350	350
Total assets (CZK bn)	2.6	2.3	2.1	2.0	1.8
Volume of money in particular funds (CZK m)					
Transformed Fund	77,954	73,805	70,761	66,796	64,369
Conservative Participation Fund	12,199	10,376	8,439	6,531	4,376
Ethical Participation Fund (since 1. 11. 2017)	1,372	742	325	4	-
Balanced Participation Fund	8,442	6,285	4,348	2,892	1,183
Dynamic Participation Fund	3,083	2,112	1,298	882	464
Net profit (CZK m)	389	344	221	183	140
Number of unique participants (thous)	949	936	920	917	923
Average headcount	65	64	61	62	63

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s Autoleasing, a.s.

The s Autoleasing, a.s. leasing company was established on 6 October 2003. Česká spořitelna is its 100% shareholder. The Company's registered office is at Budějovická 1912/64b in Prague 4. The Company has registered capital of CZK 500 m. The Company's activities focus primarily on financing transportation vehicles of up to 3.5 tonnes for individuals not engaged in business, individuals engaged in business and legal entities.

In 2020, s Autoleasing generated a profit of CZK 81 m and financed new transactions in which the initial debt amounted to CZK 5,136 m.

By creating impairment provisions, s Autoleasing covers all known risks arising from the portfolio of concluded contracts, including the risks associated with the global COVID-19 pandemic. More intensive co-operation with the parent bank is one of the important facts that may have a positive impact on the achievement of s Autoleasing's commercial targets in the years to come.

s Autoleasing, a.s.	2020	2019	2018	2017	2016
Registered capital (CZK m)	500	500	500	500	500
Total assets (CZK bn)	12.9	13.1	12.3	11.1	9.8
Volume of newly concluded transactions (CZK bn)	5.1	5.5	5.8	4.9	4.6
Net profit/loss (CZK m)	81	119	116	112	112
Number of newly concluded contracts	10,242	13,120	15,009	14,008	13,926
Number of POS owned	1	1	1	1	1
Average headcount	109	111	109	111	115

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Erste Leasing, a.s.

Since 1991, Erste Leasing has been a major player engaged in the financing of small and medium-sized enterprises in the Czech Republic. Since 2011, it has been a wholly owned subsidiary of Česká spořitelna. It offers its clients and partners financing for the acquisition of machines and equipment. The main sectors to which the greatest volume of financing is directed include agriculture, private sector services and industry, in particular machine engineering. Erste Leasing regularly ranks in the TOP10 of the business finance ranking put together by the Czech Leasing and Financial Association, and for 7 years it has been the number one in non-banking financing of agricultural machines, equipment, and technology.

In 2020, Erste Leasing generated a profit of CZK 74 m and financed new transactions with an aggregate volume of initial debt of CZK 3,739 m. By creating impairment provisions Erste Leasing covers all known risks arising from the portfolio of contracts concluded, including the risks related to the global COVID-19 pandemic. More intensive co-operation with the parent bank is one of the important facts that may have a positive impact on the fulfilment of the commercial targets of Erste Leasing in the years to come.

Erste Leasing, a.s.	2020	2019	2018	2017	2016
Registered capital (CZK m)	200	200	200	200	200
Total assets (CZK bn)	9.2	8.1	7.8	7.3	6.5
Volume of newly concluded transactions (CZK bn)	3.7	3.2	3.3	3.6	2.7
Number of newly concluded contracts	2,210	1,792	1,869	2,186	1,883
Net profit (CZK m)	74	60	63	66	65
Number of POS owned	2	2	13	14	13
Average headcount	57	60	61	62	63

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Factoring České spořitelny, a.s.

Factoring České spořitelny, a.s. was established in 1995. It has been a wholly owned 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, Prague 4.

Factoring České spořitelny has been one of the largest factoring companies on the Czech market for a long time. In 2020, the Company's aggregate business revenues from assigned and managed receivables grew by 4%, to CZK 37.1 bn. Given the increase of business revenues and lower creation of impairment provisions, the Company's profitability grew to the final net profit of CZK 43 m.

Factoring České spořitelny focuses on comprehensive solutions in the financing of supplier-client relations, known as Supply Chain Financing, for an extensive corporate clientele in diverse spheres of industry, trade and services. Aside from the provision of conventional factoring, comprehensive management and monitoring of receivables, the Company focuses on developing reverse factoring and other customised solutions utilising to the greatest degree possible digitisation of the processes related to client financing, both on the supplier and on the client side.

In 2020, the Company's activity was significantly influenced by the global COVID-19 pandemic that accelerated the transition to internal process electronification and to setting up remote ways of working for all employees, without compromising the quality of the services provided to factoring clients.

Factoring České spořitelny, a.s.	2020	2019	2018	2017	2016
Registered capital (CZK m)	114	114	114	114	114
Equity (CZK m)	1,278	1,234	1,199	1,201	1,146
Total assets (CZK m)	5,831	5,228	5,860	5,480	4,768
Contract volume (CZK m)	37,097	35,682	35,916	33,682	31,848
Net profit (CZK m)	43	36	53	56	25
Average headcount	39	40	40	39	37

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REICO investiční společnost České spořitelny, a.s.

REICO investiční společnost České spořitelny, a.s. was established on 13 June 2006. Česká spořitelna has been its sole shareholder since its establishment. The Company's registered office is at Antala Staška 2027/79, 140 00 Prague 4.

In 2020, REICO investiční společnost České spořitelny, a.s. managed the special real estate fund, ČS nemovitostní fond, an open-end mutual fund of REICO investiční společnost České spořitelny, a.s. (hereinafter also the "Fund").

The Central European real estate market was adversely influenced by the COVID-19 pandemic in 2020. The most seriously affected sectors were the hotel and restaurant business and retail, whereas the logistics sector was practically unscathed by the economic decline.

In 2020, the administrator of ČS nemovitostní fond engaged primarily in optimising Fund's revenues and actively managing properties in its portfolio. Acquisition activities of ČS nemovitostní fond were naturally lower due to the market situation, but still, the purchase of two stages of an industrial park in Sereď, Slovakia, worth CZK 835 m, was completed in April 2020. The total number of properties in the portfolio of ČS nemovitostní fond thus grew to 19 commercial buildings in 2020, of which 9 were in the Czech Republic, 7 in Slovakia, and 3 in Poland. Despite certain unfavourable factors in its retail part, ČS nemovitostní fond proved to be high-quality asset due to its premium nature and strong diversification of the portfolio and in 2020 the Fund thus achieved a positive appreciation of the funds invested by its investors of 2.2%.

From the financial point of view, the portfolio of ČS nemovitostní fond is sound, more than 90% of most properties are leased and regular rental income is ensured. The current values of the buildings in Fund's portfolio are stable, with a significant potential of long-term growth. In terms of volume of assets under management, ČS nemovitostní fond continued to be the largest Czech real estate fund, reaching a total volume of CZK 27.6 bn at the end of December 2020.

The financial indicators of the investment company REICO for 2020 reflect, despite the turbulent period in investment markets,

continuing interest of investors in ČS nemovitostní fond. Due to that, the Investment company manged a far higher volume of funds than in previous years and generated a profit of CZK 93 m in 2020.

REICO investiční společnost České spořitelny, a.s.	2020	2019	2018	2017	2016
Registered capital (CZK m)	25	25	25	25	25
Equity (CZK m)	155	165	156	158	143
Total assets (CZK m)	200	201	197	185	175
Net profit (CZK m)	93	92	88	79	66
Assets under management (CZK bn)	27.6	25.8	21.6	17.2	13.1
Average headcount	14	14	15	14	12

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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 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
Lease liabilities (volume attributable to customers)	S	Consolidated statement of financial position
Loans and advances to customers	**T=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**U=Q+R+S**	**Consolidated statement of financial position**
Loans and advances to customers/deposits from customers	**V=T/U**	**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 Income/Operating Income
The indicator shows the share of income other than interest income on total income from common business activity.

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 – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding 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) reduced by Additional Tier 1 (AT1) coupons to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding year) reduced by Additional Tier 1 (AT1) capital.

Net Interest Margin
Česká spořitelna uses the indicator as the representation 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 – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding 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 risk 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 risk 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.

C) Alternative Performance Indicators According to Appendix 14 to Regulation No. 163/2014 Coll.

ROAA
The ROAA indicator shows how efficient the Bank's management is at using its assets to generate earnings. It is based on FIS reports

(ČNB) 20-12 Profit and Loss Statement and FIS (ČNB) 10-12 Balance Sheet and Off-Balance Sheet for Česká spořitelna, a.s. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as at 31 December 2020 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory Information in Compliance with the ČNB Regulation". It is calculated as a ratio of Profit or Loss in the current year after tax to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as at 1 January of the current year and the last days of all months of the current year).

ROAE

The ROAE indicator measures the efficiency equity utilization and its final value expresses the share of the net profit attributed to one Czech koruna of the equity. It is based on FIS reports (ČNB) 20-12 Profit and Loss Statement and COS (ČNB) 10-04 Capital and Risk Exposures for Česká spořitelna, a.s. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as at 31 December 2020 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory Information in Compliance with the ČNB Regulation". It is calculated as the ratio of Profit or Loss in the current year after tax to the average monthly volume of Tier 1 (T1) capital (internal figure for 13 periods – calculates with balances as at 1 January of the current year and the last days of all months of the current year).

Assets per Employee

The Assets per Employee indicator is based on FIS reports (ČNB) 10-12 Balance Sheet and Off-Balance Sheet and E (ČNB) 5-04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna, a.s. It is calculated as a ratio of the average monthly volume of Total Assets (internal figure for 13 periods – calculates with balances as at 1 January of the current year and the last days of all months of the current year) to the Registered Headcount.

Administrative Costs per Employee

The Administrative Costs per Employee indicator is based on FIS reports (ČNB) 20-12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as at 31 December 2020 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory Information in Compliance with the ČNB Regulation") and E (ČNB) 5-04 Report on the Organisational Structure and Qualified Interests of the Bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna, a.s. (internal figure). It is calculated as a ratio of Administrative Costs to the Registered Headcount.

Gains per Employee

The Gains per Employee indicator is based on FIS reports FIS (ČNB) 20-12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as at 31 December 2020 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory Information in Compliance with the ČNB Regulation") and E (ČNB) 5-04 Report on the Organisational Structure and Qualified Interests of the Bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna, a.s. It is calculated as a ratio of Profit or Loss in the current year after tax to the Registered Headcount.

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