Československá obchodní banka, a. s.

Consolidated Financial Statements

Years Ended 31 December 2023 and 31 December 2022

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2023 restated	2022 restated
Interest income calculated using the effective interest rate method	5	113,479	94,465
Other similar income	5	14,987	12,823
Interest expense calculated using the effective interest rate method	6	-80,963	-54,505
Other similar expense	6	-18,458	-21,721
Net interest income		**29,045**	**31,062**
Fee and commission income	7	16,112	14,903
Fee and commission expense	7	-7,187	-6,862
Net fee and commission income		**8,925**	**8,041**
Dividend income		7	18
Net gains / losses (-) from financial instruments at fair value through profit or loss and foreign exchange	8	2,190	3,607
Income from operating lease	9	1,282	1,253
Expense from operating lease	9	-1,135	-1,081
Net increase in provisions for legal issues and other losses	10	-58	-3,652
Other net income	10	1,038	1,227
Operating income		**41,294**	**40,475**
Staff expenses	11	-10,626	-10,109
General administrative expenses	12	-9,197	-9,217
Depreciation and amortisation	23, 24	-2,766	-2,661
Operating expenses before impairment losses		**-22,589**	**-21,987**
Impairment losses	13	**-1,376**	**-1,497**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI) and finance leases		1,683	-1,142
on goodwill		-2,616	-116
on other financial and non-financial assets		-443	-239
Share of loss of associates and joint ventures	21	-21	-30
Profit before tax		**17,308**	**16,961**
Income tax expense	14	-2,219	-2,696
Profit for the year		**15,089**	**14,265**

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2023 restated	2022 restated
Profit for the year		**15,089**	**14,265**
Other comprehensive income – to be reclassified to the statement of income			
Exchange differences on translating foreign operation		13	-3
Net gain / loss (-) on cash flow hedges		3,622	-540
Net gain / loss (-) on financial debt instruments at fair value through other comprehensive income		448	-726
Share of other comprehensive income of associates and joint ventures		-	-
Income tax expense (-) / benefit relating to components of other comprehensive income		-827	238
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	32	**3,256**	**-1,031**
Other comprehensive income – not to be reclassified to the statement of income			
Net gain / loss (-) on financial equity instruments at fair value through other comprehensive income		75	-63
Income tax expense (-) / benefit relating to components of other comprehensive income		-18	12
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	32	**57**	**-51**
Other comprehensive income for the period, net of tax		**3,313**	**-1,082**
Total comprehensive income for the year, net of tax		**18,402**	**13,183**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2023 restated	2022 restated
ASSETS			
Cash, balances with central banks and other demand deposits	16	24,243	62,121
Financial assets held for trading	17	38,935	71,746
Non-trading financial assets mandatorily at fair value through profit or loss	17	1,330	1,322
Financial assets at fair value through other comprehensive income	18	10,896	15,585
Financial assets at fair value through other comprehensive income pledged as collateral	18	4,326	72
Financial assets at amortised cost	19	1,493,773	1,564,279
Financial assets at amortised cost pledged as collateral	19	237,654	24,721
Finance lease receivables	20	10,426	10,482
Fair value adjustments of the hedged items in portfolio hedge	22	-10,437	-25,639
Derivatives used for hedging	22	29,215	48,425
Current tax assets		150	70
Deferred tax assets	14	1,403	2,514
Investment in associates and joint ventures	21	68	66
Property and equipment	23	12,510	12,917
Goodwill and other intangible assets	24	8,938	11,659
Non-current assets held-for-sale	25	65	41
Receivable from Transformed fund	36	1,451	2,474
Other assets	26	3,346	2,762
Total assets		**1,868,292**	**1,805,617**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	27	40,875	73,506
Financial liabilities designated at fair value through profit or loss	27	25,257	23,839
Financial liabilities at amortised cost	28	1,667,441	1,581,015
Fair value adjustments of the hedged items in portfolio hedge	22	-15,396	-32,441
Derivatives used for hedging	22	24,454	42,039
Lease liabilities		2,037	2,041
Current tax liabilities		563	1,332
Deferred tax liabilities	14	1,521	1,035
Other liabilities	29	7,370	8,404
Provisions	30	709	4,542
Total liabilities		**1,754,831**	**1,705,312**
Share capital	31	5,855	5,855
Share premium		20,929	20,929
Statutory reserve		18,687	18,687
Retained earnings		66,943	57,100
Revaluation reserve from financial assets at fair value through other comprehensive income	31	-265	-663
Cash flow hedge reserve	31	1,324	-1,578
Foreign currency translation reserve		-12	-25
Total equity		**113,461**	**100,305**
Total liabilities and equity		**1,868,292**	**1,805,617**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Attributable to equity holders of the parent (restated)					Total Equity
	Share capital (Note: 31)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 31)	
At 1 January 2022 – as reported	**5,855**	**20,929**	**18,687**	**73,091**	**-1,184**	**117,378**
Impact of restatement (Note: 2.5)	-	-	-	-367	-	-367
At 1 January 2022 - restated	**5,855**	**20,929**	**18,687**	**72,724**	**-1,184**	**117,011**
Profit for the year (restated)	-	-	-	14,265	-	14,265
Other comprehensive income for the year (Note: 32)	-	-	-	-	-1,082	-1,082
Total comprehensive income for the year	-	-	-	14,265	-1,082	13,183
Equity investments disposed (Note: 33)	-	-	-	83	-	83
Dividends paid (Note: 15)	-	-	-	-29,982	-	-29,982
Changes in consolidation scope	-	-	-	10	-	10
At 31 December 2022	**5,855**	**20,929**	**18,687**	**57,100**	**-2,266**	**100,305**
At 1 January 2023 – as reported	**5,855**	**20,929**	**18,687**	**57,773**	**-2,266**	**100,978**
Impact of restatement (Note: 2.5)	**-**	**-**	**-**	**-673**	**-**	**-673**
At 1 January 2023 - restated	**5,855**	**20,929**	**18,687**	**57,100**	**-2,266**	**100,305**
Profit for the year (restated)	-	-	-	15,089	-	15,089
Other comprehensive income for the year (Note: 32)	-	-	-	-	3,313	3,313
Total comprehensive income for the year	-	-	-	15,089	3,313	18,402
Equity investments disposed (Note: 33)	-	-	-	3	-	3
Dividends paid (Note: 15)	-	-	-	-5,249	-	-5,249
At 31 December 2023	**5,855**	**20,929**	**18,687**	**66,943**	**1,047**	**113,461**

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

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

These consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf on 8 August 2024 by:

Aleš Blažek
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2023	2022
OPERATING ACTIVITIES			
Profit before tax		**17,308**	**16,961**
Adjustments for:			
Interest income	5	-128,466	-107,288
Interest expense	6	99,421	76,226
Dividend income (other than from associates and joint ventures)		-7	-18
Non-cash items included in profit before tax	34	2,524	6,327
Net losses / gains (-) from investing activities		177	-30
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**-9,043**	**-7,822**
Change in operating assets	34	-12,427	-129,053
Change in operating liabilities	34	11,671	119,871
Change in assets under operating leases		-112	-78
Income tax paid		-2,311	-1,727
Interest paid		-99,356	-76,145
Interest received		128,545	107,741
Dividend received (other than from associates and joint ventures)		7	18
Net cash flows from operating activities		**16,974**	**12,805**
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		-2,736	-2,581
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		390	221
Acquisition of subsidiaries, net of cash acquired	3	-	-130
Capital increase (-) / decrease in associates and joint ventures		-23	1
Net cash flows used in investing activities		**-2,369**	**-2,489**
FINANCING ACTIVITIES			
Bonds issued	28	3,972	2,767
Repayment of bonds	34	-961	-359
Issue of subordinated debts	28	5,251	21,153
Payments of principal on leases	34	-418	-421
Dividends paid	15	-5,249	-29,982
Net cash flows from / used in (-) financing activities		**2,595**	**-6,842**
Net increase in cash and cash equivalents		**17,200**	**3,474**
Cash and cash equivalents at the beginning of the year	34	233,052	229,578
Net increase in cash and cash equivalents		17,200	3,474
Cash and cash equivalents at the end of the year	34	**250,252**	**233,052**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The main activities of the Bank include: accepting deposits from the public, providing loans, investing in securities on the Bank's own account, financial leasing, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank's own account or on a client's account, the rental of safe-deposit boxes, identification services within the meaning of the Act on Banks. In addition, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investments, pension insurance, leasing, factoring and the distribution of life and non-life insurance products.

2. MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

The Group prepared these consolidated financial statements for the purpose of incorporation into base prospectuses for investment certificates and bond programme establishment.

There are the following differences between these consolidated financial statements and the audited consolidated financial statements for the year ended 31 December 2023 authorised for issue on 10 April 2024, which resulted from an error in the income tax calculation identified after that date:

- A correction of Income tax expense in the CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022, including the comparative period,
- A correction of Current tax assets, Current tax liabilities and Retained earnings in the CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 AND 31 DECEMBER 2022, including the comparative period,
- A correction of Retained earnings in the CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2023 AND 31 DECEMBER 2022, including the comparative period,
- A correction of SEGMENT INFORMATION (Note: 4),
- A correction of INCOME TAX (Note: 14);
- A correction of CAPITAL (Note: 42).

Refer to Note: 2.5 for more details.

Material subsequent events that occurred in the period between 10 April 2024 and 8 August 2024 were reflected in these consolidated financial statements, as appropriate.

The financial statements have been prepared and approved by the Board of Directors of the Bank.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses).

The consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards) as adopted by the European Union.

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries, associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income, consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures and associates included in the Group consolidation are accounted for using the equity method.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments (Note: 33)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments (Note: 41.2)

Calculating expected credit losses (ECL) requires significant judgments on different aspects for example, but not limited to, the borrowers' financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Group applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments. The expected credit losses are calculated in a way that reflects:

- an unbiased, probability weighted amount;
- the time value of money; and
- an information about the past events, current conditions and forecast economic conditions.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Impact of Geopolitical and emerging risks on deterioration of financial instruments

General

The Group updated the impact assessment for the risks that could adversely affect our loan portfolio. During the year 2023, identification of Stage 1 exposures that have suffered a significant increase in credit risk not captured by the regular staging assessment (so-called “Tier5 assessment”) was kept updated. On top of that, a new model-based calculation at individual economic sectors level on top of regular impairments (so-called ASSA model / Automated Stress Sector Analyzer) was introduced and booked via a management overlay for geopolitical and emerging risks. At the end of 2023, the ECL for the geopolitical and emerging risks decreased thanks to improved micro and macroeconomic outlook to CZK 1,650 m in total (2022: CZK 3,197 m), of which CZK 326 m is attributed to individual exposures (2022: CZK 406 m), CZK 614 m is attributed to ECL staging effect (2022: CZK 891 m), CZK 681 m is attributed to management overlay (2022: CZK 1,663 m) and CZK 29 m is attributed to macroeconomic model-driven ECL (2022: CZK 237 m). The impact assessment methodology and the macroeconomic assumptions considered are described below in more detail.

Geopolitical and emerging risks impact assessment

In the light of recent development, we assessed the impact of the main macroeconomic and geopolitical risks on our loan portfolio. The ECL for geopolitical and emerging risks amounts to CZK 1,650 m (2022: CZK 3,197 m) comprising following categories:

Direct exposure to Russia, Ukraine & Belarus	ECL for transfer risk exposure to Russia, Ukraine and Belarus amounts to CZK 326 m in 2023 (2022: CZK 406 m), mainly concentrated in commercial exposures to Russian banks.
Geopolitical & Emerging risks	Group identified the following subsegments at risk in its portfolio: • Corporate and SME clients with material activities or material dependency on Russia, Ukraine and Belarus markets or vulnerable to a disruption of oil/gas supplies • Corporate and SME clients active in economic sectors that have been hit by supply chain issues and increasing commodity and energy prices, and that already have a higher credit risk (e.g., Automotive, Chemicals and Metals); • Retail clients with limited reserve repayment capacity for absorbing the higher cost of living and/or higher repayments due to increasing interest rates. The analysis indicates that CZK 79,529 m (2022: CZK 93,275 m) worth of Stage 1 exposures are suffering a significant increase in credit risk not captured by the regular staging assessment and are transferred to Stage 2 due to Tier5. The total ECL for the indirect impact amounts to CZK 1,295 m in 2023 (2022: CZK 2,554 m), of which CZK 614 m is attributed to ECL staging effect (2022: CZK 891 m) and CZK 681 m is attributed to management overlay (2022: CZK 1,663 m).
Macroeconomic scenarios	The model-driven ECL booked due to geopolitical and emerging risks amounted to CZK 29 m in 2023, i.e. impacts booked cumulatively since beginning of 2022 (compared to CZK 237 m in 2022). The impact almost disappeared, caused by the most actual macroeconomic forecasts used in the ECL calculation and slightly improved probabilities applied to the base-case, optimistic and pessimistic macroeconomic scenarios (respectively 60%, 10% and 30% compared to 65%, 5%, 35% in 2022).

Business model assessment

Classification of financial assets is driven by the business model. Management applies judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Judgement is required to determine whether a financial asset's cash flows are solely payments of principal and interest as only features representing basic lending agreement are in line with the SPPI test. Judgement is required to assess whether risks and volatility of contractual cash flows are related to basic lending agreement. Among the features that require judgements were, for example, modification of time value of money, change of timing or amount, such as early settlement or prepayment.

Impairment of assets under operating leases (Note: 13)

The Group assesses internal and external impairment indicators and if any indications exist that the carrying amount of assets is higher than their recoverable amount, impairment loss is recognised. Recoverable amount approximates the assets' fair value less costs to sell. Residual maturity of operating leases is short and changes of selling price have the most significant impact on impairment losses. The Group uses judgement in using valuation techniques to arrive at the assets' fair value. The judgements include use of various coefficients specific to each asset class.

Goodwill impairment (Note: 24)

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Assessment of the nature of interest in Group entities

The Group considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

Determining the lease term

Significant judgements are required to assess the lease term. The Group assesses how likely it is to exercise options to extend a lease or whether or not to exercise options to terminate a lease. The Group considers all relevant facts and circumstances, such as contractual terms and conditions for the optional periods compared with market rates, significant leasehold improvements, costs relating to the termination of the lease, importance of the asset to the lessee's operations, etc., in deciding whether to exercise options in lease contracts.

Classification of performance guarantee contracts

The Group analysed the issued performance guarantee contracts to assess whether they would meet the definition of insurance contracts in the scope of IFRS 17. The Group has concluded that its performance guarantee contracts expose the Group to credit risk of the applicant because (i) all the contracts require the customers who apply for a guarantee to fully collateralise their obligations to indemnify the Group as the issuer and (ii) there are no scenarios with commercial substance where the Group would have to pay significant additional amounts to the holders of such guarantees. Accordingly, the Group accounts for these contracts as loan commitments in accordance with IFRS 9. The gross amount of the performance guarantees issued and accounted for as loan commitments is CZK 37,092 m at 31 December 2023 (2022: CZK 33,696 m) (Note: 36) and the carrying value of the related liability recognised in the statement of financial position is CZK 201 m at 31 December 2023 (2022: CZK 200 m). The fee income recognised for these performance guarantees was CZK 160 m for the year ended 31 December 2023 (2022: CZK 215 m).

2.3 Changes in accounting policies

Effective from 1 January 2023

The accounting policies adopted in the preparation of the consolidated financial statements of the Group are consistent with those used in the Group's annual financial statements for the year ended 31 December 2022, except for the adoption of the following standards, amendments and interpretations. The adoption of other standards did not have any significant effect on the financial statements of the Group, unless otherwise described below.

IFRS 17 Insurance Contracts (including Amendments to IFRS 17) is effective for annual periods beginning on or after 1 January 2023 and has been endorsed by the EU. The standard establishes principles for the recognition, measurement, presentation and disclosure of issued insurance and held reinsurance contracts, life and non-life. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17 and IFRS 9) is effective for annual periods beginning on or after 1 January 2023 and has been endorsed by the EU. A narrow-scope amendment to the transition requirements of IFRS 17 Insurance Contracts. The amendment affects any entity that first applies IFRS 17 and IFRS 9 Financial Instruments at the same time. The amendment avoids temporary accounting mismatches between financial assets and insurance contract liabilities.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) is effective for periods on or after 1 January 2023 and has been endorsed by the EU.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is effective for periods on or after 1 January 2023 and has been endorsed by the EU. The amendments narrow the exemptions from recognition of deferred tax asset or liability. If on initial recognition the transaction gives rise to equal taxable and deductible temporary differences, the exemption no longer applies.

Definition of Accounting Estimates (Amendments to IAS 8) is effective for periods on or after 1 January 2023 and has been endorsed by the EU. The amendments introduce a new definition of an accounting estimate. Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

Disclosure of Accounting Policies (Amendments to IAS 1) is effective for periods on or after 1 January 2023 and has been endorsed by the EU. The amendments clarify that an entity is required to disclose material accounting policy and the amendments also explain how to identify such policy. Accounting policy is material if it can influence decisions that the users of financial statements make on the basis of the financial statements.

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) is effective immediately and has been endorsed by the EU. It introduces an exception to the requirements in IAS 12 when an entity will neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Effective after 1 January 2023

The following standards, amendments and interpretations have been issued and are effective after 1 January 2023. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

Classification of Liabilities as Current and Non-current (Amendments to IAS 1) is effective for periods on or after 1 January 2024 and has been endorsed by the EU. The amendment affects only the presentation of liabilities in the statement of financial position, not the amount or timing. The classification of current or non-current is based on rights that exist at the end of the reporting period and is unaffected by expectations about exercising its right.

Non-current Liabilities with Covenants (Amendments to IAS 1) is effective for periods on or after 1 January 2024 and has been endorsed by the EU. The amendment clarifies that a liability is classified as non-current when an entity has a right to defer settlement for at least 12 months after the reporting date. The right may be subject to an entity complying with conditions of a loan arrangement.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) is effective for periods on or after 1 January 2024 and has been endorsed by the EU. The amendment specifies requirements for seller-lessees to measure the lease liability in a sale and leaseback transaction.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) is effective for periods on or after 1 January 2024 and has not yet been endorsed by the EU. The amendment introduces new disclosure requirements about supplier finance arrangements, in which finance providers pay amounts the entity owes to its suppliers.

Lack of Exchangeability (Amendments to IAS 21) is effective for periods on or after 1 January 2025 and has not yet been endorsed by the EU. The amendment specifies how to assess whether a currency is exchangeable and how to determine a spot exchange.

2.4 Material accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in derivatives that provide an effective hedge in the cash flow hedge of currency risk which are deferred in OCI until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary financial assets at fair value through other comprehensive income are included in the fair value through OCI reserve in equity until the assets are derecognised, and then they are transferred to retained earnings.

The results and financial position of all the Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised through OCI as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken through OCI to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

When during the term of a financial asset there is a change in the terms and conditions, then the Group assesses whether the new terms are substantially different from the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Group assesses that the terms are not substantially different then the transaction is accounted for as financial asset modification. The Group considers, among others, these factors:

- Significant extension of the loan term,
- Significant change in the interest rate,
- Introduction of collateral or credit enhancement, which may have an impact on credit risk,
- If the borrower is in financial difficulty, whether the modification reduces contractual cash flows to amounts the borrower is able to pay.

The effect of modification is reflected in modification gain or loss in Impairment losses in the statement of income. The gross carrying amount of a previously recognised financial asset is recalculated in order to reflect renegotiated or otherwise modified contractual cash flows. For modified financial assets an assessment of whether there has been a significant increase in credit risk is based on comparing the PD at the reporting date (modified terms) and PD at initial recognition (unmodified terms). The significant increase in credit risk indicators (below) are used to determine whether the expected credit losses would be lifetime or 12-month expected credit losses. More information on forbearance measures can be found in 41.2 Credit risk.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The Group derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Group compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Group derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Group can derecognise financial liabilities if the two liabilities are qualitatively different (such as a change in currency, subordination or changes in prepayment clauses).

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains/losses from financial instruments at fair value through profit or loss and in the Fair value through other comprehensive income reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(3) Financial instruments - initial recognition and subsequent measurement

Classification and measurement – financial assets

The classification of financial assets depends on the purpose for which the financial instruments were acquired and their cash flow characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition.

Classification and measurement – debt instruments

Debt instruments can be allocated into one of the following categories:

- Financial assets at fair value through profit or loss (FVPL);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at amortised cost (AC).

(i) Financial assets at fair value through profit or loss (FVPL)

- This category has three sub-categories: financial assets held for trading, financial assets mandatorily at fair value through profit or loss and financial assets designated at fair value through profit or loss (FVO);

Financial assets held for trading consist of derivatives held for trading and non-derivative financial assets held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS Accounting Standards' requirements for applying hedge accounting but which the Group Asset Liability Management department uses for decreasing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Group occasionally purchases or originates financial assets containing embedded derivatives. The entire hybrid asset is assessed whether its cash flows fulfil the definition of solely principal and interest from principal outstanding. If this criterion is met, the hybrid financial asset is not classified as at fair value through profit or loss.

In the case when a stand alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *Financial instruments held for trading other than derivatives*

Financial assets held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income is recorded in Net interest income using the nominal interest rate. Dividends received are recorded in Dividend income. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

- *Financial assets mandatorily at fair value through profit or loss*

Financial assets mandatorily at fair value through profit or loss are classified into this category if their contractual terms lead to contractual cash flows, which are not solely payments of principal and interest from principal outstanding. Financial assets that are managed on the basis of fair value are also classified into this category.

- *Financial assets designated at fair value through profit or loss (FVO)*

Financial assets designated at fair value through profit or loss are financial assets irrevocably designated at initial recognition as at fair value, although the asset otherwise meets the requirements to be measured at AC or at FVOCI. The Standard allows this classification if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Other similar income or Other similar expense using the nominal interest rate.

(ii) Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

b. and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised in the OCI reserve on an after-tax basis, until the financial asset is derecognised. When these assets are disposed of, the unrealised gain or loss recorded in the OCI reserve is reclassified to Net realised gains/losses on FVOCI financial assets. Interest income arising from FVOCI assets, calculated using the effective interest rate method, is recorded separately in Net interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iii) Financial assets at amortised cost (AC)

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

a. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortised cost are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

If the financial guarantee is both integral to the guaranteed loan and not recognised separately, fees paid for the guarantee are an integral part of the loan's effective interest rate as transaction costs. If the guaranteed loans are measured at amortised cost, the ability to recover cash flows from financial guarantee is considered in assessing whether significant increase in credit risk occurred, however, the expected cash flows from the financial guarantee are included in the measurement of ECL of the guaranteed loan.

Uncollectible loan is written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. A loan is deemed uncollectible when there are no reasonable expectations of recovering the asset and all of the criteria are fulfilled:

- the loan is classified as Irrecoverable;
- the gross carrying amount of the loan is reduced through 100% ECL;
- the debtor does not exist or best case recovery from the receivable is considered to be immaterial.

Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses. As part of its treatment of defaulted loans, the Group can take over assets that were granted as collaterals. Upon repossession, the assets are valued at their presumed realisable value and booked in inventory.

Business model

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Group reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported the Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument at initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

Classification and Measurement – equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

The election is applicable to long-term, strategic investments. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Group as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the statement of income even when the investments are disposed of. The only exception applies to the dividend income which is recognised in the statement of income under the line item "Dividend Income".

Classification and measurement – financial liabilities

The Group classifies financial liabilities into three categories.

(i) Financial liabilities held for trading

Financial liabilities held for trading include derivatives held for trading and non-derivative financial liabilities held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS Accounting Standards' requirements for applying hedge accounting but which the Group Asset Liability Management department uses for reducing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

In the case when the stand-alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *Financial instruments held for trading other than derivatives*

Financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Net interest income using the nominal interest rate. A financial liability is classified in this category if acquired principally for the purpose of repurchasing in the near term.

(ii) Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in statement of income except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Group for the following reasons:

- Managed on a FV basis: The Group designates a financial liability or group of financial liabilities and assets at fair value when these are managed and their performance is evaluated on a fair value basis.
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value.

Financial liabilities designated upon initial recognition at fair value are measured at fair value, whereby fair value changes are recognized in statement of income.

Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Other similar expense using the nominal interest rate.

Changes in clean fair value due to own credit risk are presented separately in other comprehensive income (OCI). The remaining fair value change is reported in Net gains/losses from financial instruments at fair value through profit or loss. The amounts recognized in OCI relating to the own credit risk are not recycled to the statement of income even when the liability is derecognized and the amounts are realised.

ČSOB applies a zero credit premium for its own credit risk as it is one of the main market makers in the CZK interbank market and also it is one of six banks whose quotations determine the representative rate in the CZK interbank market (Fixing of interest rates in the interbank deposit market - PRIBOR). The rating of ČSOB and other major market makers on the CZK interbank market is at the same level. In view of the above, ČSOB does not have any premium on quoted rates when financing on the interbank market. Thus, the difference between ČSOB's financing rate and the "representative" rate on the interbank market is zero.

(iii) Financial liabilities measured at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(iv) 'Day 1' profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit or loss) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Financial assets at amortised cost. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument 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 (i.e. an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or at fair value through other comprehensive income are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

Definition of default

The Group uses the same definition for defaulted financial assets as used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. More on the definition is in the Credit risk section (Note: 41.2).

General model of expected credit losses

The model for impairment of financial assets is called the Expected Credit Loss model (ECL).

The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No expected credit losses are calculated for equity investments.

Financial assets that are in scope for the ECL model carry an amount of impairments equal to the life-time expected credit losses if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month expected credit losses (see below for the references to the significant increase in credit risk).

12-month expected credit losses are defined as the portion of lifetime expected credit losses that represent expected credit losses that result from defaults possible within 12 months after the reporting date. Lifetime expected credit losses are expected credit losses resulting from all possible defaults over the expected life of the financial asset.

To distinguish between the different stages with regards the amount of expected credit losses, the Group uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12-month expected credit losses. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time expected credit losses. Once an asset meets the definition of default it migrates to stage 3.

The expected credit losses for trade and other receivables are measured as the life-time expected credit losses.

Impairment gains and losses on financial assets are recognised under the heading “Impairments” in the statement of income.

Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the expected credit losses is recognised as a reclassification adjustment between the statement of income and the other comprehensive income.

Significant increase in credit risk (SICR) since initial recognition

In accordance to the ECL model, a financial asset attracts life-time expected credit losses once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The main indicators of the significant increase in credit risk are:

- Internal rating or behavioural score
- Past due information
- Changes in business, financial or economic conditions
- Expected changes to contractual framework
- External market indicators of credit risk
- Regulatory, economic and technological environment
- Change in credit management approach

The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Group has developed a multi-tier approach (MTA).

Multi-Tier Approach - Bond portfolio

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months expected credit losses if they have a low credit risk at the reporting date (i.e. stage 1). The Group uses the low credit risk exception for bonds which are graded as investment grade.

- Internal rating: [only applicable if the first tier is not met]. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If the triggers do not result in a migration to stage 2, then the bond remains in stage 1.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Multi-Tier Approach - Loan portfolio

For the loan portfolio the Group uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, does not result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: The Group uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: The Group uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Group internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the cause of the transfer ceases to exist.

Measurement of expected credit losses

The expected credit losses are calculated as the product of:

- probability of default (PD) reflecting the probability of borrower defaulting on its credit facility over the next 12 months (12M PD) or over the lifetime (Lifetime PD),
- estimated exposure at default (EAD) relates to the expected credit risk exposure for a facility at the moment of a potential default event over the next 12 months (12m EAD) or over its entire remaining lifetime (Lifetime EAD), and

- loss given default (LGD) reflecting the Group´s expectation of the loss as a percentage of the exposure at default (EAD). 12M LGD reflects the percentage loss if the default event occurs over the next 12 months and Lifetime LGD is the percentage loss if the default occurs over the remaining lifetime.

The expected credit losses are calculated in a way that reflect:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time expected credit losses represent the sum of the expected credit losses over the life time of the financial asset discounted at the original effective interest rate. A correction is also introduced by a factor that corrects for potential prepayments, since the potential for prepayments reduces the expected lifetime of a facility and hence the probability of having a default event during this expected lifetime. Given the fact that prepayments are limited to products with a contractual repayment scheme and that often different prepayment rates can be observed by product type, prepayments are modelled by facility type.

The 12 months expected credit losses represent the portion of the life time expected credit losses that results from a default in 12-month period after the reporting date.

The Group uses specific IFRS 9 models for PD, EAD and LGD to calculate expected credit losses. To the extent possible The Group uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. The Group ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- The Group removes the conservatism which is required by the regulator for Basel models
- The Group adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a "point-in-time" rather than "through-the-cycle" estimate (the latter is required by the regulator).
- The Group applies forward looking macroeconomic information in the models.

The Group also considers three different forward looking macro-economic scenarios with different weights in the calculation of expected credit losses. The base case macro-economic scenario represents the Group's estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.

The forecasts of variables used in the scenarios are provided by the Group chief economist on a quarterly basis. An expert judgement is required to assess the impact of the variables on PD, EAD and LGD and is carried out by using linear regression analysis. This approach should be carried out on an appropriate level of granularity (e.g. by industry sector). Aspects that could not be incorporated in the model (e.g. because macroeconomic parameters may not have shown much variation, or only an increase/decrease in the period covered by the data) may still be incorporated in the final ECL figures through 'management overlay'.

The maximum period for measurement of the expected credit losses is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.
In the Group, the credit revolving facilities have either fixed maturity or notice period. The notice period could be either with stated maturity or without maturity. The maturity of these products is further used in estimation of ECL.

Life-time for revolving facilities was investigated within implementation of IFRS 9 standard. The life-time depending on business segment has been implemented in IFRS 9 ECL models through the prepayment survival component of the models. Prepayment survival component can be interpreted as the probability for a revolving facility of not being fully prepaid by the end of year. The probability is estimated amount weighted using usually through-the-cycle time series of historical data and statistical methods. The life-time ECL for facilities with significant risk increase (Stage 2) is calculated as a sum of ECLs in individual years. The particular ECLs decrease in time due to existence of prepayment survival component for such facilities. Usually it is close to zero after 8 years. Performance of ECL models is regularly back-tested and prepayment survival components are ones of the best performing among other ECL model components.

The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

Purchased or Originated Credit Impaired (POCI) assets

The Group defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).

POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime expected credit losses are recognised in the consolidated statement of income. Favourable changes are recognised as an impairment gain even if the lifetime expected credit losses at the reporting date is lower than the estimated lifetime expected credit losses at origination.

Interest income from assets impaired at initial recognition (POCI) is based on amortised cost (gross carrying amount minus impairment).

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication 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 an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(8) Hedge accounting

The Group decided to use the option in IFRS 9 to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

The Group uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Group has complied with the amended standard, taking into account the 'carved out' parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in clean fair value of a hedging instrument is recognised in Net gains/losses from financial instruments at fair value through profit or loss. Related interest income/expense from the hedging instrument is recorded in Net interest income. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged financial asset at fair value through other comprehensive income or on a separate line Fair value adjustments of the hedged items in portfolio hedge if the hedged item is financial asset or liability measured at amortised cost. The change in fair value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(9) Offsetting financial instruments

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

(10) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The lessee has the right to control the use of the asset and to obtain substantial economic benefits from its use.

The Group has used exceptions from the scope of the standard to:

- Short-term leases - for lease contracts shorter than one year
- Low-value leases of assets - for individual assets of less than EUR 5,000
- Intangible asset leases - when the Group acts as a lessee.

(i) The Group company as a lessee

The lessee accounts for the right to use the asset and the lease liability at the commencement of the lease. The Group enters the leasing contracts in respect of branch network buildings and IT hardware equipment.

The lease liability is initially measured at the present value of future lease payments and is subsequently increased by the interest calculated on the basis of the implicit interest rate or the incremental borrowing rate, based on internal fund transfer pricing rates, and reduced by lease payments. Interest is recognized as Other similar expense in the statement of income.

Lease payments consist of fixed payments less lease incentives, variable payments (linked to an index or a rate), payments in connection with guaranteed residual value, penalties for terminating the lease and exercise price for purchase options if it is probable that the options will be exercised.

The Group treats the lease as one single lease if the non-lease component is less than 10% of total lease. Similarly, if the lease component is less than 10%, the whole contract is considered as a non-lease contract.

The right to use the asset is initially recognized at cost and measured using the cost method. The cost of a right-of-use asset is based on the initial measurement of a lease liability and is further adjusted by any lease payments made at or before the commencement date and by lease incentives and direct costs incurred. Right-of-use assets are recognized in Property and equipment, in the sections of Buildings, IT equipment and Other. The depreciation period corresponds to the asset useful life or the useful life of the right of use. The right-of-use asset is tested for impairment.

Indefinite term leases are limited to the earliest date on which the contract can be terminated by the lessee or the lessor, or is limited to a maximum of 10 years, which is based on useful life of underlying assets and their depreciation plan. For fixed-term contracts the useful life of right of use corresponds to the contract length. If a fixed-term contract includes options, the useful life with options included is limited to 10 years.

Total payments made for operating leases with the application of exceptions (short-term rental, low-value lease of assets and rental of intangible assets) are charged to the consolidated statement of income on an accrued basis.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as Finance lease receivables in the statement of financial position. A receivable is recognised over the leasing period at an amount equalling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Other similar income in the statement of income.

Leases, in which the Group does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income, as well as depreciation and other expenses relating to operating lease assets are reported separately in the consolidated statement of income under Income or Expense from operating lease.

(11) Recognition of income and expenses

(i) Interest income and expense

For all financial instruments in Stage 1 and 2 measured at amortised cost and interest bearing financial instruments classified as financial assets at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate method on their gross carrying amount.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on financial assets that are not purchased or originated credit-impaired, but subsequently have become credit-impaired financial assets, should be based on the amortised costs in subsequent periods.

Interest income from assets impaired at initial recognition (POCI) is based on the effective interest rate adjusted for credit risk on initial recognition.

Interest income and expense of interest-bearing financial assets at fair value through OCI and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Most net fee and commission income relates to the services that the Group provides to its customers. For the recognition of revenue, the Group identifies the contract and defines the performance obligations in the transaction. Revenue is recognised at a point in time when the Group has satisfied the performance obligation.

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on a straight line basis as the services have been rendered, when a client simultaneously receives and consumes benefits provided (recurring account maintenance fees or custody fees, for example).

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised at a point in time, when the Group satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Group charges customers for certain current account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Recognition of management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable.

Distribution fee income, such as commissions from sales of insurance products, are based on the applicable contract and revenue is recognised when the performance obligation is satisfied.

The Group operates a customer loyalty programme through which retail customers can accumulate points and the points can be used to claim discounts on products or services. The promise to provide discount to the customer is a separate performance obligation. A liability is recognised for the points expected to be redeemed. Revenue from the awarded points is recognised when the points are redeemed or when they expire.

(iii) Dividend income

Income is recognised when the Group's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks, loans and advances (measured at amortised cost) to credit institutions and central banks and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations, if any) are assessed by the Group as cash equivalents.

(13) Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of associates and joint ventures' in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(14) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	3 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment contains right-of-use assets in Buildings and IT equipment. They are depreciated over their useful lives or, if earlier, the end of lease term.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the total of the fair values of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree's recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognised at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The consolidated statement of income reflects the results of the combining entities only since the date, when the control was obtained by the Group.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred (Note: 2.5).

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The amortisation of software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Core systems	8 years
Other software	5 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. At the end of each reporting period, financial guarantees are measured in the financial statements at the higher of the amortised premium and the loss allowance, which is based on expected credit loss. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(18) Loan commitments

The Group issues commitments to provide loans and these commitments can be irrevocable or revocable. The loan commitments are initially measured at fair value, which is normally evidenced by the amount of fees received. One-off fees are charged directly into the statement of income, other fees are booked to the statement of income on accrued basis. The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual, commercial or legal obligation. Where the performance guarantee provides the Group with contractual indemnification rights to recover any payments made to the guarantee holder from the applicant and such rights are covered by collateral, they are treated as a loan commitment provided to the applicant, if the Group concludes that there is no event with commercial substance that could cause the Group to incur an overall loss on the guarantee arrangement. Such performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the loss allowance determined based on the expected credit loss model.

(19) Employee benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(21) Income tax

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and financial assets at fair value through other comprehensive income, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(22) Share capital and reserves

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.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(23) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising there on are excluded from these financial statements, as they are not assets of the Group.

(24) Operating segments

Operating segments are components of the Group that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Group level to assess their performance. Discrete information is available for each operating segment.

2.5 Restatement due to an error

Due to incorrect set-up of a static data parameter on bond securities acquired by the Group as investments, taxable income on certain securities was being declared as tax exempt income. Consequently, lower income tax was reported and paid in the years 2019-2023 and, correspondingly, lower income tax liability was recognized in the financial statements for those years. In this set of financial statements, this error has been corrected retrospectively, affecting the Consolidated statements of income for the years ended 31 December 2023 and 31 December 2022, the Consolidated statements of financial position at 31 December 2023 and 31 December 2022, and the Consolidated statements of changes in equity for the years ended 31 December 2023 and 31 December 2022. The cumulative impact of this error related to periods prior to 1 January 2022 is reflected in the opening balance of retained earnings at 1 January 2022.

Consolidated statement of income

(CZKm)	**2023** As reported	Restatement	**2023** Restated
Income tax expense	-1,872	-347	-2,219
Profit for the year	15,436	-347	15,089

(CZKm)	**2022** As reported	Restatement	**2022** Restated
Income tax expense	-2,390	-306	-2,696
Profit for the year	14,571	-306	14,265

Consolidated statement of financial position

(CZKm)	**2023** As reported	Restatement	**2023** Restated
Current tax assets	890	-740	150
Total assets	1,869,032	-740	1,868,292
Current tax liabilities	283	280	563
Total liabilities	1,754,551	280	1,754,831

(CZKm)	**2022** As reported	Restatement	**2022** Restated
Current tax liabilities	659	673	1,332
Total liabilities	1,704,639	673	1,705,312

(CZKm)	**1 January 2022** As reported	Restatement	**2022** Restated
Current tax assets	1,020	-367	653
Total assets	1,805,479	-367	1,805,112

Consolidated statement of financial position and consolidated statement of changes in equity

(CZKm)	**2023** As reported	Restatement	**2023** Restated
Retained earnings	67,963	-1,020	66,943
Total equity	114,481	-1,020	113,461

(CZKm)	**2022** As reported	Restatement	**2022** Restated
Retained earnings	57,773	-673	57,100
Total equity	100,978	-673	100,305

(CZKm)	**1 January 2022** As reported	Restatement	**1 January 2022** Restated
Retained earnings	73,091	-367	72,724
Total equity	117,378	-367	117,011

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 27 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2023	% 2022
Subsidiaries				
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
ČSOB Stavební spořitelna, a.s.	ČSOBS	Czech Republic	100.00	100.00
ČSOB Advisory, a.s.	ČSOB Advisory	Czech Republic	100.00	100.00
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing	Czech Republic	100.00	100.00
ČSOB Pojišťovací makléř, s.r.o.	ČSOB pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	Czech Republic	100.00	100.00
ČSOB Hypoteční banka, a.s.	ČSOB HB	Czech Republic	100.00	100.00
Patria Corporate Finance, a.s.	Patria CF	Czech Republic	100.00	100.00
Patria Finance, a.s.	Patria Finance	Czech Republic	100.00	100.00
Radlice Rozvojová, a.s.	Radlice Rozvojová	Czech Republic	100.00	100.00
Skip Pay s.r.o. (formerly MallPay s.r.o.)	Skip Pay	Czech Republic	100.00	100.00
Ušetřeno.cz s.r.o.	Ušetřeno	Czech Republic	100.00	100.00
K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság	K&H Payment Services	Hungary	100.00	100.00
Joint venture				
Igluu s.r.o.	Igluu	Czech Republic	50.00	50.00
Associates				
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	0.24	0.24

Acquisition of the remaining share in Skip Pay (formerly MallPay)

On 30 March 2022, ČSOB reached agreement to acquire remaining share in MallPay from Titancoin International a.s. for a consideration of CZK 130 m. Until 31 March 2022, MallPay was included into the consolidated financial statements of the Group as a joint-venture using equity valuation of the interest. Based on the transaction, ČSOB has assumed 100% ownership control over MallPay and, as a consequence, MallPay lost its status of joint-venture and became a ČSOB's subsidiary. As a result, the Group started including MallPay into the consolidated financial statements using full method of consolidation since 1 April 2022.

All existing assets and liabilities, as well as new identifiable assets and liabilities of MallPay, were included into the consolidated statement of financial position of the Group at their fair value line-by-line. The excess of the aggregate of consideration transferred and fair value of the previously held equity interest over the fair value of the identifiable assets acquired and the liabilities assumed at the date of the acquisition represents goodwill.

Set out below is an analysis of the financial effect of the business combination of MallPay into the consolidated financial statements of the Group:

Assets acquired and liabilities assumed

(CZKm)	1 April 2022
ASSETS	
Cash and other demand deposits	6
Financial assets at amortised cost	67
Intangible assets	108
Other assets	3
Total assets	**184**
LIABILITIES	
Financial liabilities at amortised cost	62
Tax liabilities	18
Other liabilities	14
Total liabilities	**94**
Total identifiable net assets	**90**
Goodwill	117
Fair value of net assets acquired	**207**

There is no contingent consideration resulting from the transaction.

In October 2022, MallPay changed its registered company name to Skip Pay.

In December 2022, goodwill recognized at the acquisition date in the amount of CZK 117 m was fully impaired based on the result of the impairment test.

Change of a consolidation method of Igluu

In 2021, ČSOB together with Gobii Europe founded a new company Igluu. Igluu is a company providing web services to its customers as well as to brokers on real estate market and is controlled jointly by both interest holders. Until the end of 2021, Igluu was excluded from the consolidation scope of the ČSOB Group from the materiality reasons. In 1Q 2022, ČSOB included Igluu into the consolidated financial statements of the Group as a joint venture using equity method of consolidation in the amount of CZK 25 m.

As a result of the sale of significant part the ČSOB's participation in ČSOB Pojišťovna in 2012, the Group's ownership interest in ČSOB Pojišťovna is 0.24%. While, based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Note: 21).

Ownership in other companies corresponds with the share of voting rights.

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategic business units, the Group's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income tax is allocated to operating segments, but is managed on a Group basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs, except of private banking customers that are reported as a part of Relationship banking. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

Relationship banking: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards, leasing and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or trading with bonds). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services, mutual funds and pension funds and asset management. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Home financing: This segment contains mortgages, building savings and building savings loans. Net fee and commission income of this segment contains administration of credits and distribution fees.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Relationship banking and Home financing segment, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

Segment reporting information by customer segments for 2023 (restated)

(CZKm)	Retail	Home financing	Relationship banking	Financial markets	Group Centre	**Total**
Statement of income						
Net interest income	9,837	4,461	11,123	1,086	2,538	**29,045**
Net fee and commission income	2,517	557	3,769	1,433	649	**8,925**
Dividend income	-	-	-	2	5	**7**
Net gains / losses (-) from financial instruments at fair value through profit or loss	118	83	1,827	823	-661	**2,190**
Net realised gains on financial instruments at fair value through other comprehensive income	-	-	-	-	-	**-**
Income from operating lease	-	-	1,282	-	-	**1,282**
Expense from operating lease	-	-	-1,135	-	-	**-1,135**
Net increase in provisions for legal issues and other losses	-	-	-	-	-58	**-58**
Other net income	175	24	139	20	680	**1,038**
Operating income	**12,647**	**5,125**	**17,005**	**3,364**	**3,153**	**41,294**
of which:						
External operating income / expense (-)	*-4,019*	*17,785*	*2,646*	*3,364*	*21,518*	*41,294*
Intersegment operating income / expense (-)	*16,666*	*-12,660*	*14,359*	*-*	*-18,365*	*-*
Depreciation and amortisation	-26	-376	-50	-90	-2,224	**-2,766**
Other operating expenses	-7,585	-1,643	-4,830	-902	-4,863	**-19,823**
Operating expenses before impairment losses	**-7,611**	**-2,019**	**-4,880**	**-992**	**-7,087**	**-22,589**
Impairment losses	-209	-85	1,856	-	-2,938	-1,376
Share of profit of associates and joint ventures	-	-	-	-	-21	**-21**
Profit before tax	**4,827**	**3,021**	**13,981**	**2,372**	**-6,893**	**17,308**
Income tax expense	-1,426	-560	-3,020	-452	3,239	**-2,219**
Segment profit	**3,401**	**2,461**	**10,961**	**1,920**	**-3,654**	**15,089**
Assets and liabilities						
Segment assets	40,041	526,284	356,913	52,056	892,865	**1,868,159**
Investment in associates and joint ventures	-	-	-	-	68	**68**
Non-current assets held-for-sale	-	-	42	-	23	**65**
Total assets	**40,041**	**526,284**	**356,955**	**52,056**	**892,956**	**1,868,292**
Total liabilities	**561,272**	**118,396**	**611,275**	**139,217**	**324,671**	**1,754,831**
Capital expenditure	**203**	**175**	**499**	**81**	**2,034**	**2,992**

Segment reporting information by customer segments for 2022 (restated)

(CZKm)	Retail	Home financing	Relationship banking	Financial markets	Group Centre	**Total**
Statement of income						
Net interest income	10,435	5,635	11,691	1,335	1,966	**31,062**
Net fee and commission income	1,922	646	3,663	1,233	577	**8,041**
Dividend income	-	-	-	2	16	**18**
Net gains / losses (-) from financial instruments at fair value through profit or loss	108	-229	2,026	751	951	**3,607**
Net realised gains on financial instruments at fair value through other comprehensive income	-	-	-	-	-	**-**
Income from operating lease	-	-	1,253	-	-	**1,253**
Expense from operating lease	-	-	-1,081	-	-	**-1,081**
Net decrease in provisions for legal issues and other losses	-	-	-	-	-3,652	**-3,652**
Other net income	74	34	57	21	1,041	**1,227**
Operating income	**12,539**	**6,086**	**17,609**	**3,342**	**899**	**40,475**
of which:						
External operating income	*501*	*13,920*	*8,748*	*3,342*	*13,964*	***40,475***
Intersegment operating income / expense (-)	*12,038*	*-7,834*	*8,861*	*-*	*-13,065*	***-***
Depreciation and amortisation	-23	-396	-51	-77	-2,114	**-2,661**
Other operating expenses	-7,066	-1,645	-4,579	-814	-5,222	**-19,326**
Operating expenses before impairment losses	**-7,089**	**-2,041**	**-4,630**	**-891**	**-7,336**	**-21,987**
Impairment losses	-80	83	-1,443	-	-57	**-1,497**
Share of profit of associates and joint ventures	5	-	-	-	-35	**-30**
Profit before tax	**5,375**	**4,128**	**11,536**	**2,451**	**-6,529**	**16,961**
Income tax expense	-1,486	-789	-2,487	-463	2,529	**-2,696**
Segment profit	**3,889**	**3,339**	**9,049**	**1,988**	**-4,000**	**14,265**
Assets and liabilities						
Segment assets	36,760	507,068	332,500	115,526	813,656	**1,805,510**
Investment in associates and joint ventures	22	-	-	-	44	**66**
Non-current assets held-for-sale	-	-	18	-	23	**41**
Total assets	**36,782**	**507,068**	**332,518**	**115,526**	**813,723**	**1,805,617**
Total liabilities	**552,139**	**129,156**	**544,914**	**127,434**	**351,669**	**1,705,312**
Capital expenditure	**290**	**202**	**408**	**84**	**1,826**	**2,810**

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2023	2022
Interest income on financial instruments calculated using effective interest rate method		
Cash, balances with central banks and other demand deposits	1,498	1,880
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	51,536	47,559
Other than credit institutions	42,537	32,507
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	275	281
Derivatives used for hedging (Note: 8)	17,632	11,516
Negative interest from financial liabilities measured at amortised cost	1	722
	113,479	94,465
Other similar income		
Finance lease receivables	322	218
Financial assets held for trading, incl. assets pledged as collateral (Note: 8)	1,942	1,567
Derivatives used as economic hedges (Note: 8)	12,710	11,024
Negative interest from financial liabilities measured at fair value (Note: 8)	13	14
	14,987	12,823
Interest income	**128,466**	**107,288**

6. INTEREST EXPENSE

(CZKm)	2023	2022
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	12	59
Credit institutions	6,950	5,132
Other than credit institutions	43,161	26,319
Debt instruments in issue	14,854	11,506
Derivatives used for hedging (Note: 8)	15,986	11,489
	80,963	54,505
Other similar expense		
Financial liabilities held for trading (Note: 8)	2,072	1,665
Financial liabilities designated at fair value through profit or loss (Note: 8)	1,161	643
Derivatives used as economic hedges (Note: 8)	15,155	19,365
Lease liabilities	70	48
	18,458	21,721
Interest expense	**99,421**	**76,226**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2023	2022
Fee and commission income		
Banking services		
Payment service fees	7,365	6,860
Credit / Guarantee related fees	1,227	1,242
Network income	1,311	1,220
Securities	805	683
Other	955	913
Asset management services		
Custody fees	280	285
Mutual funds entry fees	227	216
Management fees	719	602
Distribution		
Mutual funds	1,524	1,287
Banking and insurance products	1,699	1,595
	16,112	**14,903**
Fee and commission expense		
Banking services		
Payment services	4,986	4,360
Credit / Guarantee related fees	307	312
Securities	161	182
Network expense	11	57
Other	406	859
Asset management services		
Custody fees	129	119
Distribution		
Banking and insurance products	1,187	973
	7,187	**6,862**
Net fee and commission income	**8,925**	**8,041**

8. NET GAINS / LOSSES FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2023	2022
Net gains / losses from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,190**	**3,607**
Net interest income (Notes: 5, 6)	-2.077	-9,041
	113	**-5,434**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	2,263	1,213
Foreign exchange	-3,402	-4,854
Equity contracts	739	-962
Commodity contracts	-	1
	-400	-4,602
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	1,330	1,322
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	-2,314	166
Foreign exchange differences	1,497	-2,320
Financial instruments at fair value through profit or loss and foreign exchange	**113**	**-5,434**

Changes of fair value of hedging derivatives and hedged items, being parts of fair value hedging constructions of the Group, are presented in the table on a net basis. Split of gains and losses realised on the hedging contracts and on hedged item attributable to the hedged interest rate risk is provided in note Derivative financial instruments (Note: 22).

As from October 2018, KBC Bank started centralising ČSOB's trading activities to the Central European Financial Markets in order to align regulatory scope, risks arising from trading and streamline the trading activities. KBC Bank has outsourced the related trading activities back to ČSOB. The contracts are concluded through the Financial Markets trades specified products on behalf of KBC Bank. Related risk raised from the transactions is then transferred via a back-to-back transaction to KBC Bank with positive impact on risk weighted assets (RWA) of the Bank. Net residual profit based on trading results is distributed by KBC Bank to ČSOB; KBC Bank bears any potential loss. The profit is booked into Net gains from non-trading financial assets mandatorily at fair value through profit or loss.

9. NET RESULT FROM OPERATING LEASE

(CZKm)	2023	2022
Income from operating lease		
Income from operating leases	270	337
Income from disposal of assets under operating leases	714	554
Income from other services relating to operating leases	298	362
	1,282	**1,253**
Expense from operating lease		
Depreciation of assets under operating leases (Note: 23)	-186	-223
Expenses from disposal of assets under operating leases	-626	-497
Other services relating to operating leases	-323	-361
	-1,135	**-1,081**

10. NET INCREASE IN PROVISIONS FOR LEGAL ISSUES AND OTHER LOSSES AND OTHER NET INCOME

In February 2023, ČSOB Bank was delivered an arbitral award issued in the arbitration proceedings against the company ICEC-HOLDING, a.s. resulting in an increase of the provisions for legal issues in the amount of CZK 3,663 m already in 2022 (Notes: 30, 36). Together with other cases, net increase in provisions for legal issues and other losses in 2023 amounted to CZK 58 m (2022: increase of CZK 3,652 m).

In March 2023, the Bank redeemed the liability arisen from the arbitral award and utilized the respective provision in a full amount.

Other net income

(CZKm)	2023	2022
ICT services	677	716
Services provided to the parent and to entities under common control (excluding income from ICT services)	334	381
Net gain on disposal of intangible assets	22	3
Net gain on disposal of non-current assets held-for-sale	9	2
Net gain on disposal of property and equipment	3	50
Other services provided by ČSOB Leasing	1	1
Net loss on disposal of investments measured at amortised cost	-215	-127
Other	207	201
	1,038	**1,227**

11. STAFF EXPENSES

(CZKm)	2023	2022
Wages and salaries	7,447	7,195
Salaries and other short-term benefits of top management	76	96
Social security charges	2,512	2,395
of which pension security charges (obligatory)	*1,575*	*1,477*
Pension (voluntary) and similar expenses	200	188
Net increase in provisions for Restructuring programme	184	75
Other	207	160
	10,626	**10,109**

Number of personnel of the Group

The number (in full-time equivalents) of personnel of the Group was 8,035 at 31 December 2023 (31 December 2022: 8,105).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are base salaries, annual bonuses and other short-term benefits of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

A bonus scheme of the Group follows the changes in legislation in previous years. Half of the bonus is provided in a non-cash instrument, so called ‘Virtual investment certificate’ (VIC). VIC is linked to the Economic Value Added of the Group which captures both finance and risk aspects (50%) and to the share price of KBC Group (50%). Another half of the bonus is paid in cash. The payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next five years following the initial assignment of the benefit.

Retirement benefits

The Group provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute a portion of their salaries to pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ),
with an additional contribution of the Group of 2% or 3% of their salaries, respectively, or with fixed amount by preference of an employee.

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee's monthly average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month's average salary), 15-20 years (2.5 times the month's average salary), 20-25 years (3 times the month's average salary), 25-30 years (4 times the month's average salary), 30-35 years (5 times the month's average salary) and over 35 years (6 times the month's average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). The compensation was CZK Nil in 2023 (2022: CZK 8 m).

12. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2023	2022
Information technologies	3,728	3,323
Contribution to the Single Resolution Mechanism	959	1,138
Professional fees	753	613
Other building expenses	679	640
Marketing	653	899
Retail service fees	645	557
Communication	489	523
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	470	358
Administration	231	207
Travel and transportation	208	196
Payment cards and electronic banking	124	131
Insurance	52	53
Training	49	52
Rental expenses on land and buildings - minimum lease payments	39	40
Car expenses	17	20
Other	101	467
	9 197	**9,217**

13. IMPAIRMENT LOSSES

(CZKm)	2023	2022
Impairment reversal / loss (-) of financial assets at amortised cost - loans and advances (Notes: 34, 41.2)	1,282	-795
Impairment reversal / loss (-) of financial assets at amortised cost - debt securities (Notes: 34, 41.2)	97	-36
Impairment reversal of finance lease receivables (Note: 34)	87	44
Provisions reversal / addition (-) for loan commitments and guarantees (Notes: 30, 34)	217	-355
Impairment loss of property, plant and equipment (Notes: 23, 34)	-26	-10
Impairment loss of goodwill (Notes: 24, 34)	-2,616	-117
Impairment loss of intangible assets (Notes: 24, 34)	-416	-6
Impairment loss of other financial assets (Note: 34)	-1	-
Impairment reversal of other non-financial assets (Note: 34)	-	13
Discount on receivable from Transformed fund (Note: 34, 41.2)	-	-235
	-1,376	**-1,497**

14. INCOME TAX

The components of income tax expense for the years ended 31 December 2023 and 2022 are as follows:

(CZKm)	2023 restated	2022 restated
Current tax expense	1,514	3,576
Previous year over accrual of current tax	-51	-33
Deferred tax expense / income (-) relating to the origination and reversal of temporary differences	756	-847
	2,219	**2,696**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2023 and 2022 is as follows:

(CZKm)	2023 restated	2022 restated
Profit before taxation	17,308	16,961
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,289	3,223
Previous year over accrual of current tax	-51	-33
Effect on deferred taxes due to increase in tax rate	-14	-
Tax effect of non-taxable income	-2,476	-1,967
Tax effect of non-deductible expenses	1,471	1,473
	2,219	**2,696**

In the Czech Republic, a windfall tax was introduced. On the excess profit (the profit above the average of 2018-2021 profits plus 20%, the calculation is based on corporate income tax base) the effective tax rate is 79% (19% standard corporate tax + 60% windfall tax) which is applicable for large banks in the period 2023 to 2025. Introduction of the windfall tax in the Czech Republic for years 2023 – 2025 did not have any impact on the Group in 2023, since the tax base did not rise sufficiently for the windfall tax to apply. It was not recognized in deferred tax either.

In 2023, changes in the Income tax law were approved. The applicable tax rate for 2023 was 19% and for future periods will be 21% from 2024 (2022: 19%).

As of 1 January 2024, the Czech Republic has enacted new legislation to implement the global minimum top-up tax, in accordance with the EU legislation. The whole KBC Group will be subject to these new rules. The Czech Republic has also implemented rules for qualified domestic top-up tax, and ČSOB Group expects to be subject to this domestic top-up tax in relations to the operations of KBC Group in the Czech Republic. Even though the statutory tax rate is 21% since 2024, the effective tax rate of ČSOB Group is under required limit of 15%. Since the newly enacted tax legislation is only effective from 1 January 2024, there is no current impact for the year ended 31 December 2023. It was not recognized in deferred tax either. If the top-up tax had been applied in 2023, and taking into account restated income tax expense in 2023 (Note: 2.5), then the profits relating to the operations of KBC Group in the Czech Republic for the year ended 31 December 2023 would be subject to the top-up tax at the rate of approx. 1% amounting near to CZK 200 m.

Included in non-taxable income is interest income accrued on tax-free financial investments.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 21% in 2023 (2022: 19%).

The movement on the Net deferred tax asset is as follows:

(CZKm)	2023	2022
At 1 January	**1,479**	**380**
Statement of income	-756	847
Financial assets FVOCI (Note: 32)		
Fair value remeasurement	-125	129
Transfer to net profit or retained earnings	1	20
Cash-flow hedges (Note: 32)		
Fair value remeasurement	-543	166
Transfer to net profit (Note: 22)	-174	-63
At 31 December	**-118**	**1,479**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2023	2022
Deferred tax asset		
Initial fee income	604	382
Employee benefits	378	328
Temporary difference resulting from tax depreciation	247	252
Interest rate bonus	242	292
Impairment losses on loans and advances at amortised cost and credit risk provisions	233	352
Revaluation of financial assets and liabilities at fair value through profit or loss	233	50
Temporary difference resulting from tax depreciation related to acquisition of ICT function	101	102
Provisions for other risks and charges	95	765
Impairment of tangible and intangible assets	76	9
Unused tax losses applicable in the next periods	44	38
Impairment losses on debt securities	18	24
Debt securities at fair value through other comprehensive income	5	7
Cash-flow hedging derivatives	-338	396
Amortisation of goodwill for tax purposes	-565	-511
Other temporary differences	30	28
	1,403	**2,514**

(CZKm)	2023	2022
Deferred tax liability		
Temporary difference resulting from tax depreciation	1,162	1 012
Cash-flow hedging derivatives	257	-48
Debt securities at fair value through other comprehensive income	185	171
Unused tax losses applicable in the next periods	49	39
Finance lease valuation	30	-35
Revaluation of financial assets and liabilities at fair value through profit or loss	27	82
Provisions for other risks and charges	-27	-20
Impairment losses on loans and advances at amortised cost and credit risk provisions	-34	-63
Initial fee expense	-80	-65
Other temporary differences	-48	-38
	1,521	**1,035**

The deferred tax charge (-) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2023	2022
Revaluation of financial assets and liabilities at fair value through profit or loss	238	114
Initial fee income	237	50
Impairment of tangible and intangible assets	67	-2
Employee benefits	50	7
Temporary difference resulting from tax depreciation related to acquisition of ICT function	-1	-5
Unused tax losses applicable in the next periods	-4	-2
Impairment losses on debt securities	-6	7
Interest rate bonus	-50	-37
Amortisation of goodwill for tax purposes	-54	-
Finance lease valuation	-65	23
Impairment losses on loans and advances at amortised cost and credit risk provisions	-148	30
Temporary difference resulting from tax depreciation	-155	-102
Debt securities at fair value through other comprehensive income	-214	44
Provisions for other risks and charges	-663	702
Other temporary differences	12	18
	-756	**847**

The Group management believes it is probable that the Group fully realises its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its initial recognition.

15. DIVIDENDS PAID

Based on a sole shareholder decision from 13 May 2024, a dividend of CZK 51.30 per share was paid for 2023, representing a total dividend of CZK 15,018 m.

Based on a sole shareholder decision from 6 June 2023, a dividend of CZK 17.93 per share was paid for 2022, representing a total dividend of CZK 5,249 m.

Based on a sole shareholder decision from 18 May 2022, a dividend of CZK 48.10 per share was paid for 2021, representing a total dividend of CZK 14,082 m.

Based on a sole shareholder decision from 24 June 2022, an extra dividend of CZK 54.31 per share was paid from retained earnings, representing a total dividend of CZK 15,900 m.

16. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEMAND DEPOSITS

(CZKm)	2023	2022
Cash (Note: 34)	8,036	8,437
Mandatory minimum reserves (Notes: 34, 35, 41.2)	9,040	15,010
Other balances with central banks (Notes: 34, 35, 41.2)	2,517	28,415
Other demand deposits in credit institutions (Notes: 34, 35, 41.2)	4,650	10,259
	24,243	**62,121**

Until 5 October 2023, the Czech National Bank (CNB) paid interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. Starting 5 October, mandatory minimum reserve is an interest-free asset. The Group is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Group.

Other balances with central banks contain overnight loans provided to central bank in the amount of CZK Nil at 31 December 2023 (31 December 2022: CZK 25,008 m). Balances with central banks are classified as Stage 1 assets, expected credit losses being immaterial.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2023	2022
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 37)	8	790
Other loans and advances	-	1
Equity securities		
Credit institutions	4	3
Corporate	10	7
Derivative contracts (Note: 22)		
Trading derivatives	30,198	57,237
Derivatives used as economic hedges	8,715	13,708
	38,935	**71,746**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	1,330	1,322
	1,330	**1,322**
Financial assets at fair value through profit or loss	**40,265**	**73,068**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2023	2022
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	9,520	13,839
Credit institutions	962	1,166
Debt securities classified as stage 2		
Corporate	-	163
Equity securities		
Corporate	415	418
Total	10,897	15,586
Allowance for impairment losses	-1	-1
	10,896	**15,585**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	4,079	72
Credit institutions	247	-
	4,326	**72**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

Included within Financial assets at fair value through other comprehensive income pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 341 m (2022: CZK Nil) or securities lending in the amount of CZK 3,985 m (2022: CZK 72 m).
Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

19. FINANCIAL ASSETS AT AMORTISED COST

(CZKm)	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	59,150	-	-	-	59,150
Credit institutions	21	-	-	-	21
Other legal entities	3,521	510	-	-	4,031
Debt securities – gross carrying amount	62,692	510	-	-	63,202
Allowance for impairment losses	-13	-5	-	-	-18
Total debt securities	**62,679**	**505**	**-**	**-**	**63,184**
Loans and advances					
Central banks (Note: 34)	534,220	-	-	-	534,220
General government	8,973	206	828	-	10,007
Credit institutions (Note: 34)	1,902	32	397	-	2,331
Other legal entities	213,863	76,691	5,058	152	295,764
Private individuals	534,703	56,730	6,875	53	598,361
Loans and advances – gross carrying amount	1,293,661	133,659	13,158	205	1,440,683
Allowance for impairment losses	-824	-3,386	-5,840	-44	-10,094
Total loans and advances	**1,292,837**	**130,273**	**7,318**	**161**	**1,430,589**
Total financial assets at amortised cost	**1,355,516**	**130,778**	**7,318**	**161**	**1,493,773**
Financial assets at amortised cost pledged as collateral					
Debt securities – gross carrying amount					
General government	233,533	-	-	-	233,533
Credit institutions	3,222	-	-	-	3,222
Other legal entities	899	-	-	-	899
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**237,654**	-	-	**-**	**237,654**

(CZKm)	2022 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	241,009	-	-	-	241,009
Credit institutions	1,947	-	-	-	1,947
Other legal entities	4,312	1,958	-	-	6,270
Debt securities – gross carrying amount	247,268	1,958	-	-	249,226
Allowance for impairment losses	-12	-103	-	-	-115
Total debt securities	**247,256**	**1,855**	**-**	**-**	**249,111**
Loans and advances					
Central banks (Note: 34)	460,875	-	-	-	460,875
General government	8,512	256	826	-	9,594
Credit institutions (Note: 34)	3,379	150	606	-	4,135
Other legal entities	191,078	73,744	7,140	283	272,245
Private individuals	510,150	63,370	6,297	63	579,880
Loans and advances – gross carrying amount	1,173,994	137,520	14,869	346	1,326,729
Allowance for impairment losses	-707	-4,228	-6,589	-37	-11,561
Total loans and advances	**1,173,287**	**133,292**	**8,280**	**309**	**1,315,168**
Total financial assets at amortised cost	**1,420,543**	**135,147**	**8,280**	**309**	**1,564,279**
Financial assets at amortised cost pledged as collateral					
Debt securities – gross carrying amount					
General government	24,721	-	-	-	24,721
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**24,721**	**-**	**-**	**-**	**24,721**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

The following table shows the gross carrying amount of those financial assets which are in a different impairment stage at 31 December 2023 and 2022 than they were at the beginning of the financial year or their initial recognition:

	2023					
	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
(CZKm)	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Debt securities						
Other legal entities	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances						
General government	78	83	-	-	-	-
Credit institutions	-	76	-	-	-	-
Other legal entities	31,703	19,510	995	360	435	1
Private individuals	24,504	24,287	1,685	750	1,117	111
Total	**56,285**	**43,956**	**2,680**	**1,110**	**1,552**	**112**

(CZKm)	2022 Transfers between stages 1 and 2 From stage 1 to stage 2	From stage 2 to stage 1	Transfers between stages 2 and 3 From stage 2 to stage 3	From stage 3 to stage 2	Transfers between stages 1 and 3 From stage 1 to stage 3	From stage 3 to stage 1
Debt securities						
Other legal entities	1,654	-	-	-	-	-
Total	**1,654**	**-**	**-**	**-**	**-**	**-**
Loans and advances						
General government	156	167	-	-	778	-
Credit institutions	76	-	176	-	309	-
Other legal entities	35,494	4,276	344	569	899	6
Private individuals	40,065	14,138	1,057	968	865	132
Total	**75,791**	**18,581**	**1,577**	**1,537**	**2,851**	**138**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 534,220 m at 31 December 2023 (31 December 2022: CZK 460,875 m).

Included within Financial assets at amortised cost pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 216,323 m (2022: CZK 42 m) or securities lending in the amount of CZK 21,331 m (2022: CZK 24,680 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

Financial assets at amortised cost contain debt securities of CZK 17,265 m (2022: CZK 14,653 m) pledged as collateral of term deposits and financial guarantees.

20. FINANCE LEASE RECEIVABLES

(CZKm)	2023 Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Other legal entities	6,383	3,323	69	30	9,805
Private individuals	310	394	57	2	763
Gross carrying amount	6,693	3,717	126	32	10,568
Allowance for impairment losses	-7	-32	-102	-1	-142
	6,686	**3,685**	**24**	**31**	**10,426**

(CZKm)	2022 Stage 1	Stage 2	Stage 3	POCI	Total
Finance lease receivables					
Other legal entities	7,333	2,198	142	3	9,676
Private individuals	236	719	76	3	1,034
Gross carrying amount	7,569	2,917	218	6	10,710
Allowance for impairment losses	-8	-82	-137	-1	-228
	7,561	**2,835**	**81**	**5**	**10,482**

Finance lease receivables may be analysed as follows:

(CZKm)	2023	2022
Total amount of the future minimum lease payments	**11,068**	**10,941**
At not more than one year	3,047	2,648
At more than one but not more than two years	2,559	2,427
At more than two but not more than three years	1,825	2,194
At more than three but not more than four years	1,808	1,302
At more than four but not more than five years	745	1,300
At more than five years	1,084	1,070
Unearned future finance income on finance leases	-642	-458
Present value of the future minimum lease payments	**10,426**	**10,483**
At not more than one year	2,869	2,537
At more than one but not more than two years	2,411	2,324
At more than two but not more than three years	1,719	2,103
At more than three but not more than four years	1,704	1,248
At more than four but not more than five years	702	1,246
At more than five years	1,021	1,025
Accumulated allowance for uncollectible minimum lease payments receivable	-141	-228

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

As at 31 December 2023, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 42 m (2022: CZK 18 m), which the Group is in the process of selling (Note: 25).

21. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The following table illustrates the summarised financial information of the significant investment in the associates and joint ventures based on non-audited financial statements compliant with IFRS Accounting Standards:

	ČSOB Pojišťovna	
(CZKm)	2023	2022
The associate's and joint venture's assets and liabilities		
Assets	41,977	48,598
of which current assets	2,102	410
Liabilities	34,305	39,949
of which current liabilities	2,156	3,444
Net assets	**7,672**	**8,649**
Carrying amount of the investment	**20**	**22**
The associate's and joint venture's results		
Interest income	1,536	1,236
Interest expense	-146	-29
Total revenues	15,595	14,619
Depreciation and amortisation	-165	-145
Income tax expense	-449	-435
Profit for the year	2,802	2,153
Profit for the year – other adjustment	-	-
Profit for the year – share of the Group	7	5
Dividend – share of the Bank	8	3
Other comprehensive income	-	-
Total comprehensive income	7	5

22. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2023 and 2022 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2023			2022		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	876,974	28,031	28,694	1,034,434	54,100	55,141
Options	21,340	260	176	21,202	456	279
	898,314	**28,291**	**28,870**	**1,055,636**	**54,556**	**55,420**
Foreign exchange contracts						
Cross currency interest rate swaps	23,680	1,363	1,355	32,987	2,161	2,152
Options	71,816	463	449	31,306	414	406
	95,496	**1,826**	**1,804**	**64,293**	**2,575**	**2,558**
Commodity contracts						
Swaps / Options	2,024	81	81	1,749	106	106
Total trading derivatives (Notes: 17, 27)	**995,834**	**30,198**	**30,755**	**1,121,678**	**57,237**	**58,084**

Positions of ALM – economic hedges

(CZKm)	2023 Notional amount	2023 Fair value Positive	2023 Fair value Negative	2022 Notional amount	2022 Fair value Positive	2022 Fair value Negative
Interest rate related contracts						
Swaps	2,000	336	226	2,000	420	-
Foreign exchange contracts						
Swaps / Forwards	632,554	7,594	6,798	603,048	12,878	12,616
Cross currency interest rate swaps	1,329	5	-	2,157	120	-
	633,883	**7,599**	**6,798**	**605,205**	**12,998**	**12,616**
Equity contracts						
Swaps	6,076	280	94	4,311	12	630
Options	5,348	500	-	5,967	278	1
	11,424	**780**	**94**	**10,278**	**290**	**631**
Total derivatives used as economic hedges (Notes: 17, 27)	**647,307**	**8,715**	**7,118**	**617,483**	**13,708**	**13,247**

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In the Group, an effectiveness of hedge accounting relationship is measured by a comparison of cumulative changes in net present value of a hedging derivative and cumulative changes in net present value of a "hypothetical" derivative. Hypothetical derivative is not a real transaction. It is a virtual financial derivative representing a hedged item and hedged risk. Besides, the Group is testing whether the total amount of hedging derivatives does not exceed the volume of financial instruments eligible for hedging.

The hedging ineffectiveness results from the different floating rate repricing frequencies in hedging and hypothetical derivatives having an impact on their valuation.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from expected reverse repo operations with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Group also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of non-retail client current accounts (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert floating-rate client loans to fixed rates.
- to convert floating-rate bonds to a synthetic fixed rate bonds.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2023 and 2022 are set out as follows:

	2023			2022		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps						
Cash flow micro hedges	11,900	1,350	-	11,900	291	38
Cash flow portfolio hedges	43,314	1,789	1,537	26,596	393	2,766
Total hedging derivatives	**55,214**	**3,139**	**1,537**	**38,496**	**684**	**2,804**

In 2023, a gain of CZK 84 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2022: loss of CZK 7 m).

In 2023, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative gains of CZK 6 m from equity to the statement of income (2022: gain of CZK 16 m). The gains / losses are included in Net gains from financial instruments at fair value through profit or loss.

The following table contains details of the hedged financial instruments as at 31 December 2023 and 2022 covered by the Group's hedging strategies:

	2023			2022		
	Cash flow hedge reserve		Change in fair value of hedged item for	Cash flow hedge reserve		Change in fair value of hedged item for
(CZKm)	Continuing hedges	Discontinued hedges	ineffectiveness assessment	Continuing hedges	Discontinued hedges	ineffectiveness assessment
Cash flow hedges	1,601	6	3,781	-2,102	16	-595

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2023	2022
Net interest income (Note: 32)	-918	-342
Net gains from financial instruments at fair value through profit or loss (Note: 32)	90	10
Taxation (Note: 14)	174	63
Net losses	**-654**	**-269**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2023 and 2022:

	2023		2022	
(CZKm)	Single currency interest rate swaps	Cross currency interest rate swaps	Single currency interest rate swaps	Cross currency interest rate swaps
Less than 3 months	420	-	969	-
More than 3 months but not more than 6 months	2,250	-	1,000	-
More than 6 months but not more than 1 year	718	-	1,719	-
More than 1 year but not more than 2 years	2,364	-	3,375	-
More than 2 years but not more than 5 years	15,067	-	15,539	-
More than 5 years	34,395	-	15,894	-
	55,214	**-**	**38,496**	**-**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of foreign currency fixed rate bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Financial assets at fair value through other comprehensive income and as Financial assets at amortised cost attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of long-term fixed rate wholesale funding transactions (classified as Financial liabilities at cost) attributable to changes in the risk-free (interest rate swap) yield curve. A fixed rate receiver/floating rate payer interest rate swap denominated in the same currency as the hedged funding transaction is expected to be highly effective hedge.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for portfolios of fixed rate loans have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio of ČSOBS consisting of the part of retail saving accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2023 and 2022 are set out as follows:

	2023			2022		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	87,057	8,675	1,460	90,735	15,295	397
Fair value portfolio hedges	693,307	17,370	21,457	767,290	32,390	38,838
Cross currency interest rate swaps						
Fair value micro hedges	516	31	-	516	56	-
Total hedging derivatives	**780,880**	**26,076**	**22,917**	**858,541**	**47,741**	**39,235**

The following table contains details of the hedged items as at 31 December 2023 and 2022 covered by the Group's hedging strategies:

	2023			
	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)		Assets	Liabilities	
Fair value micro hedges				
Financial assets at amortised cost	72,351	-7,390	-	7,353
Financial assets at fair value through other comprehensive income	7,374	-458	-	524
Total	79,725	-7,848	-	7,877
Fair value portfolio hedges				
Financial assets at amortised cost	325,188	-10,437	-	15,201
Financial liabilities at amortised cost	342,413	-	-15,396	-17,040
Total	667,601	-10,437	-15,396	-1,839
Total hedged items	**747,326**	**-18,285**	**-15,396**	**6,038**

(CZKm)	2022 Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items: Assets	Accumulated amount of fair value adjustments on the hedged items: Liabilities	Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	67,798	-14,742	-	-5,263
Financial assets at fair value through other comprehensive income	7,679	-1,032	-	-292
Total	75,477	-15,774	-	-5,555
Fair value portfolio hedges				
Financial assets at amortised cost	362,428	-25,639	-	-7,224
Financial liabilities at amortised cost	346,750	-	-32,441	9,166
Total	709,178	-25,639	-32,441	1,942
Total hedged items	**784,655**	**-41,413**	**-32,441**	**-3,613**

In 2023, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised losses of CZK 5 m (2022: losses of CZK 5 m) included in Net gains from financial instruments at fair value through profit or loss in the statement of income.

In 2023, the net gains in the amount of CZK 6,012 m (2022: losses of CZK 3,556 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net losses realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 6,014 m (2022: gains of CZK 3,296 m).

23. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2022	11,450	2,345	787	2,564	1,079	18,225
Depreciation and impairment at 1 January 2022	-4,309	-1,624	-475	-1,854	-	-8,262
Net book value at 1 January 2022	**7,141**	**721**	**312**	**710**	**1,079**	**9,963**
Transfers	340	659	109	310	-1,418	-
Additions	-	-	-	-	1,050	1,050
Disposals	-7	-5	-3	-38	-	-53
Transfers to non-current assets held-for-sale (Note: 25)	-23	-	-	-	-	-23
Depreciation	-444	-456	-56	-255	-	-1,211
Impairment	-11	-1	-	-	-	-12
Foreign currency translation	-	-11	-	-	-	-11
Net book value at 31 December 2022	**6,996**	**907**	**362**	**727**	**711**	**9,703**
of which						
Cost	11,231	2,814	855	2,645	711	18,256
Depreciation and impairment	-4,235	-1,907	-493	-1,918	-	-8,553

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2023	11,231	2,814	855	2,645	711	18,256
Depreciation and impairment at 1 January 2023	-4,235	-1,907	-493	-1,918	-	-8,553
Net book value at 1 January 2023	**6,996**	**907**	**362**	**727**	**711**	**9,703**
Transfers	253	311	45	395	-1,004	-
Additions	-	-	-	-	1,138	1,138
Disposals	-10	-1	-4	-185	-	-200
Transfers to non-current assets held-for-sale (Note: 25)	-11	-	-	-	-	-11
Depreciation	-446	-466	-57	-251	-	-1,220
Impairment	-	-	-	-27	-	-27
Foreign currency translation	-	6	-	-	-	6
Net book value at 31 December 2023	**6,782**	**757**	**346**	**659**	**845**	**9,389**
of which						
Cost	11,291	2,720	870	2,661	845	18,387
Depreciation and impairment	-4,509	-1,963	-524	-2,002	-	-8,998

Right of use assets

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2022	3,428	221	13	3,662
Depreciation and impairment at 1 January 2022	-1,320	-96	-1	-1,417
Net book value at 1 January 2022	**2,108**	**125**	**12**	**2,245**
Additions	14	69	-	83
Disposals	-23	-	-12	-35
Depreciation	-301	-70	-	-371
Impairment	2	-	-	2
Net book value at 31 December 2022	**1,800**	**124**	**-**	**1,924**
of which				
Cost	3,419	290	-	3,709
Depreciation and impairment	-1,619	-166	-	-1,785

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2023	3,419	290	-	3,709
Depreciation and impairment at 1 January 2023	-1,619	-166	-	-1,785
Net book value at 1 January 2023	**1,800**	**124**	**-**	**1,924**
Additions	392	12	-	404
Disposals	-38	-	-	-38
Depreciation	-330	-56	-	-386
Impairment	1	-	-	1
Net book value at 31 December 2023	**1,825**	**80**	**-**	**1,905**
of which				
Cost	3,773	302	-	4,075
Depreciation and impairment	-1,948	-222	-	-2,170

Assets under operating leases

(CZKm)	Total
Cost at 1 January 2022	2,308
Depreciation and impairment at 1 January 2022	-873
Net book value at 1 January 2022	**1,435**
Additions	296
Disposals	-218
Depreciation	-223
Net book value at 31 December 2022	**1,290**
of which	
Cost	2,109
Depreciation and impairment	-819

(CZKm)	Total
Cost at 1 January 2023	2,109
Depreciation and impairment at 1 January 2023	-819
Net book value at 1 January 2023	**1,290**
Additions	387
Disposals	-275
Depreciation	-186
Net book value at 31 December 2023	**1,216**
of which	
Cost	1,743
Depreciation and impairment	-527

ČSOB Leasing owns assets leased out under operating leases (mainly vehicles and production facilities).

Property and equipment are assessed as non-current assets.

24. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2022	8,061	6,316	4,521	725	1,117	20,740
Amortisation and impairment at 1 January 2022	-1,276	-5,562	-2,091	-647	-	-9,576
Net book value at 1 January 2022	**6,785**	**754**	**2,430**	**78**	**1,117**	**11,164**
Transfers	-	237	997	-4	-1,230	-
Additions	-	-	-	-	1,464	1,464
Additions through business combination	117	-	-	131	-	248
Disposals	-	-	-	-9	-	-9
Amortisation	-	-338	-717	-24	-	-1,079
Impairment (Note: 13)	-117	-	-	-6	-	-123
Foreign currency translation	-	-	-	-6	-	-6
Net book value at 31 December 2022	**6,785**	**653**	**2,710**	**160**	**1,351**	**11,659**
of which						
Cost	8,178	6,359	5,518	882	1,351	22,288
Amortisation and impairment	-1,393	-5,706	-2,808	-722	-	-10,629

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2023	8,178	6,359	5,518	882	1,351	22,288
Amortisation and impairment at 1 January 2023	-1,393	-5,706	-2,808	-722	-	-10,629
Net book value at 1 January 2023	**6,785**	**653**	**2,710**	**160**	**1,351**	**11,659**
Transfers	-	124	1,304	53	-1,481	-
Additions	-	-	-	-	1,467	1,467
Amortisation	-	-257	-872	-31	-	-1,160
Impairment (Note: 13)	-2,616	-19	-397	-	-	-3,032
Foreign currency translation	-	-	-	4	-	4
Net book value at 31 December 2023	**4,169**	**501**	**2,745**	**186**	**1,337**	**8,938**
of which						
Cost	8,177	6,356	6,464	723	1,337	23,057
Amortisation and impairment	-4,008	-5,855	-3,719	-537	-	-14,119

Internally developed software in the net amount of CZK 1,177 m as at 31 December 2023 (31 December 2022: CZK 1,286 m) is included in Construction in progress.

Goodwill and other intangible assets are assessed as non-current assets.

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represents the lowest level to which goodwill can be allocated on a reasonable basis.

An allocation to CGUs of the Group’s goodwill attributable to shareholders is shown below:

(CZKm)	2023	2022
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries	1,658	4,274
	4,169	**6,785**

Retail segment and SME clients - Bank

The recoverable amount for the Retail segment and SME clients - Bank was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a four further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients – Bank are based on the net profit generated by the cash-generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 12.7% in 2023 (2022: 12.6%) and no long term growth rates were used in 2023 and 2022.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients - Bank has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients - Bank an average risk discount rate of 12.8% has been applied (2022: 12.8%). This reflects a risk-free rate in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average ‘beta’ factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients - Bank would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail segment and SME clients - ČSOBS

In April 2019, the Group acquired 45% share in ČSOBS. As part of the acquisition, the Group recognised goodwill in the amount of CZK 4,244 m. The recoverable amount for this cash generating unit was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming ten years. Besides the cash flows generated by the business, synergy effects for the Group are reflected. After that a terminal value is applied.

Cash flows in ČSOBS are based on the net profit generated by the cash generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 12.8% (2022: 12.8%) and a long-term growth rate of 3.3% were used.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget.
  The Group used a realistic expectations when calculating the terminal value, which implies that growth rate of 3.3% for ČSOBS has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For ČSOBS an average risk discount rate of 12.8% (2022: 12.8%) has been applied. This reflects a risk-free rate in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

On 8 November 2023, the Czech Parliament approved a proposal for the reduction of the building saving state subsidy, being effective starting 1 January 2024. The change has a substantial negative impact on ČSOBS's future projected earnings.

Based on the impairment assessment, there is an evidence of impairment of goodwill in respect of the Retail segment and SME clients of ČSOBS given the fact that the value-in-use amounting to CZK 10,292 m at 31 December 2023 is below the carrying value of the cash-generating unit as a result of new legislation decreasing state subsidy for building savings. The management has decided to recognize an impairment loss of CZK 2,616 m and hereby to decrease the carrying value of the goodwill recognized in 2019, when the acquisition of 45% share in CSOBS took place.

There is a negative sensitivity of the value-in-use to the risk discount rate, as a key assumption. An increase / decrease of the discount rate by 1% would decrease / increase the recoverable amount of the CGU by CZK -348 m and CZK +420 m (2022: CZK -717 m and CZK +894 m respectively). Such a potential change in the key assumption on which the recoverable amount is based would result in the additional impairment of the goodwill.

25. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Other (Note: 20)	Total
Net book value at 1 January 2022	**-**	**20**	**20**
Transfer from Property and equipment (Note: 23)	23	-	23
Additions	-	67	67
Disposals	-	-69	-69
Net book value at 31 December 2022	**23**	**18**	**41**
of which			
Cost	23	18	41
Impairment	-	-	-

(CZKm)	Land and buildings	Other (Note: 20)	Total
Net book value at 1 January 2023	**23**	**18**	**41**
Transfer from Property and equipment (Note: 23)	11	-	11
Additions	-	131	131
Disposals	-11	-107	-118
Net book value at 31 December 2023	**23**	**42**	**65**
of which			
Cost	23	42	65
Impairment	-	-	-

26. OTHER ASSETS

(CZKm)	2023	2022
Other financial assets		
Other debtors, net of provisions (Notes: 33, 35, 41.2)	789	803
Receivables from pension funds (Notes: 33, 35, 36, 41.2)	714	608
Accrued income (Notes: 33, 35, 41.2)	614	515
Other receivables from clients (Notes: 33, 35, 41.2)	76	35
	2,193	**1,961**
Other non-financial assets		
Prepaid charges	819	680
Assets subject of terminated operating leasing contracts	104	30
VAT and other tax receivables	23	9
Other	207	82
	1,153	**801**
Total other assets	**3,346**	**2,762**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2023 and 2022:

	2023			2022		
(CZKm)	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Other financial assets						
Gross carrying amount	2,196	9	2,205	1,964	8	1,972
Allowance for impairment losses	-6	-6	-12	-5	-6	-11
	2,190	**3**	**2,193**	**1,959**	**2**	**1,961**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

27.FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2023	2022
Financial liabilities held for trading		
Derivative contracts (Note: 22)		
Trading derivatives	30,755	58,084
Derivatives used as economic hedges	7,118	13,247
Term deposits	2,019	1,071
Repo transactions	983	1,104
	40,875	**73,506**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	13,916	13,077
of which hybrid contracts	*1,392*	*559*
Investment certificates – hybrid contracts	11,341	10,762
	25,257	**23,839**
Financial liabilities at fair value through profit or loss	**66,132**	**97,345**

The amount that the Group would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is by CZK 495 m lower than the carrying amount at 31 December 2023 (31 December 2022: higher by CZK 684 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk were not significant.

The investment certificates and bonds issued reported as Financial liabilities designated at fair value through profit or loss are hybrid contracts which contain an embedded derivative and financial instruments managed at fair value on portfolio basis. The Group has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Group has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

28.FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2023	2022
Deposits received from credit institutions		
Current accounts and overnight deposits (Note: 34)	19,262	31,989
Term deposits (Note: 34)	15,010	11,678
Repo transactions (Note: 34)	226,376	41
	260,648	**43,708**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	584,254	617,597
Term deposits	312,362	230,882
Savings deposits	379,591	359,596
Pension funds clients deposits	15	16
Repo transactions (Note: 34)	49,794	11,725
Other deposits	10,632	11,984
	1,336,648	**1,231,800**
Debt securities in issue		
Bonds issued	8,158	5,147
Promissory notes (Note: 34)	16,144	259,768
	24,302	**264,915**
Subordinated debt	**45,843**	**40,592**
Financial liabilities at amortised cost	**1,667,441**	**1,581,015**

Short term repo operations contracted with KBC Bank increased, replacing uncollateralised funding from KBC Bank through promissory notes, as part of standard liquidity and capital management within KBC Group. Maturity of the repo transactions is below 1 month with the Czech government bonds pledged as a collateral (Notes: 18, 19).

In 2023, the Group issued coupon bonds in the nominal amount of CZK 3,647 m (2022: CZK 4,058 m) having a contractual maturity between 1 and 4 years and EIR in the range of PRIBOR 6M -1.15% to PRIBOR 6M -0.65%. All bonds contain both-side option allowing premature purchase or sale at every coupon payment date.

From 1 January 2022, the Group has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB and therefore ČSOB issued the subordinated debts described below (Notes: 35, 39).

In December 2023, the Group issued subordinated debt in the nominal amount of EUR 170 m (CZK 4,203 m) to KBC Bank NV. Subordinated debt is repayable after 6 years (2029). Its coupon rate is EURIBOR 3M + 1.375%. The Group may prepay the debt at any time following the first five-year period.

In December 2022, the Group issued subordinated debt in the nominal amount of EUR 170 m (CZK 4,203 m) to KBC Bank NV. Subordinated debt is repayable after 4 years (2026). Its coupon rate is EURIBOR 3M + 1.26%. The Group may prepay the debt at any time following the first three-year period.

In June 2022, the Group issued subordinated debt in the nominal amount of EUR 330 m (CZK 8,159 m) to KBC Bank NV. Subordinated debt is repayable after 3 years (2025). Its coupon rate is EURIBOR 3M + 1.05%. The Group may prepay the debt at any time following the first two-year period.

In June 2022, the Group issued subordinated debt in the nominal amount of EUR 400 m (CZK 9,890 m) to KBC Bank NV. Subordinated debt is repayable after 6 years (2028). Its coupon rate is EURIBOR 3M + 1.3%. The Group may prepay the debt at any time following the first five-year period.

The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

29. OTHER LIABILITIES

(CZKm)	2023	2022
Other financial liabilities		
Payables to employees including social security charges (Notes: 33, 35, 41.3)	2,615	2,571
Accrued charges (Notes: 33, 35, 41.3)	1,954	2,392
Other creditors (Notes: 33, 35, 41.3)	1,263	1,615
Other debts to clients (Notes: 33, 35, 41.3)	981	1,370
Other (Notes: 33, 35, 41.3)	20	24
	6,833	**7,972**
Other non-financial liabilities		
Income received in advance	37	49
VAT and other tax payables	500	383
	537	**432**
Total other liabilities	**7,370**	**8,404**

Other liabilities are assessed as current liabilities.

30. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2022	**87**	**79**	**11**	**177**
Additions	3,665	82	6	3,753
Amounts utilised	-7	-73	-4	-84
Unused amounts reversed	-8	-7	-	-15
At 31 December 2022	**3,737**	**81**	**13**	**3,831**
Additions	55	184	4	243
Amounts utilised	-3,705	-135	-4	-3,844
Unused amounts reversed	-20	-	-9	-29
At 31 December 2023	**67**	**130**	**4**	**201**

Loan commitments and guarantees (Note: 36):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	**138**	**41**	**184**	**363**
Origination and acquisition	122	5	-	127
Change in credit risk not leading to stage transfers	-52	-24	3	-73
Change in credit risk leading to stage transfer	-34	224	123	313
Derecognition	-11	-1	-	-12
Foreign currency translation	-8	5	-4	-7
At 31 December 2022	**155**	**250**	**306**	**711**
Origination and acquisition	111	3	1	115
Change in credit risk not leading to stage transfers	-80	-53	-123	-256
Change in credit risk leading to stage transfer	-13	-115	33	-95
Derecognition	-14	-3	-	-17
Modification	-	-	37	37
Foreign currency translation	1	-	12	13
At 31 December 2023	**160**	**82**	**266**	**508**

Restructuring

During 2022 and 2023, the Group started a new restructuring programme, resulting in the creation of a provision of CZK 82 m and CZK 184 m, respectively. In the framework of this restructuring programme the total number of personnel will be reduced in the period of 2022 - 2026.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Group is the defendant.

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Group's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Group creates a provision in the full amount to cover the possible cost in the event of loss.

In 2022, the Group had a provision for pending legal issues and other losses in the total amount of CZK 3,737 m. This amount included a provision for the legal proceedings against the company ICEC-HOLDING, a.s. in the amount of CZK 3,663 m (Note: 36). The legal case resulted in a liability of the Group of CZK 3,663 m payable till 15 days past 17 February 2023, the day when the arbitral award entered into legal force. The liability was settled in March 2023.

It is expected that the majority of other legal issues costs will be incurred in the next 3 years.

On a quarterly basis, the Group monitors the status of all cases and makes a decision whether to create, utilise or reverse any provision.

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.

31. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2023, the total authorised share capital was CZK 5,855 m (31 December 2022: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2022: 292,750,002 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

No Treasury shares were held by the Group at 31 December 2023 and 2022.

On 31 December 2023, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2022: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2023 and 2022 are as follows:

(CZKm)	Revaluation reserve from financial assets at fair value through OCI	Cash flow hedge reserve	Foreign translation reserve	Total
At 1 January 2022	**-22**	**-1,140**	**-22**	**-1,184**
Other comprehensive income (Note: 32)	-641	-438	-3	-1,082
At 31 December 2022	**-663**	**-1,578**	**-25**	**-2,266**
Other comprehensive income (Note: 32)	398	2,902	13	3,313
At 31 December 2023	**-265**	**1,324**	**-12**	**1,047**

32. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2023	2022
Other comprehensive income – to be reclassified to the statement of income		
Exchange differences on translating foreign operation	13	-3
Cash flow hedges		
Net unrealised gains / losses (-) on cash flow hedges	2,795	-872
Net losses on cash flow hedges reclassified to the statement of income (Note: 22)	827	332
Tax effect relating to cash flow hedges (Note: 14)	-720	102
	2,902	-438
Financial debt instruments FVOCI		
Net unrealised gains / losses (-) on financial debt instruments FVOCI	448	-726
Tax effect relating to financial debt instruments FVOCI (Note: 14)	-107	136
	341	-590
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**3,256**	**-1,031**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	79	40
Net realised gains on financial equity instruments FVOCI reclassified to the retained earnings on disposal	-4	-103
Tax effect relating to financial equity instruments FVOCI	-18	12
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**57**	**-51**
Other comprehensive income for the year, net of tax	**3,313**	**-1,082**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Group's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (3)).

Financial assets and liabilities at fair value, i.e. financial assets FVOCI, held for trading, designated at fair value through profit or loss, are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate, foreign exchange and commodity contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of trading derivatives, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Group currently checks the valuation of all bonds quarterly.

The Group also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or Level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2023:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	8	-	8
Equity securities	14	-	-	14
Derivative contracts	-	36,978	1,935	38,913
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,330	-	1,330
Financial assets FVOCI				
Debt securities	9,273	-	1,208	10,481
Equity securities	-	-	415	415
Financial assets FVOCI pledged as collateral				
Debt securities	4,326	-	-	4,326
Fair value adjustments of the hedged items in portfolio hedge	-	-10,437	-	-10,437
Derivatives used for hedging	-	29,215	-	29,215
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	36,708	1,165	37,873
Term deposits	-	2,019	-	2,019
Repo transactions	-	983	-	983
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	25,257	25,257
Fair value adjustments of the hedged items in portfolio hedge	-	-15,396	-	-15,396
Derivatives used for hedging	-	24,454	-	24,454

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2022:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	791	-	791
Equity securities	10	-	-	10
Derivative contracts	-	67,124	3,821	70,945
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,322	-	1,322
Financial assets FVOCI				
Debt securities	13,270	-	1,898	15,168
Equity securities	66	-	352	418
Financial assets FVOCI pledged as collateral				
Debt securities	72	-	-	72
Fair value adjustments of the hedged items in portfolio hedge	-	-25,639	-	-25,639
Derivatives used for hedging	-	48,425	-	48,425
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	67,341	3,990	71,331
Term deposits	-	1,071	-	1,071
Repo transactions	-	1,104	-	1,104
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	23,839	23,839
Fair value adjustments of the hedged items in portfolio hedge	-	-32,441	-	-32,441
Derivatives used for hedging	-	42,039	-	42,039

Yield curve used in the mortgage bonds valuation model for discounting future cash flows is constructed from IRS rates and respective credit spreads. The credit spreads for all maturities were derived from market unobservable inputs. The credit spread curve for mortgage bonds was derived from newly issued mortgage bonds for 5Y bucket (as the most frequent maturity) and spreads for other maturities were calculated using slope from mortgage bonds credit spread curve with rating grade A. The management considers this a significant market unobservable input, and as a consequence, all mortgage bonds are reported as part of Level 3

The spread according to bond maturity was 0 bps (1-year) to 44 bps (20-year) in 2022 and 5 bps (1-year) to 53 bps (20-year) in 2023.

Valuation of bonds issued by Česká Exportní Banka (ČEB) was based on model using unobservable inputs. Yield curve used in the ČEB bonds valuation model for discounting future cash flows was constructed from IRS rates and respective credit spreads. The credit spreads were derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. Direct quotes are used for ČEB bonds. As quotes come from less liquid market the management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB are classified as Level 3.

The Group's share in Visa Inc. unquoted C-class classified as a financial asset at fair value through other comprehensive income is subject to fair value measurement based on the quoted price of Visa Inc. adjusted for applied liquidity spreads and conversion ratio. In 2022, the Group converted a part of the Visa shares position to quoted Visa Inc. A-class. The Group reported the transaction as a sale of Visa Inc. C-class from Level 3, including realised gain reclassified to the retained earnings on disposal of CZK 83 m in 2022. New Visa Inc. A-class shares were recognized and classified as Level 1 financial assets. Subsequently, Visa A-class shares were sold out of the Group. A gain realised on the sale amounted to CZK 4 m (net of tax) directly recognized in Retained earnings in equity (2022: CZK Nil).

Investment certificate is a financial liability composed of term deposit and index linked option / swap. The Group valuates the certificates using valuation of the underlying option / swap component in combination with the calculation of the deposit component value. Issued bonds are hybrid financial liabilities composed of the floating coupon rate bond and callable / puttable option. Valuation of the embedded derivative is based on model using both, market observable and unobservable inputs. Unobservable inputs represents a significant portion of the valuation, and as a consequence, the investment certificates and bonds issued are classified as Level 3 financial instruments.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial assets held for trading	Financial assets FVOCI (incl. assets pledged as collateral)		Total
(CZKm)	Financial derivatives	Debt securities	Equity securities	
At 1 January 2022	**865**	**2,501**	**545**	**3,911**
Total gains / losses (-) recorded in profit or loss	868	-35	-	833
Total gains / losses (-) recorded in OCI	-	-76	17	-59
Purchases	-	-	15	15
Sales	-	-	-225	-225
Settlement	-	-455	-	-455
Transfers into level 3	2,088	-	-	2,088
Foreign currency differences	-	-37	-	-37
At 31 December 2022	**3,821**	**1,898**	**352**	**6,071**
Total gains / losses (-) recorded in profit or loss related to assets held at the end of the reporting period	868	-35	-	**833**
At 1 January 2023	**3,821**	**1,898**	**352**	**6,071**
Total gains / losses (-) recorded in profit or loss	-1,886	8	-	-1,878
Total gains / losses (-) recorded in OCI	-	42	53	95
Purchases	-	-	10	10
Settlement	-	-734	-	-734
Foreign currency differences	-	-6	-	-6
At 31 December 2023	**1,935**	**1,208**	**415**	**3,558**
Total gains / losses (-) recorded in profit or loss related to assets held at the end of the reporting period	-1,886	8	-	**-1,878**

Total gains / losses recorded in profit or loss are included within the captions Interest income calculated using the effective interest rate method, Net gains from financial instruments at fair value through profit or loss, Net realised gains on financial instruments at fair value through other comprehensive income and Impairment losses of the statement of income.

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Total
(CZKm)	Financial derivatives	Debt instruments	
At 1 January 2022	**166**	**24,544**	**24,710**
Total gains / losses (-) recorded in profit or loss	1,809	-1,293	516
Issued	-	7,374	7,374
Sales	-	-715	-715
Transfers into level 3	2,015	-	2,015
Settlement	-	-6,071	-6,071
At 31 December 2022	**3,990**	**23,839**	**27,829**
Total gains / losses (-) recorded in profit or loss related to liabilities held at the end of the reporting period	1,809	-1,293	516
At 1 January 2023	**3,990**	**23,839**	**27,829**
Total gains / losses (-) recorded in profit or loss	-2,825	1,178	-1,647
Issued	-	4,778	4,778
Sales	-	-1,805	-1,805
Settlement	-	-2,733	-2,733
At 31 December 2023	**1,165**	**25,257**	**26,422**
Total gains / losses (-) recorded in profit or loss related to liabilities held at the end of the reporting period	-2,825	1,178	-1,647

Total gains / losses recorded in profit or loss are included within the captions Net gains / losses from financial instruments at fair value through profit or loss of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers the value of the credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds in periods after the first year from the balance sheet date as a key assumption not derived from observable market inputs which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2023, an increase / decrease of the credit spread by 50 basis points would decrease / increase the fair value of the mortgage bonds and bonds issued by ČEB included in Level 3 by CZK 8 m and CZK 1 m, respectively (2022: CZK 12 m and CZK 3 m, respectively). Such a change in the credit spread is based on the variability of mortgage bond and ČEB bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

In 2022 and 2023, no transfers were made between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs.

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements:

(CZKm)	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	24,243	24,243	62,121	62,121
Financial assets at amortised cost	1,493,773	1,446,979	1,564,279	1,418,123
Debt securities	*63,184*	*63,602*	*249,111*	*222,635*
Loans and advances	*1,430,589*	*1,383,377*	*1,315,168*	*1,195,488*
Financial assets at amortised cost pledged as collateral	237,654	227,256	24,721	24,537
Finance lease receivables	10,426	10,268	10,482	10,213
Other assets (Note: 26)	2,193	2,193	1,961	1,961
Financial liabilities				
Financial liabilities at amortised cost	1,667,441	1,672,245	1,581,015	1,581,802
Deposits	*1,597,296*	*1,600,077*	*1,275,508*	*1,274,716*
Debt securities in issue	*24,302*	*24,255*	*264,915*	*266,812*
Subordinated debt	*45,843*	*45,872*	*40,592*	*40,274*
Lease liabilities	2,041	2,041	2,041	2,041
Other liabilities (Note: 29)	6,833	6,833	7,972	7,972

The following table shows an analysis of financial instruments for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2023:

(CZKm)	2023			
	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,036	16,207	-	24,243
Financial assets at amortised cost	51,308	534,220	861,451	1,446,979
Debt securities	*51,308*	-	*12,294*	*63,602*
Loans and advances	-	*534,220*	*849,157*	*1,383,377*
Financial assets at amortised cost pledged as collateral	227,256	-	-	227,256
Finance lease receivables	-	-	10,268	10,268
Other assets (Note: 26)	-	2,193	-	2,193
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,480,148	192,097	1,672,245
Deposits	-	*1,468,645*	*131,432*	*1,600,077*
Debt securities in issue	-	*9,462*	*14,793*	*24,255*
Subordinated debt	-	-	*45,872*	*45,872*
Lease liabilities	-	2,041	-	2,041
Other liabilities (Note: 29)	-	6,833	-	6,833

The following table shows an analysis of assets and liabilities for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2022:

	2022			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,437	53,684	-	62,121
Financial assets at amortised cost	210,500	460,887	746,736	1,418,123
Debt securities	*210,500*	-	*12,135*	*222,635*
Loans and advances	-	*460,887*	*734,601*	*1,195,488*
Financial assets at amortised cost pledged as collateral	24,537	-	-	24,537
Finance lease receivables	-	-	10,213	10,213
Other assets (Note: 26)	-	1,961	-	1,961
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,388,337	193,465	1,581,802
Deposits	-	*1,135,300*	*139,416*	*1,274,716*
Debt securities in issue	-	*253,037*	*13,775*	*266,812*
Subordinated debt	-	-	*40,274*	*40,274*
Lease liabilities	-	2,041	-	2,041
Other liabilities (Note: 29)	-	7,972	-	7,972

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Financial debt securities at amortised cost

Fair values for securities measured at amortised cost are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted future cash flows.

Loans and advances to credit institutions and balances with central banks measured at amortised cost

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Group's own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and advances to other than credit institutions measured at amortised cost

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Group's own experience of probability of default and loss given default.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

The fair values of bonds issued are estimated by discounting their future cash flows using Czech government bond rates adjusted by credit spread derived from market observable transactions with respective or comparable bonds. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

34. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2023	2022
Cash, balances with central banks and other demand deposits (Note: 16)	24,243	62,121
Loans and advances to central banks (Note: 19)	534,220	460,875
Loans and advances to credit institutions (Note: 19)	1,262	2,873
Financial liabilities at amortised cost to credit institution – Current accounts and overnight deposits (Note: 28)	-19,262	-31,989
Financial liabilities at amortised cost to credit institution – Term deposits (Note: 28)	-3,098	-1,019
Financial liabilities at amortised cost to credit institution – Repo transactions (Note: 28)	-226,335	-41
Financial liabilities at amortised cost to government bodies - Repo transactions (Note: 28)	-44,643	-
Financial liabilities at amortised cost – promissory notes issued to credit institutions (Note: 28)	-16,135	-259,768
Cash and cash equivalents	**250,252**	**233,052**

Change in operating assets

(CZKm)	2023	2022
Net change in financial assets held for trading (incl. assets pledged as collateral)	32,811	-27,659
Net change in non-trading financial assets mandatorily at fair value through profit or loss	-8	88
Net change in financial assets at FVOCI (incl. assets pledged as collateral)	785	2,368
Net change in financial assets at amortised cost (excluding items classified as cash equivalents)	-69,285	-83,259
Net change in derivatives used for hedging	22,832	-18,689
Net change in other assets	438	-1,902
	-12,427	**-129,053**

Change in operating liabilities

(CZKm)	2023	2022
Net change in financial liabilities held for trading	-32,631	28,820
Net change in financial liabilities designated at fair value through profit or loss	1,418	-705
Net change in financial liabilities at amortised cost (excluding items classified as cash equivalents)	61,508	76,077
Net change in derivatives used for hedging	-17,585	13,693
Net change in other liabilities	-1,039	1,986
	11,671	**119,871**

Non-cash items included in profit before tax

(CZKm)	2023	2022
Depreciation and amortisation	2,766	2,661
Net change in fair value adjustments of the hedged items in portfolio hedge	1,843	(1,745)
Impairment losses (Note: 13)	1,376	1,497
Depreciation related to operating leases assets (Note: 23)	186	223
Share of profit of associates and joint ventures	21	30
Provisions	-3,630	3,654
Other	-38	7
	2,524	**6,327**

The table below sets out the movements of the debt instruments issued by the Group and lease liabilities in 2023 and 2022. The debt items are those that are reported within net cash flows used in financing activities in the consolidated statement of cash flows:

(CZKm)	Bonds issued (Note: 28)	Subordinated debt (Note: 28)	Lease liabilities
At 1 January 2022	**2,739**	**19,439**	**2,269**
Cash flows in respect of issuance, repayment and interest paid on bonds	2,408	21,153	-
Cash flows in respect of payments for the principal of lease liabilities	-	-	-421
Cash flows in respect of payments for the interest of lease liabilities	-	-	-46
Non-cash adjustments	-	-	239
At 31 December 2022	**5,147**	**40,592**	**2,041**
Cash flows in respect of issuance, repayment and interest paid on bonds	3,011	5,251	-
Cash flows in respect of payments for the principal of lease liabilities	-	-	-418
Cash flows in respect of payments for the interest of lease liabilities	-	-	-65
Non-cash adjustments	-	-	479
At 31 December 2023	**8,158**	**45,843**	**2,037**

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2023:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	24,243	-	-	-	**24,243**
Financial assets held for trading					
Financial derivatives	14,230	19,371	5,312	-	**38,913**
Other than financial derivatives	22	-	-	-	**22**
Non-trading financial assets mandatorily at fair value through profit or loss	1,330	-	-	-	**1,330**
Financial assets FVOCI	761	8,959	761	415	**10,896**
Financial assets FVOCI pledged as collateral	3,990	242	94	-	**4,326**
Financial assets at amortised cost	692,468	279,739	521,566	-	**1,493,773**
Financial assets at amortised cost pledged as collateral	6,508	32,419	198,727	-	**237,654**
Finance lease receivables	2,869	6,536	1,021	-	**10,426**
Fair value adjustments of the hedged items in portfolio hedge	-3,363	-6,798	-276	-	**-10,437**
Derivatives used for hedging	8,772	14,741	5,702	-	**29,215**
Other assets (Note: 26)	2,193	-	-	-	**2,193**
Total carrying value	**754,023**	**355,209**	**732,907**	**415**	**1,842,554**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	13,303	19,081	5,489	-	**37,873**
Other than financial derivatives	3,002	-	-	-	**3,002**
Financial liabilities designated at fair value through profit or loss	6,542	15,401	3,314	-	**25,257**
Financial liabilities at amortised cost	829,285	431,687	406,469	-	**1,667,441**
Fair value adjustments of the hedged items in portfolio hedge	-4,532	-9,003	-1,861	-	**-15,396**
Derivatives used for hedging	7,239	13,924	3,291	-	**24,454**
Lease liabilities	348	1,222	467	-	**2,037**
Other liabilities (Note: 29)	6,833	-	-	-	**6,833**
Total carrying value	**862,020**	**472,312**	**417,169**	**-**	**1,751,501**

For derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2022:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	62,121	-	-	-	**62,121**
Financial assets held for trading					
Financial derivatives	23,376	36,330	11,239	-	**70,945**
Other than financial derivatives	801	-	-	-	**801**
Non-trading financial assets mandatorily at fair value through profit or loss	1,322	-	-	-	**1,322**
Financial assets FVOCI	1,567	8,882	4,718	418	**15,585**
Financial assets FVOCI pledged as collateral	1	-	71	-	**72**
Financial assets at amortised cost	620,492	261,028	682,759	-	**1,564,279**
Financial assets at amortised cost pledged as collateral	583	10,083	14,055	-	**24,721**
Finance lease receivables	2,537	6,920	1,025	-	**10,482**
Fair value adjustments of the hedged items in portfolio hedge	-5,688	-16,834	-3,117	-	**-25,639**
Derivatives used for hedging	13,722	26,261	8,442	-	**48,425**
Other assets (Note: 26)	1,961	-	-	-	**1,961**
Total carrying value	**722,795**	**332,670**	**719,192**	**418**	**1,775,075**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	23,008	37,044	11,279	-	**71,331**
Other than financial derivatives	2,175	-	-	-	**2,175**
Financial liabilities designated at fair value through profit or loss	7,564	12,559	3,716	-	**23,839**
Financial liabilities at amortised cost	754,006	420,344	406,665	-	**1,581,015**
Fair value adjustments of the hedged items in portfolio hedge	-8,846	-17,972	-5,623	-	**-32,441**
Derivatives used for hedging	12,305	23,210	6,524	-	**42,039**
Lease liabilities	450	1,145	446	-	**2,041**
Other liabilities (Note: 29)	7,972	-	-	-	**7,972**
Total carrying value	**798,634**	**476,330**	**423,007**	**-**	**1,697,971**

36. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2023 and 2022 are as follows:

(CZKm)	2023	2022
Loan commitments – irrevocable (Note: 41.2)	155,094	170,963
Loan commitments – revocable	58,312	55,319
Financial guarantees (Note: 41.2)	48,302	45,548
Other commitments (Note: 41.2)	1,307	2,074
	263,015	**273,904**
Provisions for loan commitments and guarantees (Notes: 30, 41.2)	508	711

Revocable loan commitments are such commitments in which the Group may at any time limit the amount that may be drawn under the credit limit. Further the Group may not provide any drawdown under the credit facility requested by the client or the Group can suspend further drawdowns under the credit facility all together. The Group can do so with or without specifying the reason, giving a prior notice or stipulating any time limit. Even revocable promises are in scope for ECL calculation. For the Group, these are limits for the use of which there are already internally approved conditions in advance for a certain period of time. If the customer meets these internal conditions at the time of the drawdown request, the funds will be made available to the customer. In addition, the Group will not cancel the drawdown in justified cases, even if the customer's credit rating or SICR deteriorates. Loan commitments which do not meet the above definition are assessed as irrevocable.

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 41.3).

Based on the pension fund system reform in the Czech Republic in 2013, the net assets of the forming pension funds were split to the group of net assets of pension fund shareholders forming the pension fund management company ČSOB Penzijní společnost and to the group of net assets of pension scheme participants forming the Transformed fund (as a part of Pillar III), which is closed to new participants. ČSOB PS is responsible for management of the Transformed fund. This company is entitled to up to 15% of the profits of the Transformed fund in addition to a regular assets management fee and needs to guarantee the positive results and equity position of the Transformed fund. Activities and decision-making powers of the Transformed fund are strictly limited by law and by conservative investment policy embedded in the Statutes. The management fees received by ČSOB PS are in line with market norms when compared to other funds and taking into account the guarantee provided. The exposure of the ČSOB PS to variability of expected returns is low and consistent with the market terms for remuneration of the asset managers. With regard to these characteristics, ČSOB PS has a position of an agent of the Transformed fund. As a result, the Group does not exercise a control over the Transformed fund and therefore the entity has been excluded from the consolidation scope.

As a result of the increase of market interest rates in 2021 and 2022, Transformed fund recognized unrealised losses from the revaluation of financial assets at fair value through other comprehensive income. Given that fact, the Group used the guarantee and increased the equity of the Transformed fund by CZK 2,720 m by the end of 2022. In the consolidated statement of financial position, this was recognized as a receivable from Transformed fund. In 2023, a partial repayment in the amount of CZK 1,185 m took place.

Litigation

Other than the litigations, for which provisions have already been made (Note: 30), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a few claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. Dominant part of this amount is claimed in the arbitration proceedings commenced by the claimant ICEC-HOLDING, a.s. In the arbitration proceedings, ČSOB is being sued as the legal successor of IPB, whose business ČSOB took over in 2000. The plaintiff, the company ICEC-HOLDING, a.s., claims that IPB breached its contractual duties in 1999, and ICEC-HOLDING, a.s. is thus entitled to damages and contractual penalty. The claim itself is thus not in any way related with the business activities of ČSOB and represents “a heritage” after former IPB.

In this proceedings, in February 2023 ČSOB Bank was delivered an arbitral award, in which ČSOB was imposed to pay the company ICEC-HOLDING, a.s. the amount of CZK 3,663 m, incl. costs of the proceedings in the amount of CZK 5 m. ČSOB paid the amount. The plaintiff failed in the remainder of his claim and the arbitration panel ordered him to pay ČSOB the costs of the proceedings in the amount of CZK 17 m. The liability of the Group arisen from the arbitral award was settled in March 2023 and the respective provision for pending legal issues of CZK 3,663 m was utilized (Note: 30). The arbitral award is legally binding and enforceable. In May 2023, the claimant filed a motion for an annulment of the arbitral award. In February 2024, the motion for annulment was dismissed by the court of the first instance. In June 2024, the decision of the court of the first instance was confirmed by the appellation court. Following the delivery to the parties, the decision would be legally binding, however the claimant would still be entitled to file an extraordinary appeal to the Supreme Court.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease receivables (Group is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2023	2022
Not later than 1 year	225	219
Later than 1 year and not later than 5 years	343	247
Later than 5 years	3	6
	571	**472**

These operating leases can be technically cancelled under the Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

37. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the statement of financial position in which they are included:

(CZKm)	2023	2022
Financial assets		
Financial assets held for trading	8	790
Financial assets at amortised cost	536,881	463,655
	536,889	**464,445**

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to return collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2023 was CZK 614,623 m, of which CZK 103,470 m has been either sold or repledged (31 December 2022: CZK 512,522 m and CZK 37,999 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2023	2022
Financial liabilities		
Financial liabilities held for trading	983	1,104
Financial liabilities at amortised cost	276,170	11,766
	277,153	**12,870**

The Group contracts repo operations under the standard conditions currently applied on the market. Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 17), Financial assets at fair value through OCI (Note: 18) and Financial assets at amortised cost (Note: 19).

38. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Group that have been set-off or that have not been set-off as at 31 December 2023:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	65,839	-	65,839
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,289	-	2,289
Total trading and hedging derivatives	**68,128**	**-**	**68,128**
Repurchase agreements set-off	25,909	25,902	7
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	536,888	-	536,888
Total repurchase agreements (Note: 37)	**562,797**	**25,902**	**536,895**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	55,933	-	55,933
Derivatives not set-off that are not subject to an enforceable master netting arrangement	6,394	-	6,394
Total trading and hedging derivatives	**62,327**	**-**	**62,327**
Repurchase agreements set-off	25,902	25,902	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	277,153	-	277,153
Total repurchase agreements (Note: 37)	**303,055**	**25,902**	**277,153**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off as at 31 December 2022:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	116,970	-	116,970
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,400	-	2,400
Total trading and hedging derivatives	**119,370**	**-**	**119,370**
Repurchase agreements set-off	15,027	15,027	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	464,445	-	464,445
Total repurchase agreements (Note: 37)	**479,472**	**15,027**	**464,445**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	93,064	-	93,064
Derivatives not set-off that are not subject to an enforceable master netting arrangement	20,306	-	20,306
Total trading and hedging derivatives	**113,370**	**-**	**113,370**
Repurchase agreements set-off	15,971	15,027	944
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	11,926	-	11,926
Total repurchase agreements (Note: 37)	**27,897**	**15,027**	**12,870**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2023:

(CZKm)	Gross amounts of financial assets and liabilities	Amounts not set-off			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	65,839	51,721	13,603	-	515
Debt securities pledged as collateral in repo transaction not set-off	-	-	-	-	-
Total carrying value	**65,839**	**51,721**	**13,603**	**-**	**515**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	55,933	51,721	1,624	-	2,588
Repurchase agreements not set-off	-	-	-	-	-
Total carrying value	**55,933**	**51,721**	**1,624**	**-**	**2,588**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2022:

(CZKm)	Gross amounts of financial assets and liabilities	Amounts not set-off			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	116,970	89,078	27,625	-	267
Debt securities pledged as collateral in repo transaction not set-off	944	944	-	-	-
Total carrying value	**117,914**	**90,022**	**27,625**	**-**	**267**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	93,064	89,078	2,633	-	1,353
Repurchase agreements not set-off	944	-	-	944	-
Total carrying value	**94,008**	**89,078**	**2,633**	**944**	**1,353**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

Counterparties are, on a daily basis, exchanging their current exposure (MTM) of derivative position and then based upon agreed parameters in CSA (Credit Support Annex) are exchanging collateral (variation margin) to cover this exposure and its daily changes.

39. RELATED PARTY DISCLOSURES

A number of transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2023 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Other assets
KBC Bank	3,370	24,845	1,330	241	28,841	-
Entities under common control						
ČSOB SK	1	-	-	-	-	1
Other	181	9	-	90	-	257
Associates						
ČSOB Pojišťovna	-	-	-	-	-	39

The outstanding balances of liabilities from related party transactions as at 31 December 2023 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	40	-	72
KBC Bank	20,725	284,533	23,330	-
Entities under common control				
ČSOB AM	-	972	-	-
ČSOB SK	1	59	-	-
K&H Bank Zrt.	13	19	-	1
Other	27	409	-	99
Associates				
ČSOB Pojišťovna	511	2,841	-	66

The outstanding balances of assets from related party transactions as at 31 December 2022 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Other assets
KBC Bank	7,811	50,272	1,322	212	46,651	-
Entities under common control						
ČSOB SK	9	-	-	-	-	18
Other	32	-	-	77	-	190
Associates						
ČSOB Pojišťovna	-	-	-	-	-	34

The outstanding balances of liabilities from related party transactions as at 31 December 2022 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	22	-	69
KBC Bank	36,096	309,022	39,892	1
Entities under common control				
ČSOB AM	-	770	-	-
ČSOB SK	2	53	-	-
K&H Bank Zrt.	1	375	-	-
Other	100	274	-	3
Associates				
ČSOB Pojišťovna	881	943	-	9

The outstanding balances of financial assets and liabilities held for trading comprise positive and negative fair values of derivative financial instruments (mainly single currency and cross-currency interest rate swaps). Majority of these transactions are collateralised by cash deposit or by securities. Financial assets at amortised cost from related parties represent balances on current accounts. Financial liabilities to related parties measured at amortised cost consist of balances on demand deposits. Liabilities to KBC Bank NV represent balances on money-market products, specifically promissory notes with maturities up to one year issued by the Bank, repo transactions, subordinated debts (Notes: 28, 42) and short-term deposits.

The Group provides banking services to its associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2023		2022	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank	20,602	35,863	12,406	26,057
Entities under common control				
ČSOB AM	-	52	-	33
ČSOB SK	1	118	1	118
K&H Bank Zrt.	1	5	-	120
Other	12	20	6	7
Associates				
ČSOB Pojišťovna	-	309	-	272

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2023		2022	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	54	44	74	43
Entities under common control				
ČSOB AM	908	61	703	57
ČSOB SK	20	-	20	-
KBC Asset Management	257	-	515	-
Other	297	11	14	39
Associates				
ČSOB Pojišťovna	629	10	1,106	4

In 2023, the Group received income of CZK 245 m (2022: CZK 237 m) from the provision of administration services and paid expense of CZK 716 m (2022: CZK 601 m) for IT services, including rental expenses on information technologies.

In 2023, the Group received income of CZK 625 m (2022: CZK 659 m) from ČSOB SK and ČSOB Pojišťovna arising from providing services and support in the following areas such as: ICT services, electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2023		2022	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	2,189	87	2,189	99
Entities under common control				
ČSOB SK	930	236	1,250	230
K&H Bank Zrt.	317	-	280	600

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

40. EVENTS AFTER THE REPORTING PERIOD

With effect from 19 February 2024 Hypoteční banka, a.s. (abbreviated HB) changed its name to ČSOB Hypoteční banka (abbreviated ČSOB HB).

There were no other significant events after the reporting period in addition to those mentioned elsewhere in these notes to the financial statements.

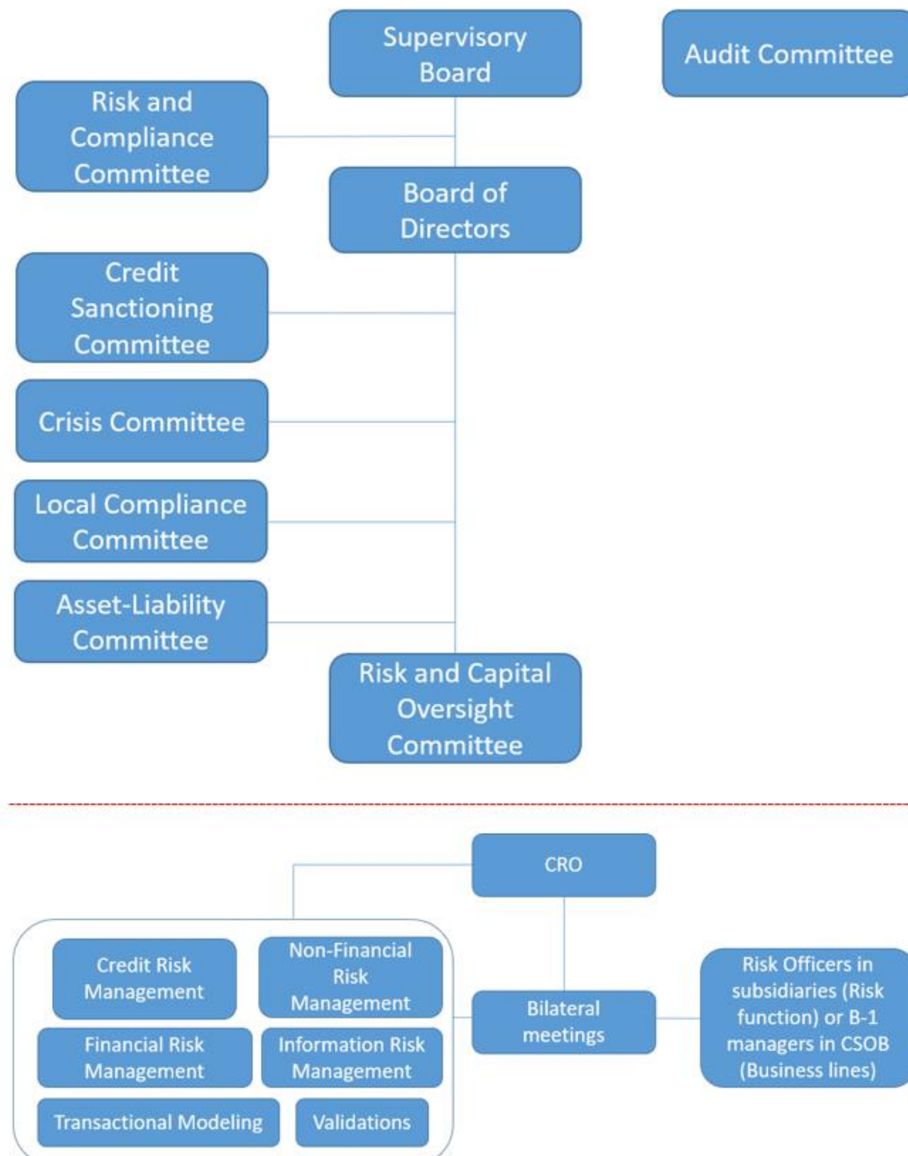
41. RISK MANAGEMENT

41.1 Introduction

Risk is an inherent part of the Group's activities, and risk and capital management is critical to the results of operations and financial condition of the Group. The principal risks that the Group faces are credit risk, liquidity risk, market risk, operational and other non-financial risks. This section is focused on our risk governance model and the most material risks the Group faces.

Risk and Capital Management Governance

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Group.



The Group operates a three-line of defense (LoD) risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee, Local Compliance Committee and Asset-Liability Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Group is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Group; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Group).

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Group's overall current and future risk profile, appetite and strategy, and for overseeing the implementation of that strategy.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Group's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements and consolidated financial statements of the Group.

Board of Directors (BoD)

The Board of Directors generally ensures that comprehensive and adequate internal control and risk governance system is established, well-functioning and efficient, in its entirety and in parts.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors with risk and capital monitoring within the Group. The RCOC is responsible for the whole ČSOB group. In case of subsidiaries or entities that have a separate legal structure, the decisions of the RCOC are to be considered as advices to the Management Board of those entities.

ČSOB group Compliance Committee

ČSOB group Compliance Committee assists the Board of Directors with monitoring of compliance related issues within the Group. It is responsible for the whole ČSOB group. In case of subsidiaries or entities that have a separate legal structure, the decisions of the Local Compliance Committee are to be considered as advices to the Management Board of those entities.

Asset-Liability Committee (ALCO)

The purpose of the Asset-Liability Committee (hereinafter “ALCO”) is to support ČSOB’s Board of Directors (BoD) in asset-liability management and in management of market and liquidity risk of the whole ČSOB group and ČSOB Pojišťovna. In particular, ALCO supports ČSOB BoD, ČSOB HB BoD and ČSOBS BoD in asset-liability management and market and liquidity risk of ČSOB Bank, ČSOB HB and ČSOBS.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for all risk management functions / departments.

Risk Officer

Role of Risk officer is crucial for effective 2nd line in the entities of ČSOB group. The Risk officer thus acts as a CRO of the particular company based on a delegation from ČSOB CRO.

Risk Function

The risk function is organized in the following risk specific departments: Financial Risk Management, Non-financial Risk Management, Information Security Management, Transactional Modeling and Credit Risk Management which are complemented by one team responsible for Central Credit risk and loss Measurement Validation. Common activities and shared processes are coordinated by Integrated risk management team (part of Financial Risk Management).

The risk departments at group level support the CRO of ČSOB group and are the sparring partner of the business lines via the Bilateral Meetings. This support mainly consists of formulating proposals with regard to the definition of the Risk Appetite and providing reporting and advice in the field of risk and capital management.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the Group level:

Credits departments

Departments within Credits are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors.

The key responsibilities of the Credits departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALM Department)

The ALM Department is responsible for managing the assets and liabilities of the Group's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALM Department is also primarily responsible for managing the funding and liquidity position of the Group. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses risk and capital management processes throughout the Group examining both the adequacy of its risk and capital management procedures and the Group's compliance with the same. The Internal Audit Department discusses the results of its assessments with management and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the Group with respect to credit risk. The members of the CSC are a member of ČSOB BoD responsible for Credits, who is the CSC's chairman, and the Head of ČSOB Credits; Head for Credits for Corporates and Banks; Head for Corporate Advice and Underwriting; Head of Corporate Banking; Head of Specialized and Institutional Banking and Executive Director SME and appointed Risk Manager. The CSC reports to the Board of Directors.

Credit Committee Retail Credits (CCRC)

CCRC is advisory body to the CRO (ČSOB HB/ČSOBS/ČSOB group), who is taking the decision. The entire retail lending agenda is in scope of the committee, its chairman is the B-1 Retail Credits manager, Board members of subsidiaries have a standing invitation. The mission of the CCRC is (i) to discuss and to recommend decisions to concerned members of the committee on all topics related to risk agenda (ii) to bring sound, transparent and unified management of retail lending of ČSOB group.

Business Risk Meeting (BRM)

Business-Risk Meeting serves as a discussion and informational platform for different departments (Corporate and SME Relationship banking, ČSOB Leasing, Credits, Transactional Modelling, Group Validation. Risk function is represented by Credit risk management). Decisions taken at BRM are sole CRO decisions as BRM chairman. The CRO and Risk function engage themselves to appropriately involve the business in all decisions and to work in a consensus model.

NAPP committees

NAPP committees are installed to approve products, services and processes which are in scope of NAPP. Both first line and second line of defence functions are represented on the NAPP committee. Before the product/service or process is launched to clients, NAPP Committee debate and decide whether the objectives of NAPP are met (i.e. fair treatment of the client, strategic fit of products/ services, risks identification and mitigation, compliance with regulation).

Bilateral Meetings

Bilateral Meetings are established for each Business Line in ČSOB group (including subsidiaries and ČSOB Insurance) where business specific risk issues are regularly discussed. Currently, Bilateral Meetings do not take place within ČSOB Hypoteční banka and ČSOBS where the same CRO as in ČSOB is appointed.

The CRO has sole decision rights within the delegated decision authorities which can always be escalated to the BoD on request of the BoD member responsible for that area.

As a general approach, RCOC approves (majority of) limits, while CRO approves (via Bilateral Meetings) risk measurement methods and methodology.

Components of sound risk management

Risk management refers to the coordinated set of activities to proactively identify and manage the many risks that can affect the Group in its ability to achieve its objectives and in order to support the realisation of the Group strategy.

The KBC Enterprise Risk Management Framework (ERMF) sets strict governance and clear rules and procedures on how risk management should be performed throughout the Group. It also refers to a set of minimum standards and risk methods, processes and tools that all entities and risk-type specific RMF must adhere to for which Group Risk is primarily responsible.

Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the Group's strategic objectives today and in the future. In addition to possible sources of risk, it also identifies their potential consequences and materiality for the Group. Risk identification ensures that the risk management covers all material risks the company is exposed to. For this purpose, robust processes have been set up that cover risk identification from different perspectives, including the Risk Scan, the Climate Risk Impact Map, the 'New and Active Products Process' (NAPP) and risk signals.

The Risk Scan is a strategic group-wide exercise aimed at identifying and assessing financial and non-financial top risks, i.e. risks that can significantly impact Group's business model. The identified top risks are used as input for the yearly financial planning process and for several risk management exercises, including risk appetite setting and stress testing.

The Climate Risk Impact Map is a yearly risk identification process aiming to identify, for different time horizons and different climate scenarios, the most material climate risk drivers, both physical and transition risks, impacting Group's businesses and portfolios.

The NAPP is a group-wide, highly formalised process to ensure early identification and mitigation of all risks related to products, services and changes to client facing processes, which might negatively impact the customer and/or the Group. Within the Group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. The risk department also conducts periodic assessments of the NAPP risk profile.

The internal and external environment are scanned on a continuous basis and using all possible sources of information to detect events or changes that might or will impact the Group, either directly or indirectly. Risk signals are collected at all levels of the organisation and provide a summary of the identified risks and their potential impact for Group. Where possible, remedial actions are proposed.

Risk measurement

Risk measurement aims to quantify the various risks we are exposed to. Once risks have been identified, various attributes can be assessed, such as impact, probability of occurrence, size of exposure, etc. with the help of risk measures. The Group risk framework provides an overview of the risk measures in use within the Group, both regulatory and internally defined, for its specific scope.

Setting and cascading risk appetite

The Group's tolerance for risk is captured via the notion of 'risk appetite'. The risk appetite expresses – both qualitatively and quantitatively – how much and what kind of risk we want to take and within which boundaries it should be managed.

The ability to accept risk (risk-taking capacity) is limited by financial constraints (available capital, liquidity, borrowing capacity, earnings-generating capacity, etc.), non-financial constraints (strategic ability, skills, legal constraints, etc.) and regulatory restrictions (e.g., regulatory floors on capital and liquidity ratios). The willingness to accept risk depends on the interests of the various stakeholders. A key component in defining risk appetite is therefore an understanding of the expectations of the organisation's key stakeholders.

Risk appetite is made explicit via the 'risk appetite statement' (RAS), which is decided at both Group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general and on the acceptable level and composition of risks ensuring coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to the corporate strategy and provides a qualitative description of the Group's playing field. The high-level risk appetite objectives are further detailed in a set of qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is expressed as being High, Medium or Low and is monitored based on a set of risk measures for which risk thresholds are defined. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give transparency on risk-taking by providing management with a comprehensive, forward-looking and ex-post view on how the risk profile evolved and in which context the group operates. Internal and external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, it is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

Stress testing is an important tool that supports the decision-making process by simulating the potential negative impact of specific events and/or movements in risk factors on Group's (financial) condition. Stress tests range from plausible to exceptional and even extreme events or scenarios. In addition to all regulatory imposed stress tests, the Group actively uses internal stress testing as a key risk management tool.

41.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Group monitors exposures in relation to these limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Group is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on the principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The model results are used for the capital calculation and for credit decision purposes too.

The Group implemented a new default definition as of March 2020. This implementation is in line with relevant European and local regulations. The impacts of this implementation are, among other things, in the method of calculating days past due. Overdue days are newly defined as the number of consecutive days when the “arrears” of the client facility are continuous and simultaneously above both “materiality thresholds” (absolute threshold and relative materiality threshold).

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection;

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

At the Group, default status may occur when a forbearance measure-concession is granted. Forbearance measures are concessions towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled. For more, see the section “Forbearance measures”.

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains: customers where the relevant Group credit decision authority has judged the exposure to be ‘unlikely to pay’ and none of the obligations are more than 90 days overdue and no Group credit decision authority has judged the exposure to be ‘partly or fully lost’ without recourse to credit protection.

PD 11 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, where Group credit decision authority has judged the exposure to be ‘partly or fully lost’ without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, among other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Group's risk categories, including the internal and external ratings, for non-retail exposure:

ČSOB risk categories for Non-retail exposure

Category	PD Rating	PD %	S&P's Rating	Stage	Performance	Impairment	Default
Normal	1-7	0.0-6.4	AAA - B	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Monitored	8-9	6.4-100	(B-) - C	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Uncertain	10	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Doubtful	11	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Irrecoverable	12	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit departments in the Group. These Credit departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credits department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credits department above the certain threshold. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Delegations are granted ad personam. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the "four eyes principle", i.e. at least two persons with appropriate delegation authority need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to non-retail exposures (corporate, large non-retail SME). For small non-retail SME, an automated behavioural monitoring process is being used. Credit exposures with a rating between PD 1 – 8 (non-retail SME) / PD 1 – 9 (corporate) are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 (non-retail SME) / PD 10 – 12 (corporate) are reviewed by the Bad Debt department, which is a sub-department of the Credits departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subject to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt department. The credit customer relationship is transferred to the Bad Debt department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Group's risk categories for retail exposure:

ČSOB risk categories for Retail exposure

Category	PD rating	Stage	Performance	Impairment	Default
Normal	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Monitored	n/a	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Uncertain	10	Stage 3	Non-performing	Model based	Defaulted
Doubtful	11	Stage 3	Non-performing	Model based	Defaulted
Irrecoverable	12	Stage 3	Non-performing	Model based	Defaulted

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are fully automated based on scorecards in the vast majority of cases. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and the development of Credit Cost Ratios within the different sub-portfolios. The development of the mortgage portfolio is monitored also on the basis of pool migration (i.e. migration between different risk pools).

Collection Process

The collection process in retail consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is few days overdue and may involve the restructuring of the loan. Late collection is focused on legal proceedings and the recovery of collateral. In addition, mortgage collection also uses field collection for customers whose payments are less than 180 days overdue and which precedes late collection.

Financial derivative instruments

Counterparty credit risk of derivative instruments, as foreign exchange derivatives and interest rate swaps, are determined as the sum of the (positive) current replacement cost (mark-to-market value) of an instrument and the potential future exposure (addon). For mitigation of the counterparty credit risk are used close-out netting and collateralization.

Credit-related commitments risk

The Group provides guarantees and letters of credit on behalf of its customers, as a result of which the Group may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Group to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Group:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Group's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Group to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Group manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government - e-Toll), where the risk is limited as counterparties are either highly rated banks, government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2023 and 2022. The maximum exposure is shown as net carrying amount without taking account of any collateral and other credit enhancements.

	2023				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	4,360	11,847	-	-	16,207
Financial assets held for trading (Note: 17)	-	8,715	30,206	-	38,921
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,330	-	-	1,330
Financial assets FVOCI (Note: 18)	961	9,520	-	-	10,481
Financial assets FVOCI pledged as collateral	-	4,326	-	-	4,326
Financial assets at AC	894,797	595,794	-	3,182	1,493,773
Financial assets at AC pledged as collateral	-	237,654	-	-	237,654
Finance lease receivables	10,426	-	-	-	10,426
Fair value adjustments of the hedged items in portfolio hedge	-	-10,437	-	-	-10,437
Derivatives used for hedging	-	29,215	-	-	29,215
Other assets (Note: 26)	-	-	-	2,193	2,193
Total	910,544	887,964	30,206	5,375	1,834,089
Contingent liabilities (Note: 36)	49,044	-	-	-	49,044
Commitments – irrevocable (Note: 36)	154,823	-	-	-	154,823
Total	203,867	-	-	-	203,867
Total credit risk exposure	**1,114,411**	**887,964**	**30,206**	**5,375**	**2,037,956**

	2022				
(CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	9,929	43,755	-	-	53,684
Financial assets held for trading (Note: 17)	-	13,708	58,028	-	71,736
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,322	-	-	1,322
Financial assets FVOCI (Note: 18)	1,664	13,503	-	-	15,167
Financial assets FVOCI pledged as collateral	-	72	-	-	72
Financial assets at AC	850,687	711,162	-	2,430	1,564,279
Financial assets at AC pledged as collateral	-	24,721	-	-	24,721
Finance lease receivables	10,482	-	-	-	10,482
Fair value adjustments of the hedged items in portfolio hedge	-	-25,639	-	-	-25,639
Derivatives used for hedging	-	48,425	-	-	48,425
Other assets (Note: 26)	-	-	-	1,961	1,961
Total	872,762	831,029	58,028	4,391	1,766,210
Contingent liabilities (Note: 36)	46,975	-	-	329	47,304
Commitments – irrevocable (Note: 36)	170,574	-	-	-	170,574
Total	217,549	-	-	329	217,878
Total credit risk exposure	**1,090,311**	**831,029**	**58,028**	**4,720**	**1,984,088**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Group before and after taking into account the collateral held:

(CZKm)	2023 Gross maximum exposure	2023 Financial effect of collateral	2023 Net maximum exposure	2022 Gross maximum exposure	2022 Financial effect of collateral	2022 Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 16)	16,207	-	16,207	53,684	-	53,684
Financial assets held for trading (incl. assets pledged as collateral)	38,921	13,056	25,865	71,736	28,098	43,638
Financial derivatives	38,913	13,049	25,864	70,945	27,308	43,637
Financial assets other than derivatives	8	7	1	791	790	1
Non-trading financial assets mandatorily at fair value through profit or loss	1,330	-	1,330	1,322	-	1,322
Financial assets FVOCI (incl. assets pledged as collateral) (Note: 18)	14,807	-	14,807	15,239	-	15,239
Financial assets at amortised cost (incl. assets pledged as collateral)	1,731,427	1,211,873	519,554	1,589,000	1,108,717	480,283
of which non-performing assets	*7,337*	*5,946*	*1,391*	*8,485*	*5,994*	*2,491*
Finance lease receivables	10,426	8,804	1,622	10,482	8,815	1,667
Fair value adjustments of the hedged items in portfolio hedge	-10,437	-	-10,437	-25,639	-	-25,639
Derivatives used for hedging	29,215	987	28,228	48,425	380	48,045
Other assets (Note: 26)	2,193	-	2,193	1,961	-	1,961
Total	1,834,089	1,234,720	599,369	1,766,210	1,146,010	620,200
Contingent liabilities and Commitments – irrevocable (Note: 36)	203,867	62,849	141,018	217,878	63,299	154,579
of which non-performing exposures	*990*	*551*	*439*	*589*	*386*	*203*
Total credit risk exposure	**2,037,956**	**1,297,569**	**740,387**	**1,984,088**	**1,209,309**	**774,779**

Set out below is an analysis of the non-performing exposure to credit risk of the Group before and after taking into account the collateral held by type of the business:

(CZKm)	2023 Gross maximum exposure	2023 Financial effect of collateral	2023 Net maximum exposure	2022 Gross maximum exposure	2022 Financial effect of collateral	2022 Net maximum exposure
Non-performing exposures						
Mortgage loans	2,042	1,993	49	1,679	1,679	-
Building savings loans	1,105	743	362	1,061	688	373
Consumer loans	695	2	693	600	6	594
SME	1,986	1,731	255	1,955	1,634	321
Leasing	164	139	25	182	114	68
Corporate	2,299	1,889	410	3,549	2,260	1,289
Factoring	21	-	21	31	-	31
Other	15	-	15	18	-	18
Total non-performing exposures	**8,327**	**6,497**	**1,830**	**9,075**	**6,381**	**2,694**

Financial effect of collateral represents a fair value of collateral received by the Group against a credit exposure limited to the outstanding amount of the exposure.

The credit portfolio is structured according to the type of the business the Group enters into:

2023 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	397,126	-	16,891	**414,017**	-795	-51	**413,171**
Building savings loans	122,692	-	2,648	**125,340**	-1,598	-8	**123,734**
Consumer loans	40,643	-	13,995	**54,638**	-1,698	-70	**52,870**
SME	99,715	5,541	53,694	**158,950**	-2,562	-21	**156,367**
Leasing	47,601	-	-	**47,601**	-667	-	**46,934**
Corporate	202,600	43,728	67,810	**314,138**	-2,510	-357	**311,271**
Factoring	5,912	-	-	**5,912**	-393	-	**5,519**
Other	4,479	12	56	**4,547**	-1	-1	**4,545**
Total credits	**920,768**	**49,281**	**155,094**	**1,125,143**	**-10,224**	**-508**	**1,114,411**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	381,665	-	29,782	**411,447**	-767	-26	**410,654**
Building savings loans	125,681	-	6,307	**131,988**	-1,662	-16	**130,310**
Consumer loans	37,207	-	13,102	**50,309**	-1,569	-18	**48,722**
SME	97,114	5,159	51,823	**154,096**	-3,096	-124	**150,876**
Leasing	41,723	-	-	**41,723**	-988	-	**40,735**
Corporate	184,936	42,113	69,822	**296,871**	-3,409	-523	**292,939**
Factoring	5,773	-	-	**5,773**	-386	-	**5,387**
Other	10,541	22	127	**10,690**	-1	-1	**10,688**
Total credits	**884,640**	**47,294**	**170,963**	**1,102,897**	**-11,878**	**-708**	**1,090,311**

The following tables show a reconciliation of the allowances for impairment losses, incl. management overlay as part of Stage 2, on credit portfolio for 2022 and 2023 by classes of financial instruments:

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 1									
At 1 January 2022	**7**	**89**	**156**	**194**	**97**	**200**	**5**	**-**	**748**
Origination and acquisition	7	8	55	53	25	164	-	-	312
Change in credit risk not leading to stage transfers	12	-10	-40	-10	-19	-19	-	-	-86
Change in credit risk leading to stage transfer	-	-15	-34	-87	-40	-19	-1	-	-196
Modification without derecognition	-	-	-2	-	-	-	-	-	-2
Derecognition	-	-8	-21	-23	-6	-	-	-	-58
Write-offs	-	-1	-	-	-	-	-	-	-1
Foreign currency translation	-	-	-	-	-	1	-	-	1
At 31 December 2022	**26**	**63**	**114**	**127**	**57**	**327**	**4**	**-**	**718**
Origination and acquisition	6	6	72	92	49	162	-	-	387
Change in credit risk not leading to stage transfers	-8	-3	-25	-7	-15	-138	1	-	-195
Change in credit risk leading to stage transfer	-1	-	-7	27	5	-46	-	-	-22
Modification without derecognition	-	-	-2	-	-	-	-	-	-2
Derecognition	-1	-5	-19	-18	-4	-	-	-	-47
Write-offs	-	-2	-	-	-	-	-	-	-2
Foreign currency translation	-	-	-	-	-	1	-	-	1
At 31 December 2023	**22**	**59**	**133**	**221**	**92**	**306**	**5**	**-**	**838**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 2									
At 1 January 2022	**57**	**492**	**569**	**869**	**237**	**614**	**247**	**1**	**3,086**
Origination and acquisition	20	43	-	-	225	-	-	-	288
Change in credit risk not leading to stage transfers	78	35	-171	8	-81	-29	-56	-	-216
Change in credit risk leading to stage transfer	39	169	222	398	138	350	92	-	1,408
Modification without derecognition	-	-	2	-9	-	-	-	-	-7
Derecognition	-4	-34	-21	-44	-17	-	-	-	-120
Write-offs	-	-1	-	-	-	-	-	-	-1
Foreign currency translation	-	-	-	-	-	-40	-	-	-40
At 31 December 2022	**190**	**704**	**601**	**1,222**	**502**	**895**	**283**	**1**	**4,398**
Origination and acquisition	16	33	-	-	77	-	-	-	126
Change in credit risk not leading to stage transfers	-25	-39	-97	-480	-274	-331	74	-	-1,172
Change in credit risk leading to stage transfer	6	12	110	46	-100	146	-46	-	174
Modification without derecognition	-	-1	1	-12	-	-	-	-	-12
Derecognition	-6	-40	-29	-49	-16	-	-	-	-140
Write-offs	-	-2	-	-	-	-	-	-	-2
Foreign currency translation	-	-	-	-2	-	33	-	-	31
At 31 December 2023	**181**	**667**	**586**	**725**	**189**	**743**	**311**	**1**	**3,403**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
STAGE 3									
At 1 January 2022	**725**	**1,226**	**817**	**2,066**	**486**	**2,306**	**122**	**-**	**7,748**
Origination and acquisition	1	15	-	-	2	-	-	-	18
Change in credit risk not leading to stage transfers	-71	-87	16	-190	67	-841	-22	-	-1,128
Change in credit risk leading to stage transfer	6	93	254	224	29	1,014	-	-	1,620
Modification without derecognition	26	16	70	23	-	-	-	-	135
Derecognition	-93	-168	-49	-152	-92	-	-	-	-554
Write-offs	-43	-200	-261	-249	-67	-300	-1	-	-1,121
Foreign currency translation	-	-	-	-2	-	8	-	-	6
At 31 December 2022	**551**	**895**	**847**	**1,720**	**425**	**2,187**	**99**	**-**	**6,724**
Origination and acquisition	12	5	-	-	2	-	-	-	19
Change in credit risk not leading to stage transfers	29	16	46	-123	3	-934	-10	-3	-976
Change in credit risk leading to stage transfer	47	150	335	226	74	212	-4	-	1,040
Modification without derecognition	63	20	83	31	-	-	-	-	197
Derecognition	-65	-62	-56	-151	-65	-	-	-	-399
Write-offs	-45	-152	-280	-122	-56	-7	-8	-	-670
Foreign currency translation	-	-	-	-2	-	6	-	3	7
At 31 December 2023	**592**	**872**	**975**	**1,579**	**383**	**1,464**	**77**	**-**	**5,942**

(CZKm)	Mortgage loans	Building savings loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
POCI									
At 1 January 2022	**-**	**-**	**4**	**26**	**7**	**-**	**-**	**-**	**37**
Change in credit risk not leading to stage transfers	-	-	6	7	-3	2	-	-	12
Change in credit risk leading to stage transfer	-	-	-1	-1	-	-	-	-	-2
Derecognition	-	-	-1	-2	-	-	-	-	-3
Write-offs	-	-	-1	-3	-	-2	-	-	-6
At 31 December 2022	**-**	**-**	**7**	**27**	**4**	**-**	**-**	**-**	**38**
Change in credit risk not leading to stage transfers	-	-	2	13	-	-	-	-	15
Change in credit risk leading to stage transfer	-	-	-4	-1	-	-	-	-	-5
Derecognition	-	-	-1	-	-1	-	-	-	-2
Write-offs	-	-	-	-2	-	-	-	-	-2
At 31 December 2023	**-**	**-**	**4**	**37**	**3**	**-**	**-**	**-**	**44**
ALL STAGES									
At 1 January 2022	**789**	**1,807**	**1,546**	**3,155**	**827**	**3,120**	**374**	**1**	**11,619**
At 31 December 2022	**767**	**1,662**	**1,569**	**3,096**	**988**	**3,409**	**386**	**1**	**11,878**
At 31 December 2023	**795**	**1,598**	**1,698**	**2,562**	**667**	**2,510**	**393**	**1**	**10,224**

In 2023 and 2022, the most significant changes in gross carrying amount of credit exposures that have an impact on ECL allowance include: origination and acquisition of new assets, changes in credit risk leading to transfers between stages (Note: 19), derecognition of loans and write-offs.

The following table shows a consistence of the movements of expected credit losses with the impairment losses as reported in the consolidated statement of income:

(CZKm)	2023	2022
Balance of allowances for credit losses at 1 January	11,878	11,619
Balance of allowances for credit losses at 31 December	10,224	11,878
Net decrease (-) / increase of allowances for credit losses for the year	**-1,654**	**259**
Adjusted for:		
Write-offs	676	1,129
Recoveries	-449	-619
Sales of loans	-2	-21
Foreign currency translation	-37	39
Net impairment gains (-) / losses as reported in the statement of income	**-1,466**	**787**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2023		2022	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	591,620	52.6	591,407	53.6
Distribution	90,702	8.1	90,656	8.2
Commercial Real Estate	83,494	7.4	67,936	6.2
Services	62,215	5.5	61,685	5.6
Building and Construction	57,077	5.1	53,098	4.8
Automotive	48,159	4.3	48,917	4.4
Oil, Gas and other Fuels	22,146	2.0	21,808	2.0
Finance and Insurance	21,401	1.9	20,631	1.9
Machinery and Heavy Equipment	19,268	1.7	19,932	1.8
Metals	18,404	1.6	18,673	1.7
Agriculture, Farming and Fishing	17,943	1.6	16,335	1.5
Authorities	13,769	1.2	15,751	1.4
Other sectors	78,945	7.0	76,068	6.9
Total	**1,125,143**	**100.0**	**1,102,897**	**100.0**

The investment portfolio is structured according to the type of the instrument.

2023 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	307,555	-	-	-8	**307,547**
Loans and receivables within investment portfolio	530,640	-	-	-	**530,640**
Derivatives used for hedging	29,215	-	-	-	**29,215**
Derivatives used as economic hedges (Note: 17)	8,715	-	-	-	**8,715**
Cash, balances with central banks and other demand deposits	11,847	-	-	-	**11,847**
Total investment	**887,972**	**-**	**-**	**-8**	**887,964**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	279,920	-	-	-11	**279,909**
Loans and receivables within investment portfolio	445,232	-	-	-	**445,232**
Derivatives used for hedging	48,425	-	-	-	**48,425**
Derivatives used as economic hedges (Note: 17)	13,708	-	-	-	**13,708**
Cash, balances with central banks and other demand deposits	43,755	-	-	-	**43,755**
Total investment	**831,040**	**-**	**-**	**-11**	**831,029**

The investment portfolio is monitored from a counterparty sector point of view:

(CZKm)	2023 Granted exposure (CZKm)	2023 Percentage of total exposure	2022 Granted exposure (CZKm)	2022 Percentage of total exposure
Central banks	540,868	60.9	469,180	56.4
General government	306,338	34.5	278,579	33.5
Credit institutions	40,758	4.6	83,107	10.0
Corporate	-	-	163	0.1
Total investment	**887,964**	**100.0**	**831,029**	**100.0**

The trading portfolio is structured according to the type of the instrument.

2023 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	7	-	-	**7**
Trading derivatives (Note: 17)	30,199	-	-	**30,199**
Total trading portfolio	**30,206**	**-**	**-**	**30,206**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	790	-	-	**790**
Trading derivatives (Note:17)	57,238	-	-	**57,238**
Total trading portfolio	**58,028**	**-**	**-**	**58,028**

The trading portfolio is monitored from a counterparty sector point of view:

Sector	2023 Granted exposure (CZKm)	2023 Percentage of total exposure	2022 Granted exposure (CZKm)	2022 Percentage of total exposure
Credit institutions	26,692	88.4	55,536	95.7
Corporate	3,514	11.6	2,492	4.3
Total trading portfolio	**30,206**	**100.0**	**58,028**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2023 Total risk	2023 of which General government	2022 Total risk	2022 of which General government
Czech Republic	1,909,131	308,275	1,810,233	282,854
Belgium	57,474	-	105,102	-
Slovak Republic	20,240	4,511	18,866	3,386
Spain	1,329	-	1,557	-
Hungary	1,292	-	1,890	-
Belarus	361	-	756	-
Russia	223	-	356	-
Ukraine	255	-	384	-
Italy	188	-	170	-
Greece	33	-	32	-
Other Europe	36,104	2,839	35,085	2,972
Other	11,326	594	9,657	-
Total	**2,037,956**	**316,219**	**1,984,088**	**289,212**

Credit risk exposures of the Group towards the countries are reported before taking into account of collateral. Gross credit exposure to Belarus, Russia and Ukraine amounts to CZK 839 m at 31 December 2023 (31 December 2022: CZK 1,496 m). If collaterals, guarantees and other credit enhancements received by the Group to limit the exposure are taken into account, then the net unsecured exposure to Belarus, Russia and Ukraine decreases to CZK 218 m at 31 December 2023 (31 December 2022: CZK 304 m).

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

Client	2023 Granted exposure (CZKm)	2023 Percentage of total exposure	2022 Granted exposure (CZKm)	2022 Percentage of total exposure
1 largest client	13,069	1.2	10,479	1.0
10 largest clients	75,976	6.8	71,439	6.5
25 largest clients	129,161	11.5	119,768	10.9

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2023 and 31 December 2022 were:

Client	2023 Granted exposure (CZKm)	2023 % of total investment portfolio	2022 Granted exposure (CZKm)	2022 % of total investment portfolio
Investment portfolio				
Czech Ministry of Finance (S&P's rating AA)	298,337	33.6	272,685	32.8
CNB	545,777	61.5	504,324	60.7
Trading portfolio				
KBC Bank	18,294	60.6	37,649	64.9

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2023 and 31 December 2022 were:

	2023		2022	
Rating (S&P)	Granted exposure (CZKm)	% of total portfolio	Granted exposure (CZKm)	% of total portfolio
Investment portfolio				
AAA up to and including A-	886,014	99.8	826,295	99.4
BBB+ up to and including BB-	1,247	0.1	2,543	0.3
Unrated	703	0.1	2,191	0.3
Total	**887,964**	**100.0**	**831,029**	**100.0**
Trading portfolio				
AAA up to and including A-	24,076	79.7	49,145	84.7
BBB+ up to and including BB-	4,355	14.4	7,643	13.2
Unrated	1,775	5.9	1,240	2.1
Total	**30,206**	**100.0**	**58,028**	**100.0**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, trade receivables and inventory;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Group complies with CNB recommendation regarding retail loans secured by residential properties. The Group continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

Within concluding derivatives transaction to hedge counterparty’s risk the Group uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment

The Group complies with the IFRS 9 accounting standard and as a result uses the expected credit loss model methodology to calculate its impairments.

The portfolio can be divided into three stages while the main considerations for stage allocation include whether there has been a significant increase in credit risk since initial recognition, any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract.

A symmetric Group-wide 5-tier waterfall staging approach was developed to assess whether there has been a significant increase in credit risk since initial recognition triggering transfer to stage 2. The five tiers are following:

1. Increase of internal rating (mapped to Basel probability of default) by 2 notches or more since initial recognition, for Retail exposures 400% increase of probability of default being equivalent of 2 notches;
2. The exposure is forborne;
3. The exposure is more than 30 days past due;
4. The internal PD rating is 9 or its equivalent for Retail exposures;
5. Collective assessment – manual expert judgement based on forward looking information not captured by PD models such as social, political, regional, economic conditions.

A default event triggers transfer directly to stage 3.

The Group takes the advantage of low credit risk exemption for its debt securities in the Treasury and ALM portfolios, i.e. all such exposures internally rated PD1 - PD3 stay in stage 1.

The accounting standard introduced also staging rules for purchased or originated credit impaired (so called POCI) assets which upon cure event move from stage 3 to stage 2, but may never transfer to stage 1. This concerns also modified financial assets in case the modification resulted into derecognition of the original asset and recognition of a new forborne asset.

The expected credit loss (impairment) is calculated on 12-month basis for stage 1 and on lifetime basis for stage 2 and stage 3.

Various IFRS 9 models were developed within the Group for certain combinations of products and types of counterparty to arrive at the impairment as a sum of discounted products of IFRS 9 Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD) adjusted for survival factor across the 12 months or lifetime to maturity for stage 1 or stage 2 and stage 3, respectively. The final impairment is a weighted sum of calculated impairments resulting from three different macroeconomic scenarios.

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively calculated ECL (i.e. without the ECL on individually assessed files of CZK 2,658 m at year-end 2023 and CZK 3,610 m in 2022), shows that the base scenario results in an ECL of CZK 7,343 m (CZK 7,932 m in 2022), which is CZK 900 m lower than the "down"-scenario (CZK 1,061 m in 2022) and CZK 159 m higher than the "up"-scenario (CZK 144 m in 2022). The collectively calculated weighted ECL results (which was booked) amounts to CZK 7,650 m (CZK 8,296 m in 2022). Note that these amounts take into account the management overlay (per scenario) (Note: 2.2).

Different macroeconomic factors are taken into consideration and the Group applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

Management has the possibility to reflect its expertise in the final result of the impairment numbers in the exceptional case that the model-based calculation does not result in relevant and reliable impairment amounts based on available forward looking information.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Group sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Group's credit rating system as at 31 December 2023 and 2022:

Credit portfolio

	2023					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	367,962	26,608	1,565	469	522	397,126
Building savings loans	103,612	17,102	757	239	982	122,692
Consumer loans	32,932	6,039	592	193	887	40,643
SME	74,363	27,286	1,887	242	1,478	105,256
Leasing	32,539	14,459	217	87	299	47,601
Corporate	189,282	53,765	1,134	1,154	993	246,328
Factoring	4,257	1,556	30	6	63	5,912
Other	4,479	-	-	-	12	4,491
Total	**809,426**	**146,815**	**6,182**	**2,390**	**5,236**	**970,049**

	2022					
	Non-defaulted assets		Defaulted assets			Total
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	347,240	32,195	1,214	443	573	381,665
Building savings loans	106,750	16,979	733	187	1,032	125,681
Consumer loans	30,465	5,292	520	161	769	37,207
SME	69,442	29,119	2,208	211	1,293	102,273
Leasing	25,956	15,074	-	219	474	41,723
Corporate	165,936	55,513	3,453	1,240	907	227,049
Factoring	3,771	1,872	-	31	99	5,773
Other	10,528	16	7	-	12	10,563
Total	**760,088**	**156,060**	**8,135**	**2,492**	**5,159**	**931,934**

Loan portfolio breakdown by risk class (in gross amounts) based on internal rating scale:

	2023			2022		
(CZKm)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-defaulted assets						
PD 1 (default probability 0.00% - 0.10%)	59,882	17	-	27,110	655	-
PD 2 (0.10% - 0.20%)	33,161	1,403	-	100,047	4,850	-
PD 3 (0.20% - 0.40%)	99,218	3,029	-	58,035	4,068	-
PD 4 (0.40% - 0.80%)	366,426	7,316	-	348,445	13,328	-
PD 5 (0.80% - 1.60%)	157,815	41,546	-	158,324	47,417	-
PD 6 (1.60% - 3.20%)	68,788	37,897	-	59,823	20,614	-
PD 7 (3.20% - 6.40%)	20,708	28,199	-	7,252	35,906	-
PD 8 (6.40% - 12.80%)	3,260	9,302	-	892	11,505	-
PD 9 (> 12.80%)	165	17,951	-	132	17,707	-
Unrated	3	155	-	28	10	-
Defaulted assets						
PD 10	-	-	6,182	-	-	8,135
PD 11	-	-	2,389	-	-	2,492
PD 12	-	-	5,237	-	-	5,159
Total	**809,426**	**146,815**	**13,808**	**760,088**	**156,060**	**15,786**

Investment portfolio

(CZKm)	2023 Non-defaulted assets		Defaulted assets	Total
	Normal	Monitored	Irrecoverable	
Debt securities	307,547	-	-	307,547
Loans and receivables within investment portfolio	530,640	-	-	530,640
Derivatives used for hedging	29,215	-	-	29,215
Derivatives used as economic hedges	8,715	-	-	8,715
Cash, balances with central banks and other demand deposits	11,847	-	-	11,847
Total	**887,964**	**-**	**-**	**887,964**

(CZKm)	2022 Non-defaulted assets		Defaulted assets	Total
	Normal	Monitored	Irrecoverable	
Debt securities	277,892	2,017	-	279,909
Loans and receivables within investment portfolio	445,232	-	-	445,232
Derivatives used for hedging	48,425	-	-	48,425
Derivatives used as economic hedges	13,708	-	-	13,708
Cash, balances with central banks and other demand deposits	43,755	-	-	43,755
Total	**829,012**	**2,017**	**-**	**831,029**

Trading portfolio

(CZKm)	2023 Non-defaulted assets	Defaulted assets	Total
	Normal	Irrecoverable	
Loans and advances	7	-	7
Trading derivatives	30,199	-	30,199
Total	**30,206**	**-**	**30,206**

(CZKm)	2022 Non-defaulted assets	Defaulted assets	Total
	Normal	Irrecoverable	
Loans and advances	790	-	790
Trading derivatives	57,238	-	57,238
Total	**58,028**	**-**	**58,028**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2023			2022		
	Neither past due nor defaulted	Past due (< 30 days) but not defaulted	Past due (> 30 days) but not defaulted	Neither past due nor defaulted	Past due (< 30 days) but not defaulted	Past due (> 30 days) but not defaulted
Mortgage loans	393,914	480	173	378,996	322	117
Building savings loans	119,888	639	187	123,155	444	130
Consumer loans	38,378	503	91	35,262	391	104
SME	101,136	476	38	98,178	313	70
Leasing	45,322	1,573	106	40,122	775	133
Corporate	242,887	158	-	221,441	7	-
Factoring	5,813	-	-	5,643	-	-
Other	4,479	-	-	10,545	-	-
Total	**951,817**	**3,829**	**595**	**913,342**	**2,252**	**554**

Performing assets reported within neither past due nor defaulted consist of Normal risk category assets based on the Group's credit rating system.

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of non-performing financial assets included in the credit portfolio and the related impairment are as follows:

(CZKm)	2023 Gross amount	2023 Impairment	2022 Gross amount	2022 Impairment
Mortgage loans	2,557	-593	2,230	-551
Building savings loans	1,977	-872	1,952	-895
Consumer loans	1,671	-973	1,450	-849
SME	3,607	-1,621	3,712	-1,757
Leasing	603	-385	694	-427
Corporate	3,282	-1,660	5,600	-2,467
Factoring	99	-78	130	-99
Other	12	-1	18	-1
Total	**13,808**	**-6,183**	**15,786**	**-7,046**

There are no individually impaired financial assets included in the investment portfolio.

Forbearance measures

Forbearance measure is concession towards a borrower who is facing or is about to face financial difficulties. Both conditions should be fulfilled. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as “Forborne credits”. Such an approach enables the Group to control and limit potential future losses stemming from troubled credits.

In the context of IFRS 9, a forbearance measure is considered as a significant increase in credit risk. Therefore, a forborne tag always leads to a transfer of the file to stage 2 (in case of non-default) or stage 3 (in case of default). Consequently, impairment is measured at an amount equal to lifetime expected credit losses instead of 12-month expected credit losses, while the forborne tag is attached.

The minimum probation period for forbearance measures is 2 years after the date the forborne facility has been considered as non-default. However, according to the default definition, a client/facility remains in default at least 1 year, which brings in that case the total minimum probation period to 3 years.

COVID-19 related concessions provided under public and private moratoria schemes (e.g. imposed by Czech government in the form of the law) were not considered as forborne facilities in line with Czech National Bank expectations and in line with European Banking Authority guidelines.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2023 and 2022 are as follows:

	2023				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Mortgage loans	397,126	2,541	0.6	169	2,371
Building savings loans	122,692	584	0.5	134	379
SME	99,715	1,682	1.7	655	826
Leasing	47,601	132	0.3	55	55
Corporate	202,600	1,523	0.8	568	872
Other	51,034	1,212	2.4	332	-
Total	**920,768**	**7,674**	**0.8**	**1,913**	**4,503**

	2022				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Mortgage loans	381,665	2,062	0.5	80	1,981
Building savings loans	125,681	580	0.5	165	344
SME	97,114	1,824	1.9	789	823
Leasing	41,723	284	0.7	103	113
Corporate	184,936	2,963	1.6	1,180	1,643
Other	53,521	1,104	2.1	300	2
Total	**884,640**	**8,817**	**1.0**	**2,617**	**4,906**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2023 and 2022 are as follows:

	2023				
(CZKm)	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Mortgage loans	1,319	-	1,222	163	6
Building savings loans	307	-	277	128	6
SME	232	-	1,450	647	8
Leasing	49	-	83	55	-
Corporate	575	-	948	562	6
Other	593	-	619	304	28
Total	**3,075**	**-**	**4,599**	**1,859**	**54**

(CZKm)	2022 Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Mortgage loans	1,234	18	828	76	4
Building savings loans	241	-	339	159	6
SME	146	4	1,678	775	14
Leasing	127	5	157	102	1
Corporate	468	-	2,495	1,175	5
Other	576	13	528	262	38
Total	**2,792**	**40**	**6,025**	**2,549**	**68**

The following table shows a reconciliation of Gross amounts of forborne exposures for 2023 and 2022 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2022	**5,441**	**5,193**	**2,212**	**650**	**157**	**1,128**	**14,781**
Loans which have become forborne	1,079	266	707	281	251	501	3,085
Loans which are no longer considered to be forborne	-2,883	-3,394	-482	-188	-99	-452	-7,498
Increase of exposure	37	8	1	-	-	3	49
Decrease of exposure	-711	-249	-376	-163	-25	-76	-1,600
At 31 December 2022	**2,963**	**1,824**	**2,062**	**580**	**284**	**1,104**	**8,817**
Loans which have become forborne	582	322	1,104	245	29	568	2,850
Loans which are no longer considered to be forborne	-2,124	-325	-333	-136	-99	-371	-3,388
Increase of exposure	197	12	3	-	-	3	215
Decrease of exposure	-95	-151	-295	-105	-82	-92	-820
At 31 December 2023	**1,523**	**1,682**	**2,541**	**584**	**132**	**1,212**	**7,674**

The following table shows a reconciliation of impairments of forborne exposure for 2023 and 2022 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Building savings loans	Leasing	Other	Total
At 1 January 2022	**1,571**	**1,080**	**96**	**279**	**46**	**264**	**3,336**
Loans which have become forborne	577	86	29	4	98	100	894
Loans which are no longer considered to be forborne	-814	-232	-1	-21	-35	-53	-1,156
Increase of exposure	36	42	7	34	-	45	164
Decrease of exposure	-190	-187	-51	-131	-6	-56	-621
At 31 December 2022	**1,180**	**789**	**80**	**165**	**103**	**300**	**2,617**
Loans which have become forborne	222	102	78	5	1	114	522
Loans which are no longer considered to be forborne	-1,016	-150	-1	-14	-9	-66	-1,256
Increase of exposure	195	24	41	33	5	50	348
Decrease of exposure	-13	-110	-29	-55	-45	-66	-318
At 31 December 2023	**568**	**655**	**169**	**134**	**55**	**332**	**1,913**

41.3 *Liquidity risk and funding management*

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. Liquidity and funding are managed centrally in the Group. To align internal management approach with regulatory view, the Group established, following approval of ČNB, a liquidity subgroup as laid down by Capital Requirements Regulation (CRR). The liquidity subgroup comprised ČSOB and ČSOB Hypoteční banka, with ČSOB Stavební spořitelna having joined as of June 2021. To limit this risk, the Group pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Group's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Group can address an adverse liquidity development in several ways. Most typically, the Group would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Group can borrow via repo operations on the market or use regulatory repo facilities (in the ČNB or ECB). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015, the Group reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions.

The LCR during 2023 and 2022 was as follows:

(%)	2023	2022
31 March	152.4	133.6
30 June	148.5	136.7
30 September	145.3	149.4
31 December	201.4	156.2

The LCR ratio is regularly monitored and reported to the regulator and top management of the Group.

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Group's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Group uses 'E-NSFR', KBC Group adjusted the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). It has been developed by KBC Group to better reflect business of the Group and penalize funding concentrations in order for the ratio to provide a better picture about funding profile's stability. The strategy of the Group is to maintain the value of the E-NSFR well above one. That means the Group aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

Both E-NSFR and NSFR are monitored on a monthly basis and are regularly reported to the top management of the Group. NSFR is also quarterly reported to the regulator.

The NSFR / E-NSFR during 2023 and 2022 were as follows:

	NSFR		E- NSFR	
(%)	2023	2022	2023	2022
31 March	177.1	184.7	142.0	138.2
30 June	184.5	184.1	141.4	138.7
30 September	183.2	175.9	139.9	137.3
31 December	170.4	171.8	138.5	139.9

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of mandatory minimum reserve deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations (outflows / inflows shown as negative / positive figures).

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2023:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	-3,165	-	-	-3,165
Financial liabilities designated at fair value through profit or loss	-	-6,898	-17,304	-4,229	-28,431
Financial liabilities at amortised cost	-847,570	-742,109	-102,976	-30,957	-1,723,612
Fair value adjustments of the hedged items in portfolio hedge	15,396	-	-	-	15,396
Lease liabilities	-	-358	-1,368	-641	-2,367
Other liabilities (Note: 29)	-	-7,034	-	-	-7,034
Contractual cash flows excluding derivatives	**-832,174**	**-759,564**	**-121,648**	**-35,827**	**-1,749,213**
Net settled derivatives	**-**	**-23,833**	**-25,661**	**-7,930**	**-57,424**
Trading derivatives	-	-14,261	-11,376	-4,617	-30,254
Hedging derivatives	-	-9,572	-14,285	-3,313	-27,170
Gross settled derivatives	**-**	**-6,036**	**-3,154**	**-596**	**-9,786**
Trading derivatives	-	-6,036	-3,154	-596	-9,786
Inflows	-	*261,628*	*39,684*	*5,309*	*306,621*
Outflows	-	*-267,664*	*-42,838*	*-5,905*	*-316,407*
Hedging derivatives	-	-	-	-	-
Inflows	-	-	-	-	-
Outflows	-	-	-	-	-
Contractual cash flows from derivatives	-	**-29,869**	**-28,815**	**-8,526**	**-67,210**
Contractual cash flows from financial liabilities	**-832,174**	**-789,433**	**-150,463**	**-44,353**	**-1,816,423**
Loan commitments – irrevocable (note 36)	-155,094	-	-	-	-155,094
Loan commitments – revocable (note 36)	-58,312	-	-	-	-58,312
Financial guarantees (note 36)	-48,302	-	-	-	-48,302
Other commitments (note 36)	-1,307	-	-	-	-1,307
Contractual cash flows from contingent liabilities	**-263,015**	**-**	**-**	**-**	**-263,015**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2022:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	-2,262	-	-	-2,262
Financial liabilities designated at fair value through profit or loss	-	-7,864	-14,620	-4,964	-27,448
Financial liabilities at amortised cost	-871,380	-633,131	-89,257	-39,923	-1,633,691
Fair value adjustments of the hedged items in portfolio hedge	32,441	-	-	-	32,441
Lease liabilities	-	-465	-1,351	-682	-2,498
Other liabilities (Note: 29)	-	-8,233	-	-	-8,233
Contractual cash flows excluding derivatives	**-838,939**	**-651,955**	**-105,228**	**-45,569**	**-1,641,691**
Net settled derivatives	-	**-40,586**	**-54,349**	**-12,650**	**-107,585**
Trading derivatives	-	-20,787	-29,441	-8,739	-58,967
Hedging derivatives	-	-19,799	-24,908	-3,911	-48,618
Gross settled derivatives	-	**-13,171**	**-8,500**	**-867**	**-22,538**
Trading derivatives	-	-13,171	-8,500	-867	-22,538
Inflows	-	*306,160*	*67,948*	*6,374*	*380,482*
Outflows	-	*-319,331*	*-76,448*	*-7,241*	*-403,020*
Hedging derivatives	-	-	-	-	-
Inflows	-	-	-	-	-
Outflows	-	-	-	-	-
Contractual cash flows from derivatives	**-**	**-53,757**	**-62,849**	**-13,517**	**-130,123**
Contractual cash flows from financial liabilities	**-838,939**	**-705,712**	**-168,077**	**-59,086**	**-1,771,814**
Loan commitments – irrevocable (note 36)	-170,963	-	-	-	-170,963
Loan commitments – revocable (note 36)	-55,319	-	-	-	-55,319
Financial guarantees (note 36)	-45,548	-	-	-	-45,548
Other commitments (note 36)	-2,074	-	-	-	-2,074
Contractual cash flows from contingent liabilities	**-273,904**	**-**	**-**	**-**	**-273,904**

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Group's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Group is not managed based on the remaining contractual maturities of the financial instruments, as such the Group's expected cash flows on these instruments vary significantly from this analysis (Note: 35). For example, undrawn loan commitments are not expected to be drawn down immediately.

41.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.
The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored using Basis Point Value (BPV) sensitivity.
As from September 2019, only residual technical position remains in the Group's trading portfolio after the full implementation of the programme of trading portfolios centralization on the KBC group level. New positions in trading portfolio are immediately closed by back-to-back transactions to the department KBC Central European Financial Markets. The Group's trading portfolio is not exposed to market risk from that time. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Group has no net position in FX options, commodity derivatives nor any position in equity. A nominal technical limit for reminder products, in particular interest rate options and structured bonds. Positions in these products are not allowed to be material as back-to-back approach is required.

Only minimal BPV limits are applied for individual products and portfolios to limit interest rate risk since January 2020 after transfer of trading positions to KBC Bank.

The capital requirements for interest rate and foreign exchange risks are calculated by application of standardized method since January 2020.

Market risk – Investment portfolio

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity and the supervisory outlier stress test on economic value of equity. The Board of Directors has set secondary limits on tenor interest rate gaps in subsidiaries. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Financial assets at fair value through other comprehensive income, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Group's investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2023:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	-1.8	0.1	-39.0	-250.3	-291.0
EUR	+ 10	0.0	0.0	-6.9	-4.0	-10.9
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	1.8	-0.1	39.0	250.3	291.0
EUR	- 10	0.0	0.0	6.9	4.0	10.9
USD	- 10	0.0	0.0	0.0	0.0	0.0

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	-1.7	0.2	34.9	2.0	35.4
EUR	+ 10	0.0	0.0	2.6	0.0	2.6
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	1.7	-0.2	-34.9	-2.0	-35.4
EUR	- 10	0.0	0.0	-2.6	0.0	-2.6
USD	- 10	0.0	0.0	0.0	0.0	0.0

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2022:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	0.1	0.5	-34.8	-103.5	-137.7
EUR	+ 10	-0.1	-0.6	-6.7	-3.8	-11.2
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	-0.1	-0,5	34.8	103.5	137.7
EUR	- 10	0.1	0.6	6.7	3.8	11.2
USD	- 10	0.0	0.0	0.0	0.0	0.0

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	-0.4	-2.9	21.5	28.1	46.3
EUR	+ 10	-0.2	0.2	1.7	0.0	1.7
USD	+ 10	0.0	0.0	0.0	0.4	0.4
CZK	- 10	0.4	2.9	-21.5	-28.1	-46.3
EUR	- 10	0.2	-0.2	-1.7	0.0	-1.7
USD	- 10	0.0	0.0	0.0	-0.4	-0.4

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2023 and 2022:

	2023			2022		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	-	-	-	12	1	-1

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments included in Financial assets at fair value through other comprehensive income) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

	Change in equity price (%)	Effect on equity	
(CZKm)		2023	2022
Visa Inc. quotation	- 10	-25	-26
	+ 10	25	26

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk is regularly monitored and assessed in the Group. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

41.5 Operational risk

The Group defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events.

Operational risks are present in every part of the company as they are an integral part of 'being in business' and 'running the company'. Managing these risks enables us to do business, to provide continuous service and hence to protect ČSOB, its clients and counterparts from losses, disruptions, etc. We manage these operational risks by building and maintaining a strong control environment in a changing internal/external environment and by safeguarding our operationally resilience.

Operational Risk Management Framework

The Operational Risk Management Framework (ORMF) sets the standards for building and maintaining this strong control environment throughout the KBC group. It defines the required governance, organisation and core risk management processes to support:

- ČSOB's strategic objectives, as translated in the Operational Risk Appetite, of client centricity and sustainable growth, in a growing digitized and quickly evolving environment (in business-as-usual and when addressing crisis situations);
- The Group has to comply with applicable regulations and supervisory expectations.

The risk management process consists of:

1. Risk identification
2. Risk measurement
3. Setting & cascading risk appetite, and
4. Risk analysis, reporting & follow-up

Operational risk management starts with the identification of operational risks having materialized within the Group, as well as an assessment of the Group's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses, business and reputational impact. The assessment involves ranking the risks and risk events in terms of their probability (i.e., the chance of the risk materializing) and impact (i.e., a measure for the effect an operational risk event can have in case the event occurs - which can be financial or non-financial). The assessment is followed by the decision of an accountable manager, i.e. risk avoidance, acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance. Risk events that cannot be prevented may be also mitigated by business continuity arrangements.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision-making in business units. Operational risk management governance is promoted by the CRO and the Risk Function.

Non-financial Risk Management Department (NFR)

The NFR is responsible for management and monitoring in the area of non-financial risk. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal, Tax Unit and Data Quality Management Department.

Information Risk Management Department (IRM)

The IRM is responsible for management, monitoring and reporting in the information risk management area and business continuity.

Local Operational Risk Managers (the "LORMs")

LORMs are the first line support for business managers in respect of non-financial risks. Their role is to monitor, analyse and prevent operational risk events, informational risks and business continuity events. Beside frequent contacts, regular meetings of LORMs are organised by the NFR every quarter for training and exchange of information.

Key Elements of Risk Identification and of Operational Risk Management

Loss Data Collection Process

Loss Data Collection is a process of analysing and collection of realized or potential loss events and near misses resulting from an operational risk event. This method is a key element for estimation of future expected losses.

The Group collects data about loss events with both direct and indirect impact, as well as events which could potentially impact the profit & loss but which do not lead to a financial impact – so called near misses. Losses and near misses are registered into a database ´GLORY´.

Operational loss and near miss data are used for reporting towards the regulator and management. They are also used as an important source of information for identification of gaps in the internal control environment.

Deep Dive

The Deep Dive aims to identify and quantify operational risks in products, activities, processes and systems. This method is usually selected when there has not been any previous risk assessment in a process or its part or there are other reasons for risk reassessment, e.g. unexpected increase of the operational loss events, breach of the risk appetite or repetitive breaches of the Key Risk Indicators.

NAPP and the Process of Change Management

New and Active Product Process (NAPP) ensures that all products and services offered to clients are analysed in order to identify and assess operational risks. NAPP applies to all the subjects in the ČSOB group in the financial sector or acting as an independent intermediary, and to all the products, services and processes with an impact on external clients.

Besides NAPP, a Process of Change Management dealing with non-product changes is also used. Each material change must be analysed and identified risks are further managed according to valid rules.

Outsourcing

A specific area of operational risk management are the risks related to outsourcing of activities, which is a subject to a specific regulation. Outsourcing is any agreement between ČSOB and a product provider (intra-group or external), based on which the service provider performs a process, service or activity, which would or could be otherwise performed by ČSOB itself.

Outsourcing contract is categorized as critical/important or non-critical, whereby the intention to outsource a critical activity needs to be report to the regulator beforehand. The final accountability for the risks related to the outsourced activity cannot be transferred to a third party.

Business Continuity Management

Business continuity is based on two main pillars:

- Proactive approach (prevention): setting up the strategy, tactical solutions and processes towards solving various non-standard situations. It is based on risk assessment of individual activities in the bank with the aim to identify vulnerabilities, assess their probabilities and impact. Based on this assessment, business continuity plans are defined in order to ensure business continuity in case of non-standard situations (4 main scenarios).
- Reactive approach (crisis management): deals with originated crisis situations. Based on the severity of potential impact of the non-standard situations, 3 levels of crisis management are defined for each type of crisis.

Global Risk Scan

Every year, before the risk appetite statement is defined, the Group executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

Group Key Controls, Zero Tolerances and Local Risk and Control Assessment (LRCA)

LRCA is a process used for identification and measurement of local Key Risks of individual processes and the related Key Controls which mitigate the potential inherent impact of the identified risks. On the Group level, the Group Key Controls and Zero Tolerances (GKC/ZT) determine the basic control objectives to mitigate key & killer non-financial risks that are inherent to the processes of the business entities. Each GKC/ZT contain the key & killer operational risks related to the involved business process. For registering the results of the LRCA a group-wide application BWise is used.

Besides Group Key Controls and Zero Tolerances, local approach aims to identify new local key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Risk and controls inventories (RCI)

GKCs are gradually being replaced by RCIs which contain an overview of the activities per entity and Business Line, a full view of material operational risks in each activity and concrete controls mitigating the respective risks and the risk responses.

Operational Risk Measurement

The basic aim of the risk measurement is quantification of their impact. Risk impacts of identified risks are reflected in the overall risk exposure of the Group which is measured using defined risk indicators.

Uniform Risk Scale

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels (low-medium-high-critical risk), where financial limits and also non-financial criteria are taken into account and evaluated based on the probability of their occurrence.

Key Risk Indicators (KRI)

KRIs inform on the state of the control environment in a given process. Indicators are linked to particular risks, i.e. they must include at the minimum their owner, limit for a breach, frequency and way of measurement and escalation process.

Measurement of risk exposure – GORA

The approach and indicators for measurement of risk exposure towards the risk appetite of the Bank, are defined on the Group level, using a Group-wide GORA measurement tool. GORA includes a uniform set of quantitative and qualitative risk indicators for every sub-risk type (Business Continuity, Fraud, Legal, Information Security, Information Technology, Process, Personal and physical security, Model and Outsourcing & 3rd party risks).

Risk Assessment Approval and Risk Response

The final accountability for the operational risk management lies within the line management, which ensures adherence to the established working procedures and implementation of the operational risk management building blocks in their departments. Risks are approved by the respective managerial level based on the level of their risk impact.

The assessment is followed by the decision of an accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance.

Action plans

The aim of the action plan is to close the identified control deficiencies and thus mitigate the risk exposure. The action plan must include description of the measures taken, their owners and deadlines. These measures should be measurable and reachable in the defined timeframe.
For evidence and follow-up of the action plans a group-wide application BWise is used.

Reporting

The goal of operational risk reporting is to provide the management with the information about risk exposure in order to support their decision-making. NFR reports amongst others about breaches of the Zero Tolerances, highest operational risk events, breaches of the risk appetite and others. In the yearly Internal Control Statement the internal control system of the Group is evaluated for the individual GKC processes independently by the three lines of defence.

42. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the Group might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Group fully follows the KBC Group Capital Adequacy Policy stating that fully owned subsidiaries within the Group shall hold at least the regulatory minimum capital. All capital in excess of the targeted level shall be held at the KBC Group level.

For the purpose of the ICAAP process, available capital of the Pillar II in the Group coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

The Group reports its solvency calculated on the basis of balances based on IFRS Accounting Standards, taking into account all relevant regulatory requirements. Solvency targets based on external regulatory capital requirements were met throughout 2023 and 2022 with adequate buffers above the regulatory minimum standards, underpinning the very strong capital position of the Group.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with capital adequacy legislation requirements, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) in place. The ICAAP examines both the current and future capital situation. To assess the latter situation, a four-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. The Group uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

According to European Directive and Regulation (CRD / CRR), the legal minimum tier-1 ratio is set to 6.0% of risk weighted assets (with a minimum common equity ratio of 4.5%). On top of this, the institution shall hold the following capital buffers: the capital conservation buffer, the buffer for other systemically important institutions, and the countercyclical buffer. The Group has incorporated these requirements into the regular management of the risk and capital positions.

In line with European Banking Authority guidelines, we conduct an outlier stress test on a quarterly basis by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against Tier-1 capital. For the banking book of the Group banking entities at individual level, this risk came to -2.41% of Tier-1 capital for ČSOB bank, -4.32% of Tier-1 capital for ČSOB Hypoteční banka and -4.31% of Tier-1 capital for ČSOBS at year-end 2022. All results are well below the -15% Tier-1 threshold on individual levels, which are monitored by the ČNB.

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain the optimum capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue capital instruments.

Within the ICAAP approach the capital economic model (ICM – internal capital model) has been developed in KBC Bank in cooperation with the Group. The model is more risk sensitive and built in way that allows decomposition of the undergone credit risk to various categories (like default risk, migration risk, single-name risk, sector and region concentration and diversifications). Model was presented to the regulators and approved. The Group plans to roll out the internal model also for the purpose of the pricing and various business analyses to support business decisions.

From 28 June 2021, the Group had to meet the minimum leverage ratio at the level of 3%. The requirement has been met as of 31 December 2023 and 31 December 2022 with a sufficient buffer.

From 1 January 2022, the Group has to meet the Minimum Requirement for own funds and eligible liabilities (MREL) at the interim level set by ČNB. This requirement increased to the ultimate level as of 1 January 2024. This requirement is set only on the level of the Group, not on the level of ČSOB individual position. The Group manages its MREL positions altogether with capital position and leverage ratio exposure. The Group has met this requirement as of 31 December 2023 and 31 December 2022 with a sufficient buffer.

The following table shows the capital, capital requirements and CAD ratio as of 31 December 2023 and 31 December 2022 for the Group.

(CZKm)	2023 restated	2022 restated
Tier 1 capital	89,103	85,121
Tier 2 capital	237	1,646
Total capital	**89,340**	**86,767**
Regulatory capital requirements	36,663	34,631
Risk weighted assets	**458,282**	**432,893**
Capital adequacy ratio	19.49%	20.04%
Eligible liabilities	41,437	40,592
Leverage ratio	4.52%	4.45%

Independent Auditor's Report

To the shareholder of Československá obchodní banka, a. s.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Československá obchodní banka, a. s., with its registered office at Radlická 333/150, Prague 5 (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2023 and 31 December 2022, and of the Group's consolidated financial performance and consolidated cash flows for the years ended 31 December 2023 and 31 December 2022 in accordance with IFRS Accounting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statements of income for the years ended 31 December 2023 and 31 December 2022;
- the consolidated statements of other comprehensive income for the years ended 31 December 2023 and 31 December 2022;
- the consolidated statements of financial position as at 31 December 2023 and 31 December 2022;
- the consolidated statements of changes in equity for the years ended 31 December 2023 and 31 December 2022;
- the consolidated statements of cash flows for the years ended 31 December 2023 and 31 December 2022; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

These consolidated financial statements have been prepared for the purpose of incorporation into base prospectuses for investment certificates and bond programme establishment.

Basis for opinion

We conducted our audit in accordance with the Act on Auditors 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 consolidated 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.

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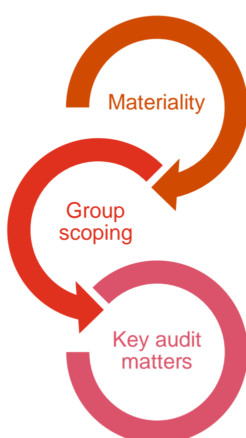
Independence

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 and the Act on Auditors.

Our audit approach

Overview



The overall materiality for the consolidated financial statements represents 5% of the three-year average from the Group's profit before tax and before a non-recurring transaction and has been determined as CZK 950 million (2023) and CZK 828 million (2022).

Our audit work addressed 97.9% of the Group's assets (2022: 97.9%) and 88.3% of the Group's profit before tax (2022: 90.9%). Our specified procedures on subsidiaries addressed additional 1.4% of the Group's assets (2022: 1.3%) and 2.7% of the Group's profit before tax (2022: 4%).

Risk of impairment of loans and advances, including the impact of the emerging risks.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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 consolidated 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 consolidated financial statements.

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

Overall Group materiality	2023: CZK 950 million 2022: CZK 828 million
How we determined it	Materiality for the Group was determined as 5% of the three-year average from the Group's profit before tax and before a non-recurring transaction for the years 2021 – 2023 and 2020 – 2022 respectively.
Rationale for the materiality benchmark applied	We have chosen the three-year average from profit before tax as the benchmark for estimating materiality, as the Group is a profit-oriented entity. We understand that profit before tax is one of the key performance indicators for the Group's stakeholders. The COVID-19 pandemic, Russia-Ukraine war and emerging risks had significant impact on the profitability of the Group mainly in previous years and therefore we have eliminated the consequential high volatility of materiality using the three-year average. We excluded a significant non-recurring transaction from the benchmark calculation (recognition of provision for the litigation of CZK 3,663 million impacting both the consolidated profit before tax for 2022). We have chosen 5%, which is within the range of acceptable quantitative materiality thresholds for Public Interest Entities.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of loans and advances, including the impact of the emerging risks	
The Group recognized Financial assets at amortised cost of CZK 1,493,773 million in the Consolidated statement of financial position as at 31 December 2023 (as at 31 December 2022: CZK 1,564,279 million) and within those assets Loans and advances of CZK 1,430,589 million (2022: CZK 1,315,168 million). The risk of non-payment of loans and advances is an inherent part of banking activities. The allowance for expected credit losses represents the most significant estimate and a highly complex area with a direct and significant impact on the financial results. Management's approach to assumptions with the most significant impact on the estimation of the allowance for expected credit losses is described in Note 2 to the consolidated financial statements, in Note 41 to the consolidated financial statements.	Our audit procedures relating to risk of impairment of loans and advances were specifically focused on the impact of emerging risks, for the purpose of an assessment of their effect on the net carrying amount of loans and advances and the estimated allowance for expected credit losses. Our approach was based on testing of the internal control system established by the Group for this area and on direct testing of the amounts recognized in the Group's financial statements. We assessed the existing policies applicable to the allowance for expected credit losses, including the system of collateral valuation, their compliance with the requirements of IFRS 9 and we also assessed adherence to the existing control system.

The allowance for expected credit losses is calculated using models that reflect the impact of current economic conditions, credit quality of loans and advances as well as forward-looking information and forecasts of macroeconomic variables on the credit portfolio of the Group. The current economic and political situation is characterised by emerging risks arising as a consequence of the ongoing war in Ukraine, high inflation and interest rate environment. All these factors bring increased uncertainty regarding the future state of the economy and behaviour of credit portfolios. It is critical that significant increase in credit risk is timely identified in the light of the current economic and political situation and that the emerging risks are adequately and timely reflected in the allowance for expected credit losses. The Group maintains an additional amount of allowance for expected credit losses ("management overlay"), which was added on top of the results of standard ECL models, as they could not fully capture the emerging risks brought by the current situation. The overlay is based on identification of clients and groups of clients with increased credit risks, for whom these risks are reflected in their staging and the allowance for expected credit losses. The identification is done by analysing direct impact of the war on selected industries and analysing the expected impact of the significant increase in interest rates on the loans (repricing) in the near future. Due to the uniqueness of the current situation, the impact of back testing of the credit models was limited.	We engaged our financial risk modelling experts in assessing the models (including the approach to the calculation of the management overlay) used for the quantification of the allowance for expected credit losses. We also assessed whether the approach to identification of significant increase in credit risk, taking into consideration regulatory recommendations, is consistent with the requirements of IFRS 9. Due to the key role of the core banking systems and internal control systems in the identification of significant increase in credit risk and the quantification of impairment of loans and advances, including the assignment of internal rating or credit score and pooling, we involved our information technology specialists, who verified access rights, data processing and automated calculations in the core systems, including the calculation of the allowance for expected credit losses. For a sample of loans, we verified the classification of loans into three stages as defined by IFRS 9. We also checked the identification of significant increase in credit risk and quantification of the probability of default, the amount of credit exposure and the loss given default and also the reflection of forward-looking information, as these factors have crucial impact on the calculation of the allowance for credit losses. For a sample of loans, we tested the individual calculation of the allowance for expected credit losses. We also reviewed adequacy of disclosures required by the respective IFRS Accounting Standards.

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 the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group operates.

Decisions regarding multi-location scoping require a significant degree of professional judgment based on the unique facts and circumstances of each entity. Most importantly, we considered each entity’s contribution to total assets and profit before tax of the Group.

Our coverage for the 2023 year-end audit of the consolidated financial statements of the Group is 97.9% of total consolidated assets (after eliminations) (2022: 97.9%), which is covered by full scope audit procedures, and additional 1.4% covered by specified procedures on the Bank's subsidiaries (2022: 1.3%). At the same time, this also represents 88.3% of the consolidated profit before tax covered by full scope audit procedures (2022: 90.9%) and 2.7% covered by specified procedures on the Bank's subsidiaries (2022: 4%).

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

We communicate with 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.

8 August 2024

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

Tomáš Bašta
Statutory Auditor, Licence No. 1966