ANNUAL REPORT 2023

Československá obchodní banka, a. s.

Business name	**Československá obchodní banka, a. s.**
Registered office	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status	Joint-stock company
Registration	Registered in the Commercial Registry of the Municipal Court in Prague, Section B XXXVI, Entry 46
Date of registration	21 December 1964
Business activities	bank pursuant to the Act No. 21/1992 Coll., on banks
ID No.	00001350
Tax registr. No.	CZ699000761 (for VAT) CZ00001350 (for other taxes)
Bank code	0300
SWIFT	CEKOCZPP
Data box	8qvdk3s
Telephone	+420 224 111 111
Internet address	https://www.csob.cz
E-mail	info@csob.cz
Supervisory body	Czech National Bank (CNB) Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

Year-on-year percentage changes are computed on a mathematical basis from non-rounded figures.

KEY FIGURES

Consolidated, EU IFRS	2023	2022	2021
Financial Statements Figures			
Balance sheet at the year end *(CZKm)*			
Total assets	1,869,032	1,805,617	1,805,479
Financial assets at amortised cost [9]	1,504,199	1,574,761	1,624,653
Deposits received from other than credit institutions	1,336,648	1,231,800	1,156,902
Debt securities in issue	24,302	264,915	402,164
Subordinated liabilities	45,843	40,592	19,439
Shareholders' equity [1]	114,481	100,978	117,378
Statement of income *(CZKm)*			
Operating income	41,294	40,474	35,724
– of which Net interest income	29,045	31,062	22,900
– of which Net fee and commission income	8,925	8,041	7,828
Operating expenses	22,589	21,987	19,834
Impairment on financial assets at amortised cost/loans and receivables [8]	1,683	-1,142	3,637
Profit before tax	17,308	16,960	19,079
Profit for the year [1]	15,436	14,571	16,160
Ratios *(%)*			
Return on average equity (ROAE)	14.4	13.6	14.3
Return on average assets (ROAA)	0.79	0.73	0.88
Cost / income ratio	54.7	54.3	55.5
Capital adequacy ratio [2]	19.7	20.2	22.7
Available MREL as a % of RWA	29.7	29.6	27.4
Available MREL as a % of LRE	6.91	6.69	5.67
Leverage ratio [3]	4.57	4.48	4.65
Net stable funding ratio [3]	170.4	171.8	171.3
Loan-to-deposit ratio	70.3	70.6	71.1
General Information (as at 31 December)			
Number of employees – the ČSOB group	8,035	8,105	8,087
Number of clients – the ČSOB group (in millions) [4]	4.309	4.340	4.225
Number of branches – the Bank [5]	198	201	208
Number of ATMs [6]	1,020	1,022	1,017

ČSOB's Credit Rating [7] (as at 31 December 2023)

Rating Agency	Long-term Rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's	A1	stable	P-1	21 November 2018
Standard & Poor's	A+	stable	A-1	30 July 2018

1) Attributable to equity holders of the Bank.
2) According to CRR rules as at the year end. End of period regulatory capital (ratios) does reflect retained earnings.
3) According to CRR rules; for definition please refer to page 24.
4) Includes all clients of ČSOBS.
5) Includes ČSOB branches, i.e. without approximately 2,100 post offices.
6) Including ATMs of cooperating banks.
7) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.
8) (-) net creation/cost; (+) net release/revenue
9) Includes Financial lease receivables.

INTRODUCTION

Ladies and Gentlemen,

The year 2023 proved to be a remarkable period for the Czech economy, marked by a myriad of challenges and fresh opportunities. The pandemic crisis and heightened geopolitical situation of preceding years have shown us the importance of financial resilience, strength, and adaptability. The economic landscape in the Czech Republic was significantly affected by a consumer price inflation exceeding 10%, leading to a decline in the population's purchasing power and investment activity of individuals and companies. This manifested in reduced demand across sectors and a modest economic downturn.

I am glad that in 2023, the ČSOB group continued to fulfil its role as a strong, stable, and innovative partner for citizens and companies alike, providing the broadest range of financial services and products. This commitment resonated in all areas of our business and resulted in a growing clientele and increased volume of loans, deposits, investments, and insurance.

The total volume of deposits increased by nine percent year-on-year to over CZK 1.3 trillion, while the assets under management soared by 19 percent to CZK 365 billion. We are happy to see our clients leveraging our savings and term products to increase the value of their savings, actively invest, and bolster their pension savings.

Moreover, the total volume of loans rose 5% year-on-year to CZK 916 billion. I am particularly delighted with the outstanding quality of the loan portfolio, a testament to our clients' responsible behaviour and smooth operation of our risk management protocols.

Notably, home loans reached the amount of CZK 520 billion. ČSOB helped 21,500 households to finance their dream homes through mortgages and building society loans. We are pleased that one-fourth of these mortgages were utilised for energy-efficient housing. We firmly believe in the value of investing in energy efficiency and self-sufficiency.

The corporate loan sector experienced remarkable growth, empowering our clients to run successful businesses. Corporate lending trends increasingly align with the need of transforming the Czech economy to one with higher added value and lower energy intensity. Several of our clients, including Prague Airport, HOPI Holding, and Rhea Holding, are leading the charge in this regard. Investments in energy-saving solutions and self-sufficiency need to be intensified for Czech companies to remain internationally competitive.

Last year, we partnered with the owner of Green0meter, a platform providing carbon footprint calculation and other ESG services through a digital solution. Our new online tool, Green0meter Marketplace, catered to the needs of thousands of our corporate clients. Companies are coming to realise the need to address energy intensity and their own carbon footprint and to map and collect necessary data for measuring climate targets, but often don't know how to proceed. That is where we come in and actively help them using our unique and extensive know-how.

I am grateful for the growing collaboration across our entire banking and insurance group and the client-centric approach. Our customer care initiatives are closely linked with our long-term strategy of embracing artificial intelligence, digital solutions, and innovation.

Our notable achievement in digitalisation was the adoption of the highest level of electronic signature (Qualified Electronic Signature) for mortgage and pledge agreements with several of our clients, marking a pioneering effort in the Czech market. Our long-standing vision is to fully transition the mortgage process online. Furthermore, we introduced the payment-to-contact service and launched an updated version of our ČSOB Smart app, currently used by over 1.3 million clients.

Our virtual assistant Kate has proven to be an instrumental part of ČSOB Smart, adept at solving hundreds of different situations and available round-the-clock to our retail and corporate clients. We want her to help in up to ninety percent of the situations our clients need help with their banking needs. Thanks to big data and artificial intelligence, we are able to offer products and services more effectively than ever before. For instance, we can engage with clients at opportune moments when they are most active. What may be lesser known is that a team of 1,200 experts from the Shared Services Centre in Brno and Prague provides also the data and AI solutions for the entire KBC Group.

Artificial Intelligence also helps us detect cyber-attacks. We have embarked on an ambitious mission, in cooperation with the Czech police department, to train a million individuals in cyber security. These efforts will persist 2024 as we continue promoting overall financial and digital literacy.

I would like to extend my thanks to all our clients for their unwavering support and to my colleagues for their extraordinary commitment, dedication, and innovative spirit. It is this collective effort that propels us to achieve success on an international scale. We are honoured to be recognised by the Global Finance magazine as the Best Bank of the Year in the Czech Republic in 2023 for the fourth consecutive year.

We will continue to be a reliable partner for our clients, working together to improve their quality of life and advance their financial aspirations. Through the integration of new technologies, investment products, and innovations, we will redefine the financial service market, pushing boundaries and charting a course towards success and prosperity for our clients.

Aleš Blažek
Chief Executive Officer of the ČSOB group

towards you

Our commitment goes beyond simply responding to the needs of our clients and society as a whole. We strive to be a dependable partner, offering valuable solutions and timely assistance to everyone, often anticipating their needs before they arise.

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CZECH ECONOMY

Czech economy 2023

In 2023, the Czech economy struggled to cope with the receding energy crisis. Although energy prices on world markets peaked in the summer of 2022, higher energy and input prices continued to feed through to the broader consumer basket in 2023. High inflation and a further decline in real wages thus again took their toll on Czech consumers, who tried in vain to stabilise their real spending. They finally hit bottom in the second half of the year, falling for the second year in a row. This was also the main reason why the Czech economy, after growing by 2.4% in 2022, finally contracted by 0.4% in 2023. The continued reduction of high post-crisis corporate inventories and also weakening exports in the second half of the year also kept the Czech economy in contraction.

Although the Czech economy has been experiencing very weak or negative growth for a relatively long time (since the second quarter of 2002), the energy crisis has not led to as deep recession compared to other historical episodes (e.g. the collapse of the investment bank Lehman Brothers). As a result, the labour market reaction has not yet been significant. For example, the unemployment rate (according to sample surveys) rose relatively slightly during 2023, from 2.3% (December 2022) to 2.8% (December 2023). However, the labour market has already started to cool off somewhat. The number of job vacancies at employment offices has fallen further from 289,000 to 267,000 and is lower than the number of registered unemployed for the first time since 2018. The share of industrial companies experiencing a shortage of employees has also fallen noticeably in 2023 (from 19.3% to 12.6%).

As high energy prices faded, the Czech economy began to benefit from a gradual decline in import prices and improving terms of trade in 2023. This was reflected in a marked slowdown in industrial producer price growth, which rose by 5.0% in 2023 (24.3% in 2022). The lower pace of industrial price inflation and the decline in agricultural prices also gradually began to put the brakes on consumer inflation momentum. However, its unwinding was much more gradual in 2023, especially in the services segment. Overall, consumer inflation thus still remained visibly above target at the end of 2023 (6.9%, albeit largely due to the effect of the energy-saving tariff) and ended up at double-digit levels again for the full year (10.7%). This was also the reason why the CNB Board decided to hold interest rates steady at 7.0% for most of the year and opted only for a minor 25 bps cut at the very last December meeting.

An improvement in terms of trade and weak domestic demand have contributed to the improvement in the external balance in 2023. The current account has moved from a large deficit of 6.1% of GDP in 2022 to a small surplus in 2023. And this was one of the main reasons why the koruna performed relatively well in the first half of 2023. It also undoubtedly benefited from the high interest rate differential (relative to the euro area) and the CNB's implicit guarantee to defend the koruna in the event of excessive losses. This is one of the reasons why the koruna strengthened from around 24.15 EUR/CZK at the beginning of the year to close to 23.25 EUR/CZK. However, the second half of the year was much more complicated for the Czech currency. Rising global yields and a strengthening US dollar put all regional currencies on the defensive. The latter was particularly strong for the koruna after the CNB decided to abandon the implicit intervention guarantee in favour of the Czech currency in August. In addition, towards the end of the year, bets on the first interest rate cut and weaker orders from export-oriented companies began to weigh on the koruna. As a result, it closed the year at a much weaker level of around EUR 24.70/CZK.

Despite a worse-than-expected economic performance and weaker revenue collection at the beginning of the year, the government eventually managed to reduce the budget deficit by CZK 71.9 bn to CZK 288.5 bn (against a planned CZK 295 bn). However, a number of extraordinary or non-tax revenues contributed to the good performance - extraordinary taxation of unexpected profits and sales, the state's income from the CEZ dividend, and revenues from the European Recovery and Resilience Facility.

High interest rates, a decline in real household income and general economic uncertainty led to a further reduction in banking sector lending in 2023 - mortgage loans amounted to CZK 150 billion, of which net new loans excluding refinancing amounted to CZK 124 billion. Compared to the previous year, this is a decrease by a quarter, but this is due to the effect of the higher comparison base in the first half of 2022, when the volume of mortgage loans was still high. New lending started to grow very cautiously in the second half of 2023, when the central bank started to prepare the market for the first interest rate cut and at the same time it abandoned some limits on credit indicators (from 1st July 2023 the limit for DSTI was lifted and from 1st January 2024 the limit for DTI).

The following table sets out key Czech macroeconomic indicators for the periods indicated.

Indicator [1]	Measurement Unit	2023	2022	2021	2020	2019
Nominal GDP	CZKbn	7,344 [4]	6,785	6,107	5,711	5,793
Real GDP growth	% change, Y / Y	-0.4 [4]	2.4	3.5	-5.5	3.0
Real GDP per capita	CZKths	486.3 [4]	490.6	493.4	468.5	497.2
Real GDP growth per capita	% change, Y / Y	-0.9 [4]	-0.6	5.5	-5.8	2.6
Inflation rate (CPI)	%, year end	6.9	15.8	6.6	2.3	3.2
Unemployment rate	%, average	2.8	2.4	2.9	2.6	2.0
General government budget balance / Nominal GDP [3]	%	-3.8 [4]	-3.2	-5.1	-5.8	0.3
General government debt [1]	CZKbn	3,111	2,895	2,466	2,050	1,640
General government debt / Nominal GDP [1]	%	42.3 [4]	42.7	40.4	35.9	28.3
Exports of goods and services [2]	% change, Y / Y	2.2 [4]	16.8	11.3	-6.7	2.8
Imports of goods and services [2]	% change, Y / Y	-3.8 [4]	16.8	18.1	-8.2	2.3
Trade balance / Nominal GDP [2]	%	3.6 [4]	-1.5	1.1	4.9	4.1
Interest rate (three month PRIBOR) [2]	%, average	7.10	6.28	1.13	0.86	2.12
CZK / EUR exchange rate [2]	average	24.0	24.6	25.6	26.4	25.7

Source:

1) CZSO, unless stated otherwise.
2) CNB.
3) Eurostat, CZSO.
4) Preliminary estimates.

REPORT OF THE BOARD OF DIRECTORS

Highlights and Main Events

The terms used in this section are defined and further discussed below.

Key Figures of the ČSOB Group in 2023

- The net profit of ČSOB amounted to CZK 15.4 billion (+6% year-on-year).
- The volume of loans amounted to CZK 916 billion (+5% year-on-year).
- The volume of deposits grew to CZK 1,337 billion (+9% year-on-year).
- The total volume of assets under management increased to CZK 365 billion (+19% year-on-year).
- Operating income reached CZK 41.3 billion (+2% year-on-year).
- Operating expenses increased to CZK 22.6 billion (+3% year-on-year).
- Loan loss provisions amounted to net release of CZK 1.7 billion. Credit cost ratio for the full year 2023 was -0.18%. The ratio of non-performing loans decreased year on year to 1.42%, reflecting the consistent high quality of loan portfolio.
- Total impairments were negatively affected by a one-off CZK 2.6 billion goodwill impairment related to the newly enacted reduction in state subsidy for building savings (see Note 24 of the Consolidated Financial Statements).
- ČSOB maintained strong capital position and excellent liquidity. Tier 1 (CET 1) ratio reached 19.7%. The loan-to-deposit ratio was 70.3%. The net stable funding ratio (NSFR) reached 170.4%. The liquidity coverage ratio increased to 201.4%.

Corporate Social Responsibility and Sustainability

The ČSOB group supports environmentally friendly business and brings the principles of sustainable business to the retail client segment. In 2023, ČSOB provided the amount of CZK 29.6 billion loans supporting transition to low emission economy, of which CZK 2.1 billion is in full compliance with the EU Taxonomy, and retail clients invested CZK 19.8 billion to responsible investment funds, ESG linked green bonds and investment certificates.

In 2023, ČSOB decreased the carbon footprint from its own activities (CO_2 emissions) by 71% compared to 2015. All CO_2 emissions are fully offset.

In June 2023, KBC established a joint venture with Green0meter, Digital & Legal Ltd, to ensure that ČSOB's corporate clients have digital, fully personalised, and professional sustainability advice combined with appropriate financing options. KBC, ČSOB and the Green0meter platform function as a catalyst and facilitator for the transition to more sustainable business processes. Green0meter has launched Marketplace, which allows companies to easily estimate their carbon footprint, find out what ESG reporting obligations apply to them, and get expert advice.

Related topics are described in more detail in Chapter Corporate Social Responsibility & Sustainability.

Changes to Scope of Consolidation and Business Combinations

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

Dividends Paid

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.

The decision of a profit allocation for 2023 has not been taken before the date of issue of the annual report.

Changes in ČSOB's Managing and Supervisory Bodies

- As of August 2023, there is a change in the Board of Directors, Tom Blanckaert has been replaced by Marcela Výbohová as Senior Executive Officer, Group Risk Management.
- Jiří Vévoda was re-elected for the new term of office beginning on 11 December 2023.

Managing and Supervisory Bodies are described in detail in Chapter Corporate Governance.

Distribution Platform and Client Base

As of 31 December 2023, ČSOB group had **4.3 million clients in the Czech Republic**. The client base comprises of 4.2 million group retail clients (of which 2.8 million clients of the Bank), 6 thousand corporate clients, 141 thousand SME clients and 11 thousand private banking clients in the Czech Republic. ČSOB issued over 3 million payment cards to its clients.

The total number of clients decreased year on year but the number of active clients increased +58 ths year on year.

	2023	2022	Y/Y change (%)
Clients of ČSOB group (mil.)	4.309	4.340	-0.7

Clients benefit from ČSOB's **wide sales network of 198 branches** of which 176 retail or shared retail / SME branches, 3 branches devoted solely for SME clients, 8 regional branches devoted to serving corporate clients and 11 branches for private banking clients. Next to these, selected clients could use 2 specialized branches for the Financial and Public Sector and for Bank Relations located centrally in Prague and approximately 2,100 outlets of the Czech Post network (227 have specialized banking counters) and additional approximately 900 Czech Post franchise outlets.

Clients can use a wide network of 1,020 ATMs, including 906 contactless, 337 enabling cash deposits and 1,004 customized for visually impaired clients.

ČSOB ensures the availability of financial and insurance services, in both physical and online environments. ČSOB invests in digital solutions to make financial services accessible to all.

Innovations

As of 31 December 2023, the number of mobile banking active users rose +16% year on year, while the number of internet banking active users decreased -10% year on year. The number of transactions entered via mobile banking increased +39% year on year, while number of transactions via internet banking declined -11% year on year.

Active users (ths)	2023	2022	Y/Y change (%)
Internet banking	860	958	-10.2
Mobile banking	1,318	1,134	16.2

Transactions (ths)	2023	2022	Y/Y change (%)
Internet banking	26,270	29,479	-10.9
Mobile banking	56,628	40,741	39.0

Transactions include only retail and private banking clients, transactions by companies are excluded.

Innovation Achievements in 2023

- Over 1.2 million users contacted our Virtual Assistant Kate since its launch. Kate is able to solve hundreds of situations for our clients with 66% autonomy (complete solution provided directly by Kate) and is available to retail as well as business customers.
- ČSOB has launched a new dashboard in Smart mobile banking app. The new look in Smart features a more streamlined home page, a more convenient menu layout and a few new beyond banking features, for example clients can compare energy prices from different providers, learn how to use state subsidies, or calculate the costs of a home renovation and secure financing. Using lead management tools, the app can be tailored to each customer's needs, including personalized offers.
- ČSOB successfully launched pilot phase of signing mortgage and the pledge agreements using a qualified electronic signature as the first bank on Czech market. For customers with qualified electronic signature, the mortgage process is fully digital.
- ČSOB was one of the first six banks in the Czech Republic to offer payment by contact. This innovative service allows to send payments by simply entering the recipient's phone number.
- ČSOB and our in-house broker Patria were among the first to launch the Long-Term Investment Product (DIP), which provides a compelling alternative to traditional pension saving.
- ČSOB expanded QR code functionality for simplified login. Smart key users can now log in to Internet banking and ČSOB CEB (electronic banking for business) by scanning a QR code, eliminating the need for passwords. ČSOB clients now also have the option to access Bank iD (digital verification of identity) via QR code. ČSOB pioneered this service among major banks in October 2023.
- Building on our existing video chat service with our call center specialists, ČSOB has launched a new video chat service that allows customers to connect with their banker from anywhere using MS Teams. The service is available to all ČSOB customers, meets regulatory requirements and significantly simplifies customers communication with the bank.
- ČSOB virtual branch for corporate and SME clients offers secure communication with the bank, including fully electronic signing of contracts and similar documents. Our clients can use the virtual branch directly in the mobile application where they can purchase and service various types of products or services online.

Awards

On the competitive Czech banking market, the quality of ČSOB's products and services was acknowledged by various awards:

- "Best Bank in the Czech Republic", "Best Bank for Sustainable Finance in the Czech Republic", "Best Provider of the Financial Services for International Trade in the Czech Republic" and "Best Bank for SMEs in the Czech Republic" (Global Finance)
- ČSOB Private Banking: "Best Private Bank in the Czech Republic" (Euromoney, PWM/The Banker)
- "Best Bank in the Czech Republic" (EMEA Finance)
- "Market Leader in the Czech Republic" in the areas of Corporate and Social Responsibility (CSR), Corporate Banking and Digital Solutions (Euromoney)
- "Best Investor Relations Bank" (Global Banking & Finance)
- 1st place in the category TOP responsible large company and title Sustainable Business Leader (Cena Byznysu pro společnost)
- 1st place in Charitable Communication Project category for the "Caller and Clicker" campaign and 1st place in the Annual Report category for the CSR report for the year 2022 (Fórum dárců Awards)

For a full list of awards won by the ČSOB group, please go to www.csob.cz.

The Board of Directors' Assessment of 2023

The ČSOB group performed strongly in 2023. The Czech banking sector remained stable, profitable, and resilient, with high capitalisation and liquidity levels, and low non-performing loans.

The Czech economy underwent a downturn in 2023. The inflation pressures in the economy continued to weaken towards year-end. This prompted the Czech National Bank (ČNB) to initiate the lowering of policy rates, starting with a 0.25 percentage point reduction in the two-week repo rate at the final meeting of 2023. In the beginning of 2024, the ČNB Bank Board lowered the two-week repo rate by 0.5 percentage point to 6.25%.

Total banking sector assets increased. Loan growth continued, albeit at a slower pace due to higher domestic interest rates acting as a moderating factor. A persistent interest rate differential between euro and koruna loans led to sustained growth in the stock of euro-denominated loans in Czech economy. Deposit growth remained robust, surpassing loan growth in 2023 and the sector loan-to-deposit ratio declined. The banking sector maintained strong profitability. The share of non-performing loans was at historically low levels. Banks capitalisation was high and liquidity position strong.

The banking sector remained resilient to risks from adverse economic developments, as confirmed by the ČNB's autumn stress tests. Banks were operating in an increasingly hostile cyber risk environment, partly because of the escalation geopolitical tensions.

The mortgage market experienced subdued activity in the first half of 2023 but exhibited signs of recovery in the latter half. Nevertheless, tighter financing conditions exerted downward pressure on real estate demand and prices. ČNB relaxed previously implemented restrictions on mortgage lending by deactivating the upper limits on DSTI and DTI ratios. However, LTV limits remained unchanged at 80% (and 90% for applicants under 36 years).

In November 2023 the Czech Parliament approved a proposal for the reduction of the building saving state subsidy, being effective from 2024.

The ČSOB group achieved solid financial and business results in 2023. ČSOB's net profit increased to CZK 15.4 billion. This was primarily due to the combined effect of higher operating income (comprising higher other income influenced by lower base in 2022, higher net fee and commission income, but lower trading & fair value income and net interest income), higher costs, net release of loan loss provisions and creation of goodwill impairment related to changes in state subsidy for building savings. Business volumes grew significantly, reflecting the high trust of our clients. The volume of assets under management increased by 19%, deposits were up 9% year-on-year and loan volumes were up 5% year-on-year.

ČSOB remains well-capitalized and highly liquid, enabling us to support the economy and our clients and ensuring that the group is well-positioned to withstand potential challenges. We are committed to delivering strong and sustainable performance.

Strategy of the ČSOB Group and its Business Model

The ČSOB group is one of the largest financial services groups in the Czech Republic and one of the top performers in daily banking, home financing, building savings, company and affluent clients banking, investments, financial markets operations, brokerage services, leasing and other areas. The ČSOB group serves its clients through omnichannel distribution. The management continuously evaluates strategic choices and manages the ČSOB group's business portfolio. Key resources (human capital, equity, liquidity and IT create capacity) are allocated to areas of the best fit with the strategic ambitions.

ČSOB Group aims to:

- Retain the reference position in banking and insurance services by offering retail, SME and mid-cap clients a hassle-free customer experience through both online and relationship services and delivering strong and sustainable performance.
- Unlock business potential through advanced use of data, AI and digital lead management to offer personalized solutions proactively to clients, including via Kate, personalized digital assistant.
- Maintain the competitive edge in home financing and pursue more opportunities for growth especially in insurance and wealth management areas.
- Increase the number of active clients and their satisfaction, number of users of ČSOB mobile applications, continue further in digitization of services and introduce new and innovative products and services, including open bank-insurance solutions aimed at boosting the financial well-being of clients.
- Concentrate on rolling out straight-through processing and further simplifying the products, head office, and distribution model, in order to operate even more cost-effectively.

The ČSOB group operates according to high ethical standards. Our corporate sustainability and responsibility focus on expected needs of the present without compromising expectations of future generations. Responsible behavior is included in our sustainability concept that is composed of four areas: longevity, environmental responsibility, entrepreneurship and financial literacy.

Our HR policy is focused on fair reward, diversity, and creation of flexible and inspiring work environment. The PEARL culture is the foundation of the ČSOB group's business strategy. It is guided by five imperatives: Performance, Empowerment, Accountability, Responsiveness and Local embeddedness. PEARL+ symbolizes the way we cooperate across KBC group, encouraging the 'smart copy' international approach which, in today's fast-changing digital world, is an exceptional advantage.

Financial Results

All financial figures hereinafter were derived or drawn from ČSOB's 2023 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Financial Ratios

	2023 (%)	2022 (%)	Y/Y change (pp)
Return on average equity (ROAE)	14.4	13.6	0.8
Return on average assets (ROAA)	0.79	0.73	0.05
Net interest margin	2.30	2.54	-0.24
Cost / income ratio	54.7	54.3	0.4
Cost / income ratio excl. banking taxes	51.2	50.6	0.6
Credit cost ratio	-0.18	0.12	-0.30

	31. 12. 2023 (%)	31. 12. 2022 (%)	Y/Y change (pp)
Loan-to-deposit ratio	70.3	70.6	-0.3
Capital adequacy ratio	19.7	20.2	-0.5
Leverage ratio	4.57	4.48	0.09
Net stable funding ratio	170.4	171.8	-1.4

Note: pp = percentage point
Capital adequacy ratio, leverage ratio and Net stable funding ratio according to CRR rules.
For definitions and glossary of financial ratios please refer to the end of the Report of the Board of Directors.

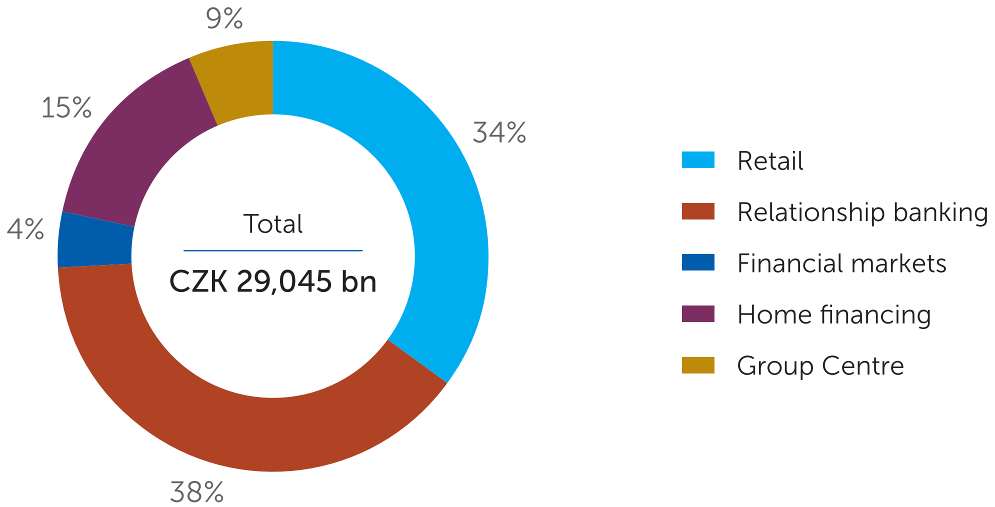
Consolidated Statement of Income

(CZKm)	2023	2022	Y/Y change (%)
Interest income calculated using the effective interest rate method	113,479	94,465	20.1
Other similar income	14,987	12,823	16.9
Interest expense calculated using the effective interest rate method	-80,963	-54,505	48.5
Other similar expense	-18,458	-21,721	-15.0
Net interest income	**29,045**	**31,062**	-6.5
Fee and commission income	16,112	14,903	8.1
Fee and commission expense	-7,187	-6,862	4.7
Net fee and commission income	**8,925**	**8,041**	11.0
Dividend income	7	18	-61.1
Net gains / losses (-) from financial instruments at fair value through profit or loss and foreign exchange	2,190	3,607	-39.3
Income from operating lease	1,282	1,253	2.3
Expense from operating lease	-1,135	-1,081	5.0
Net increase in provisions for legal issues and other losses	-58	-3,652	-98.4
Other net income	1,038	1,227	-15.4
Operating income	**41,294**	**40,475**	2.0
Staff expenses	-10,626	-10,109	5.1
General administrative expenses	-9,197	-9,217	-0.2
Depreciation and amortisation	-2,766	-2,661	3.9
Operating expenses	**-22,589**	**-21,987**	2.7
Impairment losses	**-1,376**	**-1,497**	-8.1
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	>100
on other financial and non-financial assets	-443	-239	85.4
Share of loss of associates and joint ventures	-21	-30	-30.0
Profit before tax	**17,308**	**16,961**	2.0
Income tax expense	-1,872	-2,390	-21.7
Profit for the year	**15,436**	**14,571**	5.9
Attributable to:			
Owners of the parent	15,436	14,571	5.9
Non-controlling interests	-	-	n/a

Discussion of the Statement of Income Main Items

With a 70% share, the net interest income (NII) is the largest part of the operating income. The ČSOB group's NII decreased by 6.5% year on year due to lower NII from deposits as well as loans. The net interest margin (NIM) decreased to 2.30% in 2023 from 2.54% in 2022 mainly due to lower margins from deposits and loans and also reflecting zero remuneration on minimum required reserves.

Net interest income by reported segments



The net fee and commission income (NFCI) represented 22% of operating income. In 2023, NFCI grew +11.0% year on year driven by higher asset management fees, higher distribution fees and improved network income.

All other income items of the Statement of Income combined represented 8% of 2023 operating income and increased more than 100% year on year mainly due lower base in 2022 driven by one-off increase of the provisions for legal issues in the amount of CZK 3,663 m related to a historical legal case (see Note 10 of the Consolidated Financial Statements).

Staff expenses represented 47% of the ČSOB group's operating expenses in 2023. Staff expenses rose +5.1% year on year impacted by wage inflation and restructuring reserve, partly compensated by exceptional bonus in 1Q 2022. The number of FTEs (in full-time equivalents at the end of the period) slightly decreased to 8,035.

General administrative expenses (GAE) contributed 41% to the ČSOB group's operating expenses in 2023 and remained almost flat year on year (-0.2%) as higher IT expenses were compensated by lower banking taxes and lower marketing costs.

Information technologies related expenses increased +12.2% year on year and remained the largest part of GAE (41%). Banking taxes, including Deposit insurance premium, contribution to the Securities Traders Guarantee Fund and to the Single Resolution Mechanism decreased (16% of GAE; -4.5% year on year). Marketing expenses contributed 7% to total GAE and decreased -27.3% year on year.

Depreciation and amortization increased +3.9% year on year.

Impairment losses amounted to CZK 1,376m (net creation) in 2023 due to one-off goodwill impairment in 4Q 2023 related to the newly enacted reduction in state subsidy for building savings of CZK 2,616m (see Note 24 of the Consolidated Financial Statements). Loan loss provisions amounted to a net release of CZK 1,683m thanks to releases in Relationship banking segment.

As a result of the trends described above, the **2023 net profit attributable to owners of the parent equaled CZK 15,436m** which is +5.9% higher than the figure for 2022. Adjusted for the one-off items (increase of the provisions for legal issues in 4Q 2022 and the goodwill impairment in 4Q 2023) the net profit would increase by +2.9% year on year.

Consolidated Statement of Financial Position

(Excerpt)

(CZKm)	2023	2022	Y/Y change (%)
ASSETS			
Financial assets at amortised cost	1,493,773	1,564,279	-4.5
Total assets	**1,869,032**	**1,805,617**	3.5
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost	1,667,441	1,581,015	5.5
Total liabilities	**1,754,551**	**1,704,639**	2.9
Total equity	**114,481**	**100,978**	13.4
Total liabilities and equity	**1,869,032**	**1,805,617**	3.5

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB group increased +3.5% year on year.

Financial assets at amortised cost, the largest item thereof with 80% share, decreased -4.5% year on year driven by lower debt securities, while balances with central banks (reverse repo transactions provided to central bank increased +15.9% year on year) and loan portfolio increased.

Total consolidated liabilities of ČSOB group grew +2.9% year on year.

Financial liabilities at amortised cost, the largest item thereof with 95% share, increased +5.5% year on year driven by deposits received from credit institutions (>100% Y/Y) and from clients (+9% Y/Y).

Total equity increased +13.4% year on year.

No treasury shares were held by the ČSOB group at 31 December 2023 and 2022.

Regulatory Capital Adequacy

The primary objectives of ČSOB's capital management are to ensure that it complies with externally and internally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The ČSOB group manages its capital structure in the light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

Consolidated, CZKm unless indicated otherwise	2023	2022	Y/Y change (%)
Total regulatory capital	**90,360**	**87,439**	3.3
– (Common Equity) Tier 1 Capital	90,123	85,793	5.0
– Tier 2 Capital	237	1,646	-85.6
MREL eligible debt	**45,843**	**40,592**	12.9
Total risk weighted assets	**458,282**	**432,893**	5.9
– Credit risk	388,979	366,892	6.0
– Market risk	357	481	-25.8
– Operational risk	68,946	65,519	5.2
(Common Equity) Tier 1 ratio	**19.7%**	**19.8%**	-0.2pp
Total capital ratio	**19.7%**	**20.2%**	-0.5pp
Leverage ratio	**4.57%**	**4.48%**	0.09pp
Available MREL as a % of RWA	**29.7%**	**29.6%**	0.1pp
Available MREL as a % of LRE	**6.91%**	**6.69%**	0.22pp

Note: pp = percentage point
Calculation is based on CRR rules.
End of period regulatory capital (and the respective ratios) reflects retained earnings.

(Common Equity) Tier 1 capital reached 19.7% (-0.2pp Y/Y).

MREL ratio increased in 2023 to 29.7% of RWA and 6.91% of LRE as of year-end due to issuance of MREL eligible debt.

Intermediate MREL targets as of 1 January 2023 reached 24.15% of RWA and 5.18% of LRE. As of 1 January 2024, ČSOB will be required to comply with a MREL equal to 27.2% of RWA and 5.91% of LRE.

Credit Rating

ČSOB has been assigned credit ratings from agencies:

Rating agency	Long-term rating	Outlook	Short-term Rating
Moody's Investors Service Ltd. ("Moody's")	A1	Stable	P-1
S&P Global Ratings Europe Limited ("S&P")	A+	Stable	A-1

Both rating agencies were registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies. While choosing rating agencies, ČSOB proceeded according to the obligations laid down by the article 8d of the described regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

In accordance with obligation set in the article 8d of the Regulation on credit rating agencies, ČSOB has considered appointing a rating agency with a market share below 10%. In the final decision, with regards to the position of ČSOB on the Czech market and the market know-how of the considered rating agencies, ČSOB has decided to use the services of the aforementioned rating agencies.

Business Results

Main Factors Influencing the Financial and Business Results and the Market Position of the ČSOB Group

The ČSOB group's business results are affected by a range of economic, political and other external factors that affect business in the banking and financial sector in general and the ČSOB group's operations in particular.

The Board of Directors believes that the following several factors represent principal drivers for the development of the ČSOB group's business model, results and the market position. These factors include the development of both Czech and global macroeconomic and monetary conditions, the development of the financial markets, interest rate environment, changes in credit risk and general competitive factors in the banking industry. These factors also include the impact of the regulatory environment and developments in the field of sustainability.

The Czech economy had to cope with the aftershocks of the energy crisis in 2023. Despite a visible decline in energy prices, headline inflation continued to rise relatively rapidly during the year, reaching double digits for the second year in a row. This again weighed on consumer demand and credit. The export-oriented industry continued to perform well, especially in the first half of the year, while in the second half of the year it gradually faced cooler domestic and foreign demand, which began to reflect the effects of tight monetary policies at home and abroad. The economic environment in which the CSOB group operates will continue to be influenced mainly by the further development of inflation, supply shocks from foreign markets and changes in interest rates at home and abroad.

- We expect headline inflation in the Czech Republic to decline significantly in 2024. In particular, lower year on year energy and food prices (due to a high comparative base) should push headline inflation down to close to 2%. Core inflation will remain higher due to faster growth in services prices.
- We expect the sharp decline in inflation to lead to an increase in real wages and a slight recovery in Czech household consumption. On the other hand, the economy will be held back, at least in the first half of the year, by weak external demand and the ongoing liquidation of high inventories.
- Interest rates will have room to fall relatively quickly in the first half of the year, given the decline in inflation and weak growth. In the second half of the year, the pace of rate cuts is likely to slow as the economy recovers, and we expect the CNB's key rate to end the year at 3.50%. The cycle of interest rate cuts in the euro area will start later, which could put negative pressure on the Czech koruna in the first half of the year.
- Financial markets are likely to remain highly volatile due to the uncertainty surrounding the slowdown in inflation and the policies of the major central banks.

Evolution of Key Business Volumes

Loan portfolio (selected business categories) grew to CZK 916.3 bn in 2023. The increase makes +4.8% year on year and was driven by growth in corporate loans and mortgages.

Outstanding gross amount, selected business categories CZK bn	2023	2022	Y/Y change (%)
Mortgage loans	397.1	381.7	4.0
Building savings loans	122.7	125.7	-2.4
Consumer loans	40.6	37.2	9.1
Corporate	202.6	184.9	9.6
SME	99.7	97.1	2.7
Leasing	47.6	41.7	14.1
Factoring	5.9	5.8	1.7
Other	0.0	0.0	n/a
Loan portfolio	**916.3**	**874.1**	**4.8**

The outstanding amount of mortgages increased +4.0% year on year. The outstanding amount of building savings loans decreased by -2.4% year on year. Consumer finance increased +9.1% year on year thanks to significant increase of new sales. Outstanding amount of corporate loans rose +9.6% year on year mainly driven by growing specialized finance loans. SME loans increased +2.7% year on year thanks to growing core SME lending (micro, small and mid-sized companies). Outstanding amount of Leasing increased +14.1% year on year as a result of increase in SME segment. Factoring outstanding amount increased +1.7% year on year.

Deposits received from other than credit institutions increased to CZK 1,336.6 bn. This represents an 8.5% increase year on year driven by the growth of term deposits attributable to more attractive interest rates, while amounts on current accounts decreased year on year.

Deposits received from other than credit institutions CZK bn	2023	2022	Y/Y change (%)
Current accounts and overnight deposits	584.3	617.6	-5.4
Term deposits	312.4	230.9	35.3
Savings deposits	379.6	359.6	5.6
of which savings deposits excluding building savings deposits	264.9	234.8	12.8
of which building savings deposits	114.7	124.8	-8.1
Repo and other deposits	60.4	23.7	>100
Total	**1,336.6**	**1,231.8**	**8.5**

Total assets under management increased year on year by 18.6% to **CZK 365.2 bn**. Mutual funds and other AM increased by 23.8% year on year thanks growing demand for investment products and positive performance effect. The volume of savings in pension funds increased by 1.0%, the slowdown in growth was driven by higher outflows.

Assets under management, outstanding volumes, CZK bn	2023	2022	Y/Y change (%)
Pension funds	71.9	71.2	1.0
Mutual fund and other AM	293.3	236.9	23.8
Total AUM	**365.2**	**308.0**	**18.6**

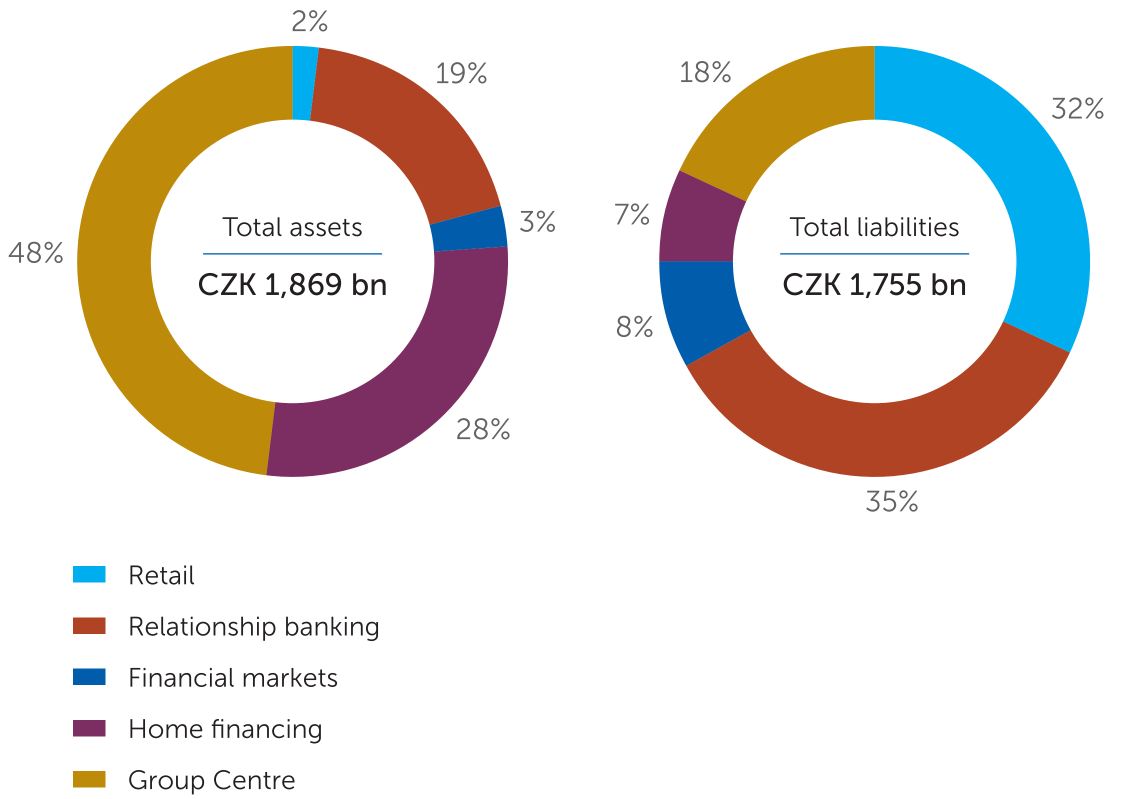
ČSOB Group Market Position

ČSOB group held 20% share of the market for banking products (average of loans and deposits), 24% for investment funds and 9% for insurance. ČSOB's market share in insurance, leasing and factoring increased in 2023.

Segment View

The ČSOB group has **five segments**, which are the group's strategic business units: **Retail, Relationship banking, Financial markets, Home financing** and **Group Centre**.

Total assets and liabilities by reported segments



Retail

The ČSOB Retail segment represented 2% of ČSOB's assets and 32% of ČSOB's liabilities as at the 31 December 2023.

Retail clients comprise 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

The ČSOB Relationship banking segment comprised 19% of assets and 35% of liabilities of the ČSOB group as at the 31 December 2023.

The Relationship banking segment includes 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, service fees, distribution and other fees.

The ČSOB group provides SME and corporate clients with a wide range of financial services, from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing clients' foreign currency and interest rate risks, specialized financing, financing with EU support, acquisition and project financing, cash pooling and internet-based transactional systems. The range of its products combined with its distribution network has enabled the ČSOB group to become an important service provider in key product areas, including cash management, acquisition, export and online trade finance services.

ČSOB offers to its business customers Company electronic banking (CEB) e-channel and provides biometry-based solutions in order to enable business mobility.

ČSOB also offers a range of products for institutional clients. This range comprises both regular banking products tailored to meet the requirements of institutional clients, and specialized services in the areas of cash management, custody of securities, and fund depository services.

Financial Markets

The ČSOB Financial markets segment represented 3% of ČSOB group's assets and 8% of its liabilities as at the 31 December 2023.

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

Home Financing

The ČSOB Home financing segment represented 28% of ČSOB group's assets and 7% of its liabilities as at 31 December 2023.

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

Group Centre

The Group Centre comprised 48% of ČSOB group's assets and 18% of its liabilities as at 31 December 2023.

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.

Insurance

As of 31 December 2023, **ČSOB Pojišťovna reached a 9.7% market share in non-life gross written premium and a 7.4% market share in life gross written** (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. As at 31 December 2023, ČSOB Pojišťovna had approximately 1.300 million clients, comprising of individuals and business entities (including SME's as well as corporates). Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

Key Volumes – gross written premium (CZKm)	2023	2022*	Y/Y change (%)
Single life insurance	796	630	26.3
Regular life insurance	3,702	3,618	2.3
Life insurance total	**4,498**	**4,248**	5.9
Non-life insurance total	**11,482**	**10,242**	11.6
Total	**15,980**	**14,490**	10.3
Number of claims settled	295,224	271,652	8.7

** The international standard for measurement, accounting and reporting of insurance contracts IFRS17 was published in 2017 with effective date as of 1 January 2023. For comparison purposes, 2022 figures were restated.*

ČSOB's bank-insurance model is already delivering numerous commercial synergies. For example, around five to six out of ten ČSOB group clients who took out home loans with the bank in 2023 also purchased home insurance from the group. There was a further increase of 4% in the number of clients who hold at least one banking product and one insurance product from the group (i.e. bank-insurance clients) in 2023, while the number of clients with at least two banking and two insurance products from the group (i.e. stable bank-insurance clients) even went up by 9%. At year-end 2023, bank-insurance clients accounted for 87% of the business unit's active clients and stable bank-insurance clients made up 21% of active clients.

Definitions and Glossary of Financial Ratios

Active clients include clients with a current account and active income.

Assets under management include pension funds, mutual funds (assets under management in structured/capital protected funds and other mutual funds), other asset management and assets under management products and assets under management of Slovak local funds managed in the Czech Republic.

Available MREL as a % of LRE (MREL leverage ratio) is (Total regulatory capital + Eligible liabilities) / (On-balance + Off-balance sheet items + Counterparty exposure for Derivatives and SFT + Add-ons) (according to CRR).

Available MREL as a % of RWA (MREL ratio) is (Total regulatory capital + Eligible liabilities) / Total RWA (according to CRR).

Bank-insurance clients hold at least one banking product and one insurance product from the ČSOB group.

Capital adequacy ratio is total regulatory capital / total RWA (according to CRR).

(Common Equity) Tier 1 ratio is Tier 1 capital (CET1) / Total RWA (according to CRR).

Cost / income ratio represents Operating expenses / Operating income.

Credit cost ratio is Total credit costs / average Credit risk loan portfolio in the year (simple average of previous year end and reported period end balances).

Credit risk loan portfolio includes all payment credit, guarantee credit, standby credit and credit derivatives, granted by ČSOB to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.

ESG linked green bonds and investments certificates include green bonds (sold) and investment certificates (gross sales) for retail clients based on environmental, social and governance (ESG) criteria.

Group deposits is item Deposits received from other than credit institutions from the consolidated balance sheet.

Leverage ratio is Tier 1 capital / On-balance + Off-balance sheet items + Counterparty exposure for Derivatives and SFT + Add-ons (according to CRR).

Loan portfolio includes Loans and receivables to other than credit institutions plus loans and receivables to credit institutions minus exposure to banks from inter-bank transactions plus credit replacing bonds (in FVOCI portfolio).

Loan-to-deposit ratio is Financial assets at amortised cost - loans to other than credit institutions minus bonds (net) / Deposits received from other then credit institutions at amortised cost minus repo operations with non-banking financial institutions

Loans supporting transition to low emission economy include loans for economical housing, commercial real estate, green energy cars and renewables. Data quality is gradually being improved (e.g. EPC labels) – in addition to the development of new green-flavored production, further data check can impact the reported value.

- *Commercial real estate loans: At least 50% of the loan has to be with green-flavored purpose.*
- *Green energy cars: Cars and light commercial vehicles with tail pipe emissions below 50g CO_2/km and trucks with tail pipe emissions in line with the Paris agreement.*
- *Loans for economical housing: Mortgage with EPC label A / B for construction, purchase, reconstruction or refinancing of family house or flat with EPC label A / B. This product can have a part which can be used for a different purpose (up to 30% of granted amount);*

Secured bridge-loan for economical housing finances property with EPC label A / B (purchase, refinancing, construction). For reconstruction and construction, a different purpose can be up to 20% of the granted amount.

- ***Renewables:*** *At least 50% of the loan has to be with green-flavored purpose.*

MREL *is minimum requirement for own funds and eligible liabilities.*

Net interest margin *is Net interest income excl. volatile short-term assets used for liquidity management / average interest earnings assets excl. volatile short-term assets used for liquidity management.*

Net stable funding ratio *is available amount of stable funding / required amount of stable funding (according to CRR).*

NPL (non-performing loans) ratio *is outstanding amount of non-performing loans (incl. off-balance sheet items) / Credit risk loan portfolio.*

Responsible investment funds *are collective investment instruments that choose the assets that make up the portfolio based on environmental, social and governance (ESG) criteria.*

ROAA (return on average assets) *is net profit for the year / average of total assets.*

ROAE (return on average equity) *is net profit for the year / average of total shareholders' equity.*

Stable bank-insurance clients *hold at least two banking and two insurance products from the ČSOB group.*

ABOUT US

Company Profile

From ČSOB's History

1964 ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market.

1993 Continuation of ČSOB's activities in both the Czech and Slovak market after the split of Czechoslovakia.

1999 ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB.

2000 Acquisition of Investiční a Poštovní banka (IPB).

2007 KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders. New environmentally friendly building of ČSOB's headquarters in Prague – Radlice (Building of the Year 2007).

2008 As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights.

2009 In December, ČSOB sold its remaining interest in the Slovak activities to KBC Bank.

2013 The establishment of the separate Business Unit Czech Republic within the KBC Group.

2017 New 10-year (for period 2018-2027) exclusivity partnership agreement for both banking and insurance services signed with Česká pošta (Czech Post).

2019 ČSOB reached an agreement to become the sole shareholder of Českomoravská stavební spořitelna (ČMSS) by acquiring 45% stake previously owned by Bausparkasse Schwäbisch Hall. ČSOB thus strengthened its position as the largest provider of financial solutions for housing purposes.

2020 Českomoravská stavební spořitelna (ČMSS) was renamed to ČSOB Stavební spořitelna (ČSOBS), 100% ownership remains.

2022 Poštovní spořitelna was renamed to ČSOB Poštovní spořitelna. ČSOB gained 100% ownership in Mallpay, which was afterward renamed to Skip Pay.

ČSOB and ČSOB Group Profile

Československá obchodní banka, a. s. (hereinafter referred to as "ČSOB" or the "Bank") is operating in the Czech Republic as a universal bank. ČSOB is a wholly-owned subsidiary of the Belgian KBC Bank (since 1999, since 2007 fully). KBC Bank is a part of the integrated bank-insurance group KBC Group. As of 1 January 2013, KBC Group has organized its core markets activities into three business units – Belgium, Czech Republic (includes all KBC's business in the Czech Republic) and International Markets.

ČSOB provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients. In retail banking in the Czech Republic, ČSOB is operating under main recognized brands – ČSOB (branches) and Poštovní spořitelna (Postal Savings Bank – PSB; outlets of the Czech Post network). ČSOB offers to its clients a wide range of banking products and services, including the products and services of the entire ČSOB group.

The ČSOB group consists of the Bank and entities related with the Bank. ČSOB's financial group includes strategic companies in the Czech Republic controlled directly or indirectly by ČSOB, or KBC, which offer financial services, namely Hypoteční banka, ČSOB Pojišťovna, ČSOB Stavební spořitelna, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Factoring, Patria Finance and Ušetřeno.cz.

The ČSOB group's (Business Unit Czech Republic) product portfolio includes next to standard banking services: financing housing needs (mortgages and building savings loans), insurance products, pension funds, collective investment products and asset management, specialized services (leasing and factoring) and services related to trading equities on financial markets.

With total assets of CZK 1,869.0 bn as at 31 December 2023 and a total net profit of CZK 15.4 bn in 2023 the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2023, the ČSOB group had CZK 1,337 bn of group deposits and a loan portfolio of CZK 916 bn.

ČSOB Group in Figures

	31. 12. 2023	31. 12. 2022
ČSOB group's clients (mil.)	**4.309**	**4.340**
ČSOB branches (bank only)	**198**	**201**
ČSOB Retail/SME branches	179	181
ČSOB Private Banking branches	11	11
ČSOB Corporate branches	8	9
ČSOB Pojišťovna branches	**94**	**95**
ČSOBS advisory centers	**224**	**215**
Leasing branches	**5**	**5**
PSB outlets of the Czech Post network	**ca 2,100**	**ca 2,400**
– of which specialized banking counters	227	235
Czech Post franchise outlets	**ca 900**	**ca 800**
ATMs [1)]	**1,020**	**1,022**
– of which contactless	906	861
– of which deposit	337	307

1) Including ATMs of cooperating banks.

Employees *(FTEs)*	31. 12. 2023	31. 12. 2022
Employees of the ČSOB group (FTEs)	8,035	8,105
– of which the Bank	7,096	7,139

Annual reports and other information about ČSOB and the ČSOB group are available at www.csob.cz.

KBC Group Profile

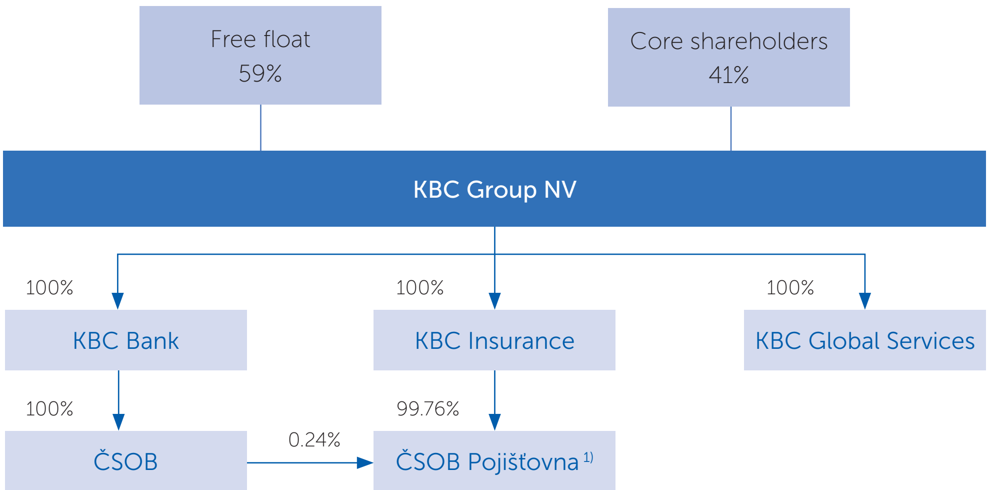
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, KBC focuses on its home markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Elsewhere in the world, KBC is present in several other countries to support corporate clients from its core markets. As of the end of 2023, the KBC Group served 13 million clients in its home markets, and employed approximately 41,000 employees, approximately 60% of which in Central and Eastern Europe.

The majority of KBC Group's shares is traded publicly on the Euronext Exchange in Brussels. 41% of KBC Group's shares is held by KBC Group's core shareholders (KBC Ancora, Cera, MRBB and the other core shareholders).

The Simplified Scheme of the KBC Group

(as at 31 December 2023)



Percentages in the chart denote the ownership interest.

1) Voting rights in ČSOB Pojišťovna: 40% ČSOB, 60% KBC Insurance.

For an overview of companies of the KBC group please refer to KBC's corporate website www.kbc.com (section About us – Our structure).

KBC Group in Figures

		31. 12. 2023	31. 12. 2022
Total assets	EURbn	346.9	354.5
Loans and advances to customers (excl. rev.repo's)	EURbn	183.6	178.1
Deposits from customers (excl. repo's)	EURbn	216.4	224.4
Net profit, group share	EURm	3,402	2,818
Common equity ratio, group level (Basel III, fully loaded)	%	15.2	15.3
Cost / income ratio, group	%	43	45

Long-term ratings (as at 10 February 2024)

	Fitch	Moody's	S & P
KBC Bank	A+	A1	A+
KBC Insurance	-	-	A
KBC Group	A	Baa1	A-

Annual reports and other information about KBC are available at KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both a controlled entity and a controlling entity.

ČSOB is a controlled entity of the sole shareholder KBC Bank NV (ID No. BE 0462.920.226), or more precisely, of its shareholder KBC Group NV (ID No. BE 0403.227.515). Both KBC Bank and KBC Group have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

The control is exercised by decisions of the sole shareholder when exercising the general meeting's competence according to the Corporations Act. Within the limits stipulated by law, the controlling entity also exercises influence through its representatives in the Supervisory Board or the Board of Directors. The control covers cooperation and coordination in the area of risk management, audit functions and prudential rules. The Board of Directors is responsible for the management of business.

ČSOB follows the legislation applicable on the territory of the Czech Republic which protects against abuse of position of the controlling entity. In particular, ČSOB activities are governed by the Corporations Act, regulatory rules for banks and tax law including transfer pricing principles. ČSOB is also subject of supervision of the CNB. The regulatory and supervisory system is supplemented by the internal control system which is secured by the Board of Directors, the Supervisory Board, the Audit Committee and specialized departments of internal audit, compliance and risk management. The Board of Directors is responsible for internal control system efficiency.

ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January and 31 December 2023.

ČSOB is also a controlling entity. For information on companies controlled by ČSOB as at 31 December 2023 please refer to the chapter Companies of the ČSOB group.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

Social responsibility and sustainability

Sustainability, as well as our bank's responsible approach to everything it does, has been an integral part of CSOB's corporate social responsibility for many years. This is evidenced by the previously published Annual Reports and Corporate Responsibility Reports, which are addressed to sustainability professionals, investors, employees, business partners, clients, non-profit organisations and society as a whole. The consolidated KBC Sustainability Report also covers CSOB's performance, ambitions and approach.

Sustainable business from the Bank's perspective

We are actively adapting our business model as appropriate, aiming to reduce the rate of global warming within the framework of the targets set by the Paris Agreement and want to contribute to the transition to a greener and more sustainable economy by expanding our range of sustainable products and services in the areas of credit, investments, insurance, leasing, etc.

CSOB pursues its ESG strategy (Sustainability Strategy) through three core principles:

- Limiting the negative impact on society by strictly adhering to binding policies and legal regulations in the areas of respecting human rights, protecting the environment, promoting business ethics, and addressing controversial social issues as well as reducing our own carbon footprint: Policies of CSOB.
- Increasing our positive impact on society in areas where we can be effective through our influence and everyday actions. This includes green offers in housing, mobility, investing or advising households and businesses: Our sustainable products.
- By behaving responsibly externally and towards our employees and encouraging them to behave responsibly in their daily work: Doing business sustainably.

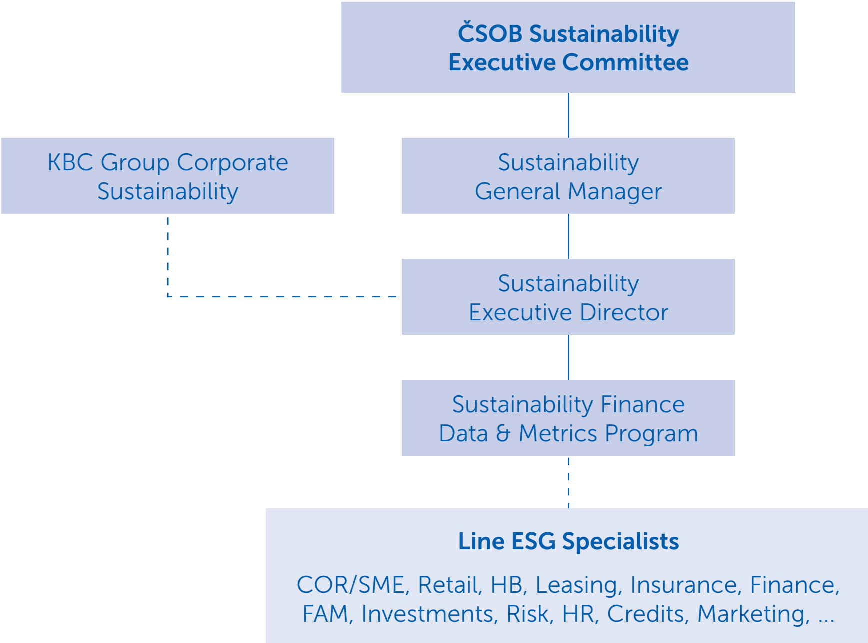
ESG Governance

As part of the integration of the single management system, the sustainability strategy and agenda are centrally set at the level of the KBC Financial Group, which has delegated local responsibility for sustainability to the Chief Sustainability Officer and the Executive Manager for Sustainability in each country where it operates.

A large, dedicated Sustainability function was deliberately not created within the CSOB Group. The bank prefers a matrix approach to managing its sustainability agenda, as sustainability is a traditional and natural part of each business line and its business activities. The highest body responsible for compliance with the Group's sustainability strategy and direct management is the CSOB Executive Committee for Sustainability. It consists of members of the Bank's top management, the Sustainability General Manager, and the Executive Director for Sustainability.

Under its leadership, the Sustainable Finance and Data & Metrics programme operates to ensure effective management of the sustainability agenda. The programme employs a resolute team of colleagues from various Bank departments to coordinate all activities and oversee the delivery of the set targets. Line ESG specialists are responsible for the actual implementation of sustainability-related activities within a given business unit. However, final decision-making authority remains with the Executive Sustainability Committee.

Sustainability Governance in ČSOB



Description and management of ESG risks related to the bank's operations.

ESG risks (Environmental, Social, Governance) are internally defined as one of the key risks of the environment in which CSOB operates.

- Environmental risk is the risk resulting from climate change or environmental damage, such as biodiversity loss, water scarcity, pollution, and waste production.
- Social risk is the risk arising from changing expectations and demands regarding relationships with employees, suppliers, clients, and communities affected by the company.
- Governance risk is the risk arising from changing expectations regarding corporate governance, shareholder rights, transparency, anti-corruption, etc.

ESG risks are increasingly intertwined with traditional risk areas such as credit risk, technical insurance risk, market risk, operational risk, and reputational risk. ČSOB is closely monitoring this trend and has firmly integrated ESG risk management into existing internal processes relating to risk identification, risk appetite determination, measurement, stress testing, analysis, and reporting. The basic reference policy for the integration of ESG risks into CSOB's risk management is the KBC Risk Management Framework.

We establish new processes, such as client data collection and analysis. In relevant areas, CSOB works with publicly available sources - e.g., climate risk scenarios used to predict the impact of physical and transition risks on our portfolio. ESG risks affect CSOB either directly or through our counterparties and exposures. Analysis and management of these risks thus takes place at three basic levels:

1. direct impacts through CSOB's own activities, e.g., our own environmental footprint, our own employees, diversity, corporate governance, and code of conduct,
2. impacts through our outsourced activities and suppliers (related to the ESG profile of these third parties); and
3. indirect impacts through our core activities (lending, insurance and investing).

As part of its core activities, ČSOB reduces its adverse environmental impact in full compliance with the principles set out in its Standard for Sustainable and Responsible Lending. A detailed description of all the measures, investigations, policies and methodologies implemented and followed by CSOB in managing ESG risks is provided in the KBC Group Risk Report. ESG risk management at CSOB will continue to be subject to dynamic developments.

ESG objectives and commitments adopted by the Bank.

The United Nations Sustainable Development Goals (SDGs) have played a key role in shaping our group sustainability strategy and our own ESG targets. In interviews with partners from the corporate world, retail clients, suppliers, employees, representatives from the government and non-profit sectors, as well as people from academia, we asked for their views and recommendations on where and in which areas CSOB should focus its efforts. As a result, **we identified five key areas where we can achieve the greatest results**:

SDG 3 Good Health and Wellbeing: We support the work-life balance of our employees. We also focus on affordable healthcare, quality of life and road safety in our banking and insurance product portfolio.

SDG 7 Affordable and clean energy: We contribute to increasing the share of renewable energy generation and its efficient use through loans and insurance.

SDG 8 Decent Work and Economic Growth: We support entrepreneurs and accelerate innovative start-ups. Through our start-up accelerators, we stimulate entrepreneurship among women and young talented entrepreneurs. For young entrepreneurs, especially students, we have developed a special Start it @UNI program, where we teach them to avoid the biggest risks and increase their chances of successful sustainable entrepreneurship.

SDG 12 Responsible consumption and production: we support innovation and the transformation to low-carbon or zero-emission operations for businesses and households. We also promote responsible investment (RI).

SDG 13 Climate action: We have strict rules on lending, investment, and insurance offerings with respect to environmental protection. In line with our commitment to the Paris Agreement, we strive to reduce the impact of our business and meet ambitious climate targets. Considering the local context, we have projected expected decarbonisation developments for individual portfolios and sectors and set group targets that are binding not only for CSOB but for the entire KBC Group.

We further critically examined the results of the stakeholder dialogue in terms of the materiality of the impact on our operations and added to the five SDG17 targets other topics that form the backbone of our responsible behaviour and on which we focus in our daily work:

- Fair, understandable, and transparent information for clients
- Long-term resilience of our business model
- Ethical business conduct and responsible behaviour
- Sustainable and responsible service and product offering
- Sustainable and responsible asset management and investment
- Data protection and cyber security
- Promoting financial literacy

ESG goals and sustainable business The Bank's sustainability in numbers

ČSOB's climate commitments are based on KBC's group ESG targets. Following analyses of the impact of climate change on key economic sectors, we aim to gradually decarbonise the local economy, and have therefore committed at KBC Group level to **increase the share of renewable energy financing to 75% of our loan portfolio by 2030**, while reducing its **emissions footprint in the energy sector by 39%** (tCO_2e/million). By 2030, we will **reduce the carbon footprint from our own activities (CO_2 emissions) by 80%** compared to 2015. We want to achieve **full climate neutrality without carbon offsets by 2040** at the latest. For more on the targets, the chosen metrics and the methodology, see the **KBC Sustainability Report**.

CSOB's strategic pillars of corporate social responsibility and sustainability and the main initiatives

For Nature

The ČSOB Group supports environmentally friendly business and sustainable management of natural resources. Together with our clients, we seek more sustainable solutions to their needs. In total, we have provided **CZK 29.6 billion in loans supporting the transition to a low-carbon economy, of which CZK 2.1 billion is already in full compliance with the EU Taxonomy***, in the real estate and renewable energy sectors. As we do not yet have sufficient data to assess all the parameters of the EU Taxonomy, we therefore report additional volumes for which we cannot yet determine compliance with all the criteria. In the real estate sector, we have granted additional **loans of CZK 24.3 billion for PENB buildings** in categories A and B. These include both loans to the corporate sector of CZK 14.2 billion and mortgages to individuals of CZK 10.1 billion.

We also assist corporate clients with the **preparation of energy audits**, technical documentation for business and **expert advice** (e.g., subsidy programmes, ESG reporting, etc.) and have provided an additional **CZK 815m for renewable energy** where we cannot yet demonstrate full compliance with the EU Taxonomy. In the transport sector, we have been able to support the **financing of clean energy cars** and "Paris" trucks meeting low emission limits to the tune **of CZK 1.6 billion, an increase of 100% year-on-year**. We have provided more than CZK 600m for energy savings or loans linked to specific ESG KPIs (loans related to key sustainability indicators).

We also bring the principles of sustainable business to the retail client segment. For them, we have developed a range of products and services where they can simultaneously save costs and show their consideration for the use of natural resources.

Low-energy and passive housing can be financed with a low-interest mortgage with reduced interest rates and other benefits. Interest in this mortgage has increased by 13% year-on-year.

* *Data quality is gradually being improved (e. g. EPC labels) – in addition to the development of new green-flavoured production, further data check can impact the reported value.*

When buying a car with a clean energy drive (electric, hybrid, hydrogen, CNG), clients can use a **clean energy car loan** with a favourable and guaranteed rate. Another option is to invest in responsible funds, such as the CSOB Water Equity Fund, which contributes to solving the global water problem, or CSOB NaMíru responsibly. **The volume of investments in responsible funds (RI), green bonds and ESG linked investment certificates reached CZK 19.8 billion, an increase of more than 100% year-on-year.**

We offer a comprehensive approach to ecological and economical living for our clients. We offer general recommendations in our electronic guide **The Economical Family Home**. In addition our newly developed **simulation and consulting calculator** calculates the energy consumption of a specific home and recommends solutions for achieving energy savings during renovation. Comprehensive advice covers the entire process, from cost optimization to technical energy saving proposals to subsidies or loan financing.

We are committed to integrating environmental responsibility into all aspects of our operations. We consider environmental impacts, respect for social and human rights and respect for sustainable development principles in our purchasing process and supplier relationship management. When selecting suppliers, we prefer to purchase products and services that consider direct and indirect environmental impacts and promote environmentally friendly and technologically advanced products and services.

Direct carbon footprint of the Bank

Our buildings in Prague and Hradec Králové are among the most environmentally friendly buildings in the country and among the greenest buildings in Europe, which is confirmed by the LEED Gold (Prague - NHQ) and LEED Platinum (Prague - SHQ and Hradec Králové - HHQ) certificates awarded for these attributes, among others:

- heating and cooling from energy wells with heat pumps
- energy-saving control system
- lighting controlled continuously according to the presence of workers and the intensity of daylight
- a green roof that cools the building, improves the climate, and supports urban biodiversity
- the resident roof gardens also serve to retain rainwater and improve the microclimate
- there is a bike shed and facilities for cyclists
- biometric systems are used to control access to the building

We purchase of electricity only from renewable sources. We reduce the energy consumption of the bank's branches and headquarters through modern geothermal heating and cooling. We are lighting with LED sources and switching to autonomous lighting control. Compared to 2015, we have **reduced electricity consumption by 14,521 MWh, saved 12,317 MWh of heat, and reduced greenhouse gas production by 33 t, for an overall reduction in our own carbon footprint of more than 71%**.

ČSOB strives for rational use of available resources and regularly evaluates the monitored values at the level of the entire ČSOB group from 2020 onwards. In the overview below, we present the absolute consumption values and the percentage decrease since 2015:

Year	Water	Electricity	Paper	Waste production	Total CO_2 emissions	Direct CO_2 emissions	Indirect CO_2 emissions
	m^3	MWh	t	t	t	t	t
Comparison 2015/2023	**-40%**	**-34.20%**	**-63.50%**	**-63.50%**	**-71%**		
2015*	138,435	42,404	1,176	2,256	46,743	11,185	35,558
2019	125,016	32,610	856	1,120	23,054	6,950	16,104
2020	96,459	30,137	608	1,116	17,449	3,243	14,206
2021	76,735	25,370	839	889	11,466	3,277	8,189
2022	76,914	26,224	495	814	12,631	4,085	8,546
2023	82,856	27,883	429	825	13,735	3,135	10,600

** We have set 2015 as a reference year in view of the conclusions of the UN Climate Change Conference in Paris and the adoption of the Paris Agreement.*

For Education

ČSOB financial and digital education for schools

Since 2016, our employees - financial literacy ambassadors - have been visiting Czech schools to teach pupils and students how to manage their money in a fun and interactive way. Using practical examples from everyday life, they show how to deal with problems in a given situation. The programme has six separate units: Money, Household Management, Modern Technology, Responsible Lending, Financial Products and now also Respect the Planet! This is an animated series for primary school students and is used as part of the teaching material to explain how to treat our environment and how to save the planet and our wallet. In the series we explain to children's concepts such as Sustainability, Carbon footprint, Renewable resources, Fossil fuels and many more.

We use presentations, videos, tablets, and mobile phones in the course. Outside of school we can deliver the educational programme in CSOB buildings or other suitable venues (e.g., science centres). There is no cost to the school to teach. We do not sell the CSOB brand or products, but the idea of higher education.

By the end of 2023, a total of 440 ambassadors from among our employees had participated in 4,786 lessons for more than 74,000 pupils and students from 964 schools visited.

Thanks to the accreditation of the Ministry of Education, Culture and Sports for the teaching of pedagogues of the 2nd level of primary and secondary schools, which we obtained in 2019, we can help teachers with the teaching of financial literacy even more effectively. Graduates of this program receive a certificate that also serves as a certificate of continuing education for teaching staff under the Ministry of Education and Culture program.

In cooperation with the Czech Police, we have also prepared a continuation of the series of thematic online safety courses "Your way #online II". The school will be visited by a ČSOB employee - an expert in online safety together with a Police of the Czech Republic prevention officer. Thanks to this cooperation, we work with real cases from the Czech environment during the teaching.

As part of the prevention of the debt trap, we continue to cooperate with People in Need and co-finance free debt counselling through the Financial Distress Counselling Centre. In addition, we offer easily accessible quality financial counselling in the form preferred by the client (information on the bank's website, online telephone counselling, personal visit to the branch).

For Entrepreneurs

For many companies, the transformation to a sustainable model is difficult to grasp. ČSOB is active in a number of thematic platforms aimed at supporting the decarbonisation of the Czech economy, such as the Commission for Sustainable Finance at the Czech Banking Association, Climate and Sustainable Leaders Czech Republic or the communication platform CSRD.cz.

Although the aim of these platforms is to offer companies and individuals help with a better understanding of what concerns them and to what extent, to set realistic targets and choose appropriate tools, CSOB produced its own solution in 2023.

Green0meter

Green0meter is one of the startups that successfully completed the acceleration program for budding entrepreneurs called Start it @ČSOB. The vision of Green0meter's founders is to help businesses with their sustainable transition using data and artificial intelligence.

In June 2023, KBC established a joint venture with Green0meter, Digital & Legal Ltd, to ensure that CSOB's corporate clients have digital, fully personalised, and professional sustainability advice combined with appropriate financing options. KBC, CSOB and the Green0meter platform function as a catalyst and facilitator for the transition to more sustainable business processes.

Start-ups and established businesses can use our portal www.pruvodcepodnikanim.cz to help them navigate the rules and legal standards they need to comply with. The path to success is through reliable information and facts obtained in a timely and understandable manner.

In 2023, we helped 341 aspiring entrepreneurs get funding from the Start-up Entrepreneurs Program. The loan for start-ups and entrepreneurs was created with the support of the European Investment Fund. The aim of the fund is to support small and medium-sized enterprises and increase the possibility of obtaining funding to start and grow their business. The funding is guaranteed by the European Union under the Employment and Social Innovation (EaSI) programme.

Women entrepreneurs

We pay special attention to women, whom we want to stand by us not only when we start our companies, but also while business and while overcoming any social prejudices. That is why in 2023 we have again become a partner of the Czech Women Entrepreneurs Award and have announced our own category of Exceptional Female Entrepreneur.

Start it @ČSOB

In the Start it @ČSOB acceleration program, we work mainly with B2B technology startups that are entering the go-to-market phase. We help startups avoid common mistakes and provide mentoring and workshops in key startup areas. In addition, program participants receive up to four jobs at CSOB headquarters and international support from the GAN Global Network of Accelerators throughout the life of the company to facilitate their eventual expansion into foreign markets. Companies can apply for the program every six months. In 2023, we have supported a total of 20 startups in our accelerator program and the NPS (net promoter score/ recommendation rate of the program to their acquaintances) is 100% as in previous years.

In November 2022, we launched a new Start it @UNI program aimed at university students. Together with incubators of selected Czech universities and regional innovation centres, we help student projects to strengthen their chances of success in the market. At the validation camp, students can increase their chances of success through practical consultations with experienced mentors from startups and other experts, but most importantly, they have to ask potential customers about their needs and test the visual form of their solution. They can find other colleagues in the team and apply for validation grants to test the actual market demand. In 2023, over 250 students went through our Validation Camps, and we helped them validate over one hundred of their projects. Thus, we not only increase their chances for a successful business, but we raise the level of the entire startup environment in the Czech Republic.

For Longevity

Seniors and disabled or otherwise disadvantaged citizens are an integral part of society and therefore part of ČSOB's client portfolio. Therefore, we consider their specific requirements and needs. For example, although we want to be a digital bank in view of the requirements of modern times, we do not want to discriminate against a group of clients who, for whatever reason, do not know or cannot learn to master the online environment. In practice, this means that we do not impose these services on people who are uncomfortable with digital banking.

As a bank, we are guided by the following principles:

- We respect that mobile banking may be inconvenient for some customer groups.
- We understand that online banking is more attractive for active customers who are elderly or visually impaired.
- At the same time, we do not want to expose people who may be more vulnerable due to their age or health condition to cyber risks.

In the For Longevity pillar, CSOB pays attention to the elderly and those who are preparing for this period of life. We do not forget about the so-called sandwich generation, whose representatives take care of their children while looking after their parents.

The ČSOB group currently has almost 1.5 million clients over 58 years of age and approximately 600,000 clients over 65 years of age. We offer them a range of discounted products. We offer free one-time payment orders at the branch/post office (confirmed by card at the ČP), cash delivery once a month, setting up standing orders and direct debits at the branch/post office and unlimited number of paper-based standing dispositions (standing order, direct debit authorisation…). At each post office we can send a pension transfer request to the Czech Social Security Administration on behalf of the client. Our call centre has been operating a special senior line for several years. The system on this free line recognizes a client over 70 years of age and connects them automatically with a team of operators specially trained to communicate with seniors. In 2023, colleagues managed 71 ths calls on this line.

ČSOB has a network of bank branches across the Czech Republic and, together with the counters at the Czech Post Office, is the largest provider of barrier-free banking and insurance services. In cooperation with the Czech Paraplegic Association (CZEPA), we are verifying that our branches are indeed barrier-free. Any deficiencies identified by the audit are subsequently corrected. Another activity initiated by our employees has a similar objective, namely an audit of all ČSOB applications and websites from the perspective of visually impaired users. Some CSOB employees who use special readers for the visually impaired for their work are also involved. All our 1,017 ATMs are equipped with voice navigation for the blind. The software used was prepared in cooperation with the United Organisation of the Blind and Partially Sighted of the Czech Republic (SONS). We provide eScribe, an online speech transcription for the deaf, which enables the hearing impaired to communicate with the banker. This service is available at all our branches and is also offered on our toll-free information line. For customers with hearing impairment and speech loss, we offer a special customer service line.

We are working with the Sue Ryder Home on the Don't Get Lost in Old Age project which advises older people and their loved ones on all areas related to old age. Advice days have been held in the regions where seniors have received on-the-spot answers to legal, social, or financial questions.

Philanthropy at ČSOB and partnerships with non-profit organisations in 2023

The support of philanthropy, the development of individual giving by our clients and employees and connecting the world of business with the non-profit sector is an integral part of CSOB's social responsibility. We cooperate with renowned non-profit organisations and together we bring solutions that respond to the current needs of disabled people.

Among our most important partners from the non-profit sector are: Committee of Good Will – Olga Havel Foundation, Sue Ryder Home, Mathilda Endowment Fund, Safety Line, Charta 77 Foundation - Barriers Account, People in Need, Debt Advisory Centre, Neratov Association, Czech Association of Paraplegics, the Rozum a Cit Endowment Fund and many others. We also cooperate with the organizations Donors' Forum and Business for Society, which focus on the general development of CSR and philanthropy in the Czech Republic.

Most significant socially responsible projects

ČSOB helps regions

Our largest grant programme, ČSOB Helps Regions, supports projects of non-profit organisations that focus on community development and improving the quality of life of people across the Czech Republic. The 2023 anniversary year was our most successful ever, with 150 projects receiving grant support exceeding CZK 10 million financial contributions from the public together with donation from the bank. In the 11 years of the programme's existence, a total of more than CZK 83 million has been distributed.

Education Fund

The Education Fund is our oldest joint philanthropic project. It was established in 1995 in cooperation with the Olga Havel Foundation's Committee of Good Will to support talented students of secondary, higher vocational and university schools who otherwise could not afford to study due to health or social handicaps. The ČSOB Education Fund currently supports eighty-eight young people. From the start of the programme until the end of 2023, we have already provided scholarship support or a one-off contribution to education and study aids to 1,319 students. In total, we have already donated CZK 41 million to help with education.

Volunteering

Among the responsible activities in which our employees willingly participate is the ČSOB Helping Together corporate volunteering programme. Each employee can devote one working day a year to volunteer work or professional consulting in a non-profit organisation of their choice. In 2023, we registered 1,990 volunteers who worked a total of 14,060 hours for eighty-one non-profit organisations.

Together with ČSOB

The Together with CSOB matching fund is designed to support individual giving by our colleagues. Any employee can request a monetary contribution for their favourite non-profit organisation or charity project. Simply organise a charity collection on the www.darujspravne.cz portal for the benefit of your favourite, or combine it with any other fundraising event, and involve other colleagues from the bank and people from your neighbourhood. The bank will donate the same amount of money that is raised (up to a maximum of CZK 30,000 per project). During 2023, employees organised a total of sixteen allied fundraisers for a total of CZK 1.3 million.

Goodwill card

Together with the Master Card Association, ČSOB also supports individual donations in the private banking segment. Thanks to the special **Goodwill Debit Card**, ČSOB Private Banking clients can donate to charitable causes. The client sets the amount of voluntary contribution and then the selected amount from each business transaction goes **to help children and adults in difficult health situations**. Both ČSOB and Master Card donate additional funds, which is why **we have jointly donated CZK 23 million during the period of operation of the Goodwill Card (including CZK 2.4 million in 2023) and helped more than 597 people in need**.

Premium Card

We also offer a payment card with charitable functionality to clients from the Premium segment. The proceeds from the donations made for using the payment card go towards the **education and training of guide dogs**. In addition to the contributions from clients, ČSOB and the Master Card Association donate the same amount, which triples the contributions. We collaborate with our long-time partner in the non-profit sector, the Mathilda Foundation, an internationally recognized expert in guide dog training. **By the end of 2023, we have already supported guide dog training with more than CZK 7.3 million**.

NaDobrouVěc

A service designed for **retail customers**; this service allows you to donate to a charitable project of a specific non-profit organisation with each card payment. **Currently, 2,500 clients use this service. The total amount of contributions has already reached more than CZK 3.5 million**.

CSOB Corporate Social Responsibility Award in 2023

Donor Forum Awards:

First place in the Annual Report - Corporate category for the CSOB group's Annual Corporate Social Responsibility Report.

First place in the Charity Communication Project category for the campaign "Volač and Klikač are robbing the Czech Republic ".

Second place in the Employee Collection category for the project "Jedeme na Ještěd"

Business for society:

First place in the TOP Responsible Large Company category (96.5% rating in the overall approach to responsible and sustainable business)

TOP Responsible Company title in reporting for ranking in the top ten large companies.

More information can be found in the CSOB group's Corporate Social Responsibility Annual Report 2023 and on the website www.csob.cz/csr.

Diversity

ČSOB supports diversity in a broad context, creates inclusive environment for all and offers tailor-made benefits for specific needs of each group. We are convinced that diversity, in the broad sense of the word, means a greater diversity of opinions, different styles of work and management for the company. Ultimately, it means sustainable long-term higher performance through people commitment and motivation. **ČSOB aims to use the potential and best talent of all our employees**. We create equal opportunities regardless the age, gender, sexual orientation, or nationality. However, we do not only remain at the level of equal opportunities, but we create a higher awareness among employees as to why there is value in diversity. We consider **flexibility as a key precondition for diversity**, flexibility is our focus already for a long time – e.g. part-time jobs, home-office. The success of our group is based on cooperation, mutual inspiration and sense of belonging. Although we have learned to collaborate remotely, use technology and tools for our greater efficiency, we want to meet more often and together we want to create a first-class client experience. We have also adapted the new flexibility framework, where at least 60% of our work is from the office. Our employees still have the opportunity to work from home 40% of their monthly working hours.

ČSOB's Diversity strategy defines these specific areas:

1. **Gender diversity in management:** we are gradually increasing number of women in management and further we want to improve. We have been working on more balanced ratio of women in managerial positions and gradually decreasing the gap not only in the quantity (2015: 32% women in management, 2023: 38%), but also in wages comparison of women to men („gender pay gap" 2015: 6%, 2023: 3%).
2. **Program for parents** has been already supporting parents of small children for many years. We expanded the program with a concept of ČSOB kindergartens and within the Academy for Parents we also focus on the development of our parents on the parental leave, to motivate them to an earlier return from parental leave.
3. Age diversity: **Program 55+** - experience is an advantage, was broadened with the offer of expertise volunteering.
4. **We support colleagues with disabilities:** our goal is to support core employees with disabilities to talk about their disability. We manage to employ disabled colleagues not only within the Operations department. We also cooperate with the social enterprise Kolibřík and others. We set ourselves the goal of increasing regular employees with disabilities by 35% by 2026.
5. **LGBT+:** filling out the signed memorandum of Pride business forum, the fairness of benefits implemented, active employee group PROUD.

We are well aware of our role as a big employer; therefore, we openly share our experience and look for an inspiration from others. We actively cooperate with:

- Non-profit organization Business for society in order to build an alliance with other employers and to inspire each other.
- Non-profit organization Pride business forum (PBF), whose principles we proudly accepted by signing their memorandum.
- We are the general partner of the counselling office S barvou ven.
- Since 2022, we have been part of the OPIM organization, which connects and helps organizations positively perceive diversity and actively work with it. We share our experiences during round tables.
- A worldwide initiative She loves data whose target is to support and develop women in data and innovation areas.
- Czechitas, a non-profit organization, that aims to increase diversity in IT and fights for higher expertise of women and the new generation in the world of digitization. CSOB became the general partner of the Czechitas organization in the year 2023 and will be for the year 2024.
- We were the first among the banking institutions and so far the only to sign the Charter against the home violence.

Activities in 2023 and plans for 2024

1. Gender diversity in management

We continue with an open discussion about the benefits of a diverse approach and the value of the "male and female principle" at work. We are aware that the corporate environment at the top-level management, or in some parts of the bank, is traditionally based more on the application of male principles and we are trying to gradually balance it. This will ensure not only higher female leadership involvement, but also personal awareness, why the application of both principles is beneficial for decision making.

We want to continue focus on developing the talent of female managers in the middle and lower management and increase their number.

In the following year, we would like to continue with the development of Authentic Leadership program, which was completed by 25 female colleagues in 2023. In 2023, we also launched the Community for Women, for the graduates of Authentic Leadership, where they can inspire each other, share their experiences and concerns.

We are gradually managing to reduce the gender pay gap, which is 3%. Our goal is to reduce the gender paygap to the level of 2.5% in 2024.

2. Program for parents and ČSOB kindergarten concept

Parental support is our long-term priority in the field of diversity. The goal is to make the return to work from parental leave easier and faster. Within the program we offer:

- Keeping in touch with the bank and constant information about developments in the bank, suitable job offers or about social and educational events for parents.
- Employee application where all the information about the program is available as well as the information about maternity/parental leaves.
- An opportunity to find a job during parental leave in the form of part-time job or the employment agreement, either at the original department or at a different department within the bank.
- Individual consultations with the gestor of the Program (employment law, career consultancy, return to work execution, finding a new job, etc.).
- Free professional and personal coaching during parental leave - cooperation with the internal Coaching Center.
- Workshops for parents who leave for maternity/parental leave.
- Academy for Parents returning from parental leave.
- Workshops tailored for fathers.

In order to ease an enable our employees to return to work earlier, we have been running a kindergarten (ČSOB Sluníčka) at our head office in Prague since 2017. In 2021, we also opened a kindergarten in Hradec Králové. Due to great success and interest, we opened a new, larger kindergarten in Prague in Q1 2024.

On top of that, we refund up to 75% of the costs for any nursery, kindergarten or nanny, if parents work during or instead of a parental leave. With this contribution, we support parents in the regions, i.e. in places where there is not enough concentration of employees to establish our own company kindergarten.

In ČSOB, 21% of parents (mostly mothers) return to work earlier (often in the form of part-time work) than after the usual three years of parental leave and at the same time 87% of parents return to us after their parental leave. Together, it represents hundreds of high-quality employees that we would not find on the labour market easily.

We continue with the Academy for Parents, that aims to prepare parents for a smooth return to work and to actively establish contacts between parents, managers and HR. Parents attend six on-site workshops targeted on development of soft skills, supplemented by online training to help them regain the lost self-confidence, the self-presentation and broaden their horizons in the field of digital technologies currently used in the bank. The on-site format of the Academy is for Prague and the Central Boheminan Region and an online version for the regions. The Academy also includes presentations and introductions of departments that offer the possibility of part-time work, to make it easier for parents to find out where part-time work is available. We will follow up with another Academy in 2024, again in both on-site and online formats.

3. Age diversity: Program 55+ - experience is an advantage.

We're pleased to continue our successful '55plus - experience is an advantage' program. This program leverages the expertise of our senior employees by matching them with younger colleagues as mentors. This not only fosters team stability through age diversity, but also helps reduce pressure and stress, potentially preventing burnout. The program offers two options to promote wellbeing: expert volunteering for non-profit organizations and two extra days of paid leave. We also offer free services of employment law consultancy. In case of volunteering for non-profit organizations, our 55plus have the opportunity to take 4 days of paid leave (in individual cases even more). The aim of this activity is to enable employees to achieve greater self-realization, use their expertise, prevent burnout syndrome, and last but not least, enable them to think about how their knowledge and skills can be useful after they retire.

In 2023, we offered a variety of workshops for our valued employees aged 55 and over. We partnered with ČSOB Penzijní společnost to provide workshops focused on pre-retirement planning, exploring available benefit options, and strategies for maximizing pension savings. We are pleased to continue offering tailored events for our 55+ population in 2024.

4. Support for the disabled colleagues:

In 2023, we have started to pay more attention to our colleagues with disabilities. We communicated the benefits, which our colleagues with handicap are entitled to and we are preparing more in 2024. Every job advertisement is now marked as „suitable for disabled person". The activity is one of the options for us, how to make employment opportunities accessible to people who may be disadvantaged in the labour market due to disability and reflects our effort to create an inclusive work environment that is open, safe and non-discriminatory. In 2023, we were the main organizer of national competition Zlatá vážka (Gold dragonfly) to support a social entrepreneurship in Czech Republic. We also committed to increase the share of disabled core employees up to 35% till 2026.

5. LGBT+ support:

We are fulfilling the commitments we have made by signing the Pride Business Forum memorandum in the area of applying the principles of the equality in the workplace. We offer a day-off for a wedding with a partner from a foreign state, paternity leave also for the adoption of a child or a leave for accompanying the partner's child to a doctor's appointment. These are some of the examples of how we gradually revised the fairness of benefits, clarify the definitions and how we work on discrimination elimination.

The PROUD employee group which associates LGBT colleagues, and their supporters was established in ČSOB. Our group PROUD is also an inspiration for KBC, where a similar group Proud@KBC was created in 2021.The PROUD group organizes seminars or webinars (about the history of LGBT, or the training on minorities), and informal meetings. ČSOB participated and supported the run against homophobia organized by the Pride Business Forum. We are continuing our general partnership with the S barvou ven counseling office, with whom we organized a lecture at ČSOB on the topic of transgender people and how to support them. As part of the international KBC

Diversity Day, there was a lecture on the Transgender toolkit and how employers should approach transgender employees. The transgender toolkit was created last year with the support of ČSOB and the Pride Business Forum and was the output of a conference for the financial sector that we hosted at ČSOB at the end of 2022.

Awards in diversity area for ČSOB in 2023

Top responsible company (Business for society competition)

ČSOB ranked 1st place as **the best company on the market** of all large companies i**n the field of sustainability, a large part of which is diversity at work**.

ČSOB won the 3rd position in the main category of LGBT friendly employer 2023 competition and is the only czech bank that was ever rewarded in this ranking.

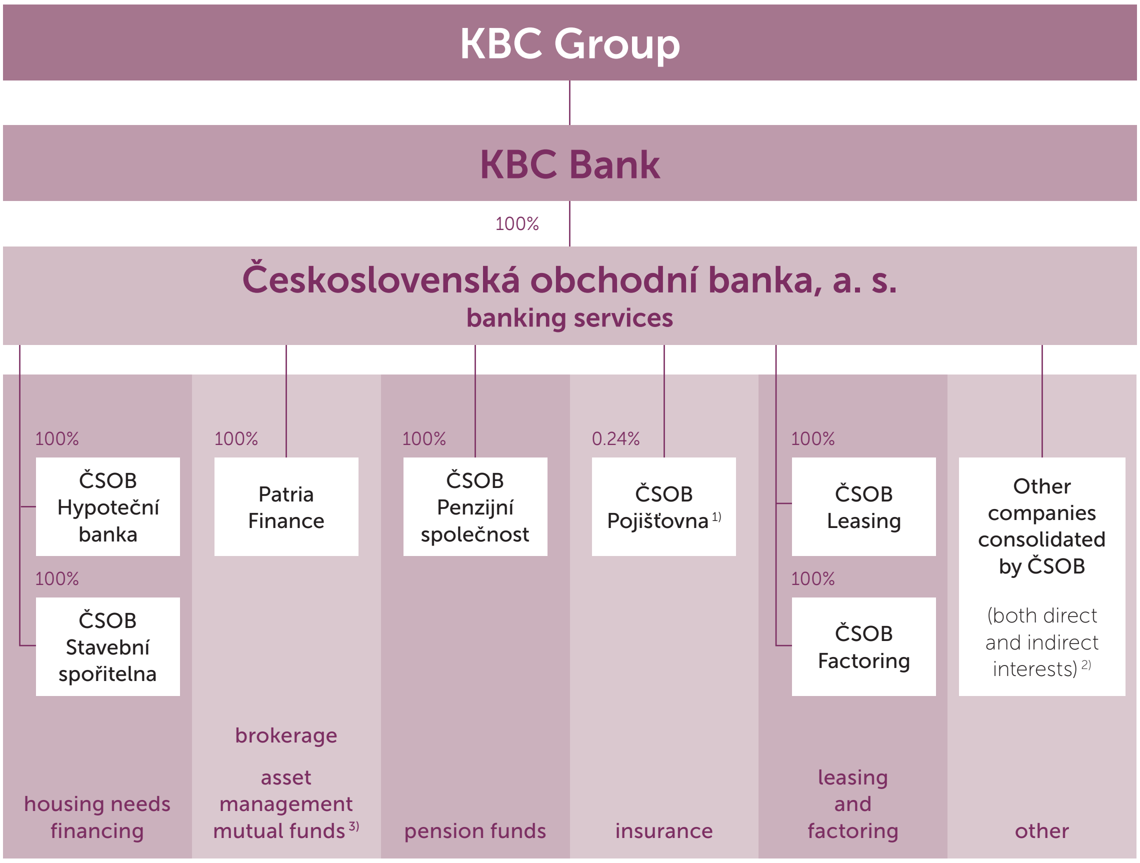
COMPANIES OF THE ČSOB GROUP

ČSOB Group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bank-insurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2023, ČSOB had ownership interests in 29 legal entities and, in addition to ČSOB, other 25 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services and products: banking services, building savings and mortgages, securities brokerage, asset management, mutual funds, pension funds, insurance, leasing and factoring.



Percentages show ČSOB's ownership interests on company's equity as at 31 December 2023.

1) 99.76% of shares owned by KBC Insurance; by an equity method consolidation.

2) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report.

3) ČSOB continues offering mutual funds and other products of ČSOB Asset Management regardless of its sale within the KBC Group.

ČSOB Hypoteční banka, a.s. [1)]

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,336 ths
Shareholders:	100% ČSOB

ČSOB Hypoteční banka

Contact

Address:	Radlická 333/150 150 00 Praha 5
Telephone:	+420 224 116 333
E-mail:	info@csobhypotecni.cz
Internet:	www.csobhypotecni.cz

Indicator		2023	2022
Total assets*	CZKm	407,748	389,591
Loans and advances to customers*	CZKm	396,324	380,894
Total equity*	CZKm	58,041	57,078
Profit for the year after tax*	CZKm	2,481	2,483
Total volume of new mortgage loans (according to the Ministry of Regional Development; CZ)	CZKm	38,665	42,295

** EU IFRS, audited.*

Agents and brokers	3,426	4,663

ČSOB Hypoteční Banka, a specialist in home mortgage loans within the ČSOB group, holds a leading position in the Czech mortgage market, alongside ČSOB Stavební spořitelna. The Group prioritizes financing sustainable housing and digitalization.

The Czech housing loan market witnessed a decline in 2023, with domestic banks issuing CZK 172 billion, a decrease of over 20% compared to 2022.

ČSOB group originated CZK 39 billion in mortgages and CZK 7 billion in loans from building savings in 2023.

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

ČSOB Stavební spořitelna, a.s.

Date of establishment:	27. 8. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Registered capital:	CZK 1,500,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 00 Praha 5
Telephone:	+420 225 225 225
E-mail:	info@csobstavebni.cz
Internet:	www.csobstavebni.cz

Indicator		2023	2022
Total assets*	CZKm	134,829	137,368
Volume of loans and bridging loans (Retail)*	CZKm	120,791	123,657
Volume of client deposits*	CZKm	116,299	126,428
Total equity*	CZKm	9,897	9,227
Profit for the year after tax*	CZKm	993	1,338

** EU IFRS, audited.*

Advisory centers	224	215
Tied agents	1,366	1,353

ČSOB Stavební spořitelna (ČSOBS) maintains its position as the leading building society in the Czech Republic.

ČSOBS held a significant market share in both building savings products (32% for new contracts in 2023) and building society loans (21% for new retail loans in 2023).

ČSOB Stavební spořitelna serves 948 thousand clients with building savings products or loans, while also offering a range of other ČSOB group products.

Patria Finance, a.s.

Date of establishment:	23. 5. 2001
Business activities:	the securities services
Identification number:	26455064
Registered capital:	CZK 150,000 ths
Shareholders:	100% ČSOB

PATRIA FINANCE

Contact

Address:	Výmolova 353/3 150 00 Praha 5
Telephone:	+420 221 424 240
E-mail:	patria@patria.cz
Internet:	www.patria.cz

Indicator		2023	2022
Profit for the year after tax*	CZKm	345	280
Number of orders realized through personal brokers and the online trading platform MobileTrader and WebTrader	Number (ths).	331	368
Number of clients	Number (ths).	53	49

** EU IFRS, unaudited.*

Patria Finance, a leader in securities trading and brokerage in the Czech Republic, serves almost 53 ths. clients, managing over CZK 77 bn in Assets Under Management (AUM).

The main activity of Patria Finance is the provision of investment banking services in the areas of securities trading and the provision of information on financial and capital markets through the Internet platform www.patria.cz. Patria Finance services also include investment research, both for the CEE region and the developed markets of Western Europe and the USA.

ČSOB Penzijní společnost, a. s., a member of the ČSOB group

Date of establishment:	26. 10. 1994*
Business activities:	Activities related to the pension saving
Identification number:	61859265
Registered capital:	CZK 300 m
Shareholders:	100% ČSOB

ČSOB Penzijní společnost

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 495 800 600
E-mail:	csobps@csob.cz
Internet:	www.csob-penze.cz

** Date of establishment of ČSOB PF Stabilita. ČSOB PS was incorporated on 1 January 2013 through transformation of ČSOB PF Stabilita (the Transformed fund)*

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Indicator		2023	2022
Funds registered in favour of participants of the Transformed fund Stabilita*	CZKm	48,878	54,891
Participant funds in participation funds*	CZKm	23,031	16,271
Profit for the year after tax**	CZKm	297	221

**Unconsolidated*
*** EU IFRS, unaudited.*

Customers	Number (ths)	611	644

ČSOB Penzijní společnost focuses on managing participant pension funds and transformed pension fund.

In 2023, the company held a strong third-place position in the Czech pension fund market, serving 611 thousand clients with Assets Under Management (AUM) of nearly CZK 72 bn. Clients across all funds managed by ČSOB pension company experienced positive returns in 2023.

ČSOB Penzijní společnost implemented BankID identification for pension sales in 2023, streamlining the online client authentication and document signing process.

ČSOB Pojišťovna, a. s., a member of the ČSOB holding

Date of establishment:	17. 4. 1992	
Business activities:	Life and non-life insurance	
Identification number:	45534306	
Registered capital:	CZK 2,796,248 ths	
Shareholders:		
Registered capital	99.76%	KBC Insurance
	0.24%	ČSOB
Voting rights	60%	KBC Insurance
	40%	ČSOB

Contact

Address:	Masarykovo nám. 1458 530 02 Pardubice, Zelené předměstí
Telephone:	+420 467 007 111
	+420 800 100 777
Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

Indicator		2023	2022
Total assets*	CZKm	42,459	42,115
Total equity*	CZKm	7,672	8,742
Profit for the year after tax*	CZKm	2,802	1,279
Gross written premium life insurance	CZKm	4,498	4,248
Gross written premium non-life insurance	CZKm	11,482	10,242

** EU IFRS, audited.*

Branches		94	95
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	Number (ths).	1,300	1,270

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

In 2023, ČSOB Pojišťovna net profit reached CZK 2,802 m, driven by positive business results. Gross written premium reached CZK 16 bn. Market share increased to 9% in 2023.

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995
Business activities:	Financial services
Identification number:	63998980
Registered capital:	CZK 3,050,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Výmolova 353/3 150 00 Praha 5
Telephone:	+420 230 029 111
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

Indicator		2023	2022
Total assets*	CZKm	49,432	43,399
Amounts due from clients (gross)*	CZKm	47,601	41,723
Total equity*	CZKm	8,621	7,140
Profit for the year after tax*	CZKm	714	335
Volume of new leasing business**	CZKm	21,387	18,228

** EU IFRS, unaudited.*
*** According to methodology of Czech Leasing and Financial Association (ČLFA); Initial investment*

Branches	5	5

ČSOB Leasing is one of the largest leasing companies and providers of movable property financing in the Czech Republic. It provides financing and insurance of passenger and commercial vehicles, heavy transport equipment, machinery and equipment, computer technology, technologies and technological units, including financing of items with large acquisition values ("Big Tickets"). It distributes its products to clients' multi-channel. It offers a wide range of financial products and accompanying services, including subsidy advice for investments in movable property and services related to transport mobility within the framework of operational leasing. ČSOB Leasing was among the first leasing companies on the market to introduce identification and signing through the Bank iD service in 2023. As part of the Golden Crown 2023 competition, ČSOB Leasing won the bronze crown for "ČSOB Car Loan on the wave of new digital technologies".

ČSOB Factoring, a.s.

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Registered capital:	CZK 70,800 ths
Shareholders:	100% ČSOB

Contact

Address:	Výmolova 353/3 150 00 Praha 5
Telephone:	+420 230 029 710
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

Indicator		2023	2022
Total assets*	CZKm	5,596	5,458
Amounts due from clients (gross)*	CZKm	5,912	5,773
Total equity*	CZKm	1,164	1,020
Profit for the year after tax*	CZKm	175	151
Turnover of receivables	CZKm	47,085	44,440

** EU IFRS, unaudited.*

ČSOB Factoring has been offering factoring services to its clients since 1992. It is one of the pioneers of factoring financing on the Czech market and has long maintained its position among the TOP 3 Czech factoring companies. The company offers its clients flexible financing in various forms of recourse and non-recourse cooperation.

In 2023, the volume of receivables assigned to ČSOB Factoring increased by 6% to CZK 47.1 bn. The share of non-recourse factoring remained at 38%.

Companies of the ČSOB Group

(as at 31 December 2023)

Legal Entity			Share of ČSOB in:						
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital Total	Direct	Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
			CZK	%	%	%	%		Y/N
Controlled Companies									
63987686	**Bankovní informační technologie, s.r.o.** Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	none	100.00	none	Y
49241397	**ČSOB Stavební spořitelna, a.s.** Building savings bank	Praha 5, Radlická 333/150	1,500,000,000	100.00	100.00	none	100.00	none	Y
27081907	**ČSOB Advisory, a.s.** Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	none	100.00	none	Y
45794278	**ČSOB Factoring, a.s.** Factoring and related services	Praha 5, Výmolova 353/3	70,800,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** Leasing	Praha 5, Výmolova 353/3	3,050,000,000	100.00	100.00	none	100.00	none	Y
61859265	**ČSOB Penzijní společnost, a. s., a member of the ČSOB group** Pension insurance	Praha 5, Radlická 333/150	300,000,000	100.00	100.00	none	100.00	none	Y
27151221	**ČSOB Pojišťovací makléř, s.r.o.** Insurance broker	Praha 5, Výmolova 353/3	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	Y
13584324	**ČSOB Hypoteční banka, a.s** [1] Mortgage banking	Praha 5, Radlická 333/150	5,076,336,000	100.00	100.00	none	100.00	none	Y
01-09-338123	**K&H Payment Services Kft** Acquiring of payment transactions	HU, Budapest, Lechner Odon Fasor 9	8,845,000	100.00	100.00	none	100.00	none	Y
07093331	**Skip Pay s.r.o.** [2] Payment transactions	Praha 7, U garáží 1611/1	465,000,000	100.00	100.00	none	100.00	none	Y
09763465	**Igluu s.r.o.** web portal	Praha 4, Lomnického 1742/2a	10,000	50.00	50.00	none	50.00	none	Y
00000949	**MOTOKOV a.s. in liquidation** Wholesale of machines and technical equipment	Praha 5, Radlická 333/150	62,000,000	70.09	0.50	69.59	70.09	ČSOB Advisory	Y
25671413	**Patria Corporate Finance, a.s.** Brokerage activities in financial consulting	Praha 5, Výmolova 353/3	1,000,000	100.00	100.00	none	100.00	none	Y
26455064	**Patria Finance, a.s.** Securities trader	Praha 5, Výmolova 353/3	150,000,000	100.00	100.00	none	100.00	none	Y
05154197	**Patria investiční společnost, a.s.** Management of investment funds	Praha 5, Výmolova 353/3	10,000,000	100.00	100.00	none	100.00	none	Y
02451221	**Radlice Rozvojová, a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Výmolova 353/3	186,000,000	100.00	100.00	none	100.00	none	Y
28188667	**Ušetřeno s.r.o.** Arranging loans	Praha 4, Lomnického 1742/2a	200,000	100.00	none	100.00	100.00	Ušetřeno.cz	Y
24684295	**Ušetřeno.cz, s.r.o.** Arranging loans, real estate activity	Praha 4, Lomnického 1742/2a	1,000,000	100.00	100.00	none	100.00	none	Y

Legal Entity				Share of ČSOB in:					Indirect Share of ČSOB via	Cons. EU IFRS
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital				Voting Rights		
				Total	Direct	Indirect				
			CZK	%	%	%		%		Y/N
Others										
09513817	**Bankovní identita, a.s.** / Activities connected with data processing and web hosting	Praha 8, Smrčkova 2485/4	3,881,000	17.00	17.00	none		17.00	none	N
26199696	**CBCB – Czech Banking Credit Bureau, a.s.** / Software development, IT advisory, data processing, network administration databank services	Praha 4, Štětkova 1638/18	1,200,000	20.00	20.00	none		20.00	none	Y
27479714	**ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding** / Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	0.24	none	0.24		0.00	ČSOB Pojišťovna	Y
45534306	**ČSOB Pojišťovna, a. s, a member of the ČSOB holding** 3) / Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	0.24	0.24	none		40.00	none	Y
28985362	**EQUANS REN s.r.o.** 4) / Production and sale of electricity from the solar irradiation	Praha 4, Lhotecká 793/3	186,834,000	42.82	42.82	none		42.82	none	Y
05815614	**Pardubická Rozvojová, a.s.** / Rent of flats and non-residential spaces	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,000,000	0.24	none	0.24		0.00	ČSOB Pojišťovna	Y
26439395	**První certifikační autorita, a.s.** / Certification services and administration	Praha 9 - Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	none		23.25	none	Y
	Other companies where ČSOB has a share in registered capital / voting rights under 20%.									N

Prudential consolidation (Decree No. 163/2014 Coll.)

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

2) With effect from 6 October 2022 MallPay s.r.o. changed its name to Skip Pay s.r.o.

3) Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%; shares in voting rights: ČSOB 40%, KBC Insurance 60%.

4) With effect from 1 April 2022 ENGIE REN s.r.o. changed its name to EQUANS REN s.r.o.

CORPORATE GOVERNANCE

MANAGING AND SUPERVISORY BODIES

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

ČSOB has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee. The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting. The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting.

The Board of Directors in 2023

First Name and Surname	Position	Membership since	Current Term in Office since [1]	ČSOB's Top Management [3] Position and Area of Responsibility
Aleš Blažek	Chairman	6. 5. 2022	6. 5. 2022	Chief Executive Officer
Michaela Bauer	Member	1. 7. 2021	1. 7. 2021	Chief Innovation Officer for KBC Group in the Czech Republic
Tom Blanckaert	Member (until 31. 7. 2023)	2. 3. 2022	2. 3. 2022	Senior Executive Officer, Group Risk Management
Martin Jarolím	Member	1. 1. 2023	1. 1. 2023	Senior Executive Officer, Retail
Petr Hutla	Member	27. 2. 2008	2. 3. 2021 [2]	Senior Executive Officer, Credits Management
Ján Lučan	Member	1. 6. 2021	1. 6. 2021	Senior Executive Officer, Relationship Banking
Jiří Vévoda	Member	8. 12. 2010	11. 12. 2023 [2]	Senior Executive Officer, Finance Management
Marcela Výbohová	Member	1. 8.2023	1. 8.2023	Senior Executive Officer, Group Risk Management

1) The term in office of the members lasts four years.

2) Elected to a new term in office.

3) In 2023, members of ČSOB's Top Management were identical with the members of the Board of Directors of ČSOB.

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) as at 31 December 2023 please refer to ČSOB's Organization Chart, page 73 of this Annual Report. Descriptions of work and decision-making processes are given in Corporate Governance chapter of this Annual Report, pages 67–72.

The Supervisory Board in 2023

First Name and Surname	Position	Membership since	Current Term in Office since [1]	Termination of Membership
Zdeněk Tůma	Chairman [2]	1. 10. 2019	2. 10. 2023	–
Franky Depickere	Member	1. 6. 2014	3. 6. 2022 [3]	–
Christine Van Rijsseghem	Member	1. 6. 2014	3. 6. 2022 [3]	–
Graeme Lints Hutchison	Member	1. 1. 2023	1. 1. 2023	-
Ladislava Spielbergerová	Member	1. 1. 2019	2. 1. 2023 [3]	–
Josef Čada	Member	2. 1. 2023	2. 1. 2023	-

1) The term in office of the members lasts four years.

2) Chairman since 16 October 2019.

3) Elected to a new term in office.

The Audit Committee in 2023

First Name and Surname	Position		Membership since	Termination of Membership
Jana Báčová	Chair [1]; Independent member	Not a member of any ČSOB body	1. 1. 2023	–
Ladislav Mejzlík	Independent member	Not a member of any ČSOB body	27. 1. 2016	–
Christine Van Rijsseghem	Member	Member of ČSOB's Supervisory Board (since 1. 6. 2014)	24. 6. 2019	–

1) Chair since 19 April 2023.

Changes in ČSOB's Managing and Supervisory Bodies in 2023

As of August 2023, there is a change in the Board of Directors, Tom Blanckaert has been replaced by Marcela Výbohová as Senior Executive Officer, Group Risk Management.

Changes in ČSOB's Managing and Supervisory Bodies in 2024

There was no change from the beginning of the year to the publication of this annual report.

The Composition of ČSOB's Board of Directors since 1st January 2024:

Aleš Blažek (Chairman), Michaela Bauer, Petr Hutla, Martin Jarolím, Ján Lučan, Jiří Vévoda and Marcela Výbohová

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) since 1 January 2024 please refer to ČSOB's Organization Chart, page 74 of this Annual Report. Abbreviated curriculum vitaes of the members of the Board of Directors can be found on pages 57–66.

Conflict of Interests

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, ČSOB's Top Management and the Supervisory Board to ČSOB and their private interests and / or other duties which may negatively influence the execution of their duties.

ČSOB does not regard entering into banking transactions by the members of the Board of Directors of ČSOB, the members of ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and / or other duties.

The Business Address

of members of the Board of Directors, ČSOB's Top Management and the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
150 57, Praha 5
Czech Republic

INTRODUCING MEMBERS OF ČSOB'S BOARD OF DIRECTORS

ČSOB's Board of Directors 2023

ALEŠ BLAŽEK

Born on 8 March 1972

Chairman of the Board of Directors

Chief Executive Officer

Mr. Blažek graduated from the Charles University in Prague, Faculty of Law.

Mr. Blažek began his professional career as a lawyer in the Prague office of White & Case. From 2000 to 2007, he worked at Citigroup in Prague and London in various legal management positions in corporate and investment banking. He then joined GE Capital and served as General Counsel for GE Capital International, responsible for GE Capital's legal services in Europe, the Middle East and Asia, and was a member of executive management. He joined ČSOB in 2014 as the head of the legal department responsible for legal and regulatory services and corporate governance. In April 2019, he became the Director of Data and Strategy and participated in the preparation and revision of the ČSOB group's strategy. In 2021, he was appointed CEO of KBC Bank Ireland. Since 6 May 2022, Aleš Blažek has been the Chairman of the Board of Directors and CEO of ČSOB.

Membership in bodies of other companies:
- Member of the Executive Committee of KBC Group (Belgium)
- Member of the Board of Directors and member of the Executive Committee of KBC Bank (Belgium) and KBC Insurance (Belgium)
- Chairman of the Supervisory Board of ČSOB Pojišťovna, a.s. (CZ)

MICHAELA BAUER

Born on 24 July 1978

Member of the Board of Directors

Chief Innovation Officer for KBC Group in the Czech Republic

Mrs. Bauer graduated from Prague University of Economics and Business and obtained the CEMS Master of International Management.

Mrs. Bauer began her career at the International Corporate Desk at KBC Group in 2002. Two years later she moved to the Loans Department at ČSOB, where she was gradually in charge of various agendas and already led a team of three hundred people responsible for loans for small and medium-sized companies before her short maternity leave in 2011. In 2013, she moved to the business side in the position of Director of the Corporate Banking Segment, followed by the role of a member of the Board of Directors responsible for risk and finance at HB. In mid-2017, she returned to ČSOB and took charge of the transformation of the payment solutions and consumer financing area. Since July 2021, Michaela Bauer has been member of the Board of Directors of the ČSOB group and her agenda includes IT, Innovations, Data, Digital, Daily banking and Operations. As Chief Innovation, Digital and Operations officer, Michaela is responsible for accelerating the group's digital transformation in the Czech Republic, specifically for the development and implementation of virtual assistant Kate, digital applications, data usage and the implementation of a new strategy.

Membership in bodies of other companies:
- Chairperson of the Supervisory Board in: Bankovní identita (CZ)
- Member of the Supervisory Board in: Skip Pay (CZ), Ušetřeno (CZ), Green0meter (CZ) and Igluu (CZ)

PETR HUTLA

Born on 24 August 1959

Member of the Board of Directors

Credits Management and Sustainability

Mr. Hutla graduated from the Czech Technical University Prague, Faculty of Electrical Engineering.

Mr. Hutla worked for Tesla Pardubice between 1983 and 1993, as the Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as the branch manager in Pardubice and the main branch manager in Hradec Králové, then as the main branch manager in Prague 1. Mr. Hutla then served as Senior Director, Corporate and Institutional Banking (between 2000 and 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (between 2005 and 2006), Human Resources and Transformation (between 2006 and 15 November 2009), Distribution (between 16 November 2009 and 31 December 2012). Since 27 February 2008, Mr. Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he was also the head of KBC Global Services Czech Branch, organizational unit. Between January 2013 and June 2014, Mr. Hutla was a member of ČSOB's Top Management as the Senior Executive Officer, Specialized Banking and Insurance. From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Convenient Retail Services and from 1 October 2014 to 9 March 2015, also responsible for Change Zone; Mr. Hutla was responsible for Retail (after the merger of these two management areas) from March 2015 to January 2018. As of February 2018, Mr. Hutla has been in charge of Credits Management and Sustainability.

Membership in bodies of other companies:
- Member of the Supervisory Board in ČSOB Leasing (CZ)
- Member of the Board of Directors in the Czech Transplant Foundation (CZ)

MARTIN JAROLÍM

Born on 16 March 1972

Member of the Board of Directors

Retail

Mr. Jarolím graduated from the Faculty of Mathematics and Physics of Charles University in Prague and continued his doctoral studies at CERGE-EI (Centre for Economic Research and Doctoral Studies of Charles University in Prague), where he received the Ph.D. degree.

Martin Jarolím joined ČSOB in 2000. He worked in various professional and managerial positions, mainly in the field of Retail. In the period 01/2011 – 01/2014, he was the executive director of Branch Network Management for private clients. Since February 2014, he worked at KBC Group as a Senior General Manager in the Core Communities Banking & International Markets division. In the period 05/2016 – 12/2022, he was a member of the Board of Directors at K&H Bank (Hungary) with responsibility for retail banking. As of 1 January 2023, he was appointed a member of the ČSOB Board of Directors responsible for the Retail area.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: Hypoteční banka (CZ), ČSOB Stavebni spořitelna (CZ) and Igluu (CZ)
- Member of the Supervisory Board in: Ušetřeno.cz (CZ) and Skip Pay (CZ)
- Member of the Supervisory board of directors of CERGE – EI Foundation (CZ)

JÁN LUČAN

Born on 18 September 1972

Member of the Board of Directors

Relationship Banking

Mr. Lučan graduated from Prague University of Economics and Business and also has Post Graduate degree from the Faculty of Law of Charles University in Prague.

Mr. Lučan started his professional career at IPB Bank in 1997. Three years later, he joined ČSOB where he held managerial position and was responsible for the management of cases arising from the acquisition of IPB Bank. In 2003, he became the Director of the Legal Services Department and was responsible for all of the bank's legal agenda, including significant litigation in various jurisdictions following the acquisition of IPB Bank. He also personally participated in the negotiation of the bank's key agreements, including the cooperation agreement with the Czech Post. From 2012 to 2018, he held the position of Executive Director for Corporate and Institutional Banking. At the beginning of February 2018, Ján Lučan joined top management of ČSOB Slovakia and became a member of the Board of Directors and Chief Financial Officer. He was primarily in charge of finance, risk management, controlling, asset and liability management, data quality management and procurement. He returned to ČSOB Czech Republic in April 2021 and was appointed a member of the Board of Directors responsible for Relationship Services from 1 June 2021.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: ČSOB Advisory (CZ), ČSOB Factoring (CZ), ČSOB Leasing (CZ), K&H Payment Services Kft (HU), Skip Pay (CZ) and Banit (CZ)
- Member of the Supervisory Board in Patria Corporate Finance (CZ), Green0meter (CZ)
- Member of the Board of the Arbitration court attached to the Czech Chamber of Commerce and the Agricultural Chamber of the Czech Republic

JIŘÍ VÉVODA

Born on 4 February 1977

Member of the Board of Directors

Finance Management

Mr. Vévoda graduated from the Joint European Studies Programme at the Staffordshire University and the Prague University of Economics and Business.

Mr. Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden between 2000 to 2004. From 2004 to 2010, he worked for McKinsey & Company. Since May 2010, Jiří Vévoda has been a member of ČSOB's Top Management. As of 8 December 2010, he has become a member of ČSOB's Board of Directors. Firstly, he acted as the Senior Executive Officer responsible for HR and Transformation, afterwards he was responsible for Products and Staff Functions and subsequently he acted as the Chief Risk Officer. Since 2014, Jiří Vévoda has been appointed as the Chief Finance Officer. From 2018 is Jiří Vévoda responsible for ČSOB group's investment services as well.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: Patria Finance (CZ), Patria Corporate Finance (CZ), ČSOB Penzijní společnost (CZ), Ušetřeno.cz (CZ)
- Member of the Supervisory Board in: Hypoteční banka (CZ), ČSOB Stavební spořitelna (CZ), ČSOB Asset Management (CZ)

ČSOB's Supervisory Board in 2023

ZDENĚK TŮMA

Born on 19 October 1960

Chairman of the Supervisory Board

He graduated from Prague University of Economics and Business and he joined the Institute for Forecasting of the Czechoslovak Academy of Sciences as a researcher. After completing his postgraduate studies he became the Head of the Macroeconomics Department at the Faculty of Social Sciences at Charles University, where he was appointed as an associate professor. Later on, he worked in the private sector (Patria Finance) as the Chief Economist. In 1998-1999, he was an Executive Director of the European Bank for Reconstruction and Development in London, representing the Czech Republic, Slovakia, Hungary and Croatia.

In 1999 he returned to Prague and joined the Czech National Bank, as vice-governor. He was appointed as the Governor of the Czech National Bank on 1st December 2000. In this position, he, with other members of the Board, had a wide range of responsibilities such as monetary policy, financial market supervision, management of foreign exchange reserves, payment system, and currency processing. He was also a member of the General Council of the European Central Bank, and he also represented the Czech Republic in the IMF and in the Bank for International Settlement. He retired as Governor on 30 June 2010.

He returned to the private sector in 2011, working as a partner responsible for financial services in KPMG Czech Republic (till 2019). Since 1st October 2019, he is the Chairman of the Supervisory Board of ČSOB.

Membership in bodies of other companies:
- Vice-chair of Board of Governors, English College in Prague (CZ)
- Member of Supervisory Board of Committee of Good Will – Olga Havel Foundation (Výbor dobré vůle, CZ)
- Member of Czech Economic Society (President in 1999-2001, CZ)
- Member of the Supervisory Board of The Aspen Institute Central Europe (CZ)
- Member of College of Central Bankers (Global Interdependence Center)

FRANKY DEPICKERE

Born on 26 January 1959

Member of the Supervisory Board

Mr. Depickere studied commercial and financial sciences at the University of Antwerp (UFSIA; Belgium), and obtained a Master's degree in company financial management from the VLEKHO Business School (Belgium).

Following a short period at Gemeentekrediet bank, in 1982 Mr. Depickere joined the CERA group, where he spent more than 17 years. Among other things he was an internal audit inspector at CERA Bank, financial director of CERA Lease Factors Autolease, chairman of the board of Nédée België-Luxemburg, a subsidiary of CERA Bank, a member of the Management Committee of CERA Investment Bank, and finally a Managing Director at KBC Securities. In 1999 he became managing director and chairman of the Management Committee of F. van Lanschot Bankiers België, as well as group director of F. van Lanschot Bankiers Nederland. From 2005 he was also a member of the Strategic Committee of F. van Lanschot Bankiers Nederland. Since 15 September 2006, he has been a member of Cera's Day-to-Day Management Committee and Managing Director of Cera Société de gestion and Almancora Société de gestion. Mr. Depickere is a member of the Board of Directors of the KBC Group (a non-executive director).

Since 1 June 2014, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Member of the Board of Directors (a non-executive director) in: KBC Group (Belgium), KBC Bank (Belgium), KBC Assurances (Belgium), KBC Global Services (Belgium) and CBC Banque (Belgium)
- Chairman of the Risk and Compliance Committee in: KBC Group (Belgium), KBC Bank (Belgium) and KBC Assurances (Belgium)
- Member of the Nomination Committee of the KBC Group (Belgium)
- Member of the Nomination Committee and the Remuneration Committee of CBC Banque (Belgium)
- Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Euro Pool System International (the Netherlands)
- Chairman of the Board of Directors in: the Flanders Business School (Belgium) and the International Raiffeisen Union (Germany)
- Member of the Supervisory Board of University of Leuven – KULAK (Belgium)
- Member of the Supervisory Board of United Bulgarian Bank, AD,Sofia, (Bulgaria)
- Chairman of the Supervisory Board of TRIaz Hospital Network (Belgium)

CHRISTINE VAN RIJSSEGHEM

Born on 24 October 1962

Member of the Supervisory Board and of the Audit Committee

She graduated in 1985 from the Faculty of Law at the University of Ghent (Belgium). Subsequently she completed an MBA in Financial Sciences at Vlerick Management School in Ghent (Belgium).

Ms. Christine Van Rijsseghem started her career at KBC (formerly Kredietbank) in 1987 at the Central Foreign Entities Department. Initially she was responsible for risk management and controlling and international acquisition strategy, and later on she became head of that department. In 1994 she was appointed Head of the Credit Department of KBC's Irish subsidiary, Irish Intercontinental Bank. In 1996, she became CEO of KBC France and in 1999 of KBC's London branch. From 2000 to 2003, she was Senior General Manager of the Securities & Derivatives Processing Directorate of KBC Group. From 2003 to 30 April 2014, she was Senior General Manager of KBC Group Finance. Since 1 May 2014, Ms. Van Rijsseghem is a member of the Executive Committee of the KBC Group and KBC Group Chief Risk Officer. Since 1 June 2014, she is a member of ČSOB's Supervisory Board. Ms. Van Rijsseghem is chair of the ČSOB Risk and Compliance Committee and a member of the Audit Committee and nomination committee.

Since 1 June 2014, she has been a member of ČSOB's Supervisory Board and since 24 June 2014 she has been also member of the ČSOB's Audit Committee.

Ms. Christine Van Rijsseghem is also the chair of the Risk and Compliance Committee.

Membership in bodies of other companies:
- Member of the Board of Directors, Audit Committee and Risk & Compliance Committee of KBC Group NV, KBC Bank NV and KBC Insurance NV (Belgium)
- Member of the Executive Committee of KBC Group NV, KBC Bank NV and KBC Insurance NV (Belgium)
- Member of the Management Board KBC Global Services NV
- Chair of the Risk & Compliance Committee ČSOB (SK), member of the Board of Directors and Audit Committee ČSOB (SK)
- Member of the Board of Directors and of the Audit Committee and Chair of the Risk & Compliance Committee of K&H Bank (Hungary)
- Member of the Supervisory Board and the Audit Committee, Chair of the Risk and Compliance Committee of UBB (Bulgaria)
- Member of the Board of Directors and Nomination Committee, Chair of the Risk Committee and the Remuneration Committee of KBC Bank Ireland (Ireland) until December 31st 2023.
- Member of the Supervisory Committee and Chair of the Risk and Compliance & Audit Committee of the KBC Bank Dublin Branch (Ireland) until December 1st 2023.
- Member of the Supervisory Board and the Audit Committee, chair of the Risk and Compliance Committee of KBC Bank Bulgaria EAD (Bulgaria) until April 10th 2023.

LADISLAVA SPIELBERGEROVÁ

Born on 6 November 1974

Member of the Supervisory Board

Mrs. Spielbergerová graduated in 2002 from BI VŠ Prague (bachelor's degree Banking management). She has been working for ČSOB since 1995, first as an investment and credit specialist (Trutnov branch), and later as a premium banker in Dvůr Králové branch. In years 2010 – 2014 she was a member of the Supervisory Board of ČSOB as an employee representative. She chairs the Modern trade unions organized within ČSOB. She is a member of the Supervisory Board as an employee representative since 1 January 2019.

Other professional memberships:
- Member of the bureau and vice-president of Trade Union of Employees in Financial and Insurance Sector (Odborový svaz pracovníků peněžnictví a pojišťovnictví, CZ) till February 2024, after Member of Trade Union of Employees in Financial and Insurance Sector CZ
- Member of the executive committee of European Works Council of KBC (Belgium)
- Member of UNI Global committee and member of executive committee in UNI Europa Finance
- Member of OZP Board of Directors (CZ)

GRAEME LINTS HUTCHISON

Born on 18 October 1958

Member of the Supervisory Board

Mr Hutchison graduated from the University of Keele, Staffordshire, England with a BA (hons) in International Relations.

Mr. Hutchison began his career as a corporate banker, working in the London market between 1981 and 1993. In 1991 he joined the Credit Suisse Group as a corporate banking account officer and subsequently established and led the Workout Group following the 89/90 financial crash. In 1993 Mr Hutchison transferred to the Global Project Finance Group in New York where, as a Member of Senior Management, he was responsible for large debt transactions, predominantly within the energy and mining sectors. Between 1999 and 2000 he worked for Winterthur International Insurance (then part of the Credit Suisse Group) developing innovative financial guarantee insurance products. In 2000, he moved to RBC Dominion Securities where he was responsible for setting up a new Project and Structured Finance Group covering North America and from 2003 to 2007 he worked for Standard America Inc as Head of Mining & Metals covering North and South America.

In 2007 Mr. Hutchison returned to Europe initially as a Partner with Deloitte (based in Warsaw) to set up a new Debt Advisory Group covering Central Europe. In 2009 Mr. Hutchison joined the European Bank for Reconstruction and Development as the Deputy Country Director of Ukraine (based in Kyiv) where he ran the corporate banking function (2009-2014) and subsequently as the Regional Head of Hungary and Slovakia (based in Budapest) during which period he played a parallel role within the global Risk Management function (with delegated credit approval authority).

Mr. Hutchison retired from EBRD at the end of 2021.

Since 1 January 2023, has been an independent member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- No membership

JOSEF ČADA

Born on 20 April 1976

Member of the Supervisory Board elected by employees

He graduated from the University of Economics in Prague. In 2002, after completing one-year compulsory military service, he joined the Czech National Bank as a financial markets analyst in the Financial Markets Department. There, until the end of 2006, he analysed developments in the money and capital markets and central bank's monetary policy instruments.

He has been working at ČSOB since January 2007. First, he worked in controlling in the Finance department, and later he was sent as a representative of ČSOB to the KBC Group Finance project aimed at optimising and standardising the processes of finance functions across the KBC Group. After returning from Belgium he moved to the Credits unit in September 2009, where he took over the management of the Credit Risk Reporting team of the ČSOB group. He has been working in Credits to this day, since 2013 as Credit Risk Manager for corporate clients.

Membership in bodies of other companies:
- Member of the Committee of Moderní odbory, a trade union organisation operating in the ČSOB group.

ČSOB's Audit Committee

LADISLAV MEJZLÍK *Born on 1 May 1961* Independent member of the Audit Committee	He graduated from the Prague University of Economics and Business (VŠE). Since 1984 Mr Mejzlík has been working at the Department of Financial Accounting and Auditing (VŠE), where he was 2006 appointed as Head of the Department. From 2014-2022, has been elected dean of the Faculty of Finance and Accounting, and from 2022 served as vice dean. In 1993 Mr Mejzlík obtained a license as a statutory auditor of the Chamber of Auditors (CACR). From 2010–2014, he was elected twice as the First Vice President and in 2022 as the President of CACR. Mr Mejzlík has been representing the Faculty of Finance and Accounting of UEP in the National Accounting Council since 2004. In addition, since 2004, he has been elected twice as the National Representative for the Czech Republic to the European Accounting Association Board of Representatives and is a member of the advisory group of the Ministry of Finance of the Czech Republic for accounting legislation. Mr Mejzlík focuses professionally on using information and communication technology in accounting and auditing and on international regulation and harmonisation of accounting, especially implementing IFRS. Since 27 January 2016, he has been an independent member of ČSOB's Audit Committee. *Membership in bodies of other companies:* • Chairman of the Audit Committee of ČSOB Insurance (since 2016, CZ), • Member of the scientific committees at the UEP (CZ), the Faculty of Finance of UEP and the Faculty of Economic Informatics of Economic University in Bratislava (Slovakia) • Licenced statutory auditor and member of the Chamber of Auditors of the Czech Republic (since 1993, CZ) • Member of the European Accounting Association (since 1994) and the American Accounting Association (since 2005)
JANA BÁČOVÁ *Born on 23 December 1961* Independent member of the Audit Committee	She graduated from the Prague University of Economics and Business (VŠE). Since 1992 Ms. Jana Báčová had been working at the State Bank of the Czechoslovakia, thereafter in the Czech National Bank. In the departments of the financial market supervision, she dealt with management and control systems and internal audit issues. Later, she held several senior positions in the Czech National Bank (CNB) in various areas of its activity, in which she represented the CNB externally in the relevant committees of the European System of Central Banks (ESCB). From 2002, she headed the internal audit department for ten years in the Czech National Bank and in 2012 she became the executive director of the cash and payment system section. In 2015, she was appointed by the bank board to the position of executive director of the general secretariat section, where she was responsible, among other things, for legislation, internal and external communication, operational risk management, compliance, personal data protection, ethical framework and administration of bank board meetings. She is member of the Institute of Internal Auditors in the Czech Republic where she long-term focuses on the standardization of professional practice of internal auditing in the Czech Republic. She is certified internal auditor (CIA) and holder of Accreditation in Internal Audit Quality Assessment and Validation. Since 1 January 2023, she has been an independent member of ČSOB's Audit Committee. *Membership in bodies of other companies:* • Member of the Audit Committee of ČSOB Pension Company (CZ), ČSOB Stavební spořitelna (CZ) and Hypoteční banka (as of 1 November 2023; CZ).

New members of the Board of Directors, Supervisory Board and Audit Committee in 2023

MARCELA VÝBOHOVÁ

Born on 14 June 1972

Member of the Board of Directors (since 1 August 2023)

Group Risk Management

Marcela Výbohová graduated from the University of Economics in Bratislava.

After graduating from the University of Economics in Bratislava, Marcela started her banking career at Tatra banka, where she held several managerial positions, especially in the area of Operations and project management. From the position of Advisor to the Board of Directors, she managed the programme to introduce the new euro currency, where she also held the role of Business sponsor. She continued the common currency implementation project at ČSOB in 2008, after taking up the position of Director of the Payments Division, where she was responsible for the smooth progress of the merger with Istrobanka, the introduction of SEPA payments and 3D-secure in the field of secure card payments.

Since 2014, she has been a member of the ČSOB Country Team responsible for the area of Risks, Compliance, and Legal services within the entire financial group ČSOB SK. The last years were marked mainly by the merger with OTP Banka Slovensko, where she was also a member of the Board of Directors during the transition period. During the two years of the Covid-19 pandemic, she managed the crisis team and the subsequent impact of the war in Ukraine on the processes of the financial group, its employees and clients. Marcela Výbohová was appointed a member of the ČSOB CZ Board of Directors responsible for Group Risk Management since 1 August 2023.

Membership in bodies of other companies:
- Member of the Board of Directors in: Hypoteční banka (CZ) and ČSOB Stavební spořitelna (CZ)
- Member of the Audit Committee in: ČSOB Pojišťovna (CZ)
- Member of the Supervisory Board in: ČSOB Penzijní společnost (CZ), ČSOB Leasing (CZ), Patria Finance (CZ) and K&H Payment Services Kft (HU)

Members of the Board of Directors who ended their terms in 2023

TOM BLANCKAERT

Born on 17 June 1969

Member of the Board of Directors (since 1 March 2022)

Group Risk Management

Mr. Blanckaert graduated from the Catholic University of Leuven and obtained a degree in Economics with a specialization in International Economics, Financial and Monetary Economics.

Mr. Blanckaert joined KBC in 1994 as an internal auditor and has built an international career since then. Over the years, he filled in the roles of Relationship Manager Corporate Branch in Paris, Kredietbank representative in Tunisia, Risk Advisor in Belgium, Deputy Director of Corporate Banking Department and afterwards Director of Corporate and SME Credit Department at Kredyt Bank in Poland, Director Credits Directorate at ČSOB in Slovakia and Managing Director for SME and Corporate Credit Risk at K&H Bank in Hungary. In 2018 Tom got promoted to the KBC Group Top 300 and stepped into a new role as a General Manager in Corporate Audit. Tom Blanckaert was appointed a member of the ČSOB Board of Directors responsible for Group Risk Management since 1 March 2022.

Membership in bodies of other companies:
- Member of the Board of Directors in: Hypoteční banka (CZ), ČSOB Stavební spořitelna (CZ)
- Member of the Supervisory Board in: ČSOB Penzijní společnost (CZ), Patria Finance (CZ), ČSOB Leasing (CZ), K&H Payment Services Kft (HU) a Ušetřeno.cz (CZ)
- Member of Audit Committee ČSOB Pojišťovna, a. s. (CZ)

Corporate Governance Policy

Československá obchodní banka, a. s., voluntarily meets and complies with the corporate governance guidelines set out in the Corporate Governance Code based on the OECD Principles.

The Corporate Governance Code of ČSOB, adopted by ČSOB's Board of Directors in 2012, defines the role of key bodies and sets basic rules of the Bank's governance in compliance with the Czech law and in line with internationally accepted practice. ČSOB's Corporate Governance Code is available in the department of the CEO.

Effective as from October 2012, the Anti-Corruption Programme of ČSOB includes the principle of zero tolerance for bribery and corrupt practices. By issuing and introducing this programme, ČSOB formalized its principles and attitudes nurtured by ČSOB on a continuous and long-term basis. Compliant with the Code of Ethics, this regulation was issued to show to both the public and our employees that corrupt practices or other unethical conduct is and will not be tolerated in ČSOB.

Similarly, ČSOB also subscribes to the principle of zero tolerance for any criminal activity. This long-stated position was formalized in a statement of the ČSOB Board of Directors in June 2020.

Československá obchodní banka, a. s., is also governed by the Guidelines on internal governance issued by the European Banking Authority (EBA).

Československá obchodní banka, a. s. has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee.

The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting.

General Meeting

The General Meeting of shareholders is the supreme body of ČSOB. The General Meeting is equipped with a standard scope of powers as set out in the applicable laws. Among other things, the General meeting takes decisions on matters such as changes in the composition of the ČSOB's bodies, or amendments to the Articles of Association of ČSOB, or changes in the registered capital. The General Meeting also approves financial statements.

The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting. Resolutions are always in writing; a notarial deed is required in cases stipulated by the applicable laws. Where an approval is required by the law, draft resolutions are submitted to the sole shareholder by the Board of Directors. ČSOB's Board of Directors and ČSOB's Supervisory Board are notified of resolutions adopted by the sole shareholder in writing by the delivery of a written notice.

Board of Directors

The Board of Directors of Československá obchodní banka, a. s. performs its tasks within the framework of competencies defined for the statutory body by legal regulations, the Articles of Association of ČSOB and relevant basic management documents of the company.

The members of the Board of Directors are elected by the company's General Meeting provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholder and clients receive regular reports containing the required range of relevant data on the members of the Board of Directors and their professional and personal qualifications enabling them to duly execute their duties.

At the end of 2023, ČSOB's Board of Directors had seven members and worked in the following composition: Aleš Blažek (Chairman), Michaela Bauer, Petr Hutla, Martin Jarolím, Ján Lučan, Jiří Vévoda and Marcela Výbohová

Personnel changes in ČSOB's Board of Directors during the year 2023 are described in the chapter Managing and Supervisory Bodies.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of the statutory body are attended by the Corporate Secretary of the Board of Directors who is responsible for preparing the meetings and taking their minutes. The Board of Directors has quorum if more than half of its members are present at the meeting. Any decision shall receive the votes of a majority of all members of the Board of Directors to be adopted (unless a higher number of votes is required by the articles of association or the Corporations Act). The proceedings of the Board of Directors are governed by the Articles of Association of CSOB and the Rules of Procedure of the Board of Directors.

The Board of Directors establishes expert committees to discuss specific agendas. Considering the importance of topics covered by the committees with company-wide scope of authority, a member of the Board of Directors primarily responsible for its activities usually presides over each committee. Should the responsible member of the Board of Directors be unable to take part in a committee meeting, such responsible member is substituted by a formally appointed deputy (usually another member of the Board of Directors). This approach makes it possible to achieve continuity of the consistent follow-up process focused on the committee's decision-making and to keep the Board of Directors directly informed. Depending on their roles and responsibilities, all ČSOB's units covering the subject matter are made involved in discussions and take part in committee meetings. This is why the head of such involved unit is authorized to take part and represent his / her unit in committee meetings. In his or her absence, committee meetings are attended by his or her deputy or another appointed employee unless forbidden by the applicable rule of procedure. Committee meetings are governed by the committee's rules of procedure.

Board of Directors Committees

Risk and Capital Oversight Committee (RCOC)

The Committee aims to support ČSOB's Board of Directors in the field of risk and capital management of the ČSOB group.

Chairman of the Committee: Marcela Výbohová

Credit Sanctioning Committee (CSC)

The Committee decides approvals / non-approvals of credit exposure of the ČSOB group.

Chairman of the Committee: Petr Hutla

Project Portfolio Board (PPB)

The Committee manages and monitors the project portfolio from strategic, time and budget perspective. At the same time, the Committee decides about concepts and processes of business and IT architecture.

Chairman of the Committee: Aleš Blažek

Public Affairs Committee (PAC)

The Committee intends to promote the establishment and implementation of business and strategic initiatives and projects reflecting own needs or external influences and aims to achieve the business and strategic objectives of the Bank or the companies associated in the ČSOB group.

Chairman of the Committee: Petr Hutla

Crisis Committee (CRC)

The goal is to be efficient in solving crisis situations that, if unaddressed, would adversely affect the operations of the whole Bank, or the ČSOB group, as the case may be.

Chairman of the Committee: Aleš Blažek

Sustainable Executive Committee Country Team (SUS EXCO CT)

SUS EXCO CT approves and monitors initiatives, projects and strategic alliances that are in line with the ČSOB and KBC Group Sustainability strategy and contribute to meeting defined Sustainability targets including strategic climate targets.

Chairman of the Committee: Petr Hutla

Asset-Liability Committee

The purpose of the committee is to support ČSOB's Board of Directors 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 Board of Directors (BoD), ČSOB Hypoteční banka BoD and ČSOB Stavební spořitelna BoD in management of above-mentioned areas.

Chairman of the Committee: Jiří Vévoda

CSOB Group Compliance Committee

The purpose of the CSOB Group Compliance Committee is to support CSOB Board of Directors in managing of compliance risk of the CSOB Group (including CSOB Insurance) with the aim to keep compliance risk profile in defined level.

Chairman of the Committee: Marcela Výbohová

Other Bodies

EXCO – Executive Committee Relationship Banking

The purpose of the Committee is to ensure implementation of business and strategic initiatives and customer value proposition for corporate banking, SME and private banking in accordance with the powers delegated by ČSOB's Board of Directors and the ČSOB group's strategic plan.

Chairman of the Committee: Ján Lučan

REXCO – Executive Committee for Retail Clients

The aim of the Committee is to review financial and business performance of Retail division in line with the plan, adherence to risk and compliance controls, and delivery of strategic and business initiatives in accordance with the powers delegated by ČSOB's Board of Directors, the ČSOB group strategic plan and Retail transformation roadmap.

Chairman of the Committee: Martin Jarolím

iEXCO – Investment Executive Committee

Investment Executive Committee aims to provide winning investments products and solutions for segments and channels in order to become reference for clients and in the market and simultaneously to create value for shareholders.

Chairman of the Committee: Jiří Vévoda

Supervisory Board

The Supervisory Board of Československá obchodní banka, a. s. supervises performance of tasks by the Board of Directors and discharge of the Bank's business activities. The members of the Supervisory Board shall be elected and removed by the General Meeting.

At the end of 2023, ČSOB's Supervisory Board had six members and worked in the following composition: Zdeněk Tůma (Chairman), Christine Van Rijsseghem, Franky Depickere, Graeme Lints Hutchison, Ladislava Spielbergerová and Josef Čada.

Personnel changes in ČSOB's Supervisory Board during the year 2023 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, the Supervisory Board held **four meetings in 2023** where it discussed issues falling under its responsibility according to the Articles of Association of ČSOB. Reading materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors who personally present submitted materials. In compliance with its powers and based on the Audit Committee recommendation, the Supervisory Board selects an external auditor prior the official appointment by the General Meeting of shareholders. The auditor attends all meetings of the Audit Committee, thus providing an independent, comprehensive and qualified opinion of whether ČSOB's financial statements reflect ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Procedure of the Supervisory Board, administrative and organizational support is provided by the Corporate Secretary, who is responsible for taking the minutes of the meetings. Constitution of a quorum and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors. Supervisory Board meetings are governed by the Articles of Association of ČSOB and by its rules of procedure.

Supervisory Board Committees

The Supervisory Board, like as the Board of Directors, may establish advisory committees and other initiative committees to ensure its activities, either on the basis of legal regulations or in accordance with the Articles of Association of ČSOB. ČSOB's Supervisory Board established the Nomination Committee and Remuneration Committee for remuneration, nomination and personal issues. Another advisory committee is the Risk and Compliance Committee.

Nomination Committee and Remuneration Committee

The Nomination Committee submits recommendations to the Supervisory Board as to the election of suitable candidates to the position of member(s) of ČSOB's Board of Directors and submits recommendations to the Supervisory Board as to removal of current member(s) of the ČSOB Board of Directors. The Nomination Committee submits proposals to ČSOB's Supervisory Board with respect to appointment to offices in committees of the Supervisory Board. The Remuneration Committee proposes a remuneration policy for the members of ČSOB's Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries including fixed as well as variable parts, and recommendations to the Supervisory Board as to principles of remuneration of the head of the internal audit. The members of both Committees are regularly informed about changes and rotations of key identified employees and their remuneration.

In 2023, the Nomination Committee was composed of the following members Graeme Lints Hutchison (Chair), Christine Van Rijsseghem and Zdeněk Tůma.

In 2023, the Remuneration Committee was composed of the following members Zdeněk Tůma (Chair), Ladislava Spielbergerová and Graeme Lints Hutchison.

The Nomination Committee held **three meetings** and the Remuneration Committeeheld **five meetings in 2023**.

Risk and Compliance Committee

The Risk and Compliance Committee was established in 2014 by separation from the Audit Committee in compliance with the regulatory requirements. Its authority and responsibilities are determined by the Articles of Association of ČSOB and by the statutes of Risk and Compliance Committee. In particular, the Risk and Compliance Committee advises the Supervisory Body on the institution's overall current and future risk profile, appetite and risk strategy (including compliance risks). Risk and Compliance Committee reviews whether prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Assists in the establishment of sound remuneration policies and practices, the risk committee shall, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Committee supervises the proper functioning of Compliance and Risk Management departments.

The Risk and Compliance Committee members are elected by the Supervisory Board from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their duties in a professional manner. Particularly the Chairman and eventually other members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in all meetings. Furthermore, some line managers or other employees who can provide the Risk and Compliance Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Risk and Compliance Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2023, the Risk and Compliance Committee worked in the following composition: Christine Van Rijsseghem (Chair), Zdeněk Tůma and Graeme Lints Hutchison.

The Risk and Compliance Committee held four meetings in 2023.

Audit Committee

The authority and responsibilities of ČSOB's Audit Committee are determined by the Articles of Association of ČSOB and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors the compilation of the financial statement and the process of mandatory audit, supervises and monitors the quality of internal control, the work of internal audit and financial reporting. The Audit Committee recommends a statutory auditor, examines the adequacy of the auditor's independence and providing of additional services.

The Audit Committee has 3 members. The Audit Committee members are elected by the General Meeting from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their control tasks in a professional manner. The Chairman and relevant members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in Audit Committee's meetings. Furthermore, some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Audit Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2023, the Audit Committee worked in the following composition: Jana Báčová (independent Chair), Ladislav Mejzlík (independent member) and Christine Van Rijsseghem.

The Audit Committee held four meetings in 2023.

Internal Control Mechanisms to Minimize Financial Reporting Process Risks

A number of tools in several areas are used to ensure true and fair representation of transaction in the company's accounting records and correct financial statements presentation. There are both automated and manual checks incorporated in the entire process starting with the transaction registration in the company systems up to financial statements preparation.

Balances of all General Ledger accounts are subject to regular, at least monthly internal checks. The appointed person in charge, so-called Account Manager, performs logical and specific checks related to the General Ledger account balance consisting e.g. of reconciliation of data in support systems or non-accounting registers with the balances in the General Ledger, monitoring the development of the account balance, monitoring the occurrence of unusual transactions, manual entries in accounts with automatic accounting etc. Control procedures are set up to minimize the risk of accounting errors. Findings of accounting errors are listed centrally and relevant corrections are monitored. The adequacy and effectiveness of the accounting examinations are assessed on a regular basis. Findings are reported to the Internal Audit and Operational Risk Management on a semi-annual basis.

The internal control system also includes internal regulations determining authorities assumed by each staff member making entries in the accounting books in order to duly segregate responsibilities within the document flow. Control procedures are integrated to accounting systems including the “four eye” check and access right authentication. The risk of unauthorised entry is minimized by defining the persons who can make a predefined scope of transactions and persons authorised to give approvals.

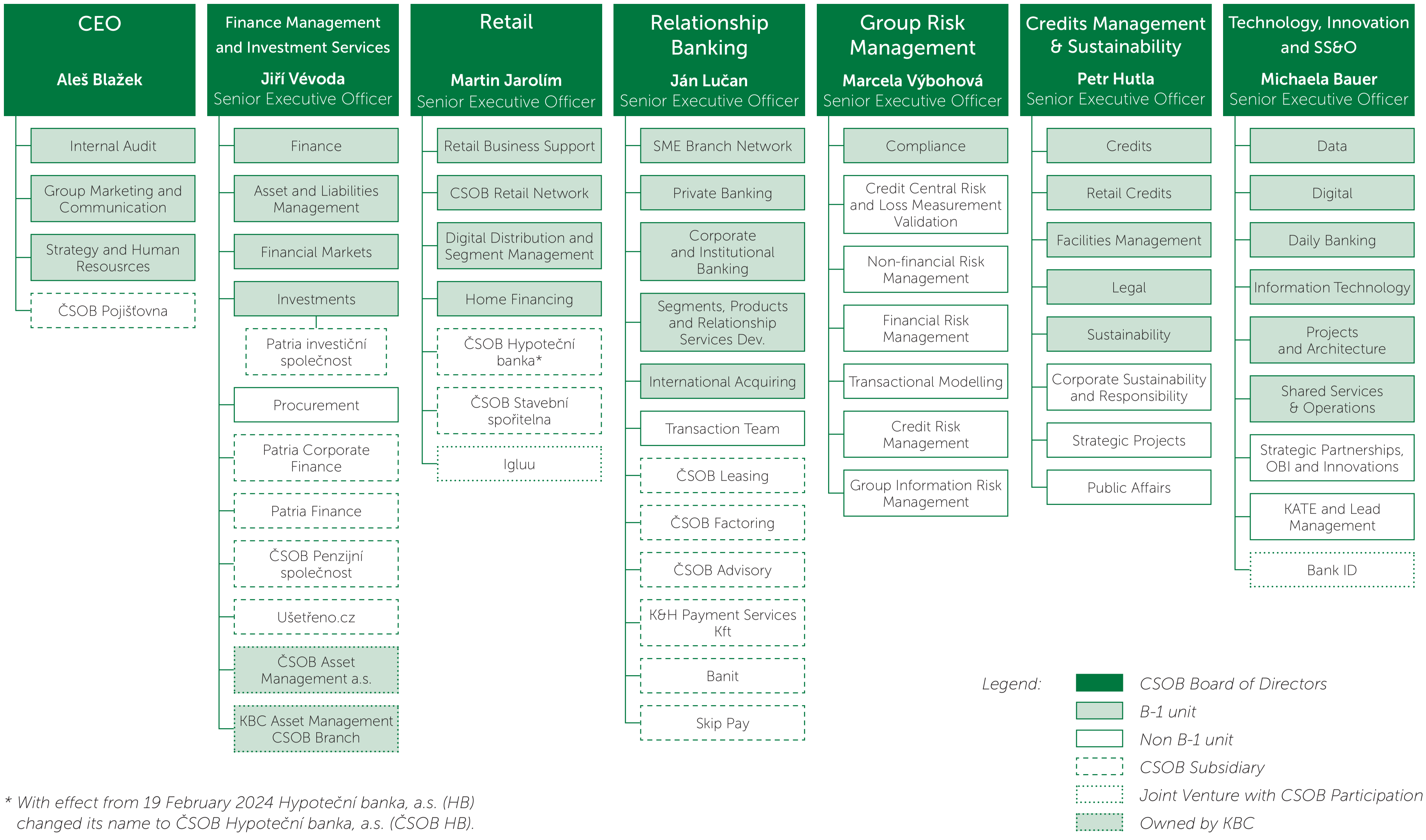
Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements and incorporation of changes is provided by Accounting Methodology in cooperation with the units concerned. Applicable accounting policies, e.g. rules for valuation financial assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statement for the year 2023 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2023 prepared in accordance with EU IFRS.

Control mechanisms are extended based on recommendations from internal audit, which evaluates the effectiveness and efficiency of internal controls, or based on outcomes of the risk assessment reviews organized as a part of the operational risk management, please refer to Note 38.5 to the Separate Financial Statement for the year 2023 prepared in accordance with EU IFRS and to Note 41.5 to the Consolidated Financial Statement for the year 2023 prepared in accordance with EU IFRS.

Majority of financial statements is generated automatically using the data from the central data warehouse, reconciled to the General Ledger balances.

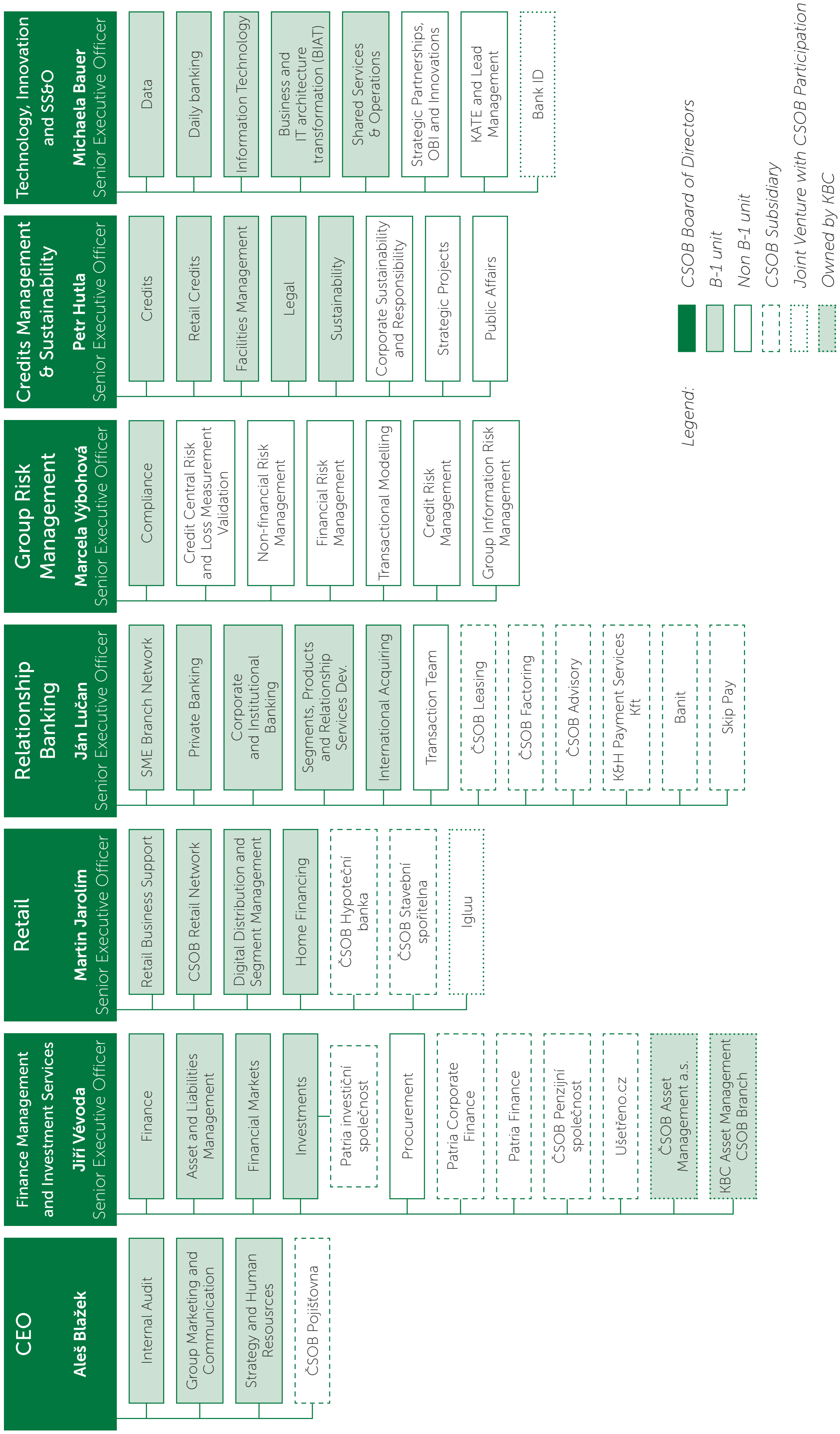
Consolidated financial statements are submitted to ČSOB's Supervisory Board regularly and both consolidated and separate financial statements are subject to external audit review. Report on financial results is submitted to ČSOB's Audit Committee quarterly.

CSOB Group Organizational Chart *as of 31 December 2023*



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

CSOB Group Organizational Chart *as of March 1, 2024*



FINANCIAL PART

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
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	-1,872	-2,390
Profit for the year		**15,436**	**14,571**

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
Profit for the year		**15,436**	**14,571**
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		**18,749**	**13,489**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
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		890	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		**1,869,032**	**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		283	659
Deferred tax liabilities	14	1,521	1,035
Other liabilities	29	7,370	8,404
Provisions	30	709	4,542
Total liabilities		**1,754,551**	**1,704,639**
Share capital	31	5,855	5,855
Share premium		20,929	20,929
Statutory reserve		18,687	18,687
Retained earnings		67,963	57,773
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		**114,481**	**100,978**
Total liabilities and equity		**1,869,032**	**1,805,617**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

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

	Attributable to equity holders of the parent					Total
(CZKm)	Share capital (Note: 31)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 31)	Total Equity
At 1 January 2022	**5,855**	**20,929**	**18,687**	**73,091**	**-1,184**	**117,378**
Profit for the year	-	-	-	14,571	-	14,571
Other comprehensive income for the year (Note: 32)	-	-	-	-	-1,082	-1,082
Total comprehensive income for the year	-	-	-	14,571	-1,082	13,489
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**	**57,773**	**-2,266**	**100,978**
At 1 January 2023	**5,855**	**20,929**	**18,687**	**57,773**	**-2,266**	**100,978**
Profit for the year	-	-	-	15,436	-	15,436
Other comprehensive income for the year (Note: 32)	-	-	-	-	3,313	3,313
Total comprehensive income for the year	-	-	-	15,436	3,313	18,749
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**	**67,963**	**1,047**	**114,481**

(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 10 April 2024 by:

Aleš Blažek
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

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 YEAR ENDED 31 DECEMBER 2023

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 POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

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 as adopted by the European Union (IFRS Accounting Standards).

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.

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

CONSOLIDATED FINANCIAL STATEMENTS

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

(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	3,586	**-1,872**
Segment profit	**3,401**	**2,461**	**10,961**	**1,920**	**-3,307**	**15,436**
Assets and liabilities						
Segment assets	40,041	526,284	356,913	52,056	893,605	**1,868,899**
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**	**893,696**	**1,869,032**
Total liabilities	**561,272**	**118,396**	**611,275**	**139,217**	**324,391**	**1,754,551**
Capital expenditure	**203**	**175**	**499**	**81**	**2,034**	**2,992**

Segment reporting information by customer segments for 2022

(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	2,835	**-2,390**
Segment profit	**3,889**	**3,339**	**9,049**	**1,988**	**-3,694**	**14,571**
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**	**350,996**	**1,704,639**
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	2022
Current tax expense	1,167	3,270
Previous year over accrual of current tax	-51	-33
Deferred tax expense / income (-) relating to the origination and reversal of temporary differences	756	-847
	1,872	**2,390**

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	2022
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	-2,823	-2,273
Tax effect of non-deductible expenses	1,471	1,473
	1,872	**2,390**

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, 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. 3% amounting near to CZK 600 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

Dividends are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2023 has not been taken before the date of issue of the financial statements (Notes: 40, 42).

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

	2023				
(CZKm)	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**

	2022					
	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	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

	2023				
(CZKm)	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**

	2022				
(CZKm)	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

	2023			2022		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	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**

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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:

(CZKm)	Financial liabilities held for trading Financial derivatives	Financial liabilities designated at fair value through profit or loss Debt instruments	Total
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 Carrying value	2023 Fair value	2022 Carrying value	2022 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. The court decision is not yet legally binding.

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:

		Amounts not set-off			
(CZKm)	Gross amounts of financial assets and liabilities	Financial instruments	Cash collateral	Securities collateral	Total net amount
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.

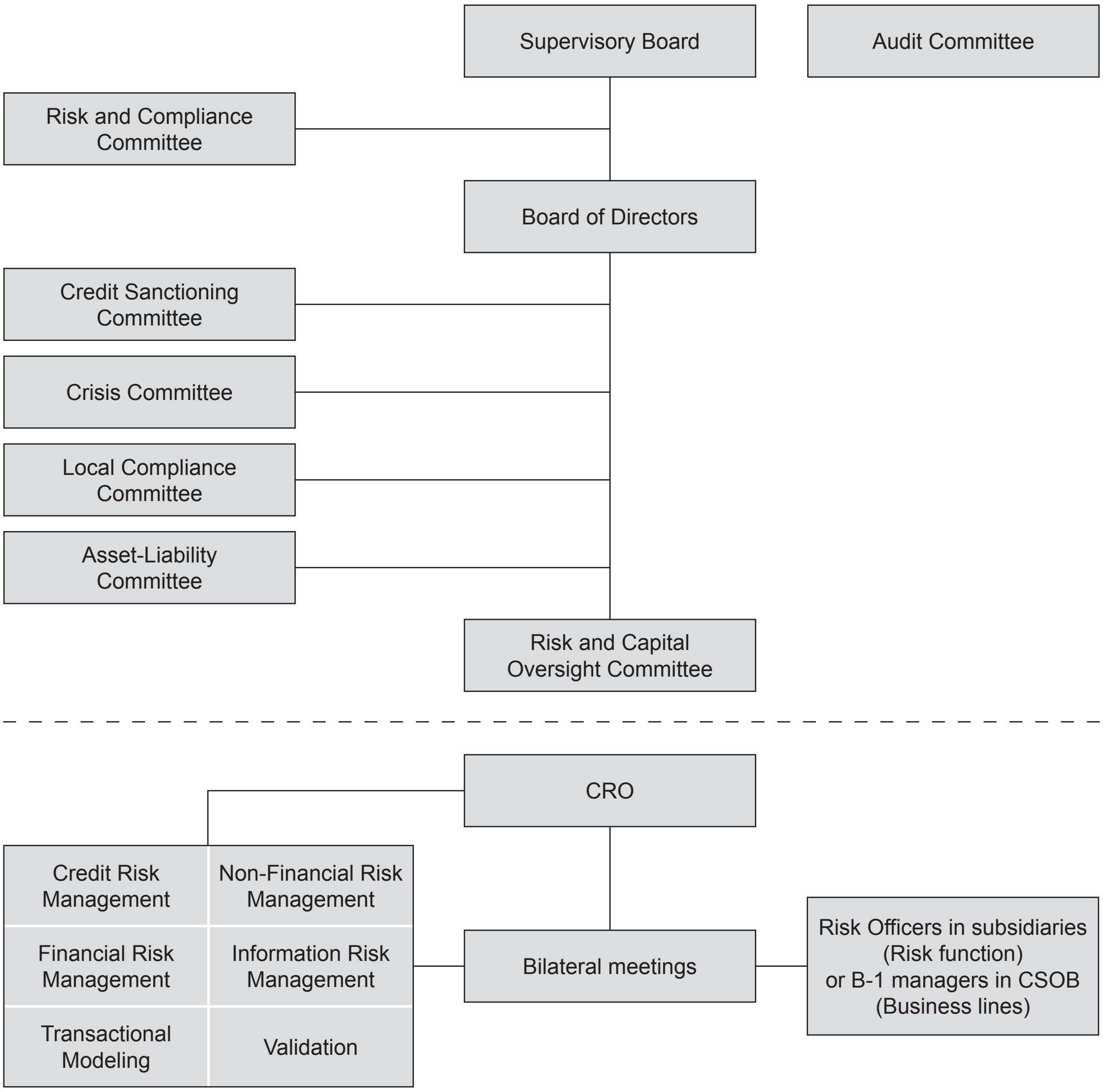
41. RISK MANAGEMENT

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:

	2023		2022	
(CZKm)	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	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:

	2023		2022	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	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

	2023			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	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**

	2022			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	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

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

	2022		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	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 2023	NSFR 2022	E- NSFR 2023	E- NSFR 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:

(CZKm)	2023 Net position in foreign currency	2023 Increase of foreign exchange rate by 1 CZK/EUR	2023 Decrease of foreign exchange rate by 1 CZK/EUR	2022 Net position in foreign currency	2022 Increase of foreign exchange rate by 1 CZK/EUR	2022 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:

(CZKm)	Change in equity price (%)	Effect on equity 2023	Effect on equity 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	2022
Tier 1 capital	90,123	85,793
Tier 2 capital	237	1,646
Total capital	**90,360**	**87,439**
Regulatory capital requirements	36,663	34,631
Risk weighted assets	**458,282**	**432,893**
Capital adequacy ratio	19.72%	20.20%
Eligible liabilities	41,437	40,592
Leverage ratio	4.57%	4.48%

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
Interest income calculated using the effective interest rate method	4	103,780	86,698
Other similar income	4	11,799	8,867
Interest expense calculated using the effective interest rate method	5	-76,604	-52,382
Other similar expense	5	-16,525	-19,645
Net interest income		**22,450**	**23,538**
Fee and commission income	6	12,617	11,683
Fee and commission expense	6	-6,470	-6,099
Net fee and commission income		**6,147**	**5,584**
Dividend income	13	5,392	3,563
Net gains / losses (-) from financial instruments at fair value through profit or loss and foreign exchange	7	2,066	4,465
Net increase in provisions for legal issues and other losses	8	-65	-3,653
Other net income	8	1,719	1,876
Operating income		**37,709**	**35,373**
Staff expenses	9	-9,312	-8,845
General administrative expenses	10	-7,764	-7,839
Depreciation and amortisation	20, 21	-1,997	-1,894
Operating expenses before impairment losses		**-19,073**	**-18,578**
Impairment losses	11	**-2,799**	**-1,743**
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)		1,452	-1,023
on other financial and non-financial assets		-4,251	-720
Profit before tax		**15,837**	**15,052**
Income tax expense	12	-819	-1,402
Profit for the year		**15,018**	**13,650**

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

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
Profit for the year		**15,018**	**13,650**
Other comprehensive income – to be reclassified to the statement of income			
Net gain / loss (-) on cash flow hedges		3,696	-588
Net gain / loss (-) on financial debt instruments at fair value through other comprehensive income		636	-195
Income tax expense (-) / benefit relating to components of other comprehensive income		-883	148
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	29	**3,449**	**-635**
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		76	-62
Income tax expense (-) / benefit relating to components of other comprehensive income		-17	12
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	29	**59**	**-50**
Other comprehensive income for the period, net of tax		**3,508**	**-685**
Total comprehensive income for the year, net of tax		**18,526**	**12,965**

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

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

	Note	2023	2022
ASSETS			
Cash, balances with central banks and other demand deposits	14	23,120	60,729
Financial assets held for trading	15	50,324	91,665
Non-trading financial assets mandatorily at fair value through profit or loss	15	1,330	1,322
Financial assets at fair value through other comprehensive income	16	27,403	31,594
Financial assets at fair value through other comprehensive income pledged as collateral	16	4,326	72
Financial assets at amortised cost	17	1,282,981	1,347,386
Financial assets at amortised cost pledged as collateral	17	237,654	24,722
Fair value adjustments of the hedged items in portfolio hedge	19	-5,250	-14,269
Investments in subsidiaries, associates and joint ventures	18	82,684	83,726
Derivatives used for hedging	19	23,545	35,974
Current tax assets		740	-
Deferred tax assets	12	-	1,623
Property and equipment	20	8,255	8,229
Goodwill and other intangible assets	21	5,822	5,795
Non-current assets held-for-sale	22	23	23
Other assets	23	1,594	1,484
Total assets		**1,744,551**	**1,680,075**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	50,609	91,884
Financial liabilities designated at fair value through profit or loss	24	25,258	23,839
Financial liabilities at amortised cost	25	1,540,403	1,444,686
Fair value adjustments of the hedged items in portfolio hedge	19	-15,309	-32,140
Derivatives used for hedging	19	25,485	42,416
Lease liabilities		3,043	2,959
Current tax liabilities		-	259
Deferred tax liabilities	12	86	-
Other liabilities	26	5,023	5,656
Provisions	27	604	4,447
Total liabilities		**1,635,202**	**1,584,006**
Share capital	28	5,855	5,855
Share premium		20,093	20,093
Statutory reserve		18,687	18,687
Retained earnings		62,940	53,168
Revaluation reserve from financial assets at fair value through other comprehensive income	28	503	-44
Cash flow hedge reserve	28	1,271	-1,690
Total equity		**109,349**	**96,069**
Total liabilities and equity		**1,744,551**	**1,680,075**

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

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2022	**5,855**	**20,093**	**18,687**	**69,417**	**-1,049**	**113,003**
Profit for the year	-	-	-	13,650	-	13,650
Other comprehensive income for the year (Note: 29)	-	-	-	-	-685	-685
Total comprehensive income for the year	-	-	-	13,650	-685	12,965
Equity investments disposed (Note: 30)	-	-	-	83	-	83
Dividends paid (Note: 13)	-	-	-	-29,982	-	-29,982
At 31 December 2022	**5,855**	**20,093**	**18,687**	**53,168**	**-1,734**	**96,069**
Profit for the year	-	-	-	15,018	-	15,018
Other comprehensive income for the year (Note: 29)	-	-	-	-	3,508	3,508
Total comprehensive income for the year	-	-	-	15,018	3,508	18,526
Equity investments disposed (Note: 30)	-	-	-	3	-	3
Dividends paid (Note: 13)	-	-	-	-5,249	-	-5,249
At 31 December 2023	**5,855**	**20,093**	**18,687**	**62,940**	**1,774**	**109,349**

(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 separate financial statements.

These separate financial statements were approved for issue by the Board of Directors and signed on its behalf on 10 April 2024 by:

Aleš Blažek
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

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

(CZKm)	Note	2023	2022
OPERATING ACTIVITIES			
Profit before tax		**15,837**	**15,052**
Adjustments for:			
Interest income	4	-115,579	-95,565
Interest expense	5	93,129	72,027
Dividend income	13	-5,392	-3,563
Non-cash items included in profit before tax	31	8,926	1,086
Net losses from investing activities		184	24
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**-2,895**	**-10,939**
Change in operating assets	31	-17,558	-126,734
Change in operating liabilities	31	14,691	144,173
Income tax paid		-1,010	-1,206
Interest paid		-93,013	-71,947
Interest received		115,316	96,715
Dividend received	13	5,392	3,563
Net cash flows from operating activities		**20,923**	**33,625**
INVESTING ACTIVITIES			
Acquisition and equity increase of subsidiary, associate and joint venture companies		-2,851	-4,984
Purchase of property, equipment and intangible assets		-1,855	-1,842
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		96	99
Net cash flows used in investing activities		**-4,610**	**-6,727**
FINANCING ACTIVITIES			
Bonds issued	25	3,606	4,098
Issue of subordinated debts	25	5,251	21,153
Payments of principal on leases	31	-578	-574
Dividends paid	13	-5,249	-29,982
Net cash flows from / used in (-) financing activities		**3,030**	**-5,305**
Net increase in cash and cash equivalents		**19,343**	**21,593**
Cash and cash equivalents at the beginning of the year	31	239,689	218,096
Net increase in cash and cash equivalents		19,343	21,593
Cash and cash equivalents at the end of the year	31	**259,032**	**239,689**

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The Bank is operating in the Czech Republic. It is a universal bank offering to its clients a wide range of banking products and services, including the products and services of the entire ČSOB Group. The main activities services of the ČSOB include: accepting deposits from the public, providing loans, investing in securities on the Bank's own account, 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. Furthermore, 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.

2. MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The separate 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 separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of the ČSOB Group in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS Accounting Standards).

Statement of compliance

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

2.2 Significant accounting judgements and estimates

While applying the Bank 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: 30)

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: 38.2)

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 Bank 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

ČSOB 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 1,150 m (2022: CZK 2,265 m) in total, of which CZK 326 m is attributed to individual exposures (2022: CZK 406 m), CZK 401 m is attributed to ECL staging effect (2022: CZK 657 m), CZK 481 m is attributed to management overlay (2022: CZK 1,067 m) and increased CZK -58 m is attributed to macroeconomic model-driven ECL (2022: decrease CZK 135 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 1,150 m (2022: CZK 2,265 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 (Note: 38.2).
Geopolitical & Emerging risks	Bank 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 42,979 m (2022: 49,372 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 882 m in 2023 (2022: 1,724 m), of which CZK 401 m is attributed to ECL staging effect (2022: CZK 657 m) and CZK 481 m is attributed to management overlay (2022: CZK 1,067 m).
Macroeconomic scenarios	The model-driven ECL booked due to geopolitical and emerging risks amounted to CZK -58 m in 2023, i.e. impacts booked cumulatively since beginning of 2022 (compared to CZK 135 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 Bank 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.

Goodwill impairment (Note: 21)

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 Bank at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Impairment of investment in subsidiaries (Note: 18)

Investments in subsidiaries are reviewed for impairment indicators at least annually. In cases where impairment indicators are identified, investment is tested for impairment by comparing the recoverable amount with the investment carrying amount. Determining and assessing of the impairment indicators as well as determining the recoverable amount requires judgment.

Assessment of the nature of interest in Group entities

The Bank 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 Bank’s voting rights and potential voting rights.

Determining the lease term

Significant judgements are required to assess the lease term. The Bank assesses how likely it is to exercise options to extend a lease or whether or not to exercise options to terminate a lease.
The Bank 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 Bank analysed the issued performance guarantee contracts to assess whether they would meet the definition of insurance contracts in the scope of IFRS 17. The Bank has concluded that its performance guarantee contracts expose the Bank 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 Bank as the issuer and (ii) there are no scenarios with commercial substance where the Bank would have to pay significant additional amounts to the holders of such guarantees. Accordingly, the Bank 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: 33) 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 financial statements of the Bank are consistent with those used in the Bank'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 Bank, 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 Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank 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 separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Bank'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.

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) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by the Bank (parent entity). The Bank controls an investee when the Bank 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.

Associates are all entities over which the Bank has significant influence but not 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. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in subsidiaries, associates and joint ventures are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and joint ventures are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank 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 Bank 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 Bank 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 Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank 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 Bank 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 Bank assesses that the terms are not substantially different then the transaction is accounted for as financial asset modification. The Bank 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 38.2 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 Bank derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Bank 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 Bank derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Bank 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 Bank 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 Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank 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.

(4) 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 Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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 Bank changes its business model for managing financial assets which could occur when the Bank begins or ceases to perform an activity that is significant to its operations (e.g.: when the Bank 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 Bank 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 Bank 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 Bank Asset Liability Management department uses for reducing the interest rate risk of the Bank, 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 Bank for the following reasons:

- Managed on a FV basis: The Bank 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 Bank 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 Bank 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.

(5) 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 Bank. 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.

(6) 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 Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

Definition of default

The Bank 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: 38.2).

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

- The Bank removes the conservatism which is required by the regulator for Basel models
- The Bank 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 Bank applies forward looking macroeconomic information in the models.

The Bank 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 Bank'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 Bank 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 Bank 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 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 Bank 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.

(8) Impairment of non-financial assets

The Bank 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 Bank 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 Bank 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.

(9) Hedge accounting

The Bank 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 Bank uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Bank'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 Bank'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 Bank achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Bank 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.

(10) 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.

(11) 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 Bank 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 Bank acts as a lessee.

(i) Bank as a lessee

The lessee accounts for the right to use the asset and the lease liability at the commencement of the lease. The Bank enters the leasing contracts in respect of branch network buildings, cars 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.

ČSOB 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 statement of income on an accrued basis.

(ii) Bank as a lessor

Finance leases, where the Bank 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 in Financial assets at amortised cost. 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 Bank does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Bank 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.

(12) 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 Bank 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 Bank provides to its customers. For the recognition of revenue, the Bank identifies the contract and defines the performance obligations in the transaction. Revenue is recognised at a point in time when the Bank 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 Bank satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Bank 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 Bank 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 Bank'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.

(13) 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 Bank as cash equivalents.

(14) Property and equipment

Property and equipment includes Bank 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, IT equipment and Other. 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

Business combination are generally reflected in separate financial statements only if the Bank acquires business that doesn't represent separate legal entity.

The acquisition method of accounting is used to account for business by the Bank that are not under common control as the Bank was. 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 Bank 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 statement of income reflects the results of the combining entities only since the date, when the control was obtained by the entity.

(16) Intangible assets

Intangible assets include software, licences 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 Bank 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

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 Bank 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 Bank 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 Bank 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 Bank concludes that there is no event with commercial substance that could cause the Bank 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.

Bank contributes 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 Bank 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 Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(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 Bank 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 Bank.

(24) Operating segments

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

3. SEGMENT INFORMATION

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

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the strategic business units, the Bank'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 Bank 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, mortgages 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 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. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures 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

(CZKm)	Retail	Relationship banking	Financial markets	Group Centre	Total
Statement of income					
Net interest income	9,837	10,184	1,175	1,254	22,450
Net fee and commission income	2,656	3,303	120	68	6,147
Dividend income	-	-	-	5,392	5,392
Net gains / losses (-) from financial instruments at fair value through profit or loss	118	1,788	754	-595	2,066
Net realised gains on financial instruments at fair value through OCI	-	-	-	-	-
Net increase in provisions for legal issues and other losses	-	-	-	-65	-65
Other net income	217	57	11	1,434	1,719
Operating income	**12,828**	**15,332**	**2,060**	**7,488**	**37,709**
of which:					
External operating income / expense (-)	*-3,838*	*-352*	*2,060*	*39,839*	*37,709*
Intersegment operating income / expense (-)	*16,666*	*15,684*	*-*	*-32,350*	*-*
Depreciation and amortisation	-26	-5	-	-1,966	-1,997
Other operating expenses	-7,585	-4,054	-334	-5,103	-17,076
Operating expenses before impairment losses	**-7,611**	**-4,059**	**-334**	**-7,069**	**-19,073**
Impairment losses	-209	1,584	-	-4,174	-2,799
Profit before tax	**5,008**	**12,857**	**1,726**	**-3,755**	**15,837**
Income tax expense	-1,426	-2,735	-329	3,671	-819
Segment profit	**3,582**	**10,122**	**1,397**	**-84**	**15,018**
Assets and liabilities					
Segment assets	40,041	300,176	45,990	1,358,321	1,744,528
Non-current assets held-for-sale	-	-	-	23	23
Total assets	**40,041**	**300,176**	**45,990**	**1,358,344**	**1,744,551**
Total liabilities	**561,272**	**592,928**	**137,894**	**343,108**	**1,635,202**
Capital expenditure	**203**	**27**	**-**	**1,625**	**1,855**

Segment reporting information by customer segments for 2022

(CZKm)	Retail	Relationship banking	Financial markets	Group Centre	Total
Statement of income					
Net interest income	10,435	10,789	1,450	864	23,538
Net fee and commission income	2,097	3,222	181	84	5,584
Dividend income	-	-	-	3,563	3,563
Net gains / losses (-) from financial instruments at fair value through profit or loss	108	1,989	676	1,692	4,465
Net realised gains on financial instruments at fair value through OCI	-	-	-	-	-
Net increase in provisions for legal issues and other losses	-	-	-	-3,653	-3,653
Other net income	136	14	13	1,713	1,876
Operating income	**12,776**	**16,014**	**2,320**	**4,263**	**35,373**
of which:					
External operating income	*738*	*7,153*	*2,320*	*25,162*	*35,373*
Intersegment operating income / expense (-)	*12,038*	*8,861*	*-*	*-20,899*	*-*
Depreciation and amortisation	-23	-4	-	-1,867	-1,894
Other operating expenses	-7,066	-3,825	-297	-5,496	-16,684
Operating expenses before impairment losses	**-7,089**	**-3,829**	**-297**	**-7,363**	**-18,578**
Impairment losses	-80	-1,256	-	-407	-1,743
Profit before tax	**5,607**	**10,929**	**2,023**	**-3,507**	**15,052**
Income tax expense	-1,486	-2,326	-382	2,792	-1,402
Segment profit	**4,121**	**8,603**	**1,641**	**-715**	**13,650**
Assets and liabilities					
Segment assets	36,782	282,426	108,940	1,251,904	1,680,052
Non-current assets held-for-sale	-	-	-	23	23
Total assets	**36,782**	**282,426**	**108,940**	**1,251,927**	**1,680,075**
Total liabilities	**552,139**	**527,501**	**125,582**	**378,784**	**1,584,006**
Capital expenditure	**290**	**21**	**-**	**1,531**	**1,842**

Interest income and interest expense are not presented separately since the Bank 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 Bank operates predominantly in the Czech Republic.

4. 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	1,439	1,795
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	62,994	54,687
Other than credit institutions	26,838	19,135
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	1,452	844
Derivatives used for hedging (Note: 7)	11,056	9,515
Negative interest from financial liabilities measured at amortised cost	1	722
	103,780	86,698
Other similar income		
Financial assets held for trading incl. assets pledged as collateral (Note: 7)	1,939	1,564
Derivatives used as economic hedges (Note: 7)	9,847	7,289
Negative interest from financial liabilities measured at fair value (Note: 7)	13	14
	11,799	8,867
Interest income	**115,579**	**95,565**

5. 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	6,845	5,201
Other than credit institutions	41,298	24,565
Debt instruments in issue	14,710	11,345
Derivatives used for hedging (Note: 7)	13,739	11,212
	76,604	52,382
Other similar expense		
Financial liabilities held for trading (Note: 7)	2,072	1,665
Financial liabilities designated at fair value through profit or loss (Note: 7)	1,161	643
Derivatives used as economic hedges (Note: 7)	13,176	17,257
Lease liabilities	116	80
	16,525	19,645
Interest expense	**93,129**	**72,027**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2023	2022
Fee and commission income		
Banking services		
Payment service fees	6,743	6,312
Credit / Guarantee related fees	1,074	1,075
Network income	1,284	1,186
Securities	243	189
Other	332	257
Asset management services		
Custody fees	281	286
Mutual funds entry fees	227	216
Distribution		
Mutual funds	1,517	1,280
Banking and insurance products	916	882
	12,617	**11,683**
Fee and commission expense		
Banking services		
Payment services	4,942	4,289
Credit / Guarantee related fees	307	312
Securities	111	109
Other	335	801
Asset management services		
Custody fees	37	33
Distribution		
Banking and insurance products	738	555
	6,470	**6,099**
Net fee and commission income	**6,147**	**5,584**

7. 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 Bank:

(CZKm)	2023	2022
Net gains / losses (-) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,066**	**4,465**
Net interest income (Notes: 4, 5)	-7,293	-12,395
	-5,227	**-7,929**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	-2,973	-1,172
Foreign exchange	-3,401	-4,851
Equity contracts	728	-960
Commodity contracts	-	1
	-5,646	-6,983
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	1,403	-2,435
Financial instruments at fair value through profit or loss and foreign exchange	**-5,227**	**-7,929**

Changes of fair value of hedging derivatives and hedged items, being parts of fair value hedging constructions of the Bank, 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: 19).

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.

8. 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: 27, 33). Together with other cases, net increase in provisions for legal issues and other losses in 2023 amounted to CZK 65 m (2022: increase of CZK 3,653 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	744	786
Services provided to Československá obchodná banka, a.s. (ČSOB SK) (excluding income from ICT services)	48	46
Net operating leasing and rental income	44	46
Net gain on disposal of intangible assets	19	-
Net gain on disposal of non-current assets held-for-sale	8	-
Net loss on disposal of investments measured at amortised cost	-215	-127
Other	1,071	1,125
	1,719	**1,876**

9. STAFF EXPENSES

(CZKm)	2023	2022
Wages and salaries	6,469	6,264
Salaries and other short-term benefits of top management	76	96
Social security charges	2,210	2,103
of which pension security charges (obligatory)	*1,366*	*1,298*
Pension (voluntary) and similar expenses	194	182
Net increase in provisions for Restructuring programme	184	72
Other	179	128
	9,312	**8,845**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 7,096 at 31 December 2023 (31 December 2022: 7,139).

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 Bank 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 Bank 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 Bank 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).

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2023	2022
Information technologies	3,198	2,990
Contribution to the Single Resolution Mechanism	787	910
Retail service fees	645	557
Professional fees	638	521
Other building expenses	635	600
Marketing	533	773
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	383	285
Communication	378	363
Travel and transportation	203	192
Payment cards and electronic banking	124	131
Administration	102	112
Insurance	52	51
Rental expenses on land and buildings – minimum lease payments	50	53
Training	42	44
Car expenses	23	29
Other	-29	228
	7,764	**7,839**

11. IMPAIRMENT LOSSES

(CZKm)	2023	2022
Impairment reversal / loss (-) of financial assets at amortised cost - loans and advances (Notes: 31, 38.2)	1,119	-657
Impairment reversal / loss (-) of financial assets at amortised cost - debt securities (Notes: 31, 38.2)	98	-15
Provisions reversal / addition (-) for loan commitments and guarantees (Notes: 27, 31)	235	-352
Impairment loss on investments in subsidiaries, associates and joint ventures (Note: 18)	-3,893	-708
Impairment reversal / loss (-) of property and equipment (Notes: 20, 31)	1	-10
Impairment loss of intangible assets (Note: 21)	-358	-
Impairment loss of other financial assets (Notes: 31)	-1	-1
	-2,799	**-1,743**

12. INCOME TAX

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

(CZKm)	2023	2022
Current tax expense	84	2,147
Previous year over accrual of current tax	-74	-47
Deferred tax expense / income (-) relating to the origination and reversal of temporary differences	809	-698
	819	**1,402**

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	2022
Profit before taxation	15,837	15,052
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,009	2,860
Previous year over accrual of current tax	-74	-47
Effect on deferred taxes due to increase in tax rate	-45	-
Tax effect of non-taxable income	-3,772	-2,672
Tax effect of non-deductible expenses	1,702	1,261
	819	**1,402**

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 Bank 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, 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. 3% amounting near to CZK 500 m for Bank.

Included in non-taxable income are tax-free interest income and dividend income.

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	**1,623**	**765**
Statement of income	-809	698
Financial assets FVOCI (Note: 29)		
Fair value remeasurement	-166	29
Transfer to net profit or retained earnings	1	20
Cash-flow hedges (Note: 29)		
Fair value remeasurement	-561	174
Transfer to net profit (Note: 19)	-174	-63
At 31 December	**-86**	**1,623**

Deferred tax liability (-) / assets are attributable to the following items:

(CZKm)	2023	2022
Deferred tax liability (-) / assets		
Employee benefits	378	328
Temporary difference resulting from tax depreciation	168	234
Impairment losses on loans and advances at amortised cost and provisions for credit risk	144	266
Temporary difference resulting from tax depreciation related to acquisition of ICT function	101	102
Provisions for other risk and charges	72	749
Impairment losses on tangible and intangible assets	68	2
Impairment losses on debt securities	18	24
Debt securities at fair value through other comprehensive income	-162	4
Cash-flow hedging derivatives	-338	396
Amortisation of goodwill for tax purposes	-565	-511
Other temporary differences	30	29
	-86	**1,623**

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

(CZKm)	2023	2022
Impairment losses on tangible and intangible assets	66	-2
Employee benefits	50	16
Temporary difference resulting from tax depreciation related to acquisition of ICT function	-1	-5
Impairment losses on debt securities	-6	7
Amortisation of goodwill for tax purposes	-54	-
Temporary difference resulting from tax depreciation	-66	-32
Impairment losses on loans and advances at amortised cost and provisions for credit risk	-122	-2
Provisions for other risk and charges	-677	701
Other temporary differences	1	15
	-809	**698**

The Bank's management believes it is probable that the Bank fully realises its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

13. DIVIDENDS PAID AND RECEIVED

Dividends paid

Dividends paid are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2023 has not been taken before the date of issue of the financial statements (Notes: 37, 39).

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.

Dividends received

The following table shows a dividend received by the companies for 2023 and 2022:

(CZKm)	2023	2022
ČSOB Hypoteční banka, a.s.	2,482	1,478
ČSOB Stavební spořitelna, a.s.	1,338	680
ČSOB Leasing, a.s.	566	800
ČSOB Penzijní společnost, a.s.	534	248
Patria Finance, a.s.	278	214
ČSOB Factoring, a.s.	151	81
Bankovní informační technologie, s. r. o.	20	33
ČSOB Advisory	10	-
ČSOB Pojišťovna, a.s.	8	3
CBCB - Czech Banking Credit Bureau, a.s.	3	3
Visa Inc.	2	3
Patria Corporate Finance, a.s.	-	10
První certifikační autorita, a.s.	-	9
BCPB	-	1
	5,392	**3,563**

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

(CZKm)	2023	2022
Cash (Note: 31)	8,036	8,436
Mandatory minimum reserves (Note: 31, 32, 38.2)	8,106	13,768
Other balances with central banks (Notes: 31, 32, 38.2)	2,517	28,415
Other demand deposits in credit institutions (Notes: 31, 32, 38.2)	4,461	10,110
	23,120	**60,729**

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 Bank 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 Bank.

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.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2023	2022
Financial assets held for trading		
Loans and advances		
Reverse repo transactions	7	790
Other loans and advances	-	1
Derivative contracts (Note: 19)		
Trading derivatives	30,248	57,744
Derivatives used as economic hedges	20,069	33,130
	50,324	**91,665**
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	**51,654**	**92,987**

16. 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	3,617	8,037
Credit institutions	23,439	23,045
Debt securities classified as stage 2		
Corporate	-	162
Equity securities		
Corporate	353	356
Total	27,409	31,600
Allowance for impairment losses – stage 1	-6	-6
	27,403	**31,594**
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.

17. FINANCIAL ASSETS AT AMORTISED COST

(CZKm)	2023 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	53,130	-	-	-	53,130
Credit institutions	328,479	-	-	-	328,479
Other legal entities	24,874	510	-	-	25,384
Debt securities – gross carrying amount	406,483	510	-	-	406,993
Allowance for impairment losses	-76	-5	-	-	-81
Total debt securities	**406,407**	**505**	**-**	**-**	**406,912**
Loans and advances					
Central banks (Note: 31)	534,220	-	-	-	534,220
General government	8,968	202	828	-	9,998
Credit institutions (Note: 31)	1,467	32	397	-	1,896
Other legal entities	204,179	70,323	4,798	140	279,440
Private individuals	48,095	7,142	2,009	44	57,290
Loans and advances – gross carrying amount	796,929	77,699	8,032	184	882,844
Allowance for impairment losses	-659	-2,072	-4,002	-42	-6,775
Total loans and advances	**796,270**	**75,627**	**4,030**	**142**	**876,069**
Total financial assets at amortised cost	**1,202,677**	**76,132**	**4,030**	**142**	**1,282,981**
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	235,023	-	-	-	235,023
Credit institutions	308,891	-	-	-	308,891
Other legal entities	22,200	1,958	-	-	24,158
Debt securities – gross carrying amount	566,114	1,958	-	-	568,072
Allowance for impairment losses	-76	-103	-	-	-179
Total debt securities	**566,038**	**1,855**	**-**	**-**	**567,893**
Loans and advances					
Central banks (Note: 31)	460,875	-	-	-	460,875
General government	8,504	250	826	-	9,580
Credit institutions (Note:31)	3,107	150	606	-	3,863
Other legal entities	184,843	67,246	6,814	261	259,164
Private individuals	45,402	6,703	1,822	52	53,979
Loans and advances – gross carrying amount	702,731	74,349	10,068	313	787,461
Allowance for impairment losses	-564	-2,631	-4,739	-34	-7,968
Total loans and advances	**702,167**	**71,718**	**5,329**	**279**	**779,493**
Total financial assets at amortised cost	**1,268,205**	**73,573**	**5,329**	**279**	**1,347,386**
Financial assets at amortised cost pledged as collateral					
Debt securities – gross carrying amount					
General government	24,722	-	-	-	24,722
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**24,722**	**-**	**-**	**-**	**24,722**

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	29,838	18,253	919	314	421	1
Private individuals	3,515	1,435	484	132	386	21
Total	**33,431**	**19,847**	**1,403**	**446**	**807**	**22**

SEPARATE FINANCIAL STATEMENTS

	2022					
	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	1,654	-	-	-	-	-
Total	**1,654**	**-**	**-**	**-**	**-**	**-**
Loans and advances						
General government	154	167	-	-	778	-
Credit institutions	76	-	176	-	309	-
Other legal entities	32,059	4,109	326	568	852	5
Private individuals	2,857	374	262	75	268	16
Total	**35,146**	**4,650**	**764**	**643**	**2,207**	**21**

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.

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

		2023		2022	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.0	552	100.00	390
ČSOB Stavební spořitelna, a.s.	ČSOBS	100.0	10,110	100.00	11,623
ČSOB Advisory, a.s.	ČSOB Advisory	100.0	1,458	100.00	1,458
ČSOB Factoring, a.s.	ČSOB Factoring	100.0	1,295	100.00	1,175
ČSOB Leasing, a.s.	ČSOB Leasing	100.0	7,600	100.00	6,200
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.0	3,224	100.00	4,423
ČSOB Hypoteční banka, a.s.	ČSOB HB	100.0	53,997	100.00	54,235
K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság	K&H Payment Services	100.0	488	100.00	488
Patria Corporate Finance, a.s.	Patria CF	100.0	16	100.00	16
Patria Finance, a.s.	Patria Finance	100.0	670	100.00	389
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.0	2,706	100.00	2,766
Skip Pay s.r.o. (formerly MallPay s.r.o.)	Skip Pay	100.0	297	100.00	306
Ušetřeno.cz, s.r.o.	Ušetřeno	100.0	193	100.00	210
Joint venture					
Igluu s.r.o.	Igluu	50.0	69	50.00	38
Associate					
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			82,684		**83,726**

All companies excluding K&H Payment Services are incorporated in the Czech Republic.

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 a joint-venture. 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.

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

Other changes in 2022 and 2023.

In January 2022, the Bank increased its investment in MallPay by CZK 10 m through the registered capital of the company.

In March 2022, the Bank increased its investment in MallPay by CZK 32 m through the registered capital of the company.

In April 2022, the Bank increased its investment in MallPay by CZK 108 m through the registered capital of the company.

In December 2022, the Bank increased its investment in Skip Pay by CZK 198 m through an additional charge apart from the registered capital of the company.

In December 2023, the Bank increased its investment in Skip Pay by CZK 131 m through an additional charge apart from the registered capital of the company.

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. In 1Q 2022, ČSOB included Igluu into significant participations in the amount of CZK 25 m.

In October 2022, the Bank increased its investment in Igluu by CZK 13 m through an additional charge apart from the registered capital of the company.

In March 2023, the Bank increased its investment in Igluu by CZK 12 m through an additional charge apart from the registered capital of the company.

In October 2023, the Bank increased its investment in Igluu by CZK 20 m through an additional charge apart from the registered capital of the company.

Other changes

In April 2023, the Bank increased its investment in ČSOB Leasing by CZK 1,400 m through an additional charge apart from the registered capital of the company.

In May 2023, the Bank increased its investment in ČSOB Hypoteční banka by CZK 1,000 m through an additional charge apart from the registered capital of the company.

In May 2023, the Bank increased its investment in BANIT by CZK 52 m through an additional charge apart from the registered capital of the company.

In May 2023, the Bank decreased its investment in ČSOB PS by CZK 1,199 m through the redemption of other capital funds of the company.

In May 2023, the Bank increased its investment in Ušetřeno by CZK 25 m through an additional charge apart from the registered capital of the company.

In June 2023, the Bank increased its investment in ČSOB Factoring by CZK 120 m through an additional charge apart from the registered capital of the company.

In June 2023, the Bank increased its investment in Patria Finance by CZK 281 m through an additional charge apart from the registered capital of the company.

In December 2023, the Bank increased its investment in ČSOBS by CZK 960 m through an additional charge apart from the registered capital of the company.

In December 2023, the Bank decreased its investment in Radlice Rozvojová by CZK 60 m through the redemption of other capital funds of the company.

In December 2023, the Bank increased its investment in BANIT by CZK 110 m through an additional charge apart from the registered capital of the company.

In January 2022, the Bank increased its investment in ČSOB PS by CZK 300 m through an additional charge apart from the registered capital of the company.

In March 2022, the Bank increased its investment in ČSOB PS by CZK 700 m through an additional charge apart from the registered capital of the company.

In April 2022, the Bank increased its investment in ČSOB PS by CZK 400 m through an additional charge apart from the registered capital of the company.

In May 2022, the Bank increased its investment in ČSOB PS by CZK 400 m through an additional charge apart from the registered capital of the company.

In June 2022, the Bank increased its investment in ČSOB Hypoteční banka by CZK 2,500 m through an additional charge apart from the registered capital of the company.

In June 2022, the Bank increased its investment in ČSOB PS by CZK 748 m through an additional charge apart from the registered capital of the company.

In August 2022, the Bank increased its investment in BANIT by CZK 30 m through an additional charge apart from the registered capital of the company.

In October 2022, the Bank increased its investment in K&H Payment Services by CZK 146 m through a registered capital and an additional charge apart from the registered capital of the company.

In December 2022, the Bank increased its investment in Ušetřeno by CZK 20 m through an additional charge apart from the registered capital of the company.

In December 2022, the Bank decreased its investment in ČSOB PS by CZK 400 m through the redemption of other capital funds of the company.

In December 2022, the Bank decreased its investment in ČSOB Leasing by CZK 800 m through the redemption of other capital funds of the company.

In December 2022, the Bank increased its investment in ČSOBS by CZK 300 m through an additional charge apart from the registered capital of the company.

In December 2022, the Bank increased its investment in BANIT by CZK 100 m through an additional charge apart from the registered capital of the company.

At 31 December 2023 and 2022, the Bank considered the value of interests in certain subsidiaries to be impaired.

In 2023, the value of interests in Ušetřeno was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 42 m, has been recognised.

In 2023 and 2022, the value of interests in Skip Pay (formerly MallPay) was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 140 m, respectively 265 m, has been recognised.

In 2023 and 2022, the Bank performed an impairment test of subsidiary ČSOB Hypoteční banka and impairment was indicated by the test in 2023 in the amount of CZK 1,238 m and in 2022 in the amount of CZK 443 m. The recoverable amount for ČSOB Hypoteční banka 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 twenty years using the expected average growth rate of 2.1% in 2023 (2022: 5.4%); after that a terminal value is applied. Period of twenty years is used due to long term nature of the business of ČSOB Hypoteční banka.

Cash flows in ČSOB Hypoteční banka are based on the net profit generated by the ČSOB Hypoteční banka 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 % in 2023 (2022: 12.8 %) and long term growth rates 3.3% were used in 2023 (2022: 4%).

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 Bank implies no growth rate for ČSOB Hypoteční banka has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For ČSOB Hypoteční banka 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.

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

There is a negative sensitivity of the value-in-use of ČSOB Hypoteční banka to the risk discount rate, as a key assumption. An increase of the discount rate by 1% would result to the increase impairment of the investment.

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2023:

(CZKm)	+1%	-1%
Assets grow rate	306	-309
Discount rate	-609	750

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2022:

(CZKm)	+1%	-1%
Assets grow rate	484	-607
Discount rate	-1,750	2,285

In 2023 and 2022, the Bank performed an impairment test of subsidiary ČSOBS and impairment was indicated by the test in 2023 in the amount of CZK 2,473 m. The recoverable amount for ČSOBS was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming ten years; after that a terminal value is applied.

Cash flows in ČSOBS are based on the net profit generated by the ČSOBS 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% in 2023 (2022: 12.8%) and long term growth rates of 3.3% were used in 2023 (2022: 4%).

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.

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

- 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.

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

There is a negative sensitivity of the value-in-use of ČSOBS to the risk discount rate, as a key assumption. An increase of the discount rate by 1% would result to the increase of the impairment of the investment.

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2023:

(CZKm)	+1%	-1%
Discount rate	-348	420

The following table shows key assumptions and sensitivity of value-in-use to changes in key assumptions as at 31 December 2022:

(CZKm)	+1%	-1%
Discount rate	-717	894

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

The following table shows a reconciliation of the impairment losses on investment in subsidiaries, associates and joint ventures for 2022 and 2023:

(CZKm)	ČSOBS	ČSOB HB	Ušetřeno	Skip Pay (formerly MallPay)	Total
At 1 January 2022	**-**	**-**	**322**	**97**	**419**
Increase (Note: 11)	-	443	-	265	708
At 31 December 2022	**-**	**443**	**322**	**362**	**1,127**
Increase (Note: 11)	2,473	1,238	42	140	3,893
At 31 December 2023	**2,473**	**1,681**	**364**	**502**	**5,020**

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank 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 Bank 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 Bank 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 Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank'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 Bank'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 Bank'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 Bank'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	876,975	28,082	28,505	1,034,434	54,618	54,920
Options	21,340	260	176	21,202	456	279
	898,315	**28,342**	**28,681**	**1,055,636**	**55,074**	**55,199**
Foreign exchange contracts						
Cross currency interest rate swaps	23,632	1,363	1,355	32,617	2,150	2,143
Options	71,722	462	449	30,945	414	406
	95,354	**1,825**	**1,804**	**63,562**	**2,564**	**2,549**
Commodity contracts						
Swaps / Options	2,024	81	81	1,749	106	106
Total trading derivatives (Notes: 15, 24)	**995,693**	**30,248**	**30,566**	**1,120,947**	**57,744**	**57,854**

Positions of ALM – economic hedges

	2023			2022		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	436,752	11,690	10,150	441,434	19,842	18,609
Forwards	-	-	-	-	-	-
	436,752	**11,690**	**10,150**	**441,434**	**19,842**	**18,609**
Foreign exchange contracts						
Swaps / Forwards	632,507	7,594	6,798	603,048	12,878	12,616
Cross currency interest rate swaps	1,376	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	5,336	500	-	5,965	278	1
	11,412	**780**	**94**	**10,276**	**290**	**631**
Total derivatives used as economic hedges (Notes: 15, 24)	**1,082,047**	**20,069**	**17,042**	**1,056,915**	**33,130**	**31,856**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank'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. Bank policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In ČSOB, 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 Bank 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 Bank 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 Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Bank 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 Bank'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	44,214	1,790	1,605	27,496	393	2,910
Total hedging derivatives	**56,114**	**3,140**	**1,605**	**39,396**	**684**	**2,948**

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: gains 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 Bank‘s hedging strategies:

	2023			2022		
	Cash flow hedge reserve		Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)	Continuing hedges	Discontinued hedges		Continuing hedges	Discontinued hedges	
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: 29)	-917	-342
Net gains from financial instruments at fair value through profit or loss (Note: 29)	90	10
Taxation (Note: 12)	174	63
Net losses	**-653**	**-269**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Bank 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	35,295	-	16,794	-
	56,114	**-**	**39,396**	**-**

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 Bank 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 highly effective hedge.

Interest rate swaps are used by the Bank 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 fixed rate mortgage bonds classified as at fair value through other comprehensive income have been used to hedge interest rate risk arising from changes in the fair value of fixed rate bonds 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.

The contract or notional amounts and positive and negative fair values of the Bank'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	600,367	11,699	22,420	673,979	19,939	39,071
Cross currency interest rate swaps						
Fair value micro hedges	516	31	-	516	56	-
Total hedging derivatives	**687,940**	**20,405**	**23,880**	**765,230**	**35,290**	**39,468**

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

(CZKm)	2023 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	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	243,258	-5,250	-	9,019
Financial assets at fair value through other comprehensive income	2,876	126	-	158
Financial liabilities at amortised cost	333,800	-	-15,309	-16,826
Total	579,934	-5,124	-15,309	-7,649
Total fair value hedged items	**659,659**	**-12,972**	**-15,309**	**228**

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

(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	288,469	-14,269	-	-3,217
Financial assets at fair value through other comprehensive income	2,718	-32	-	160
Financial liabilities at amortised cost	336,351	-	-32,140	9,414
Total	627,538	-14,301	-32,140	6,357
Total fair value hedged items	**703,015**	**-30,075**	**-32,140**	**802**

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 228 m (2022: gains of CZK 802 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 31 m (2022: losses of CZK 1,061 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2022	7,705	1,884	689	1,378	901	12,557
Depreciation and impairment at 1 January 2022	-4,132	-1,388	-442	-1,113	-	-7,075
Net book value at 1 January 2022	**3,573**	**496**	**247**	**265**	**901**	**5,482**
Transfers	425	623	75	122	-1,245	-
Additions	-	-	-	-	804	804
Disposals	-33	-4	-2	-7	-	-46
Transfers to non-current assets held-for-sale	-23	-	-	-	-	-23
Depreciation	-290	-391	-44	-99	-	-824
Impairment	-11	-	-	-	-	-11
Net book value at 31 December 2022	**3,641**	**724**	**276**	**281**	**460**	**5,382**
of which						
Cost	7,832	2,358	726	1,398	460	12,774
Depreciation and impairment	-4,191	-1,634	-450	-1,117	-	-7,392

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2023	7,832	2,358	726	1,398	460	12,774
Depreciation and impairment at 1 January 2023	-4,191	-1,634	-450	-1,117	-	-7,392
Net book value at 1 January 2023	**3,641**	**724**	**276**	**281**	**460**	**5,382**
Transfers	224	252	44	128	-648	-
Additions	-	-	-	-	836	836
Disposals	-8	-1	-4	-4	-	-17
Transfers to non-current assets held-for-sale	-11	-	-	-	-	-11
Depreciation	-291	-400	-45	-113	-	-849
Net book value at 31 December 2023	**3,555**	**575**	**271**	**292**	**648**	**5,341**
of which						
Cost	7,978	2,398	741	1,406	648	13,171
Depreciation and impairment	-4,423	-1,823	-470	-1,114	-	-7,830

RIGHT OF USE ASSETS

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2022	4,388	221	40	4,649
Depreciation and impairment at 1 January 2022	-1,215	-96	-22	-1,333
Net book value at 1 January 2022	**3,173**	**125**	**18**	**3,316**
Additions	13	69	4	86
Disposals	-54	-	-	-54
Depreciation	-426	-70	-6	-502
Impairment	1	-	-	1
Net book value at 31 December 2022	**2,707**	**124**	**16**	**2,847**
of which				
Cost	4,290	291	46	4,627
Depreciation and impairment	-1,583	-167	-30	-1,780

(CZKm)	Land and buildings	IT equipment	Other	Total
Cost at 1 January 2023	4,290	291	46	4,627
Depreciation and impairment at 1 January 2023	-1,583	-167	-30	-1,780
Net book value at 1 January 2023	**2,707**	**124**	**16**	**2,847**
Additions	582	12	27	621
Disposals	-38	-	-3	-41
Depreciation	-448	-56	-10	-514
Impairment	1	-	-	1
Net book value at 31 December 2023	**2,804**	**80**	**30**	**2,914**
of which				
Cost	4,710	179	71	4,960
Depreciation and impairment	-1,906	-99	-41	-2,046

Property and equipment are assessed as non-current assets.

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2022	2,752	3,250	2,230	408	992	9,632
Amortisation and impairment at 1 January 2022	-63	-2,993	-860	-393	-	-4,309
Net book value at 1 January 2022	**2,689**	**257**	**1,370**	**15**	**992**	**5,323**
Transfers	-	19	804	-8	-815	-
Additions	-	-	-	-	1,038	1,038
Amortisation	-	-111	-455	-	-	-566
Impairment (Note: 11)	-	-	-	-	-	-
Net book value at 31 December 2022	**2,689**	**165**	**1,719**	**7**	**1,215**	**5,795**
of which						
Cost	2,752	3,102	3,034	396	1,215	10,499
Amortisation and impairment	-63	-2,937	-1,315	-389	-	-4,704

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2023	2,752	3,102	3,034	396	1,215	10,499
Amortisation and impairment at 1 January 2023	-63	-2,937	-1,315	-389	-	-4,704
Net book value at 1 January 2023	**2,689**	**165**	**1,719**	**7**	**1,215**	**5,795**
Transfers	-	21	1,113	-6	-1,128	-
Additions	-	-	-	-	1,019	1,019
Amortisation	-	-49	-585	-	-	-634
Impairment (Note: 11)	-	-	-358	-	-	-358
Net book value at 31 December 2023	**2,689**	**137**	**1,889**	**1**	**1,106**	**5,822**
of which						
Cost	2,752	3,041	3,789	175	1,106	10,863
Amortisation and impairment	-63	-2,904	-1,900	-174	-	-5,041

Internally developed software in the net amount of CZK 1,106 m as at 31 December 2023 (31 December 2022: CZK 1,215 m) is included in Construction in progress.

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

Goodwill has been allocated to the Retail segment and SME clients, representing a cash-generating unit (CGU). The recoverable amount for the Retail segment and SME clients 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 are based on the net profit generated by the CGU 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 Bank has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients 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 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.

22. NON-CURRENT ASSETS HELD-FOR-SALE

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

(CZKm)	Land and buildings	Total
Net book value at 1 January 2023	**23**	**23**
Transfer from Property and equipment (Note: 20)	11	11
Disposals	-11	-11
Net book value at 31 December 2023	**23**	**23**
of which		
Cost	23	23
Impairment	-	-

23. OTHER ASSETS

(CZKm)	2023	2022
Other financial assets		
Other debtors, net of provisions (Notes: 30, 32, 38.2)	770	766
Accrued income (Notes: 30, 32, 38.2)	179	199
	949	**965**
Other non-financial assets		
Prepaid charges	638	518
VAT and other tax receivables	7	1
	645	**519**
Total other assets	**1,594**	**1,484**

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	952	9	961	968	8	976
Allowance for impairment losses	-6	-6	-12	-5	-6	-11
	946	**3**	**949**	**963**	**2**	**965**

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

Other assets are assessed as current assets.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2023	2022
Financial liabilities held for trading		
Derivative contracts (Note: 19)		
Trading derivatives	30,566	57,854
Derivatives used as economic hedges	17,042	31,856
Term deposits	2,018	1,070
Repo transactions	983	1,104
	50,609	**91,884**
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	11,342	10,762
	25,258	**23,839**
Financial liabilities at fair value through profit or loss	**75,867**	**115,723**

The amount that the Bank 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 or financial instruments managed at fair value on portfolio basis. The Bank has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Bank has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2023	2022
Deposits received from credit institutions		
Current accounts and overnight deposits (Note: 31)	20,446	33,500
Term deposits (Note: 31)	13,861	11,652
Repo transactions (Note: 31)	226,376	41
	260,683	**45,193**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	584,958	618,507
Term deposits	312,827	231,414
Savings deposits	264,971	234,821
Repo transactions (Note: 31)	49,794	11,725
Other deposits	6,061	7,492
	1,218,611	**1,103,959**
Debt securities in issue		
Bonds issued	7,705	4,099
Promissory notes (Note:31)	7,561	250,843
	15,266	**254,942**
Subordinated debt	**45,843**	**40,592**
Financial liabilities at amortised cost	**1,540,403**	**1,444,686**

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: 16, 17).

In 2023, the Bank 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 Bank 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 Bank 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 Bank may prepay the debt at any time following the first five-year period.

In December 2022, the Bank 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 Bank may prepay the debt at any time following the first three-year period.

In June 2022, the Bank 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 Bank may prepay the debt at any time following the first two-year period.

In June 2022, the Bank 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 Bank 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.

26. OTHER LIABILITIES

(CZKm)	2023	2022
Other financial liabilities		
Payables to employees including social security charges (Notes: 30, 32, 38.3)	2,435	2,387
Accrued charges (Notes: 30, 32,38.3)	1,241	1,682
Other creditors (Notes: 30, 32, 38.3)	993	1,359
	4,669	**5,428**
Other non-financial liabilities		
Income received in advance	33	38
VAT and other tax payables	321	190
	354	**228**
Total other liabilities	**5,023**	**5,656**

Other liabilities are assessed as current liabilities.

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2022	**36**	**80**	**11**	**127**
Additions	3,666	79	6	3,751
Amounts utilised	-7	-73	-4	-84
Unused amounts reversed	-7	-7	-	-14
At 31 December 2022	**3,688**	**79**	**13**	**3,780**
At 1 January 2023	**3,688**	**79**	**13**	**3,780**
Additions	43	183	4	230
Amounts utilised	-3,697	-132	-4	-3,833
Unused amounts reversed	-11	-	-9	-20
At 31 December 2023	**23**	**130**	**4**	**157**

Loan commitments and guarantees (Note: 33):

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	**102**	**37**	**184**	**323**
Origination and acquisition	101	-	-	101
Change in credit risk not leading to stage transfers	-40	-22	3	-59
Change in credit risk leading to stage transfer	-32	219	123	310
Foreign currency translation	-8	5	-5	-8
At 31 December 2022	**123**	**239**	**305**	**667**
Origination and acquisition	102	-	-	102
Change in credit risk not leading to stage transfers	-69	-51	-123	-243
Change in credit risk leading to stage transfer	-12	-115	33	-94
Foreign currency translation	1	-	14	15
At 31 December 2023	**145**	**73**	**229**	**447**

Restructuring

During 2022 and 2023, the Bank started a new restructuring programme, resulting in the creation of a provision of CZK 79 m and CZK 183 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 Bank is the defendant.

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

The Bank'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 Bank creates a provision in the full amount to cover the possible cost in the event of loss.

In 2022, the Bank had a provision for pending legal issues and other losses in the total amount of CZK 3,688 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: 33). The legal case resulted in a liability of the Bank 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 Bank monitors the status of all cases and makes a decision as to whether to create, utilise or reverse any provision.

The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

28. 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 Bank 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	Total
At 1 January 2022	**165**	**-1,214**	**-1,049**
Other comprehensive income (Note: 29)	-209	-476	-685
At 31 December 2022	**-44**	**-1,690**	**-1,734**
Other comprehensive income (Note: 29)	547	2,961	3,508
At 31 December 2023	**503**	**1,271**	**1,774**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2023	2022
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised gains / losses (-) on cash flow hedges	2,869	-920
Net loss on cash flow hedges reclassified to the statement of income (Note: 19)	827	332
Tax effect relating to cash flow hedges (Note: 12)	-735	111
	2,961	-477
Financial debt instruments FVOCI		
Net unrealised gains / losses (-) on financial debt instruments FVOCI	636	-195
Tax effect relating to financial debt instruments FVOCI (Note: 12)	-148	37
	488	-158
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**3,449**	**-635**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	80	41
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	-17	12
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**59**	**-50**
Other comprehensive income for the year, net of tax	**3,508**	**-685**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Bank's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (4)).

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 Bank 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 Bank 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 Bank 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 Bank currently checks the valuation of all bonds quarterly.

The Bank 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	-	7	-	7
Derivative contracts	-	48,382	1,935	50,317
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,330	-	1,330
Financial assets FVOCI				
Debt securities	3,369	-	23,681	27,050
Equity securities	-	-	353	353
Financial assets FVOCI pledged as collateral				
Debt securities	4,326	-	-	4,326
Fair value adjustments of the hedged items in portfolio hedge	-	-5,250	-	-5,250
Derivatives used for hedging	-	23,545	-	23,545
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	46,443	1,165	47,608
Term deposits	-	2,018	-	2,018
Repo transactions	-	983	-	983
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	-	25,258	25,258
Fair value adjustments of the hedged items in portfolio hedge	-	-15,309	-	-15,309
Derivatives used for hedging	-	25,485	-	25,485

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
Derivative contracts	-	87,053	3,821	90,874
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	1,322	-	1,322
Financial assets FVOCI				
Debt securities	7,466	-	23,772	31,238
Equity securities	67	-	289	356
Financial assets FVOCI pledged as collateral				
Debt securities	72	-	-	72
Fair value adjustments of the hedged items in portfolio hedge	-	-14,269	-	-14,269
Derivatives used for hedging	-	35,974	-	35,974
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Derivative contracts	-	85,720	3,990	89,710
Term deposits	-	1,070	-	1,070
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	-	-32,140	-	-32,140
Derivatives used for hedging	-	42,416	-	42,416

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 5 bps (1-year) to 53 bps (20-year) in 2023 and was 0 bps (1-year) to 44 bps (20-year) in 2022.

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 Bank'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 Bank converted a part of the Visa shares position to quoted Visa Inc. A-class. The Bank 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 Bank. 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 Bank 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**	**24,632**	**482**	**25,979**
Total gains / losses (-) recorded in profit or loss	868	-89	-	779
Total gains recorded in other comprehensive income	-	105	17	122
Purchases	-	35	15	50
Settlement	-	-911	-	-911
Sales	-	-	-225	-225
Transfers into level 3	2,088	-	-	2,088
At 31 December 2022	**3,821**	**23,772**	**289**	**27,882**
Total gains / losses (-) recorded in profit or loss related to assets held at the end of the reporting period	868	-86	-	782
At 1 January 2023	**3,821**	**23,772**	**289**	**27,882**
Total losses recorded in profit or loss	-1,886	-184	-	-2,070
Total gains recorded in other comprehensive income	-	858	54	912
Purchases	-	8	10	18
Settlement	-	-773	-	-773
At 31 December 2023	**1,935**	**23,681**	**353**	**25,969**
Total losses recorded in profit or loss related to assets held at the end of the reporting period	-1,886	-183	-	-2,069

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:

(CZKm)	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss	Total
	Debt instruments	Financial derivatives	Debt instruments	
At 1 January 2022	**-**	**166**	**24,544**	**24,710**
Total gains / losses (-) recorded in profit or loss	-	1,809	-1,025	784
Issued	-	-	8,904	8,904
Settlement	-	-	-7,845	-7,845
Sales	-	-	-739	-739
Transfers into level 3	-	2,015	-	2,015
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	-920	889
At 1 January 2023	**-**	**3,990**	**23,839**	**27,829**
Total gains / losses (-) recorded in profit or loss	-	-2,825	1,179	-1,646
Issued	-	-	4,778	4,778
Settlement	-	-	-2,733	-2,733
Sales	-	-	-1,805	-1,805
At 31 December 2023	**-**	**1,165**	**25,258**	**26,423**
Total gains / losses (-) recorded in profit or loss related to liabilities held at the end of the reporting period	-	-2,825	1,079	-1,746

Total gains / losses recorded in profit or loss are included within the captions Net gains 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 274 m and CZK 1 m, respectively (2022: CZK 373 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 Bank's financial instruments that are not carried at fair value in the financial statements:

	2023		2022	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	23,120	23,120	60,729	60,729
Financial assets at amortised cost	1,282,981	1,269,909	1,347,386	1,202,137
Debt securities	*406,912*	*400,982*	*567,893*	*518,749*
Loans and advances	*876,069*	*868,927*	*779,493*	*683,388*
Financial assets at amortised cost pledged as collateral	237,654	227,256	24,722	24,537
Other assets (Note: 23)	949	949	965	965
Financial liabilities				
Financial liabilities at amortised cost	1,540,403	1,542,952	1,444,686	1,443,478
Deposits	*1,479,294*	*1,481,835*	*1,149,152*	*1,148,124*
Debt securities in issue	*15,266*	*15,245*	*254,942*	*255,080*
Subordinated debt	*45,843*	*45,872*	*40,592*	*40,274*
Lease liabilities	3,043	3,043	2,959	2,959
Other liabilities (Note: 26)	4,669	4,669	5,428	5,428

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:

	2023			
(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	8,036	15,084	-	23,120
Financial assets at amortised cost	52,230	534,220	683,459	1,269,909
Debt securities	*52,230*	-	*348,752*	*400,982*
Loans and advances	-	*534,220*	*334,707*	*868,927*
Financial assets at amortised cost pledged as collateral	227,256	-	-	227,256
Other assets (Note: 23)	-	949	-	949
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,477,956	64,996	1,542,952
Deposits	-	*1,468,510*	*13,325*	*1,481,835*
Debt securities in issue	-	*9,446*	*5,799*	*15,245*
Subordinated debt	-	-	*45,872*	*45,872*
Lease liabilities	-	3,043	-	3,043
Other liabilities (Note: 26)	-	4,669	-	4,669

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 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	8,309	52,420	-	60,729
Financial assets at amortised cost	208,772	400,158	593,207	1,202,137
Debt securities	*208,772*	-	*309,977*	*518,749*
Loans and advances	-	*400,158*	*283,230*	*683,388*
Financial assets at amortised cost pledged as collateral	24,537	-	-	24,537
Other assets (Note: 23)	-	965	-	965
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,387,325	56,153	1,443,478
Deposits	-	*1,136,326*	*11,798*	*1,148,124*
Debt securities in issue	-	*250,999*	*4,081*	*255,080*
Subordinated debt	-	-	*40,274*	*40,274*
Lease liabilities	-	2,959	-	2,959
Other liabilities (Note: 26)	-	5,428	-	5,428

The following methods and assumptions were applied in estimating the fair values of the Bank'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 Bank'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 Bank'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.

31. 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: 14)	23,120	60,729
Loans and advances to central banks (Note: 17)	534,220	460,875
Loans and advances to credit institutions (Note: 17)	1,223	2,866
Financial liabilities at amortised cost to credit institutions – Current accounts and overnight deposits (Note: 25)	-20,446	-33,500
Financial liabilities at amortised cost to credit institutions - Term deposits (Note: 25)	-514	-397
Financial liabilities at amortised cost to credit institutions - Repo transactions (Note: 25)	-226,376	-41
Financial liabilities at amortised cost to government bodies - Repo transactions (Note: 25)	-44,643	-
Financial liabilities at amortised cost – promissory notes issued to credit institutions (Note: 25)	-7,552	-250,843
Cash and cash equivalents	**259,032**	**239,689**

Change in operating assets

(CZKm)	2023	2022
Net change in financial assets held for trading (incl. assets pledged as collateral)	41,340	-35,408
Net change in non-trading financial assets mandatorily at fair value through profit or loss	-8	89
Net change in financial assets at FVOCI (including assets pledged as collateral)	321	2,119
Net change in financial assets at amortised cost (excluding items classified as cash equivalents)	-75,226	-80,393
Net change in derivatives used for hedging	16,126	-13,029
Net change in other assets	-111	-112
	-17,558	**-126,734**

Change in operating liabilities

(CZKm)	2023	2022
Net change in financial liabilities held for trading	-41,275	34,714
Net change in financial liabilities designated at fair value through profit or loss	1,419	-705
Net change in financial liabilities at amortised cost (excluding items classified as cash equivalents)	72,109	93,592
Net change in derivatives used for hedging	-16,930	14,504
Net change in other liabilities	-632	2,068
	14,691	**144,173**

Non-cash items included in profit before tax

(CZKm)	2023	2022
Net change in fair value adjustments of the hedged items in portfolio hedge	7,812	-6,192
Impairment losses (Note: 11)	2,799	1,743
Depreciation and amortisation	1,997	1,892
Provisions	-3,623	3,653
Other	-59	-10
	8,926	**1,086**

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

	Financial liabilities at amortised cost (Note: 25)		Lease liabilities
(CZKm)	Bonds issued	Subordinated debt	
At 1 January 2022	**-**	**19,439**	**3,378**
Cash flows in respect of issuance, repayment and interest paid on bonds	4,098	21,153	-
Cash flows in respect of payments for the principal of lease liabilities	-	-	-574
Cash flows in respect of payments for the interest of lease liabilities	-	-	-80
Non-cash adjustments	1	-	235
At 31 December 2022	**4,099**	**40,592**	**2,959**
At 1 January 2023	**4,099**	**40,592**	**2,959**
Cash flows in respect of issuance, repayment and interest paid on bonds	3,606	5,251	-
Cash flows in respect of payments for the principal of lease liabilities	-	-	-578
Cash flows in respect of payments for the interest of lease liabilities	-	-	-116
Non-cash adjustments	-	-	778
At 31 December 2023	**7,705**	**45,843**	**3,043**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank 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: 14)	23,120	-	-	-	23,120
Financial assets held for trading					
Financial derivatives	18,400	25,048	6,867	-	50,315
Other than financial derivatives	9	-	-	-	9
Non-trading financial assets mandatorily at fair value through profit or loss	1,330	-	-	-	1,330
Financial assets at fair value through other comprehensive income	4,284	23,259	3,833	353	31,729
Financial assets at fair value through other comprehensive income pledged as collateral	3,990	242	94	-	4,326
Financial assets at amortised cost	710,098	383,656	189,226	-	1,282,981
Financial assets at amortised cost pledged as collateral	6,508	32,419	198,727	-	237,654
Fair value adjustments of the hedged items in portfolio hedge	-2,097	-2,993	-160	-	-5,250
Derivatives used for hedging	7,070	11,880	4,595	-	23,545
Other assets (Note: 23)	949	-	-	-	949
Total carrying value	**773,661**	**473,511**	**403,182**	**353**	**1,650,707**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	16,803	24,009	6,796	-	47,608
Other than financial derivatives	3,001	-	-	-	3,001
Financial liabilities designated at fair value through profit or loss	6,542	15,402	3,314	-	25,258
Financial liabilities at amortised cost	757,564	383,944	398,895	-	1,540,403
Fair value adjustments of the hedged items in portfolio hedge	-4,511	-8,959	-1,839	-	-15,309
Derivatives used for hedging	7,544	14,511	3,430	-	25,485
Lease liabilities	475	1,678	890	-	3,043
Other liabilities (Note: 26)	4,669	-	-	-	4,669
Total carrying value	**792,087**	**430,585**	**411,486**	**-**	**1,634,158**

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 Bank 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: 14)	60,729	-	-	-	60,729
Financial assets held for trading					
Financial derivatives	29,933	46,542	14,400	-	90,875
Other than financial derivatives	790	-	-	-	790
Non-trading financial assets mandatorily at fair value through profit or loss	1,322	-	-	-	1,322
Financial assets at fair value through other comprehensive income	1,313	23,881	6,044	356	31,594
Financial assets at fair value through other comprehensive income pledged as collateral	1	-	71	-	72
Financial assets at amortised cost	642,002	324,152	381,231	-	1,347,385
Financial assets at amortised cost pledged as collateral	583	10,083	14,056	-	24,722
Fair value adjustments of the hedged items in portfolio hedge	-4,843	-9,019	-407	-	-14,269
Derivatives used for hedging	10,193	19,509	6,272	-	35,974
Other assets (Note: 23)	965	-	-	-	965
Total carrying value	**742,988**	**415,148**	**421,667**	**356**	**1,580,159**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	29,012	46,551	14,147	-	89,710
Other than financial derivatives	2,174	-	-	-	2,174
Financial liabilities designated at fair value through profit or loss	7,564	12,559	3,716	-	23,839
Financial liabilities at amortised cost	666,850	375,331	402,505	-	1,444,686
Fair value adjustments of the hedged items in portfolio hedge	-8,759	-17,794	-5,587	-	-32,140
Derivatives used for hedging	12,416	23,418	6,582	-	42,416
Lease liabilities	582	1,631	746	-	2,959
Other liabilities (Note: 26)	5,428	-	-	-	5,428
Total carrying value	**715,267**	**441,696**	**422,109**	**-**	**1,579,072**

33. 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: 38.2)	137,613	138,637
Loan commitments - revocable	71,828	69,695
Financial guarantees (Note: 38.2)	56,396	52,281
Other commitments (Note: 38.2)	1,307	2,074
	267,144	**262,687**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	447	667

Revocable loan commitments are such commitments in which the Bank may at any time limit the amount that may be drawn under the credit limit. Further the Bank may not provide any drawdown under the credit facility requested by the client or the Bank can suspend further drawdowns under the credit facility all together. The Bank 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 Bank, 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 Bank 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: 38.3).

Litigation

Other than the litigations, for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank 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 Bank 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: 27). 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. The court decision is not yet legally binding.

Further, the Bank 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 Bank 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 (Bank is the lessor)

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

(CZKm)	2023	2022
Not later than 1 year	39	42
Later than 1 year and not later than 5 years	83	128
	122	**170**

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.

34. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements 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	7	790
Financial assets at amortised cost	534,284	460,919
	534,291	**461,709**

Under reverse repurchase agreements, the Bank 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.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions and securities lending as at 31 December 2023 was CZK 612,026 m, of which CZK 103,470 m has been either sold or repledged (31 December 2022: CZK 509,786 m and CZK 37,999 m, respectively).

The following table shows an analysis of the loans the Bank 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 Bank 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: 15) and Financial assets at fair value through other comprehensive income (Note: 16) and Financial assets at amortised cost (Note: 17).

35. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Bank that have been set-off or that have not been set-off as at 31 December 2023 and 2022:

	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	71,573	-	71,573
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,289	-	2,289
Total trading and hedging derivatives	**73,862**	**-**	**73,862**
Repurchase agreements set-off	25,909	25,902	7
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	534,284	-	534,284
Total repurchase agreements (Note: 34)	**560,193**	**25,902**	**534,291**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	65,916	-	65,916
Derivatives not set-off that are not subject to an enforceable master netting arrangement	7,177	-	7,177
Total trading and hedging derivatives	**73,093**	**-**	**73,093**
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: 34)	**303,055**	**25,902**	**277,153**

	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	124,448	-	124,448
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,400	-	2,400
Total trading and hedging derivatives	**126,848**	**-**	**126,848**
Repurchase agreements set-off	15,027	15,027	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	461,708	-	461,708
Total repurchase agreements (Note: 34)	**476,735**	**15,027**	**461,708**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	111,037	-	111,037
Derivatives not set-off that are not subject to an enforceable master netting arrangement	21,089	-	21,089
Total trading and hedging derivatives	**132,126**	**-**	**132,126**
Repurchase agreements set-off	15,971	15,027	944
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	11,926	-	11,926
Total repurchase agreements (Note: 34)	**27,897**	**15,027**	**12,870**

The following table shows an analysis of the financial assets and liabilities of the Bank 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: Financial instruments	Amounts not set off: Cash collateral	Amounts not set off: Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	71,573	57,455	13,603	-	515
Debt securities pledged as collateral in repo transaction not set-off	-	-	-	-	-
Total carrying value	**71,573**	**57,455**	**13,603**	**-**	**515**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	65,916	57,455	1,624	-	6,837
Repurchase agreements not set-off	-	-	-	-	-
Total carrying value	**65,916**	**57,455**	**1,624**	**-**	**6,837**

The following table shows an analysis of the financial assets and liabilities of the Bank 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: Financial instruments	Amounts not set off: Cash collateral	Amounts not set off: Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	124,448	96,556	27,625	-	267
Debt securities pledged as collateral in repo transaction not set-off that	944	944	-	-	-
Total carrying value	**125,392**	**97,500**	**27,625**	**-**	**267**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	111,037	96,556	2,633	-	11,848
Repurchase agreements not set-off	944	-	-	944	-
Total carrying value	**111,981**	**96,556**	**2,633**	**944**	**11,848**

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 Bank 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.

36. 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 fair value through other comprehensive income	Financial assets at amortised cost	Derivatives used for hedging	Other assets
KBC Bank NV	3,368	30,204	1,330	-	-	23,482	-
Entities under common control							
ČSOB SK	1	-	-	-	-	-	1
Other	181	9	-	38	90	-	257
Subsidiaries							
BANIT	-	-	-	-	-	-	7
ČSOBS	-	2,761	-	-	5,999	-	21
ČSOB Factoring	-	-	-	-	2,799	-	-
ČSOB Leasing	-	217	-	-	23,502	-	-
ČSOB Hypoteční banka	101	2,418	-	22,561	322,400	287	-
Patria Finance	-	-	-	-	1,481	-	-
Radlice Rozvojová	-	-	-	-	1,266	-	14
Skip Pay (former MallPay)	-	-	-	-	218	-	-
Associates							
ČSOB Pojišťovna	-	-	-	-	-	-	11

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 NV	21,968	284,219	22,087	-
Entities under common control				
ČSOB AM	-	972	-	-
ČSOB SK	1	59	-	-
K&H Bank Zrt	13	19	-	-
Other	27	409	-	96
Subsidiaries				
BANIT	-	162	-	96
ČSOBS	4,035	18	206	-
ČSOB Advisory	-	34	-	-
ČSOB Leasing	300	91	-	-
ČSOB Penzijní společnost	-	221	-	-
ČSOB Hypoteční banka	4,325	7,603	2,089	-
Patria Corporate Finance	-	18	-	-
Patria Finance	-	368	-	-
Radlice Rozvojová	-	1,063	-	-
Skip Pay (former MallPay)	-	228	-	-
Ušetřeno	-	46	-	-
Associates				
ČSOB Pojišťovna	511	2,266	-	56

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 fair value through other comprehensive income	Financial assets at amortised cost	Derivatives used for hedging	Other assets
KBC Bank NV	7,810	63,224	1,322	-	107	33,699	-
Entities under common control							
ČSOB SK	8	-	-	-	-	-	18
Other	32	-	-	38	77	-	190
Subsidiaries							
BANIT	-	-	-	-	23	-	1
ČSOBS	-	4,735	-	-	-	-	20
ČSOB Factoring	-	-	-	-	2,808	-	-
ČSOB Leasing	-	-	-	-	19,871	-	-
ČSOB Hypoteční banka	181	899	-	21,562	306,880	1,323	-
Patria Finance	-	-	-	-	1,017	-	-
Radlice Rozvojová	-	-	-	-	1,306	-	16
Skip Pay (former MallPay)	-	-	-	-	140	-	-
Associates							
ČSOB Pojišťovna	-	-	-	-	-	-	4

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 NV	36,896	308,904	39,093	1
Entities under common control				
ČSOB AM	-	770	-	-
ČSOB SK	2	53	-	-
K&H Bank Zrt	1	375	-	-
Other	100	274	-	-
Subsidiaries				
BANIT	-	-	-	64
ČSOBS	6,113	39	606	-
ČSOB Advisory	-	36	-	-
ČSOB Leasing	783	96	-	-
ČSOB Penzijní společnost	-	460	-	-
ČSOB Hypoteční banka	10,900	8,094	571	-
Patria Corporate Finance	-	12	-	-
Patria Finance	-	514	-	-
Radlice Rozvojová	-	993	-	-
Skip Pay (former MallPay)	-	219	-	-
Ušetřeno	-	56	-	-
Associates				
ČSOB Pojišťovna	881	412	-	-

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 or, in a specific cases, term loans with fixed maturity granted to subsidiaries of the Bank (ČSOB Leasing). Financial assets included in the portfolio held for trading, financial assets at fair value through other comprehensive income, financial assets at amortised cost contracted between ČSOB and ČSOB Hypoteční banka represent mortgage debenture bonds with the contractual maturities from 3 years up to 30 years issued by ČSOB Hypoteční banka and purchased by the Bank on a primary capital market. 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: 25, 39) and short-term deposits.

The Bank provides banking services to its subsidiaries, associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services. In addition, the Bank acquired interest bearing debt instruments issued by its subsidiaries.

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 NV	20,602	35,863	12,406	26,057
Entities under common control				
ČSOB AM	-	52	-	33
ČSOB SK	1	118	1	118
Other	12	21	6	33
Subsidiaries				
BANIT	1	-	5	-
ČSOBS	372	2	9	3
ČSOB Factoring	141	-	64	-
ČSOB Leasing	868	-	449	-
ČSOB Hypoteční banka	12,278	317	7,698	433
Patria Finance	67	32	25	13
Radlice Rozvojová	39	49	41	34
Skip Pay (former MallPay)	14	-	5	-
Associates				
ČSOB Pojišťovna	-	285	-	247

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

(CZKm)	2023 Fee and commission income	2023 Fee and commission expense	2022 Fee and commission income	2022 Fee and commission expense
KBC Bank NV	54	2	74	2
Entities under common control				
ČSOB AM	908	-	703	-
ČSOB SK	20	-	20	-
KBC Asset Management	257	-	515	-
Other	297	3	14	2
Subsidiaries				
BANIT	-	415	1	365
ČSOBS	7	79	10	82
ČSOB Factoring	1	-	1	-
ČSOB Leasing	40	-	39	-
ČSOB Penzijní společnost	35	-	29	-
ČSOB Hypoteční banka	159	76	192	108
Patria Finance	14	1	25	1
Associates				
ČSOB Pojišťovna	235	-	655	-

Dividend income received from subsidiaries, associates and joint ventures in 2023 amounted to CZK 5,387 m (2022: CZK 3,547 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2023 amounted to CZK 27 m (2022: CZK 29 m).

In 2023, the Bank received income of CZK 245 m (2022: CZK 237 m) from the provision of administration services and paid expense of CZK 673 m (2022: CZK 574 m) for IT services, including rental expenses on information technologies.

In 2023, the Bank 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.

In 2023, the Bank continued with integration of Group and thus received income of CZK 485 m (2022: CZK 471 m) from ČSOB Hypoteční banka and ČSOBS for the provision of loan services, such as debt management and collection and for the provision of administration services, such as human resources and accounting services.

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

(CZKm)	2023 Guarantees received	2023 Guarantees given	2022 Guarantees received	2022 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
Subsidiaries				
ČSOB Leasing	-	8,094	-	5,033

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

37. 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 above and elsewhere in these notes to the financial statements.

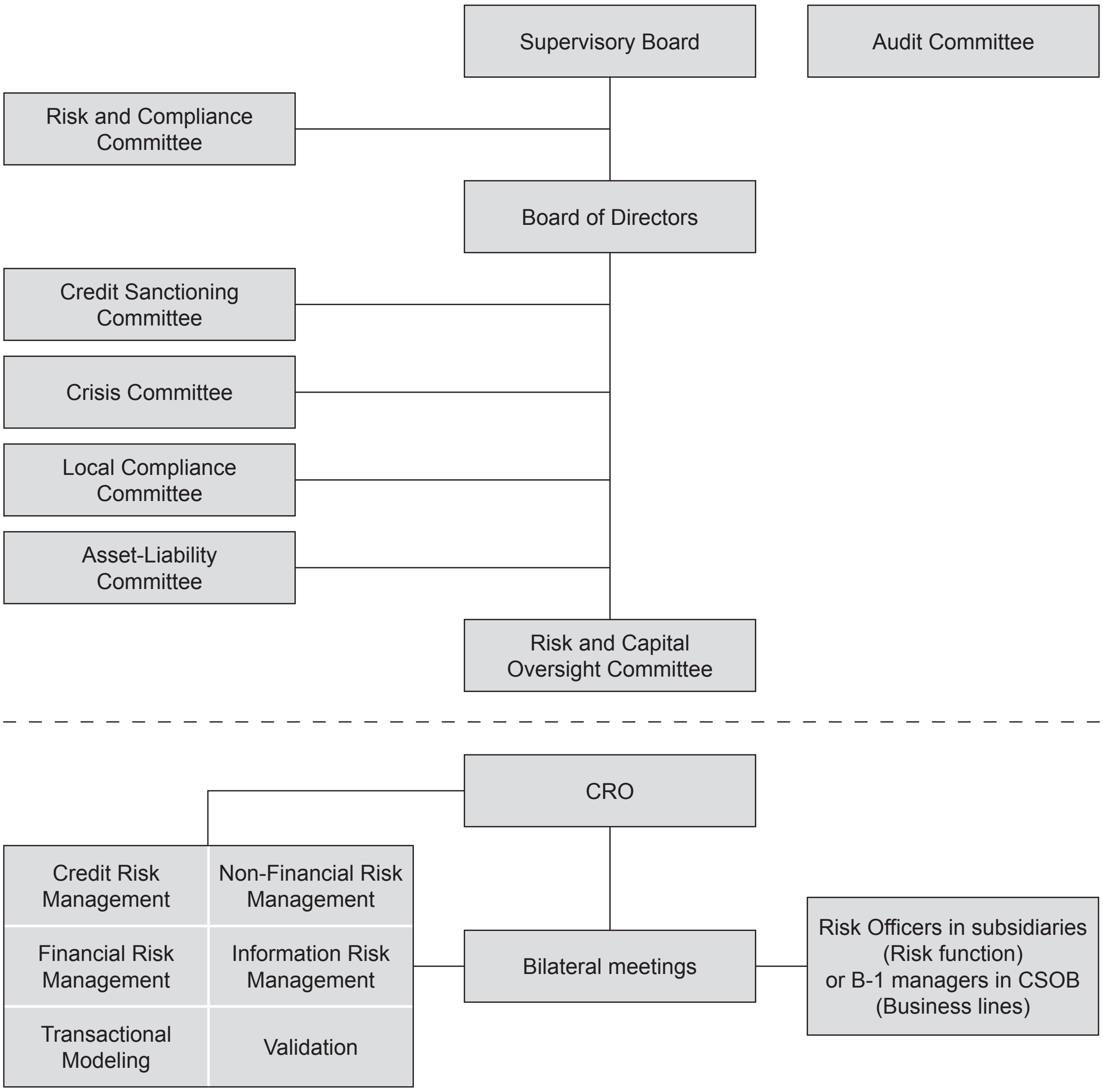
38. RISK MANAGEMENT

38.1 Introduction

Risk is an inherent part of ČSOB's activities, and risk and capital management is critical to the results of operations and financial condition of ČSOB. The principal risks that ČSOB 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 Bank 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 Bank.



The Bank 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 Bank 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 Bank; 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 Bank).

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Bank'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 Bank's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements of the Bank.

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 ČSOB's.

Local Compliance Committee

The Local 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 ČSOB.

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 ČSOB 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 ČSOB'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 ČSOB. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses risk and capital management processes throughout ČSOB examining both the adequacy of its risk and capital management procedures and the Bank'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 ČSOB 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 CSOB 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 Bank 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 Bank’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 client-facing 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 risks identified and their potential impact for Group. Where possible, remedial actions are proposed.

Risk measurement

Risk measurement aims to quantify the various risks that 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 both 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 reporting, 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.

38.2 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 Bank 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 Bank monitors exposures in relation to these limits. The Bank 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 Bank 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 Bank 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 ČSOB 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 ČSOB is more than 90 days past the due date.

At ČSOB, 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank'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 Credits departments in the Bank. These Credits 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 Bank'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.

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.

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 Bank provides guarantees and letters of credit on behalf of its customers, as a result of which the Bank 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 Bank 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 Bank:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Bank 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 Bank'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 Bank to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Bank 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: 14)	4,360	10,724	-	-	15,084
Financial assets held for trading (Note: 15)	-	20,069	30,255	-	50,324
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,330	-	-	1,330
Financial assets FVOCI (Note: 16)	961	26,089	-	-	27,050
Financial assets FVOCI pledged as collateral	-	4,326	-	-	4,326
Financial assets at AC	335,167	944,632	-	3,182	1,282,981
Financial assets at AC pledged as collateral	-	237,654	-	-	237,654
Fair value adjustments of the hedged items in portfolio hedge	-	-5,250	-	-	-5,250
Derivatives used for hedging	-	23,545	-	-	23,545
Other assets (Note: 23)	-	-	-	949	949
Total	340,488	1,263,119	30,255	4,131	1,637,993
Contingent liabilities (Note: 33)	49,046	8,094	-	-	57,140
Commitments – irrevocable (Note: 33)	135,344	2,057	-	-	137,401
Total	184,390	10,151	-	-	194,541
Total credit risk exposure	**524,878**	**1,273,270**	**30,255**	**4,131**	**1,832,534**

(CZKm)	2022 Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	9,929	42,364	-	-	52,293
Financial assets held for trading (Note: 15)	-	33,130	58,535	-	91,665
Non-trading financial assets mandatorily at fair value through profit or loss	-	1,322	-	-	1,322
Financial assets FVOCI (Note: 16)	1,827	29,412	-	-	31,239
Financial assets FVOCI pledged as collateral	-	72	-	-	72
Financial assets at AC	309,839	1,035,117	-	2,430	1,347,386
Financial assets at AC pledged as collateral	-	24,722	-	-	24,722
Fair value adjustments of the hedged items in portfolio hedge	-	-14,269	-	-	-14,269
Derivatives used for hedging	-	35,974	-	-	35,974
Other assets (Note: 23)	-	-	-	965	965
Total	321,595	1,187,844	58,535	3,395	1,571,369
Contingent liabilities (Note: 33)	46,974	6,733	-	329	54,036
Commitments – irrevocable (Note: 33)	134,526	3,763	-	-	138,289
Total	181,500	10,496	-	329	192,325
Total credit risk exposure	**503,095**	**1,198,340**	**58,535**	**3,724**	**1,763,694**

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 Bank 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: 14)	15,084	-	15,084	52,293	-	52,293
Financial assets held for trading (incl. assets pledged as collateral)	50,324	13,056	37,268	91,665	28,097	63,568
Financial derivatives	50,317	13,049	37,268	90,874	27,307	63,567
Financial assets other than derivatives	7	7	-	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)	31,376	-	31,376	31,311	-	31,311
Financial assets at amortised cost (incl. assets pledged as collateral)	1,520,635	691,733	828,902	1,372,108	605,651	766,457
of which non-performing assets	*4,077*	*3,098*	*979*	*5,535*	*3,517*	*2,018*
Fair value adjustments of the hedged items in portfolio hedge	-5,250	-	-5,250	-14,269	-	-14,269
Derivatives used for hedging	23,545	987	22,558	35,974	380	35,594
Other assets (Note: 23)	949	-	949	965	-	965
Total	1,637,993	705,776	932,217	1,571,369	634,128	937,241
Contingent liabilities and commitments – irrevocable (Note: 33)	194,541	55,716	138,825	192,325	50,407	141,918
of which non-performing exposures	*914*	*524*	*390*	*587*	*383*	*204*
Total credit risk exposure	**1,832,534**	**761,492**	**1,071,042**	**1,763,694**	**684,535**	**1,079,159**

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

	2023			2022		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
Non-performing exposures total						
Corporate	*2,299*	*1,889*	*410*	*3,549*	*2,260*	*1,289*
SME	*1,986*	*1,731*	*255*	*1,955*	*1,634*	*321*
Retail	*695*	*2*	*693*	*600*	*6*	*594*
Other	*11*	*-*	*11*	*18*	*-*	*18*
Total non-performing exposures	***4,991***	***3,622***	***1,369***	***6,122***	***3,900***	***2,222***

Financial effect of collateral represents a fair value of collateral received by the Bank 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 Bank enters into:

2023 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	202,600	43,727	67,810	**314,137**	-2,511	-354	**311,272**
SME	99,715	5,541	53,695	**158,951**	-2,562	-70	**156,319**
Retail	40,453	-	13,995	**54,448**	-1,685	-21	**52,742**
Other	4,479	12	56	**4,547**	-1	-1	**4,545**
Total credits	**347,247**	**49,280**	**135,556**	**532,083**	**-6,759**	**-446**	**524,878**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	184,936	42,113	69,822	**296,871**	-3,408	-523	**292,940**
SME	97,114	5,158	51,823	**154,095**	-3,096	-124	**150,875**
Retail	37,064	-	13,102	**50,166**	-1,556	-18	**48,592**
Other	10,542	22	126	**10,690**	-1	-1	**10,688**
Total credits	**329,656**	**47,293**	**134,873**	**511,822**	**-8,061**	**-666**	**503,095**

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)	Corporate	SME	Retail	Other	Total
Stage 1					
At 1 January 2022	**200**	**194**	**156**	**-**	**550**
Origination and acquisition	164	53	55	-	272
Change in credit risk not leading to stage transfers	-19	-10	-40	-	-69
Change in credit risk leading to stage transfer	-19	-87	-34	-	-140
Modification without derecognition	-	-	-2	-	-2
Derecognition	-	-23	-21	-	-44
Foreign currency translation	1	-	-	-	1
At 31 December 2022	**327**	**127**	**114**	**-**	**568**
Origination and acquisition	162	92	72	-	326
Change in credit risk not leading to stage transfers	-138	-7	-25	-	-170
Change in credit risk leading to stage transfer	-46	27	-7	-	-26
Modification without derecognition	-	-	-2	-	-2
Derecognition	-	-18	-19	-	-37
Foreign currency translation	1	-	-	-	1
At 31 December 2023	**306**	**221**	**133**	**-**	**660**
Stage 2					
At 1 January 2022	**614**	**869**	**569**	**1**	**2,053**
Change in credit risk not leading to stage transfers	-29	8	-171	-	-192
Change in credit risk leading to stage transfer	350	398	222	-	970
Modification without derecognition	-	-9	2	-	-7
Derecognition	-	-44	-21	-	-65
Foreign currency translation	-40	-	-	-	-40
At 31 December 2022	**895**	**1,222**	**601**	**1**	**2,719**
Change in credit risk not leading to stage transfers	-331	-480	-97	-	-908
Change in credit risk leading to stage transfer	146	46	110	-	302
Modification without derecognition	-	-12	1	-	-11
Derecognition	-	-49	-29	-	-78
Foreign currency translation	33	-2	-	-	31
At 31 December 2023	**743**	**725**	**586**	**1**	**2,055**

Stage 3					
At 1 January 2022	**2,305**	**2,066**	**818**	**-**	**5,189**
Change in credit risk not leading to stage transfers	-841	-190	2	-	-1,029
Change in credit risk leading to stage transfer	1,014	224	254	-	1,492
Modification without derecognition	-	23	70	-	93
Derecognition	-	-152	-49	-	-201
Write-offs	-300	-249	-261	-	-810
Foreign currency translation	8	-2	-	-	6
At 31 December 2022	**2,186**	**1,720**	**834**	**-**	**4,740**
Change in credit risk not leading to stage transfers	-935	-123	32	-3	-1,029
Change in credit risk leading to stage transfer	212	226	335	-	773
Modification without derecognition	-	31	83	-	114
Derecognition	-	-151	-43	-	-194
Write-offs	-7	-122	-280	-	-406
Foreign currency translation	6	-2	-	3	4
At 31 December 2023	**1,462**	**1,579**	**961**	**-**	**4,002**
POCI					
At 1 January 2022	**-**	**26**	**4**	**-**	**30**
Change in credit risk not leading to stage transfers	2	7	6	-	15
Change in credit risk leading to stage transfer	-	-1	-1	-	-2
Derecognition	-	-2	-1	-	-3
Write-offs / recoveries	-2	-3	-1	-	-6
At 31 December 2022	**-**	**27**	**7**	**-**	**34**
Change in credit risk not leading to stage transfers	-	13	2	-	15
Change in credit risk leading to stage transfer	-	-1	-4	-	-5
Derecognition	-	-	-1	-	-1
Write-offs / recoveries	-	-2	-	-	-2
At 31 December 2023	**-**	**37**	**4**	**-**	**41**
ALL STAGES					
At 1 January 2022	**3,119**	**3,155**	**1,547**	**1**	**7,822**
At 31 December 2022	**3,408**	**3,096**	**1,556**	**1**	**8,061**
At 31 December 2023	**2,511**	**2,562**	**1,685**	**1**	**6,759**

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: 17), 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	8,061	7,822
Balance of allowances for credit losses at 31 December	6,759	8,061
Net decrease (-) / increase of allowances for credit losses for the year	**-1,302**	**239**
Adjusted for:		
Write-offs	377	812
Recoveries	-285	-431
Sales of loans	33	4
Foreign currency translation	-39	33
Net impairment gains (-) / losses as reported in the statement of income	**-1,216**	**657**

An industry sector analysis of the Bank'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
Commercial Real Estate	83,400	15.7	67,893	13.3
Distribution	83,059	15.6	82,924	16.1
Services	56,195	10.6	56,130	11.0
Building and Construction	52,920	9.9	49,629	9.7
Private persons	51,446	9.7	47,249	9.2
Automotive	33,134	6.2	35,752	7.0
Oil, Gas and other Fuels	21,385	4.0	21,790	4.3
Machinery and Heavy Equipment	19,131	3.6	18,609	3.6
Authorities	18,365	3.4	15,699	3.1
Metals	15,883	3.0	15,707	3.1
Finance and Insurance	13,592	2.5	20,448	4.0
Agriculture, farmers and fishing	12,308	2.3	11,337	2.2
Electrotechnics	9,555	1.8	8,739	1.7
Electricity	7,338	1.4	6,317	1.2
Beverages	6,366	1.2	6,252	1.2
Food producers	6,120	1.2	5,644	1.1
Other sectors	41,886	7.9	41,703	8.2
Total	**532,083**	**100.0**	**511,822**	**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	640,541	-	-	-75	**640,466**
Loans and receivables within investment portfolio	568,320	8,094	2,057	-5	**578,466**
Derivatives used for hedging	23,545	-	-	-	**23,545**
Derivatives as economic hedges (Note: 15)	20,069	-	-	-	**20,069**
Cash, balances with central banks and other demand deposits	10,724	-	-	-	**10,724**
Total investment	**1,263,199**	**8,094**	**2,057**	**-80**	**1,273,270**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	597,149	-	-	-72	**597,077**
Loans and receivables within investment portfolio	479,304	6,733	3,763	-5	**489,795**
Derivatives used for hedging	35,974	-	-	-	**35,974**
Derivatives as economic hedges (Note: 15)	33,130	-	-	-	**33,130**
Cash, balances with central banks and other demand deposits	42,364	-	-	-	**42,364**
Total investment	**1,187,921**	**6,733**	**3,763**	**-77**	**1,198,340**

The following tables show a reconciliation of the allowances for impairment losses on investment portfolio for 2022 and 2023 by classes of financial instruments:

(CZKm)	Debt securities: Financial assets FVOCI	Debt securities: Financial assets at amortised cost	Total
Stage 1			
At 1 January 2022	**5**	**68**	**73**
Change in credit risk not leading to stage transfers	-	4	4
At 31 December 2022	**5**	**72**	**77**
Change in credit risk not leading to stage transfers	-	3	3
At 31 December 2023	**5**	**75**	**80**

The investment 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
Central banks	544,944	42.8	503,239	42.0
General government	294,109	23.1	267,120	22.3
Credit institutions	393,276	30.9	388,947	32.4
Corporate	40,941	3.2	39,034	3.3
Total investment	**1,273,270**	**100.0**	**1,198,340**	**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: 15)	30,248	-	-	30,248
Total trading portfolio	**30,255**	**-**	**-**	**30,255**

2022 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Loans and advances	791	-	-	791
Trading derivatives (Note:15)	57,744	-	-	57,744
Total trading portfolio	**58,535**	**-**	**-**	**58,535**

The trading portfolio is monitored from 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	26,525	87.7	56,046	95.7
Corporate	3,730	12.3	2,489	4.3
Total trading portfolio	**30,255**	**100.0**	**58,535**	**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 Bank'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	1,719,521	296,343	1,605,049	271,053
Belgium	57,164	-	104,931	-
Slovak Republic	11,948	4,511	11,033	3,386
Hungary	1,085	-	1,636	-
Spain	1,263	-	1,496	-
Belarus	348	-	744	-
Ukraine	96	-	214	-
Russia	19	-	91	-
Italy	21	-	16	-
Greece	1	-	1	-
Other Europe	32,114	2,839	31,179	2,972
Other	8,954	594	7,304	-
Total	**1,832,534**	**304,287**	**1,763,694**	**277,411**

Credit risk exposures of the Bank towards the countries are reported before taking into account of collateral. Gross credit exposure to Belarus, Russia and Ukraine amounts to CZK 463 m at 31 December 2023 (31 December 2022: CZK 1,049 m). If collaterals, guarantees and other credit enhancements received by the Bank to limit the exposure are taken into account, then the net unsecured exposure to Belarus, Russia and Ukraine decreases to CZK 125 m at 31 December 2023 (31 December 2022: CZK 215 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 (CZK m)	2023 % of total credit portfolio	2022 Granted exposure (CZK m)	2022 % of total credit portfolio
1 largest client	13,062	2.5	10,479	2.0
10 largest clients	75,554	14.2	70,425	13.8
25 largest clients	127,188	23.9	117,531	23.0

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

Client	2023 Granted exposure (CZK m)	2023 % of total investment portfolio	2022 Granted exposure (CZK m)	2022 % of total investment portfolio
CNB	544,843	42.8	503,058	42.0
ČSOB Hypoteční banka	345,349	27.1	329,946	27.5
Czech Ministry of Finance (S&P's rating AA)	286,415	22.5	260,764	21.8

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

	2023		2022	
Client	Granted exposure (CZK m)	% of total trading portfolio	Granted exposure (CZK m)	% of total trading portfolio
KBC Bank	18,294	60.5	37,649	64.3

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 (CZK m)	% of total portfolio	Granted exposure (CZK m)	% of total portfolio
Investment portfolio				
AAA up to and including A-	886,547	69.6	837,767	69.9
BBB+ up to and including BB-	1,247	0.1	2,543	0.2
Unrated	385,476	30.3	358,030	29.9
Total	**1,273,270**	**100.0**	**1,198,340**	**100.0**
Trading portfolio				
AAA up to and including A-	24,075	79.6	49,145	84.0
BBB+ up to and including BB	4,355	14.4	7,643	13.0
Unrated	1,825	6.0	1,747	3.0
Total	**30,255**	**100.0**	**58,535**	**100.0**

Included in the item unrated, there are loans granted to the ČSOB's subsidiaries ČSOB Hypoteční banka, ČSOB Leasing and ČSOB Factoring, as well as securities issued by these companies held by the Bank as part of the investment portfolio.

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 Bank complies with CNB recommendation regarding retail loans secured by residential properties. The Bank 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 Bank uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment

The Bank 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 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 Bank 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 Bank 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 2,285 m at year-end 2023 and CZK 3,185 m in 2022), shows that the base scenario results in an ECL of CZK 4,357 m (CZK 4,612 in 2022), which is CZK 760 m lower than the "down"-scenario (CZK 822 m in 2022) and CZK 97 m higher than the "up"-scenario (CZK 105 m in 2022). The collectively calculated weighted ECL results (which was booked) amounts to CZK 4,576 m (CZK 4,894 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 Bank 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 Bank 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 Bank's credit rating system as at 31 December 2023 and 2022:

Credit portfolio	2023					Total
	Non-defaulted assets		Defaulted assets			
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	189,281	53,765	1,134	1,154	993	246,327
SME	74,364	27,285	1,887	242	1,478	105,256
Retail	32,755	6,038	590	188	882	40,453
Other	4,479	-	-	-	12	4,491
Total	**300,879**	**87,088**	**3,611**	**1,584**	**3,365**	**396,527**

Credit portfolio	2022					Total
	Non-defaulted assets		Defaulted assets			
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	165,936	55,513	3,453	1,240	907	227,049
SME	69,442	29,119	2,208	211	1,292	102,272
Retail	30,334	5,291	517	154	768	37,064
Other	10,529	16	7	-	12	10,564
Total	**276,241**	**89,939**	**6,185**	**1,605**	**2,979**	**376,949**

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%)	24,050	5	-	27,010	651	-
PD 2 (0.10% - 0.20%)	25,766	267	-	28,118	4,123	-
PD 3 (0.20% - 0.40%)	57,094	2,457	-	46,358	3,065	-
PD 4 (0.40% - 0.80%)	72,057	4,188	-	64,542	9,816	-
PD 5 (0.80% - 1.60%)	57,944	22,030	-	65,455	25,022	-
PD 6 (1.60% - 3.20%)	51,131	28,973	-	42,743	14,742	-
PD 7 (3.20% - 6.40%)	10,603	15,178	-	1,670	19,098	-
PD 8 (6.40% - 12.80%)	2,120	7,706	-	280	6,578	-
PD 9 (> 12.80%)	111	6,156	-	37	6,839	-
Unrated	3	128	-	28	5	-
Defaulted assets						
PD 10	-	-	3,611	-	-	6,186
PD 11	-	-	1,584	-	-	1,605
PD 12	-	-	3,365	-	-	2,978
Total	**300,879**	**87,088**	**8,560**	**276,241**	**89,939**	**10,769**

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Investment portfolio	2023			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	640,466	-	-	640,466
Loans and receivables within investment portfolio	578,466	-	-	578,466
Derivatives used for hedging	23,545	-	-	23,545
Derivative used as economic hedges (Note: 15)	12,625	-	-	12,625
Cash, balances with central banks and other demand deposits	10,724	-	-	10,724
Total	**1,265,826**	**-**	**-**	**1,265,826**

Investment portfolio	2022			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	595,060	2,017	-	597,077
Loans and receivables within investment portfolio	489,795	-	-	489,795
Derivatives used for hedging	35,974	-	-	35,974
Derivative used as economic hedges (Note: 15)	33,130	-	-	33,130
Cash, balances with central banks and other demand deposits	42,364	-	-	42,364
Total	**1,196,323**	**2,017**	**-**	**1,198,340**

Trading portfolio	2023		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Loans and advances	7	-	7
Trading derivatives (Note: 15)	37,692	-	37,692
Total	**37,699**	**-**	**37,699**

Trading portfolio	2022		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Loans and advances	791	-	791
Trading derivatives (Note: 15)	57,744	-	57,744
Total	**58,535**	**-**	**58,535**

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
Corporate	242,888	158	-	221,441	7	-
SME	101,135	476	38	98,178	313	70
Retail	38,201	501	91	35,133	389	103
Other	4,479	-	-	10,545	-	-
Total	**386,703**	**1,135**	**129**	**365,297**	**709**	**173**

Performing assets reported within neither past due nor defaulted consist of Normal risk category assets based on the Bank’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		2022	
	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	3,281	1,660	5,600	2,467
SME	3,607	1,621	3,711	1,757
Retail	1,660	965	1,439	839
Other	12	1	19	1
Total	**8,560**	**4,247**	**10,769**	**5,064**

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 Bank 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:

(CZKm)	2023				
		Forborne exposures			
	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Corporate	202,600	1,523	0.75	568	872
SME	99,716	1,682	1.69	655	826
Retail	40,452	1,212	3.00	332	-
Other	4,479	-	0.00	-	-
Total	**347,247**	**4,417**	**1.27**	**1,555**	**1,698**

(CZKm)	2022				
		Forborne exposures			
	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Corporate	184,936	2,963	1.60	1,180	1,643
SME	97,114	1,824	1.88	789	823
Retail	37,064	972	2.62	284	2
Other	10,542	-	0.00	-	-
Total	**329,656**	**5,759**	**1.75**	**2,253**	**2,468**

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

(CZKm)	2023				
	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	575	-	948	562	6
SME	232	-	1,450	647	8
Retail	593	-	619	304	28
Other	-	-	-	-	-
Total	**1,400**	**-**	**3,017**	**1,513**	**42**

(CZKm)	2022				
	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	468	-	2,495	1,175	5
SME	146	4	1,678	775	14
Retail	444	13	528	262	22
Other	-	-	-	-	-
Total	**1,058**	**17**	**4,701**	**2,212**	**41**

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

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2022	**5,441**	**5,193**	**1,064**	**-**	**11,698**
Loans which have become forborne	1,079	266	433	-	1,778
Loans which are no longer considered to be forborne	-2,883	-3,394	-452	-	-6,729
Increase of exposure	37	8	3	-	48
Decrease of exposure	-711	-249	-76	-	-1,036
At 31 December 2022	**2,963**	**1,824**	**972**	**-**	**5,759**
Loan which have become forborne	582	322	568	-	1,472
Loans which are no longer considered to be forborne	-2,124	-325	-239	-	-2,688
Increase of exposure	197	12	3	-	212
Decrease of exposure	-95	-151	-92	-	-338
At 31 December 2023	**1,523**	**1,682**	**1,212**	**-**	**4,417**

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

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2022	**1,571**	**1,080**	**252**	**-**	**2,903**
Loans which have become forborne	577	86	95	-	758
Loans which are no longer considered to be forborne	-814	-232	-53	-	-1,099
Increase of exposure	36	42	45	-	123
Decrease of exposure	-190	-187	-55	-	-432
At 31 December 2022	**1,180**	**789**	**284**	**-**	**2,253**
Loan which have become forborne	222	102	114	-	438
Loans which are no longer considered to be forborne	-1,016	-150	-50	-	-1,216
Increase of exposure	195	24	50	-	269
Decrease of exposure	-13	-110	-66	-	-189
At 31 December 2023	**568**	**655**	**332**	**-**	**1,555**

38.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank 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 Bank'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 Bank can address an adverse liquidity development in several ways. Most typically, the Bank 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 Bank 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 Bank 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.

Starting from June 2021 LCR is not monitored and reported at Bank level. Monitoring and regulatory reporting is executed at Liquidity subgroup level (ČSOB, ČSOB HB and ČSOBS).

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

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank 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 ČSOB's business and penalize funding concentrations in order for the ratio to provide a better picture about funding profile's stability. The strategy of the Bank is to maintain the value of the E-NSFR well above one. That means the Bank 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 regularly reported to the top management of the Group. NSFR is also quarterly reported to the regulator. Both E-NSFR and NSFR are not monitored at Bank level.

In addition to internally defined limits, the Bank 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 Bank's financial liabilities based on the contractual undiscounted repayment obligations (outflows shown as negative; inflows as positive).

The following table sets out the financial liabilities of the Bank 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	-	-3,164	-	-	-3,164
Financial liabilities designated at fair value through profit or loss	-	-6,898	-17,304	-4,229	-28,431
Financial liabilities at amortised cost	-847,766	-667,156	-55,222	-14,799	-1,584,943
Fair value adjustments of the hedged items in portfolio hedge	15,309	-	-	-	15,309
Lease liabilities	-	-500	-1,905	-1,164	-3,569
Other liabilities (Note: 26)	-	-4,955	-	-	-4,955
Contractual cash flows excluding derivatives	**-832,457**	**-682,673**	**-74,431**	**-20,192**	**-1,609,753**
Net settled derivatives	**-**	**-27,750**	**-31,836**	**-9,914**	**-69,500**
Trading derivatives	-	-17,864	-16,894	-6,410	-41,168
Hedging derivatives	-	-9,886	-14,942	-3,504	-28,332
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	**-**	**-33,786**	**-34,990**	**-10,510**	**-79,286**
Contractual cash flows from financial liabilities	**-832,457**	**-716,459**	**-109,421**	**-30,702**	**-1,689,039**
Loan commitments – irrevocable (note 33)	-137,613	-	-	-	-137,613
Loan commitments – revocable (note 33)	-71,828	-	-	-	-71,828
Financial guarantees (note 33)	-56,396	-	-	-	-56,396
Other commitments (note 33)	-1,307	-	-	-	-1,307
Contractual cash flows from contingent liabilities	**-267,144**	**-**	**-**	**-**	**-267,144**

The following table sets out the financial liabilities of the Bank 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	-	-2,261	-	-	-2,261
Financial liabilities designated at fair value through profit or loss	-	-7,864	-14,620	-4,964	-27,448
Financial liabilities at amortised cost	-871,917	-541,666	-42,562	-23,697	-1,479,842
Fair value adjustments of the hedged items in portfolio hedge	32,140	-	-	-	32,140
Lease liabilities	-	-605	-1,920	-1,044	-3,569
Other liabilities (Note: 26)	-	-5,644	-	-	-5,644
Contractual cash flows excluding derivatives	**-839,777**	**-558,040**	**-59,102**	**-29,705**	**-1,486,624**
Net settled derivatives	**-**	**-46,901**	**-65,808**	**-17,127**	**-129,836**
Trading derivatives	-	-26,987	-40,655	-13,127	-80,769
Hedging derivatives	-	-19,914	-25,153	-4,000	-49,067
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	**-**	**-60,072**	**-74,308**	**-17,994**	**-152,374**
Contractual cash flows from financial liabilities	**-839,777**	**-618,112**	**-133,410**	**-47,699**	**-1,638,998**
Loan commitments – irrevocable (note 33)	-138,637	-	-	-	-138,637
Loan commitments – revocable (note 33)	-69,695	-	-	-	-69,695
Financial guarantees (note 33)	-52,281	-	-	-	-52,281
Other commitments (note 33)	-2,074	-	-	-	-2,074
Contractual cash flows from contingent liabilities	**-262,687**	**-**	**-**	**-**	**-262,687**

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Bank'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 Bank is not managed based on the remaining contractual maturities of the financial instruments, as such the Bank's expected cash flows on these instruments vary significantly from this analysis (Note: 32). For example, undrawn loan commitments are not expected to be drawn down immediately.

38.4 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 Bank 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 Bank 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 Bank 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 Bank 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.

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 Bank'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 Bank’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:

(CZKm)	Change in basis points	Sensitivity of the statement of income Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	-3.0	0.5	-32.8	-3.6	-39.0
EUR	+ 10	-	-	0.2	-16.1	-15.9
USD	+ 10	-	-	-	-	-
CZK	- 10	3.0	-0.5	32.8	3.6	39.0
EUR	- 10	-	-	-0.2	16.1	15.9
USD	- 10	-	-	-	-	-

(CZKm)	Change in basis points	Sensitivity of other comprehensive income 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	-83.2	-256.4	-341.3
EUR	+ 10	-	-	-6.9	-4.0	-10.9
USD	+ 10	-	-	-	-	-
CZK	- 10	1.8	-0.1	83.2	256.4	341.3
EUR	- 10	-	-	6.9	4.0	10.9
USD	- 10	-	-	-	-	-

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:

(CZKm)	Change in basis points	Sensitivity of the statement of income Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	0.8	2.4	-2.9	48.9	49.2
EUR	+ 10	-0.2	0.2	0.1	-7.8	-7.7
USD	+ 10	-	-	-	0.4	0.4
CZK	- 10	-0.8	-2.4	2.9	-48.9	-49.2
EUR	- 10	0.2	-0.2	-0.1	7.8	7.7
USD	- 10	-	-	-	-0.4	-0.4

(CZKm)	Change in basis points	Sensitivity of other comprehensive income 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	-89.6	-116.5	-205.5
EUR	+ 10	-0.1	-0.6	-6.7	-3.8	-11.1
USD	+ 10	-	-	-	-	-
CZK	- 10	-0.1	-0.5	89.6	116.5	205.5
EUR	- 10	0.1	0.6	6.7	3.8	11.1
USD	- 10	-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank 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 Bank 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	4	0.2	-0.2	13	0.6	-0.6

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 Bank'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:

(CZKm)	Change in equity price (%)	Effect on equity 2023	Effect on equity 2022
Visa Inc. quotation	- 10	-25	-26
	+ 10	25	26

Prepayment risk

Prepayment risk is the risk that the Bank 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 of the Bank's products is negligible, however, it is regularly monitored and assessed. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

38.5 Operational risk

The Bank 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);
- ČSOB 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 ČSOB, as well as an assessment of the Bank'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, 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 Bank 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 Bank 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 ČSOB 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 Bank is evaluated for the individual GKC processes independently by the three lines of defence.

39. 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 bank 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 Bank 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 Bank coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

ČSOB 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 Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank 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 Bank 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 Bank 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 Bank 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 book (material currencies). The worst-case scenario is set off against Tier-1 capital. For the banking book of ČSOB, this risk came to -2.41% of Tier-1 capital at year-end 2022. This -2.41% is well below the -15% Tier-1 threshold, which is monitored by the ČNB.

The Bank 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 bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue capital instruments.

From 28 June 2021, the Bank 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 (Notes: 25, 35) . 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 ČSOB:

(CZKm)	2023	2022
Tier 1 capital	88,343	87,708
Tier 2 capital	684	1,577
Total capital	**89,027**	**89,285**
Regulatory capital requirements	34,935	33,669
Risk weighted assets	**436,692**	**420,856**
Capital adequacy ratio	20.39%	21.22%
Eligible liabilities	41,437	40,592
Leverage ratio	4.81%	4.97%

REPORT ON RELATIONS

Report of the Board of Directors of Československá obchodní banka, a. s. on Relations between Related Entities

1. Controlled Entity

Československá obchodní banka, a. s., with its registered office at Prague 5, Radlická 333/150, Postcode 150 57, identification number 000 01 350, incorporated in the Commercial Registry maintained by the Municipal Court in Prague, Section B XXXVI, Entry 46 (hereinafter "ČSOB").

2. Controlling Entity

KBC Bank NV, with its registered office at Havenlaan 2, B-1080 Brussels, Kingdom of Belgium, is the sole shareholder in ČSOB.

All shares issued by KBC Bank NV are held (directly or indirectly) by the KBC Group NV (legal entity).

3. Structure of relationships between the controlling person and the controlled person and between the controlled person and persons controlled by the same controlling person (hereinafter referred to as Related Persons)

KBC Bank NV is a bank regulated by the National Bank of Belgium. It is part of the KBC Group, a bancassurance financial group. KBC Group operates primarily in the markets of the Kingdom of Belgium, the Czech Republic, the Slovak Republic, the Republic of Bulgaria and the Republic of Hungary. It also operates to a limited extent in other countries around the world.

An overview of the companies of the ČSOB and KBC Group can be found in Annex 1 to this report or on the websites of www.kbc.com.

In the period under review, ČSOB had relationships primarily with the following Related Parties:

Business name	Registered office	
Bankovní informační technologie, s.r.o.	Radlická 333/150, 150 00 Prague 5	Czech Republic
CBC Banque SA	Grand-Place 5, 1000 Brussels	Kingdom of Belgium
Československá obchodní banka, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Advisory, a.s.	Radlická 333/150, 150 57 Prague 5	Czech Republic
ČSOB Factoring, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Hypoteční banka, a.s.	Radlická 333/150, 150 00 Prague 5	Czech Republic
ČSOB Leasing, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Leasing, a.s.	Žižkova 11, 815 10 Bratislava	Slovak Republic
ČSOB Penzijní společnost, a. s., member of the ČSOB group	Radlická 333/150, 150 57 Prague 5	Czech Republic
ČSOB Pojišťovna a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Pojišťovací makléř, s.r.o.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding	Masarykovo náměstí 1458, 530 02 Pardubice- Zelené předměstí	Czech Republic
ČSOB Pojišťovna a. s., member of the ČSOB Holding	Masarykovo náměstí 1458, 530 02 Pardubice- Zelené předměstí	Czech Republic
ČSOB Stavební spořitelna, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Stavební spořitelna, a.s.	Radlická 333/150, 150 00 Prague 5	Czech Republic
Igluu s.r.o.	Radlická 333/150, 150 00 Prague 5	Czech Republic
KBC Asset Management NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Bank NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Group NV (legal entity)	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
KBC Global Services Czech Branch	Radlická 333/150, 150 00 Prague 5	Czech Republic
KBC Investments Ltd	111 Old Broad Street, EC2N 1FP London	Great Britain
KBC Securities NV	Havenlaan 2, 1080 Brussels (Saint-Jean Molenbeek)	Kingdom of Belgium
K&H BANK Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
K&H Biztosító Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
K&H Payment Services Kft	Lechner Ödön fasor 9, 1095 Budapest	Hungary
Patria Finance, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Patria Corporate Finance, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Patria investiční společnost, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Radlice Rozvojová, a.s.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Skip Pay, s.r.o.	Výmolova 353/3, 150 00 Prague 5	Czech Republic
Ušetřeno.cz s.r.o.	Lomnického 1742/2a, 140 00 Prague 4	Czech Republic

4. Role of the Controlled Entity, Measures and Means of Control

The KBC Group NV indirectly, or more precisely KBC Bank NV as a direct controlling entity controls ČSOB through decision-making as a sole shareholder acting in the capacity of the General Meeting under Section 12(1) of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations Act) (hereinafter referred to as the **"CA"**).

The controlling entity also exercises its influence through its representatives on the governing bodies of ČSOB, i.e. the Supervisory Board and/or the Board of Directors. First and foremost, this involves cooperation and coordination of activities related to consolidated risk management, auditing and compliance with the prudential rules that apply to banks and other financial institutions on the basis of laws and regulations.

ČSOB is a bank within the meaning of Act No. 21/1992 Coll., on banks, operating on the Czech financial services market. It specializes in banking services for individuals and business entities. ČSOB is subject to supervision by the Czech National Bank.

ČSOB is a controlling entity of most companies within the ČSOB group (the Czech part of the multinational KBC Group, further information can be found at https://www.csob.cz/en/csob/about-the-csob-group) (hereinafter referred to as the **"ČSOB group"**) and within the framework of these relations it generally provides a range of services of both a financial nature (see section 6 for more details) and a support nature (e.g. HR and Personnel, IT, Advertising and Marketing, Internal Audit services).

ČSOB operates a large network of branches, is also a point of distribution for the products offered by ČSOB group companies. Within the ČSOB group, ČSOB also ensures that prudential rules are followed on a consolidated basis.

5. Review of Activities in the Accounting Period, Induced by or in the Interest of the Controlling Entity or its Controlled Entities

Unless otherwise stated, no activities were carried out in the accounting period induced by or in the interest of the controlling entity or its controlled entities that would affect more than 10% of the equity of ČSOB, including transactions in the ordinary course of business.

During the accounting period, ČSOB repeatedly accepted liabilities towards KBC Bank NV, including short-term money market trading deposits and promissory notes, the value of which exceeded 10% of the company's equity. These activities aimed at improving the efficiency of the use of the financial assets within the group. The aforementioned commitments arise from current transactions and are subject to comparable terms and conditions (including interest rates and securing) to transactions with third parties and as such they have not been detrimental to the ČSOB.

6. Review of Mutual Agreements between the Controlled Entity and the Controlling Entity or among the Controlled Entities

During the accounting period, ČSOB had various relations with the controlling entity, as well as other companies controlled by the controlling entity (for the purpose of this Report on Relation also referred to as "counterparties") based on common business activities.

The contractual relations took place in the following areas:

BANKING SERVICES

Accounts, Deposit Products, Domestic and International Payments Services, Domestic and International Cash Management

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to provide services for maintaining various types of accounts – current and term accounts, interbank deposits, (including amendments on the early termination (default) of some deposits, along with settling interest and compensation payments), accounts for the deposit of funds intended to acquire or increase a partnership in a company, and to provide the following products and domestic and international payments services, such as Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling. During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods in the field of financial market trading. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Payment cards

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to issue, accept and process payment card transactions. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Electronic Banking

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following electronic banking products and web applications: ČSOB Phone banking, ČSOB Smartbanking, ČSOB Internet banking, ČSOB Internetbanking 24, ČSOB Businessbanking 24, ČSOB CEB – Virtual branch, and ČSOB MultiCash 24. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Cheques and Bills of Exchange

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for procuring bills of exchange and their custody, and contracts for securing the bill-of-exchange programme. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Credit Products and Guarantees

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following credit products: overdrafts, commercial loans, revolving loans, specific-purpose credit facilities, subordinated loans, factoring loans, interbank loans (including amendments on the early termination (default) of some loan agreements, along with interest settlements and payment of compensation) and current account overdrafts, and accepted and issued guarantees, confirmed or open letters of credit, and/or bought back claims from letters of credit, and provided guarantees. The counterparties paid contractual fees, remuneration and interest for these services. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Investment Services

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for purchasing and selling investment instruments, ISDA contracts, escrow agreements, contracts for settling investment instrument transactions, contracts for administering securities, depository contracts, agreements on the contact bank, on the provision of specialized consultancy and agreements on the authorization of fax instructions for settling and administering securities, transactions monitoring, distribution of share certificates and related actions. The remuneration provided by the counterparties consisted of commissions and contractual fees. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Mortgage Bonds and Bonds

During the accounting period, ČSOB concluded or had concluded from the previous accounting periods mandate contracts for the provision of the issuance of mortgage bonds issued on the domestic market under the bond programme and mandate contracts for the provision of the issuance of bonds, contracts for subscription and the purchase of mortgage bonds/bonds and contracts for the management of the issuance and provision of payments. The counterparties provided contractual rewards for these services. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Receivables

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for the management or assignment of claims/receivables. The ČSOB provided contractual rewards to the counterparties for these services. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Collateral Services Agreement

During the accounting period, ČSOB entered into, or from previous accounting periods had entered into, agreements for the collateral exchange process by KBC Bank for OTC derivative transactions negotiated by ČSOB. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

OTHER RELATIONS

Insurance Policies

During the accounting period, ČSOB concluded insurance policies or had concluded insurance policies in previous accounting periods. The consideration consisted of insurance and indemnity. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Rental, lease and rental agreements

In the accounting period, ČSOB entered into, or in previous accounting periods had entered into, lease, rental or leasing agreements for non-residential premises, car parks, movable assets or sets of movable assets, and for the settlement of technical improvements. The consideration consisted of contractual prices, or the rental of the items or parts of the items or a collection of items. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Cooperation Agreements – Employee Benefits

During the accounting period, ČSOB concluded cooperation agreements – employee benefits – or had concluded contracts in previous accounting periods. The consideration consisted of providing employee benefits. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Cooperation Agreements – Selling Products and Services

During the accounting period, ČSOB concluded cooperation agreements and framework, mandate and commission agent's contracts or had concluded these contracts and agreements in previous accounting periods, particularly concerning cooperation on product sales, product sales agency, sales support and the use of technology for this purpose, consultancy, and opportunity-seeking. The consideration consisted of cooperation, contractual commissions, contractual rewards or the sale of products. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Cooperation Agreements – Joint Observance of Tax Obligations (VAT)

On 9 December 2016, ČSOB entered into a cooperation agreement with some of the entities controlled by the same controlling entity for the purpose of fulfilling tax obligations (VAT) on behalf of the Group. The consideration consisted in the fulfilment of a tax obligation. The contract was concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks are derived from them for ČSOB.

In 2023, the contract included ČSOB, ČSOB Advisory, a.s., ČSOB Asset Management, a.s., investiční společnost, ČSOB Hypoteční banka, a.s., ČSOB Penzijní společnost, a.s., člen skupiny ČSOB, ČSOB Pojišťovna, a.s., člen holdingu ČSOB, ČSOB Pojišťovací servis, s.r.o., Patria Corporate Finance, a.s., Patria Finance, a.s., Patria investiční společnost, a.s. and Nadační fond Patria.

Agreements in the field of ICT Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods on providing ICT services. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Agreements on Providing Services – Call Centre

In the accounting period, ČSOB concluded, or had concluded from previous accounting periods, contracts for the provision of call centre and call recording services. The consideration consisted of contractual fees. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Agreements on Providing Services – Back Office and Other Related Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide back-office services and supporting processes, i.e. developing models, management consultancy, central procurement, accounting and tax services and processing foreign payments. The consideration consisted of contractual rewards and consultations. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Agreements on Providing Services – Facilities Management

In the accounting period, ČSOB concluded or from previous accounting periods had concluded contracts for the provision of services in the area of facilities management, such as accounting, property management and rental, meals and catering, accommodation, postal services, archiving and digitisation of documents, telephone exchange, fleet management and maintenance and transfer or purchase of movable assets. The consideration consisted of contractual fees. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Agreements on Providing Services – Processing Financial Reporting

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide the processing of financial reports for external users services, especially for the Czech National Bank. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions and ČSOB does not incur any non-standard advantages, disadvantages or additional risks therefrom.

Agreements on Providing Services – advertising, marketing, internal and external communication

During the accounting period, ČSOB concluded contracts for the provision of advertising, marketing, internal and external communication services to clients, such as media buying, communication strategies, event marketing, sponsorship, client brand management and audiovisual studio services. The consideration consisted of contractual fees. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Agreements on Providing Services – other support services

In the accounting period, ČSOB concluded, or had concluded from previous accounting periods, agreements for cooperation and provision of services in the areas of internal audit, compliance, credit risk assessment, risk management, asset and liability management, legal support, project management, administrative support in the area of finance including accounting, human resources management including labour relations and employee utilization, common education system and administrative support. During the accounting period, ČSOB concluded agreements on cooperation, processing and exchange of information in the area of macroeconomic analyses, scenarios and forecasts. ČSOB entered into, or had entered into in previous accounting periods, contracts for the processing of personal data or the provision of information, confidentiality agreements, contracts for the joint ownership and development of a common client database, etc. in the accounting period, ČSOB entered into, or had entered into in previous accounting periods, contracts for the provision of services in the area of automation of processing, such as robotics, automation of communication. Contracts for the provision of data management and protection, data analysis, and modelling services. Licensing agreements and software license agreements, software as a service agreements. During the accounting period, ČSOB entered into, or had entered into, contracts for the valuation of immovable property from previous accounting periods. ČSOB has concluded, or had concluded, relationship management agreements from previous accounting periods. The consideration consisted of services and contractual fees. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Agreements on the provision of voluntary monetary contributions

During the accounting period, ČSOB entered into agreements for the provision of a voluntary cash supplement outside the share capital. The counterpart consisted in strengthening capital resources. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

Contracts were concluded with the following companies: Bankovní informační technologie, s.r.o., ČSOB Factoring, a.s., ČSOB Hypoteční banka a.s., ČSOB Leasing, a.s., ČSOB Stavební spořitelna, a.s., Igluu s.r.o., Patria Finance, a.s., Skip Pay, s.r.o. and Ušetřeno.cz, s.r.o.

Holding agreement

During the previous accounting periods, ČSOB, as the controlling entity, entered into with other companies belonging to the ČSOB group (a current list of these agreements is available at: https://www.csob.cz/portal/csob/o-csob-a-skupine/koncern-csob), concern agreement which sets out the Group's interest and defines certain rights and obligations of the controlled entities within the business group in question. The sub-areas of unified management are then defined by specific Group policies, which are the basic tools for the implementation of the Group's interest and which are issued by the Board of Directors of ČSOB and accepted by the persons managed.

Credit agreements for the purpose of meeting the minimum capital requirement and eligible liabilities

During the accounting period, ČSOB entered into, or had entered into from the previous accounting periods, agreements with the controlling person for possible drawdown of credit for the purpose of meeting the minimum requirement for capital and eligible liabilities ("MREL") pursuant to Section 127 et seq. of Act No. 374/2015 Coll., on Recovery and Resolution Procedures in the Financial Market, as amended. In addition, ČSOB has concluded or had concluded agreements for the issue of "MREL" bonds and for the custody, administration and performance of depositary activities for "MREL" bonds. The contracts were concluded under standard commercial terms and conditions and no non-standard advantages, disadvantages or additional risks arise from them for ČSOB.

MISCELLANEOUS

As of 19 February 2024, Hypoteční banka, a.s. has changed its business name to ČSOB Hypoteční banka, a.s.

SHARE IN PROFITS AND OTHER FACTS

On 6 June 2023, KBC Bank NV, as sole shareholder, resolved in exercising the powers of the General Meeting to distribute the net profit for the financial year 2022 as follows: a part of the net profit equal to CZK 5.25 billion was be paid out to the sole shareholder, and a part equal to CZK 8.4 billion was allocated to retained earnings from previous years. The total volume of this transaction was 13.5% of the company's equity.

In addition, in the accounting period, ČSOB made decisions of the sole shareholder / partner of companies, in which it is a sole shareholder / partner. These include, in particular, the approval of financial statements, decisions on the settlement of the economic result, payments of profit shares and payments from capital funds, election and dismissal of members of its bodies, including approval of their remuneration, amendments to the articles of association and an appointment of the auditor.

In the accounting period, ČSOB decided by a resolution of the sole shareholder of the companies, in which it is a sole shareholder to pay out capital funds. The reason for the payout was a partial repayment of previously granted sole shareholder bonuses outside the share capital. Disbursements from capital funds were made from ČSOB Penzijní společnost, a.s., člen skupiny ČSOB a Radlice Rozvojová, a.s.

On the contrary, ČSOB collected income in the form of profit shares from companies in the accounting period:Bankovní informační technologie, s.r.o., ČSOB Advisory, a.s., ČSOB Factoring, a.s., ČSOB Hypoteční banka, a.s., ČSOB Leasing, a.s., ČSOB Penzijní společnost, a. s., člen skupiny ČSOB, ČSOB Pojišťovna, a. s., člen holdingu ČSOB, ČSOB Stavební spořitelna, a.s., Patria Finance a.s.

7. Evaluation of the relationships between the Controlling Entity and the Controlled Entity, as well as between the Controlled Entity and the Entities Controlled by the same Controlling Entity

Joint synergies within the ČSOB Financial Group or KBC Group bring positive effects in the areas of cost management efficiency, human resources, risks and precautionary rules and help to set up processes in line with ČSOB's corporate strategy. At the same time, this cooperation helps to mitigate certain transactional risks, such as those associated with providing confidential information and data to third parties.

ČSOB primarily provides banking services to companies in the ČSOB group, which mainly include loans, overdrafts, interest-bearing deposits, current accounts and other services. Concurrently it also provides a number of support activities to companies in the ČSOB group that lead to the effective management and operation of the ČSOB group.

Mutual cooperation between companies within the KBC and ČSOB groups, or other companies controlled by ČSOB, helps to strengthen and stabilize their joint market position and enables them to expand their offer of financial services to their clients in the areas of building savings and mortgages, asset management, collective investment, pension products, leasing, factoring and distribution of life and non-life insurance, as well as services related to trading on financial markets.

8. Accounting period

This report describes the relationships for the accounting period from 1 January 2023 to 31 December 2023.

9. Conclusion

The Board of Directors of ČSOB hereby declares that this report has been prepared within the statutory time limit and in accordance with Section 82 of CA. While compiling the report, the ČSOB Board of Directors proceeded with due professional diligence and its scope reflects the purpose of the legislation governing the report under CA in relation to the ownership structure of ČSOB.

Prague, 31 March 2024

on behalf of **Československá obchodní banka, a. s.**

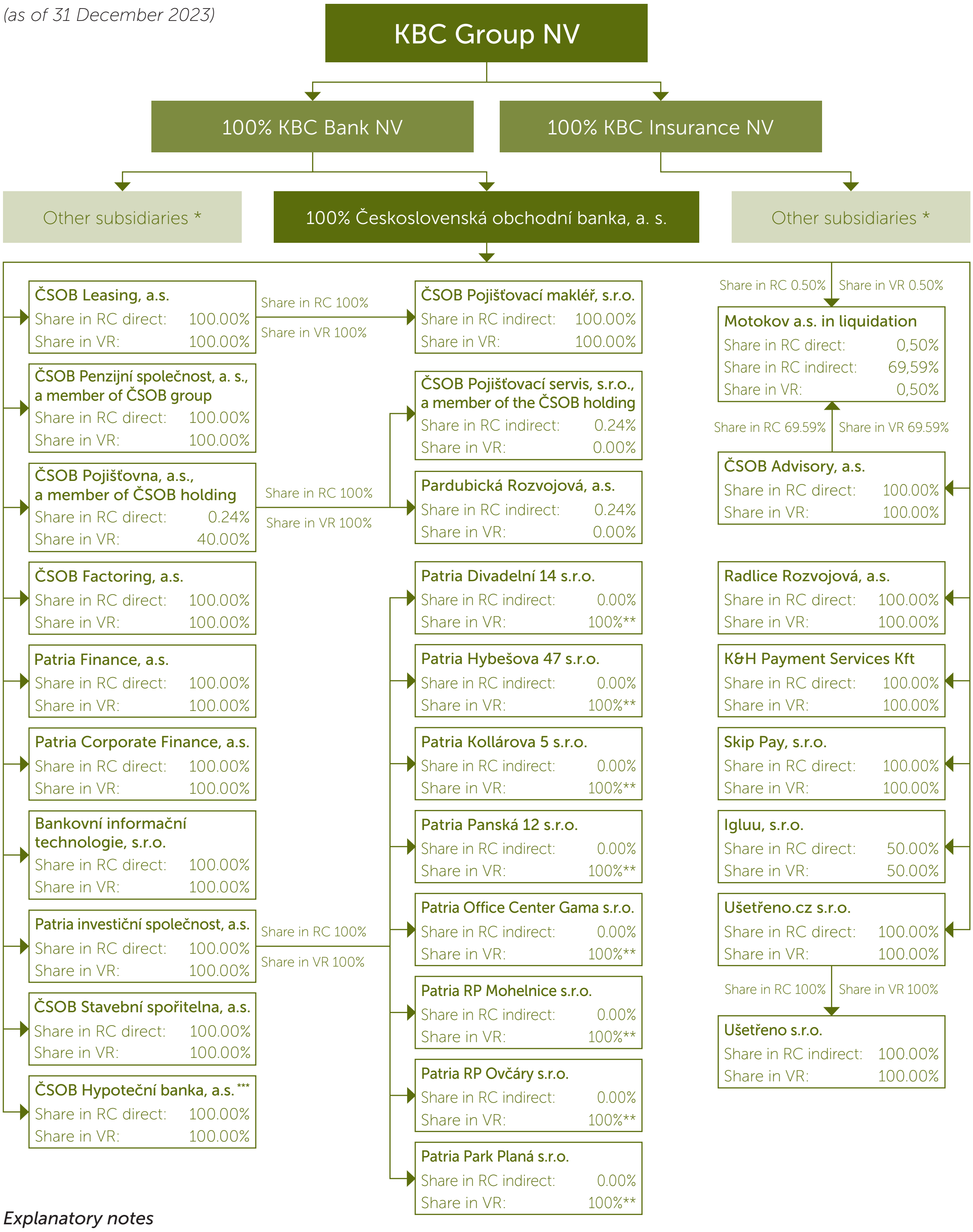
Aleš Blažek
Chairman of the Board

Jiří Vévoda
Member of the Board

Appendix to Related Parties Report

List of entities controlling Československá obchodní banka, a.s. and entities controlled by the same controlling entity

(as of 31 December 2023)



Explanatory notes

Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.
All shares of KBC Bank and KBC Insurance are held (directly or indirectly) by the KBC Group.
ČSOB is 100% owned and fully controlled by KBC Bank.
The selected companies of the ČSOB group form the ČSOB Concern, the controlling entity of the ČSOB Concern is Československá obchodní banka, a.s. - further information can be found at https://www.csob.cz/portal/csob/o-csob-a-skupine/koncern-csob

** For complete overview of "Other subsidiaries" of the KBC Group please refer to KBC's corporate website www.kbc.com, where other details regarding the KBC Group are available.*
*** The sole shareholder (PIS), controlled by ČSOB, acts on its own behalf on the account of the closed mutual fund od Patria investiční společnost, a.s.*
**** Originally Hypoteční banka, a.s., changed its business name with effect from 19 February 2024*

RC: registered capital (deposit)
VR: voting rights

ADDITIONAL INFORMATION

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2023
ISIN	CZ0008000288
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	292,750,002
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,040
Amount of share capital	**CZK 5,855,000,040**
Paid up in full	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, is the sole shareholder of ČSOB.

Shares issued by the ČSOB (hereinafter referred to as the "ČSOB Shares") are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 286 of the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations act). In 2023, ČSOB neither held any own shares, nor issued stock certificates.

Rights Attached to ČSOB Shares

Rights and obligations of a shareholder are stipulated by legal regulations, in particular by the Act on Commercial Companies and Cooperatives and the Articles of Association of ČSOB.

Shareholder rights attached to ČSOB Shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results and according to the conditions laid down by generally binding legal regulations.
b) The right of qualified shareholder to ask the Board of Directors to convene a General Meeting in accordance with legal regulations.
c) The right to attend the General Meeting of Shareholders. At a General Meeting, shareholders have the right to
   1. vote;
   2. request and receive explanation to matters related to the company, should such explanation be necessary to assess a topic discussed at the General Meeting or for the exercise of its shareholder rights at the General Meeting; and
   3. put forward proposals and counter-proposals.

d) In the event of the dissolution of the company, the shareholder is entitled to a share in the liquidation balance of the company.

Voting rights attached to ČSOB Shares are unlimited. One share confers one vote.

Bonds and Investment Certificates

(outstanding)

In the Czech Republic, ČSOB is an issuer of bonds issued under the ČSOB's bond issuance program. ČSOB is issuing bonds under bond issuance program (program is lasting for 30 years) with a maximum amount of CZK 100 bn of outstanding bonds and public bond issuance program with a maximum amount of CZK 300 bn of outstanding bonds.

As of 31 December 2023, ČSOB recorded the following **bond issues** in the Czech Republic:

Issue name	ISIN	Issue date	Volume of Bonds at Issue date (Nominal value)	
Dluhopisy ČSOB likvidní var 2024 6M	CZ0003704678	03. 10. 2018	CZKm	876.40
Dluhopisy ČSOB var 2025 1M	CZ0003705477	11. 09. 2020	CZKm	9 016.30
Strukturovaný dluhopis ČSOB Nové trendy energie a lidé 2027	CZ0003706293	11. 08. 2021	CZKm	75.80
ČSOB LIKVIDNÍ DLUHOPIS 6M 102025	CZ0003706673	13. 10. 2021	CZKm	2 500.00
Strukturovaný dluhopis ČSOB Kybernetická bezpečnost 2027	CZ0003706681	29. 12. 2021	CZKm	137.00
ČSOB LIKVIDNÍ DLUHOPIS 6M 112025	CZ0003706764	15. 11. 2021	CZKm	2 500.00
Strukturovaný dluhopis ČSOB Světové informační technologie 2028	CZ0003706863	09. 03. 2022	CZKm	93.50
ČSOB LIKVIDNÍ DLUHOPIS 6M 04/2025	CZ0003707028	07. 04. 2022	CZKm	500.00
STRUKTUROVANÝ DLUHOPIS ČSOB UMĚLÁ INTELIGENCE 2028	CZ0003707044	08. 06. 2022	CZKm	67.30
Strukturovaný DLUHOPIS ČSOB Světoví lídři 2028	CZ0003707150	07. 07. 2022	CZKm	23.80
ČSOB LIKVIDNÍ DLUHOPIS 6M 06/2026	CZ0003707283	27. 06. 2022	CZKm	2 300.00
STRUKTUROVANÝ DLUHOPIS ČSOB Bonusový click KYBERNETICKÁ BEZPEČNOST 2028	CZ0003707382	07. 09. 2022	CZKm	102.00
Strukturovaný DLUHOPIS ČSOB Participace Plus Světoví lídři 2027	CZ0003707432	05. 10. 2022	CZKm	41.30
ČSOB LIKVIDNÍ DLUHOPIS 6M 09/2026	CZ0003707440	06. 09. 2022	CZKm	800.00
ČSOB STRUKTUROVANÝ DLUHOPIS Participace Plus SVĚTOVÉ INFORMAČNÍ TECHOLOGIE 2027	CZ0003707457	05. 12. 2022	USDths	210
ČSOB LIKVIDNÍ DLUHOPIS 6M 10/2026	CZ0003707465	03. 10. 2022	CZKm	500.00
STRUKTUROVANÝ DLUHOPIS ZALESŇOVACÍ DLUHOPIS ČSOB SVĚTOVÉ KLIMA 2027	CZ0003707549	29. 12. 2022	CZKm	59.20
Strukturovaný Dluhopis ČSOB Participace Plus Trendy Budoucnosti 2028	CZ0003707853	03. 03. 2023	CZKm	163.50
ČSOB LIKVIDNÍ DLUHOPIS 6M 01/2024	CZ0003707903	12. 01. 2023	CZKm	500.00
ČSOB LIKVIDNÍ DLUHOPIS 6M 02/2024	CZ0003707994	06. 02. 2023	CZKm	600.00
ČSOB LIKVIDNÍ DLUHOPIS WO 6M 02/2024	CZ0003708000	06. 02. 2023	CZKm	300.00
Strukturovaný DLUHOPIS ČSOB Světoví lídři s bonusem 2028	CZ0003708026	03. 05. 2023	CZKm	66.70
ČSOB LIKVIDNÍ DLUHOPIS 6M 03/2024	CZ0003708166	07. 03. 2023	CZKm	800.00

Issue name	ISIN	Issue date	Volume of Bonds at Issue date (Nominal value)	
ČSOB ZELENÝ LIKVIDNÍ DLUHOPIS 6M 05/2026	CZ0003708307	24. 05. 2023	CZKm	1 000.00
STRUKTUROVANÝ DLUHOPIS ČSOB EVROPSKÁ INFLACE 2026	CZ0003708323	02. 08. 2023	CZKm	363.00
STRUKTUROVANÝ DLUHOPIS ČSOB APEX SVĚTOVÉ KLIMA 2028	CZ0003708414	04. 10. 2023	CZKm	101.00
ČSOB ZELENÝ LIKVIDNÍ DLUHOPIS 6M 09/2026	CZ0003708430	04. 09. 2023	CZKm	700.00
STRUKTUROVANÝ DLUHOPIS ČSOB LOOKBACK TRENDY BUDOUCNOSTI 2028	CZ0003708463	05. 12. 2023	CZKm	51.70
DLUHOPIS ČSOB LIKVIDNÍ DLUHOPIS 6M 05/2027	CZ0003708471	23. 11. 2023	CZKm	1 200.00
DLUHOPIS ČSOB ZELENÝ LIKVIDNÍ DLUHOPIS 6M 11/2026	CZ0003708505	09. 11. 2023	CZKm	300.00

In the first three months 2024*. ČSOB issued the following **bond issues** in the Czech Republic:

Issue name	ISIN	Issue date	Volume of Bonds Issued (Nominal Value)	
STRUKTUROVANÝ DLUHOPIS TOP GLOBÁLNÍ TRHY S BONUSEM 2029	CZ0003708521	05. 02. 2024	CZKm	360.50
ČSOB LIKVIDNÍ DLUHOPIS 6M 01/2026	CZ0003708604	11. 01. 2024	CZKm	900.00
DLUHOPIS ČSOB LIKVIDNÍ DLUHOPIS 6M 08/2027	CZ0003708620	05. 02. 2024	CZKm	700.00
DLUHOPIS ČSOB LIKVIDNÍ DLUHOPIS WO 6M 08/2027	CZ0003708638	05. 02. 2024	CZKm	650.00

** Issued until 31 March 2024*

None of CSOB bonds is listed (publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

Since 2012, ČSOB is an issuer of investment certificates issued under the certificate issuance program (public or non public) in the Czech Republic.

As of 31 December 2023, ČSOB recorded the following **investment certificate issues** in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of IC at Issue date	
100 % Sustainable Development Goals World 2024	CZ0000301940	07. 03. 2019	CZKm	52.37
ČSOB Investiční certifikát Unit link XXXVI.	CZ0000301932	12. 03. 2019	CZKm	233.64
100% European Value Select Jump 30 % 2024	CZ0000301981	03. 04. 2019	CZKm	127.51
ČSOB Investiční certifikát Unit link XXXVII.	CZ0000301973	12. 04. 2019	CZKm	187.50
Technologie budoucnosti	CZ0000301999	26. 04. 2019	CZKm	168.00
ČSOB Investiční certifikát Unit link XXXVIII.	CZ0000302054	10. 06. 2019	CZKm	119.50
ČSOB Investiční certifikát Unit link XL.	CZ0000302096	10. 07. 2019	CZKm	28.20
100 % Global Diversity Jump 25 % 2024	CZ0000302138	24. 07. 2019	CZKm	205.00
Síla české koruny	CZ0000302112	05. 08. 2019	CZKm	327.00
ČSOB Investiční certifikát Unit link XLI.	CZ0000302146	10. 09. 2019	CZKm	267.50
ČSOB Investiční certifikát Unit link XLII.	CZ0000302211	23. 10. 2019	CZKm	140.30
ČSOB Investiční certifikát Unit link XLIII.	CZ0000302294	10. 12. 2019	CZKm	90.20
ČSOB Investiční certifikát Unit link XLIV.	CZ0000302369	12. 02. 2020	CZKm	112.40

Issue Name	ISIN	Issue Date	Volume of IC at Issue date	
ČSOB Investiční certifikát Unit link XLV.	CZ0000302443	25. 03. 2020	CZKm	163.00
Stay Online 5 2027	CZ0000302633	21. 08. 2020	CZKm	91.00
Lookback Racer Transatlantic 2026	CZ0000302724	21. 10. 2020	CZKm	297.00
Lookback Racer Transatlantic 2027	CZ0000302864	30. 12. 2020	CZKm	100.00
Piling Racer Severní Amerika a Evropa 2027	CZ0000302823	24. 02. 2021	CZKm	144.00
Defensive New Pharma 5,5 2028	CZ0000302948	31. 03. 2021	CZKm	270.00
ČSOB Investiční certifikát Unit link XLVI.	CZ0000303003	28. 04. 2021	CZKm	368.30
Cyber Security 6,5 2028	CZ0000303086	05. 05. 2021	CZKm	318.00
Lookback Global Diversified 2027	CZ0000303177	02. 06. 2021	CZKm	134.00
Cirkulární Ekonomika 5 2028	CZ0000303169	02. 06. 2021	CZKm	221.00
Cestovní ruch Defenzivní 6 2028	CZ0000303284	21. 07. 2021	CZKm	186.00
Zalesňovací investiční certifikát Pro udržitelnou budoucnost 2027	CZ0000303300	04. 08. 2021	CZKm	124.00
ČSOB Investiční certifikát Unit link XLVII. – Nové trendy – energie a lidé 2027	CZ0000303292	11. 08. 2021	CZKm	144.20
Zalesňovací investiční certifikát Inovativní technologie Participační Autocall 7 2028	CZ0000303466	06. 10. 2021	CZKm	300.00
Capped PRIBOR Floater 04/2025	CZ0000303490	20. 10. 2021	CZKm	239.00
Zalesňovací investiční certifikát Inovativní technologie Participační Autocall 7 2028 II	CZ0000303565	20. 10. 2021	CZKm	370.00
Robotika a automatizace Participační Autocall 8 2028	CZ0000303607	18. 11. 2021	CZKm	505.00
KYBERNETICKÁ BEZPEČNOST 2027	CZ0000303615	29. 12. 2021	CZKm	160.40
Defensive Eurostoxx 3. rok 5,4 12/2028	CZ0000303664	08. 12. 2021	CZKm	85.00
Capped PRIBOR Floater 06/2025	CZ0000303706	15. 12. 2021	CZKm	216.00
Trendy Budoucnosti Defenzivní 3. rok 6,3 2028	CZ0000303714	29. 12. 2021	CZKm	180.00
Lookback Global Diversified Megatrends 2029	CZ0000303805	12. 01. 2022	CZKm	70.00
ČSOB Investiční certifikát Unit link XLIX.	CZ0000303847	09. 03. 2022	CZKm	98.50
Capped PRIBOR Floater 09-2025	CZ0000303904	16. 03. 2022	CZKm	135.00
Lookback Racer Světové informační technologie 2028	CZ0000303953	20. 04. 2022	CZKm	193.00
Capped PRIBOR Floater 11-2025	CZ0000304019	18. 05. 2022	CZKm	150.00
Mobilita Budoucnosti Participační Autocall Plus 2029	CZ0000304035	01. 06. 2022	CZKm	76.00
Lookback Racer World Climate Care 2028	CZ0000304142	20. 07. 2022	CZKm	74.50
Bonusový Click Cyber Security	CZ0000304191	03. 08. 2022	CZKm	42.70
Capped PRIBOR Floater 01/2026	CZ0000304225	27. 07. 2022	CZKm	153.50
Capped PRIBOR Floater 04/2026	CZ0000304340	05. 10. 2022	CZKm	20.20
Participace Plus Energetická transformace 2026	CZ0000304316	12. 10. 2022	CZKm	27.00
Lookback Racer Světové informační technologie 2027	CZ0000304498	23. 11. 2022	CZKm	33.50
ČSOB Investiční certifikát UL Maximal Invest umělá inteligence 2028	CZ0000304050	08. 06. 2022	CZKm	33.40
ČSOB Investiční certifikát UL Maximal Invest Světoví lídři 2028	CZ0000304100	07. 07. 2022	CZKm	37.90
ČSOB Investiční certifikát Maximal Invest Bonusový click Kybernetická bezpečnost 2028	CZ0000304241	07. 09. 2022	CZKm	114.90

Issue Name	ISIN	Issue Date	Volume of IC at Issue date	
ČSOB Investiční certifikát Maximal Invest Participace Plus Světoví lídři 2027	CZ0000304332	05. 10. 2022	CZKm	19.90
ČSOB Investiční certifikát Maximal Invest Světové klima 2027	CZ0000304530	29. 12. 2022	CZKm	57.30
S&P 500 Participační Autocall 2030	CZ0000304597	29. 12. 2022	CZKm	218.00
ČSOB Investiční certifikát Maximal Invest Participace Plus Trendy Budoucnosti 2028	CZ0000304647	03. 03. 2023	CZKm	89.50
S&P 500 Participační Autocall 3/2023	CZ0000304621	22. 02. 2023	CZKm	233.00
S&P 500 Autocall USD 2030	CZ0000304654	22. 02. 2023	USDm	3.05
Evropská inflace 2026	CZ0000304712	29. 03. 2023	CZKm	151.00
Zdravotnictví Participační Autocall 2030	CZ0000304738	22. 03. 2023	CZKm	246.00
ČSOB Investiční certifikát Maximal Invest Světoví lídři s bonusem 2028	CZ0000304753	03. 05. 2023	CZKm	93.30
Eurostoxx Participační Autocall 2030	CZ0000304795	19. 04. 2023	CZKm	111.00
EURCZK Range 2024	CZ0000304829	18. 04. 2023	CZKm	45.00
S&P 500 Participační Autocall 3. rok 2030	CZ0000304860	17. 05. 2023	EURm	2.16
Strategic Materials Participační Autocall 2030	CZ0000304878	17. 05. 2023	CZKm	230.00
S&P 500 Participační Autocall 7/2030	CZ0000304936	14. 06. 2023	CZKm	106.00
AI & Big data Participační Autocall 3. rok 2030	CZ0000304985	12. 07. 2023	CZKm	320.00
ČSOB Investiční certifikát Capped PRIBOR Floater 01/2027	CZ0000305008	12. 07. 2023	CZKm	59.00
Steepener 2028	CZ0000305024	19. 07. 2023	CZKm	13.00
ČSOB Investiční certifikát Maximal Invest APEX Světové klima 2028	CZ0000305073	04. 10. 2023	CZKm	27.00
Japonsko Participační Autocall od 3. roku 2030	CZ0000305065	23. 08. 2023	CZKm	207.00
ČSOB Capped Pribor Floater 03/27	CZ0000305081	06. 09. 2023	CZKm	93.00
Global Megatrends Participační Autocall 2030	CZ0000305107	20. 09. 2023	CZKm	94.50
Participace Plus Digitální zdravotnictví 2028	CZ0000305123	11. 10. 2023	CZKm	70.50
S&P 500 Participační Autocall od 3. roku USD 11/2030	CZ0000305172	25. 10. 2023	USDm	1.30
S&P 500 Participační Autocall 11/2030	CZ0000305198	25. 10. 2023	CZKm	75.00
S&P 500 Participační Autocall od 3. roku 11/2030	CZ0000305206	25. 10. 2023	CZKm	43.00
Banky Participační Autocall od 3. roku 2030	CZ0000305248	08. 11. 2023	CZKm	107.00
S&P 500 Participační Autocall od 3. roku USD 1/2031	CZ0000305313	06. 12. 2023	USDm	3.10
S&P 500 Participační Autocall 1/2031	CZ0000305321	06. 12. 2023	CZKm	127.00
S&P 500 Participační Autocall od 3. roku 1/2031	CZ0000305305	06. 12. 2023	CZKm	91.00
Polovodiče Participační Autocall Plus od 3. roku 2030	CZ0000305347	06. 12. 2023	CZKm	250.50
Luxus Participační Autocall od 3. roku 2031	CZ0000305388	28. 12. 2023	CZKm	142.00
ČSOB Investiční certifikát Maximal Invest Lookback Trendy budoucnosti 2028	CZ0000305180	05. 12. 2023	CZKm	15.80

In the first three months 2024*. ČSOB issued the following investment certificates issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Umělá inteligence Participační Autocall 2031	CZ0000305446	21. 2. 2024	CZKm	371.00
IC Eurostoxx 50 Participační Autocall 1/2031	CZ0000305495	20. 3. 2024	CZKm	187.00
Piling Racer Zdravotnictví 2029	CZ0000305511	27. 3. 2024	CZKm	82.00
Piling Racer Zdravotnictví USD 2029	CZ0000305503	20. 3. 2024	USDm	1.60

** Issued until 31 March 2024*

All ČSOB's investment certificates are unlisted (not publicly tradable on any official regulated market in either an EU member state. or an EEC member state).

The prospectus of investment certificates. amendments thereto and pricing supplements are available at ČSOB's website www.csob.cz.

The purpose of the issuance of bonds and of investment certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

Subordinated Bonds (outstanding)

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 bonds described in the following table. The owner of all these bonds is the mother company KBC NV.

Issue Name	ISIN	Issue Date	First Call Date	Maturity	Volume of Bonds Issued (nominal value)	
ČSOB MREL 01 VAR/27	CZ0003706806	23. 12. 2021	15. 12. 2026	15. 12. 2027	EURm	500.0
ČSOB MREL 02 VAR/26	CZ0003706798	23. 12. 2021	15. 12. 2025	15. 12. 2026	EURm	276.0
ČSOB MREL 03 VAR/28	CZ0003707168	08. 06. 2022	15. 12. 2027	15. 12. 2028	EURm	400.0
ČSOB MREL 04 VAR/25	CZ0003707176	08. 06. 2022	15. 12. 2024	15. 12. 2025	EURm	330.0
ČSOB MREL 05 VAR/26	CZ0003707796	15. 12. 2022	15. 12. 2025	15. 12. 2026	EURm	170.0
ČSOB MREL 06 VAR/29	CZ0003708596	15. 12. 2023	17. 12. 2028	17. 12. 2029	EURm	170.0

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic.

As a legal entity subject to the Czech law, ČSOB follows the applicable legislation in force in the territory of the Czech Republic. Its activities are regulated primarily under the Banking Act, the Capital Market Undertakings Act and by the Corporations Act. A single banking licence is of fundamental importance for ČSOB's business activities.

ČSOB is also authorized to provide services of a a tied agent under the Insurance Distribution Act, an independent intermediary of consumer loans, an independent intermediary of supplementary pension savings, the activity of a securities trader, a long-term investment product provider, the administrator of a qualified electronic identification system,and is participant of the Central Depository.

Main Areas of Activities

ČSOB's Scope of Business is defined in the Articles of Association of ČSOB (in the part III. Scope of Business).

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, it accepts deposits from the public and provides loans.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

- Investment in securities on the Bank's own account,
- Financial leasing,
- Payments and clearance,
- Issuance and administration of payment instruments,
- Provision of guarantees,
- Issuance of letters of credit,
- Provision of collection services,
- Provision of all investment services according to a special law,
- Issuance of mortgage bonds,
- Financial brokerage,
- Provision of depository services,
- Exchange office services (purchase of foreign exchange),
- Provision of banking information,
- Trading in foreign exchange values and gold on the Bank's own account or on a client's account,
- Rental of safe-deposit boxes,
- Activities directly related to the activities mentioned above,
- Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company, and
- Identification services within the meaning of Sec 1/4 c) of the Act No. 21/1992 Coll., on Banks.

ČSOB Holding

On the day of March 1, 2019, the ČSOB has published in accordance with Sec 79/3 of the Act No. 90/2012 Coll., the Corporations Act ("CA"), on its web site the existence of ČSOB Holding, where ČSOB is a controlling person within the meaning of Sec 79/1 of the CA. More detailed information about ČSOB Holding can be found here https://www.csob.cz/portal/csob/about-the-csob-group/csob-holding.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

With effect from 1st January 2018, ČSOB and Česká pošta, s.p. (the "Czech Post") concluded the Agreement on the Provision of Services and related Implementation Agreement. Under these Agreements, the Czech Post provides financial services and related activities for ČSOB. The Agreements were concluded for ten years.

Trademarks, Licenses, Patents

Being aware of the ever-growing importance of intellectual property as a vital and integral part of the modern society, ČSOB pays extraordinary attention to the intellectual property rights and their protection.

ČSOB is the applicant/owner of more than a hundred trademarks registered with the trademark authorities established to protect industrial or other intellectual property rights and uses the trademarks for product and service identification when performing its business activities.

ČSOB is a holder of many licenses, mainly software products licenses, to support ČSOB's business activities.

ČSOB is not a patent applicant/owner.

Governmental, Legal or Arbitration Proceedings

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

For information on court disputes please refer to the Separate Financial Statements for the year 2023 (Notes 27 and 33) and to the Consolidated Financial Statements for the year 2023 (Notes 30 and 36).

The most significant ČSOB's court disputes as at 31 December 2023, are shown in the following table including the dispute amount (with accessories).

Litigation against ČSOB (the Defendant)

Counterparty of the Dispute	Liability (CZKm)
ICEC-HOLDING, a.s., Boleslavova 710/19, Ostrava	25,394

In February 2023 ČSOB was delivered an arbitral award, imposing CSOB to pay the plaintiff the amount of CZK 3.7bn. CSOB paid the amount. 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. The court decision is not yet legally binding.

Expenses on Research and Development

In 2023, ČSOB had outlays of CZK 1,819 m for research and development (2022: CZK 1,839 m). Most of these outlays were related to investments into large information technologies projects focused on development of digital services for clients and non-clients, data integration, automation of processes and also on development of existing applications and systems.

Additional Information

Remuneration Charged by Auditors for 2023

Information in accordance with Section 118 (4) (k) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

(CZKths; excl. VAT*)	Audit services	Other assurance services	Total
ČSOB	19,009	2,260	21,269
Other consolidated companies	14,283	-	14,283
Total	**33,292**	**2,260**	**35,552**

The costs of audit services are stated including the costs of preparing The Report on the adequacy of the measures taken in order to protect the customer's property ("MiFiD Report"), for the review of quarterly consolidated special standard statements KBC Group N.V. ("Group Financial Statements").

Services in addition to the Statutory Audit Provided by Statutory Auditor and its Affiliated Company during 2023

Company	Recipient of the service	Service description	Price without VAT* (CZKths.)
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Review of accounting information for special purposes	1,498
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	ISAE3402 Type II report	477
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Review of the issuer's prospectuses	261
PricewaterhouseCoopers Audit, s.r.o.	ČSOB, a.s.	Auditor's confirmations for insolvency proceedings	24
Total			**2,260**

** Published information includes relevant part of VAT, which is not deductible.*

Contribution to the Securities Traders Guarantee Fund

Information in accordance with Section 16 (1) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

Contribution to the Securities Traders Guarantee Fund for 2023 (CZKths)	ČSOB	Consolidated ČSOB Unit
Basis for calculation of the contribution	1,968,726	2,345,497
The contribution	**39,375**	**46,910**

Information Published within this Annual Report

Information	Reference [1]
Important Events and Significant Changes in 2023	Report of the Board of Directors
	Corporate Governance Policy
	Note 3
New Products and Services Introduced in 2023	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile
	Report of the Board of Directors
Profit Distribution	Note 15
Activities Undertaken in the Area of Environmental Protection [2]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2023	Companies of the ČSOB group
	Note 3
Expected Economic and Financial Situation of ČSOB in 2024	Report of the Board of Directors

1) The content refers to another section of this Annual Report or to a note in Notes to the Consolidated Financial Statements for the year 2023 (unless stated otherwise).
2) Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2023.

Annex to Additional Information

Information according to Annex 14 of the Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Events after the Reporting Period

Chapter	Part
Corporate Governance	Managing and Supervisory Bodies, ČSOB's Organisation Chart
Additional Information	Bonds and Investment Certificates
Notes to the Consolidated Financial Statements for the year 2023	Events after the Reporting Period (Note 40)
Notes to the Separate Financial Statements for the year 2023	Events after the Reporting Period (Note 37)

Information on the Publication of the ČSOB Annual Report 2023

ČSOB will publish its Annual Report 2023 on its Internet website at www.csob.cz.

The Czech National Bank will add the ČSOB Annual Report 2023 to the collection of deeds of the Register of Companies pursuant to Section 21a of the Accounting Act.

Information in accordance with Section 99 of Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Annual reports and other obligatory information are available (by the date of release of this Annual Report) on ČSOB's Internet website in the section ČSOB – Obligatory Published Information (Povinně uveřejňované informace):
https://www.csob.cz/portal/csob/obligatory-published-information#annual-reports.

Annex to Additional Information

About the Report

Československá obchodní banka (ČSOB) is subject to the obligation to disclose non-financial information in accordance with Directive 2014/95 / EU of the European Parliament and of the Council amending Directive 2013/34 / EU, this EU Directive was implemented in Czech Act No. 563/1991 Sb., on accounting and further modified by Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation).

In accordance with this legislation, since 2018 ČSOB has published in its annual report the non-financial information in question, which captures the environmental, social and economic impacts of its activities.

However, in view of the group approach to this issue and the changes introduced by the Taxonomy Regulation, we have decided to take advantage of the legislative option and refer to the KBC Group's annual report at this link https://www.kbc.com/content/dam/kbccom/doc/investor-relations/Results/jvs-2023/jvs-2023-grp-en.pdf when publishing non-financial information.

In this report, you will find all the necessary information, including information on our portfolio of loans, insurance and climate-related investments as part of KBC's Sustainable Finance program that describes ČSOB's approach to socially responsible sustainable business undertaken in the form of not only economy-oriented activities but also a number of related non-business activities which take into consideration the needs and interests of society in the Czech Republic where ČSOB is doing business. To be able to identify and respond to them accordingly, we regularly communicate with our key partners through questionnaires, public surveys or specific events targeting relevant addressees. These are clients, employees, investors, suppliers, representatives of state institutions and NGOs and, last but not least, our competitors, the regulator and government authorities.

The Report applies to all members of ČSOB group and reports events during the period of January 1 – December 31, 2023. This means it links to the time reported by the preceding Annual Report and *ČSOB Group Social Responsibility Report 2022*.

We have chosen the globally recognised Global Reporting Initiative, specifically the GRI Standards, Core Option, as the most appropriate inspiration for our Report compilation. The non-financial information in the Report has not been verified by an external auditor.

Key Themes from the Stakeholders' Perspective (Material Aspects)

Aspect	Justification	Solution
Ethical business conduct and Responsible behaviour	Ethics and integrity are essential components of sound business practice. Responsible behaviour and business ethics are an integral part of the ethical standards to which we adhere.	Integrity Policy, Code of Conduct, Status Compliance ČSOB, Code of Conduct, Act on the Protection of Competition, Anti-Money Laundering Act, Tax Fraud Prevention, Anti-Corruption Program, Gift Policy, Whistle Blowing Policy
Partner in the transformation to a more sustainable future	We are a bank that specifically helps solve the transition to an emission-free society and helps with projects that are friendly to nature and that take climate change into account.	We have experience, expertise and tools (products/services beyond banking). We know what changes need to be made in the entire company (in individual sectors) and how beneficial they are. We do a lot for this from awareness, education to securing available public finance, energy audits/expert consultations to financing/insurance to interactive calculators and reducing our carbon footprint take climate change into account.

Privacy, Data Protection and Cyber security	Credibility is a basic prerequisite for a bank undertaking business in the financial sector.	MiFID regulations for investor protection, consumer right protection in the field of consumer loans and mortgages, unfair business practices, client complaint handling.
Sustainable and responsible asset management and investing	Striving to ensure sustainable profit growth.	Developing a unique collaboration between the clients, banking and insurance business to allow us to better understand our clients and devise suitable, complex solutions.
Long-term resilience of our business model	Respecting the limits for the determining the risk, capital and liquidity in our business activities.	Risk management rules, principles and measures, activities of the Risk and Compliance Committee.
Sustainable and responsible service and product offering	Aiming to become the first company to come to mind when people think about financial products and services or consider purchasing investment instruments.	Placing the client's interest first, honesty in our business and correctness in our relationships; discretion and responsibility in business handlings.

Strategic Objectives and Fundamental Corporate Values (Management Approach)

Social

Stimulating Czech economy, preparing solutions to potential future problems and developing innovative tools to manage the current social challenges, we aim to contribute to the whole Czech society and are involved in socially sensitive topics. We intend to become the first company that springs to mind when people think about financial products and services, or search for an interesting job. We wish to be first choice for investors considering a purchase of investment instruments.

Economic

Striving to ensure sustainable profit growth, intending to defend and further facilitate our corporate existence in the long term. Respecting the limits for the determination of risk, capital and liquidity in our business activities. Developing a unique collaboration between banking and insurance businesses to allow us to better understand our clients and devise suitable complex solutions. We wish to be the quality standard in the field of bank-insurance in the Czech market.

Environmental

We are aware of the climate threats posed by global warming and are ready to contribute to a faster transition to a more sustainable society and a low-carbon economy through new business models. ČSOB has its own environmental and energy policies incorporating the company's commitments to environmental protection, pollution prevention, permanent improvement of the environmental management system and other specific commitments in full compliance with the requirements of ČSN EN ISO 14001:2016 (EMS) and ISO 50001 (EnMS).

Ways of Achieving This

Strictly complying with legal standards and regulations on one hand and acting politely and respectfully to express equal partnership on the other hand. We approach mutual collaboration with our partners with an open mind, we listen to them and learn about their needs in order to be able to meet them. We place the client's interest first; we are honest in business and correct in relationships, discreet and responsible in negotiations. We believe that respect to those values reflected in our behavior will not only help us build trust in our company but will also serve as a reference for both existing and new partners.

Global Reporting Initiative (GRI) Content index *

General Standard Disclosures

General disclosures 2023	Description	Cross-reference
Organizational Profile		
102-1	Name of the organization	Annual Report 2023, p. 1.
102-2	Activities, brands, products, and services	Annual Report 2023, p. 26-28, 44-55, 326.
102-3	Location of headquarters	Annual Report 2023, p. 1.
102-4	Location of operations	Annual Report 2023, p. 26, 44, 326.
102-5	Ownership and legal form	Annual Report 2023, p. 26, 28, 44, 319.
102-6	Markets served	Annual Report 2023, p. 26, 44.
102-7	Scale of the organization	Annual Report 2023, p. 21, 27.
102-8	Information on employees and other workers	Annual Report 2023, p. 2, 9, 12, 15, 27, 38, 40-42; ČSOB Group Report to Society 2023.
102-9	Supply chain	Suppliers Policy, ČSOB Group Report to Society 2023.
102-10	Significant changes to the organization and its supply chain	Annual Report 2023, p. 8-9, 65-66
102-11	Precautionary Principle or approach	Integrity Policy ČSOB, Statut Compliance ČSOB, Code of Conduct společnosti, Code of Administration and Management ČSOB, Annual Report 2023, p. 12, 30, 67; ČSOB Group Report to Society 2023.
102-12	External initiatives	Annual Report 2023, p. 8, 10, 33-39, 328, 330-331; ČSOB Group Report to Society 2023.
102-13	Members of associations	not stated
Strategy		
102-14	Statement from CEO	Annual Report 2023, p. 3-4.
Ethics and Integrity		
102-16	Values, principles, standards and norms of behavior	Code of Conduct, Integrity Policy ČSOB, Statut Compliance ČSOB, Annual Report 2023, p. 8, 12, 30-33, 40, 67; ČSOB Group Report to Society 2023.
Governance		
102-18	Governance structure	Annual Report 2023, p. 28, 31, 44, 73-74, 275, 319.
Stakeholder Engagement		
102-40	List of stakeholder groups	ČSOB Group Report to Society 2023.
102-42	Identifying and selecting stakeholders	ČSOB Group Report to Society 2023.
102-43	Approach to stakeholder engagement	ČSOB Group Report to Society 2023.
102-44	Key topics and concerns raised	ČSOB Group Report to Society 2023.

General disclosures 2023	Description	Cross-reference
Report Profile		
102-45	Entities included in the consolidated financial statements	Annual Report 2023, p. 27, 44, 319.
102-46	Defining report content and topic boundaries	Annual Report 2023, p. 5.
102-47	List of material topics	Annual Report 2023, p. 332; ČSOB Group Report to Society 2023.
102-49	Changes in reporting	Annual Report 2023, p. 330.
102-50	Reporting period	Annual Report 2023, p. 318, 331.
102-51	Date of most recent report	Annual Report 2023, p. 331, 350.
102-52	Reporting cycle	Annual Report 2023, p. 318, 331.
102-53	Contact point for questions regarding the report	Annual Report 2023, p. 351.
Specific GRI Standards		
103-1	Explanation to the material topic and its boundary	Anual Report 2023, p. 332-333; Integrity Policy ČSOB, Statut Compliance ČSOB, Code of Conduct; ČSOB Group Report to Society 2023.
103-2	The management approach	Integrity Policy ČSOB, Statut Compliance ČSOB, Code of Conduct, Annual Report 2023, p. 3-4, 8, 12, 30-33, 54, 67; ČSOB Group Report to Society 2023.
103-3	Evaluation of the management approach	Integrity Policy ČSOB, Statut Compliance ČSOB, Code of Conduct; ČSOB Group Report to Society 2023.
Economic (GRI 200)		
201-1	Direct economic value generated and distributed	Annual Report 2023, p. 2, 8, 12-14.
201-2	Financial implications and other risk and opportunities due to climate change	Annual Report 2023, p. 31-32.
203-1	Infrastructure investments and services supported	Annual Report 2023, p. 8, 33-34, 322-325, 328, 330.
203-2	Significant indirect economic impacts	Annual Report 2023, p. 3-4, 11-12.
205-1	Operations assessed for risks related to corruption	Annual Report 2023, p. 67.
205-2	Communication and training about anti-corruption policies and procedures	ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group.

General disclosures 2023	Description	Cross-reference
Environmental (GRI 300)		
302-1	Energy consumption within the organization	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
302-4	Reduction of energy consumption	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
305-1	Direct (Scope 1) GHG emissions	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
305-2	Energy indirect (Scope 2) GHG emissions	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
305-3	Other indirect (Scope 3) GHC emissions	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
305-5	Reduction of GHG emissions	Annual Report 2023, p. 34-35; ČSOB Group Report to Society 2023; Environmental Policy ČSOB.
Social (400)		
401-1	New employee hires and employee turnover	Annual Report 2023, p. 2, 15, 27
404-1	Average hours of training per year per employee	ČSOB Group Report to Society 2023.
404-3	Percentage of employees receiving regular performance and careed development reviews	100%, Collective Agreement
405-1	Diversity of governance bodies and employees	Annual Report 2023, p. 40-42; ČSOB Group Report to Society 2023.
Own indicators		
	Initiatives to improve access to financial services for disadvantaged people	Annual Report 2023, p. 9, 37-38; ČSOB Group Report to Society 2023.
	Anti-corruption policies and procedures	ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group; ČSOB Group Report to Society 2023.
	Policies with specific environmental and social components applied to business lines.	Environmental Policy ČSOB, Energetická politika společnosti ČSOB, Směrnice ochrana životního prostředí; ČSOB Group Report to Society 2023.

General disclosures 2023	Description	Cross-reference
	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	ČSOB Environmental Policy, ČSOB Energetic Policy, ČSOB Anticorruption Policy, ČSOB Whistle-blowing Policy, Code of Conduct, ČSOB Anticorruption program; ČSOB Group Report to Society 2023.

* *This sustainability Report has been prepared in accordance with the GRI Standards, "Core" option, non-financial data have not been externally audited.*

Information according to Annex 14 of Decree No. 163/2014 Coll.,

on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013

(CZKths)		the Bank 31. 12. 2023	Regulated Cons. Unit 31. 12. 2023
Items from Statement of Finacial Position	**Total Shareholders' Equity**	**109,349,017**	**114,484,151**
	Share capital	5,855,000	5,855,000
	Share premium	20,092,666	20,928,552
	Accumulated Other comprehensive income	1,775,615	1,059,927
	Reserve funds	18,686,648	18,686,648
	Retained earnings for the previous periods	47,921,581	52,516,131
	Own shares	-	-
	Net profit for the period	15,017,508	15,437,894
	Non-controlling interest	-	-
Adjustments to CET1	**Total Adjustments to CET1**	**-21,006,431**	**-24,360,881**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	-1,272,139	-1,324,722
	Additional value adjustment	-90,322	-61,331
	Goodwill	-2,124,239	-3,604,709
	Other intangible assets, net of tax	-2,101,674	-3,480,173
	Insufficient coverage of expected credit losses (lack of provisions)	-169,630	-169,630
	Unusable profit	-15,017,508	-15,437,894
	Non-controlling interest	-	-
	Insufficient coverage for non-performing exposures	-230,921	-243,264
	Deferred tax assets	-	-39,158
	Other transitional adjustments to CET 1	-	-
Tier 2 Capital	**Total Tier 2 Capital**	**684,320**	**236,559**
	IRB Excess of provisions over expected losses eligible	684,320	236,559
	Total Capital	**89,026,905**	**90,359,830**
	Tier 1 (T1) Capital	**88,342,585**	**90,123,271**
	Common Equity Tier 1 (CET1) Capital	**88,342,585**	**90,123,271**
	Tier 2 (T2) Capital	**684,320**	**236,559**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2023	Regulated Cons. Unit 31. 12. 2023
In the case of institutions that calculate the exposure values according to part three title II chapter 2. Capital requirement defined as 8% of the exposure value for each category of exposure indicated in Article 112 of Regulation (EU) 575/2013	Exposures to central governments or central banks	Article 438 (c)	-	-
	Exposures to regional governments or local authorities		-	-
	Exposures to public sector entities		-	-
	Exposures to multilateral development banks		-	-
	Exposures to international organisations		-	-
	Exposures to institutions		-	33,892
	Exposures to corporates		-	2,062,284
	Retail exposures		-	1,645,281
	Exposures secured by mortgages on immovable property		-	101,161
	Exposures in default		-	51,347
	Exposures associated with particularly high risk		-	-
	Exposures in the form of covered bonds		-	-
	Items representing securitisation positions		-	-
	Exposures to institutions and corporates with a short-term credit assessment		-	-
	Exposures in the form of units or shares in collective investment undertakings		-	-
	Equity exposures		6,665,185	52,457
	Other items		-	407,658
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	24,802	18,376
	For large exposures exceeding the limits set in Articles 395 to 401, if the institution is permitted to exceed these limits		-	-
	For currency risk		-	10,179
	For settlement risk		-	-
	For commodity risk		-	-
Capital requirements calculated according to part three title III chapters 2, 3 and 4 of Regulation (EU) 575/2013 and made available separately	Capital requirement pursuant to title III chapter 2	Article 438 (f)	-	-
	Capital requirement pursuant to title III chapter 3		4,880,009	5,515,668
	Capital requirement pursuant to title III chapter 4		-	-
"In the case of institutions that calculate the exposure values according to part three title II chapter 3. Capital requirement defined as 8% of the exposure value for each category of exposure indicated in Article 147. In the case of the retail exposure category, this requirement is used for each category of exposure that corresponds to differing correlation according to Article 154 (1) to (4) of Regulation (EU) 575/2013."	Exposures to central governments or central banks	Article 438 (d)	1,567,420	1,637,032
	Exposures to institutions		3,519,831	756,480
	Exposures to corporates		12,271,593	11,614,779
	Retail exposures		1,711,236	10,434,259
	Equity exposures		-	-
	Items representing securitisation positions		-	-
	Other assets not having the character of a credit liability		1,767,652	2,154,290
In the case of the equity exposures category this requirement is used for	Equity exposures traded on regulated markets		-	-
	Equity exposures not traded on regulated markets in sufficiently diversified portfolios and other exposures		-	-
	Exposures that in the area of capital requirements are subject to transitional supervision rules		-	-
	Exposures that in the area of capital requirements are subject to provisions relating to retention of legal effects		-	-
	Each of the approaches indicated in Article 155		-	-
*Risk exposure for credit valuation adjustment **			*132,928*	*132,928*
*Risk exposure amount for Position, foreign exchange and commodities risks under internal models **			-	-

** These items have been added in order to maintain the scope of mandatory reporting CNB.*

Capital Ratios

	the Bank 31. 12. 2023	Regulated Cons. Unit 31. 12. 2023
Capital ratio for Equity capital Tier 1	20.23%	19.67%
Capital ratio for Tier 1 capital	20.23%	19.67%
Capital ratio for Total capital	20.39%	19.72%

Ratios Indicators

		the Bank 31. 12. 2023
Return on average assets (ROAA)		0.78%
Return on average Tier 1 capital (ROAE)		17.12%
Assets per employee*	CZKths	238,718
Administrative costs per employee*	CZKths	2,337
Profit after tax per employee*	CZKths	2,055

** According to CNB's methodology (Registered number of employees).*

DOCUMENTS

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2023

hereby declare that, to their best knowledge, the ČSOB Annual Report 2023 gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results and on non-financial information.

In Prague, 10 April 2024

Československá obchodní banka, a. s.

Aleš Blažek
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

Independent Auditor's Report

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Independent Auditor's Report

To the shareholder of Československá obchodní banka, a. s.

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of 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 of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting Standards as adopted by the European Union, and
- the separate financial statements give a true and fair view of the separate financial position of the Bank as at 31 December 2023, and of the Bank's separate financial performance and separate cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

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

The Bank's separate financial statements comprise:

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

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

Basis for opinion

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

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

Independence

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

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. The overall materiality for the separate financial statements represents 5% of the three-year average from the Bank's profit before tax and before a non-recurring transaction and has been determined as CZK 843 million.

Our audit work addressed 97.9% of the Group's assets and 88.3% of the Group's profit before tax. Our specified procedures on subsidiaries addressed additional 1.4% of the Group's assets and 2.7% of the Group's profit before tax.

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

Materiality

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

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

Overall Group materiality	CZK 950 million
Overall Bank materiality	CZK 843 million
How we determined it	Materiality for the Group and the Bank was determined as 5% of the three-year average from the Group's and the Bank's profit before tax and before a non-recurring transaction for the years 2021 - 2023.
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 and the Bank are profit-oriented entities. We understand that profit before tax is one of the key performance indicators for the Group's and the Bank's stakeholders. The COVID-19 pandemic, Russia-Ukraine war and emerging risks had significant impact on the profitability of the Group and the Bank 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 and separate 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 financial statements of the current period. These matters were addressed in the context of our audit of each set of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
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 and within those assets Loans and advances of CZK 1,430,589 million as at 31 December 2023. The Bank recognized Financial assets at amortised cost of CZK 1,282,981 million in the Separate statement of financial position and within those assets Loans and advances of CZK 876,069 million as at 31 December 2023.	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.

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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 Notes 2 to the consolidated and separate financial statements, in Note 41 to the consolidated financial statements and in Note 38 to the separate financial statements. 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 and the Bank. 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 and the Bank maintain 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.	Our approach was based on testing of the internal control system established by the Group and the Bank for this area and on direct testing of the amounts recognized in the Group's and the Bank'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. 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 each set of financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group and the Bank operate.

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), which is covered by full scope audit procedures, and additional 1.4% covered by specified procedures on the Bank's subsidiaries. At the same time, this also represents 88.3% of the consolidated profit before tax covered by full scope audit procedures and 2.7% covered by specified procedures on the Bank's subsidiaries.

Other information

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Information required by the EU Regulation

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

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

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

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Bank for years 2022 to 2024 by the general meeting of shareholders of the Bank on 18 May 2022. Our uninterrupted engagement as auditors of the Group and the Bank has lasted for 8 years.

Provided non-audit services

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

The non-audit services that we have provided to the Bank and its subsidiaries in the period from 1 January 2023 to 31 December 2023 are disclosed in Section Additional information of the annual report.

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

10 April 2024

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

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Abbreviations

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)
ČSOB group; the Group	group of companies of the ČSOB group (not a legal entity)

Abbreviation	Business Company
BANIT	Bankovní informační technologie, s.r.o.
Bankovní identita / Bank ID	Bankovní identita, a.s.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČSOB Advisory	ČSOB Advisory, a.s.
ČSOB AM / ČSOB Asset Management	ČSOB Asset Management, a.s., investment company
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB HB	ČSOB Hypoteční banka, a.s.
ČSOB Leasing	ČSOB Leasing, a.s.
ČSOB Pojišťovací makléř	ČSOB Pojišťovací makléř, s.r.o.
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB PS / ČSOB Penzijní společnost	ČSOB Penzijní společnost, a. s., a member of the ČSOB group
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB SK	Československá obchodná banka, a. s. (Slovak Republic)
ČSOBS	ČSOB Stavební spořitelna, a.s.
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC Group Czech Branch	KBC Group NV Czech Branch, organizational unit
KBC Insurance / KBC Verzekeringen	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta C	KBC Participations Renta C SA
KBC Securities	KBC Securities NV
K&H Payment Services	K&H Payment Services Kft / K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság
MallPay	MallPay, s.r.o.
MF CR	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
Patria Corporate Finance	Patria Corporate Finance, a.s.
Patria Finance	Patria Finance, a.s.
Patria investiční společnost / Patria IS	Patria investiční společnost, a.s.
Radlice Rozvojová	Radlice Rozvojová, a.s.

Abbreviation	Business Company
Skip Pay	Skip Pay, s.r.o.
Top-Pojištění	Top-Pojištění.cz s.r.o.
Transformed fund / Transformed pension fund	Transformovaný fond Stabilita ČSOB Penzijní společnosti, a. s., a member of the ČSOB group
Ušetřeno.cz	Ušetřeno.cz, s.r.o.
Ušetřeno finanční služby	Ušetřeno.cz finanční služby, a.s.
Ušetřeno	Ušetřeno s.r.o.
Igluu	Igluu s.r.o.

Financial Calendar

Financial Calendar for 2024

ČSOB Group Unaudited Financial Results Releases
(according to EU IFRS)

Financial Results		Date of Release
as at 31 December 2023	4Q / FY 2023	8 February 2024
as at 31 March 2024	1Q 2024	16 May 2024
as at 30 June 2024	2Q / 1H 2024	8 August 2024
as at 30 September 2024	3Q / 9M 2024	7 November 2024
as at 31 December 2024	4Q / FY 2024	13 February 2025

Note:
This schedule is indicative only; terms might be subject to change during the year.

Contact Details

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