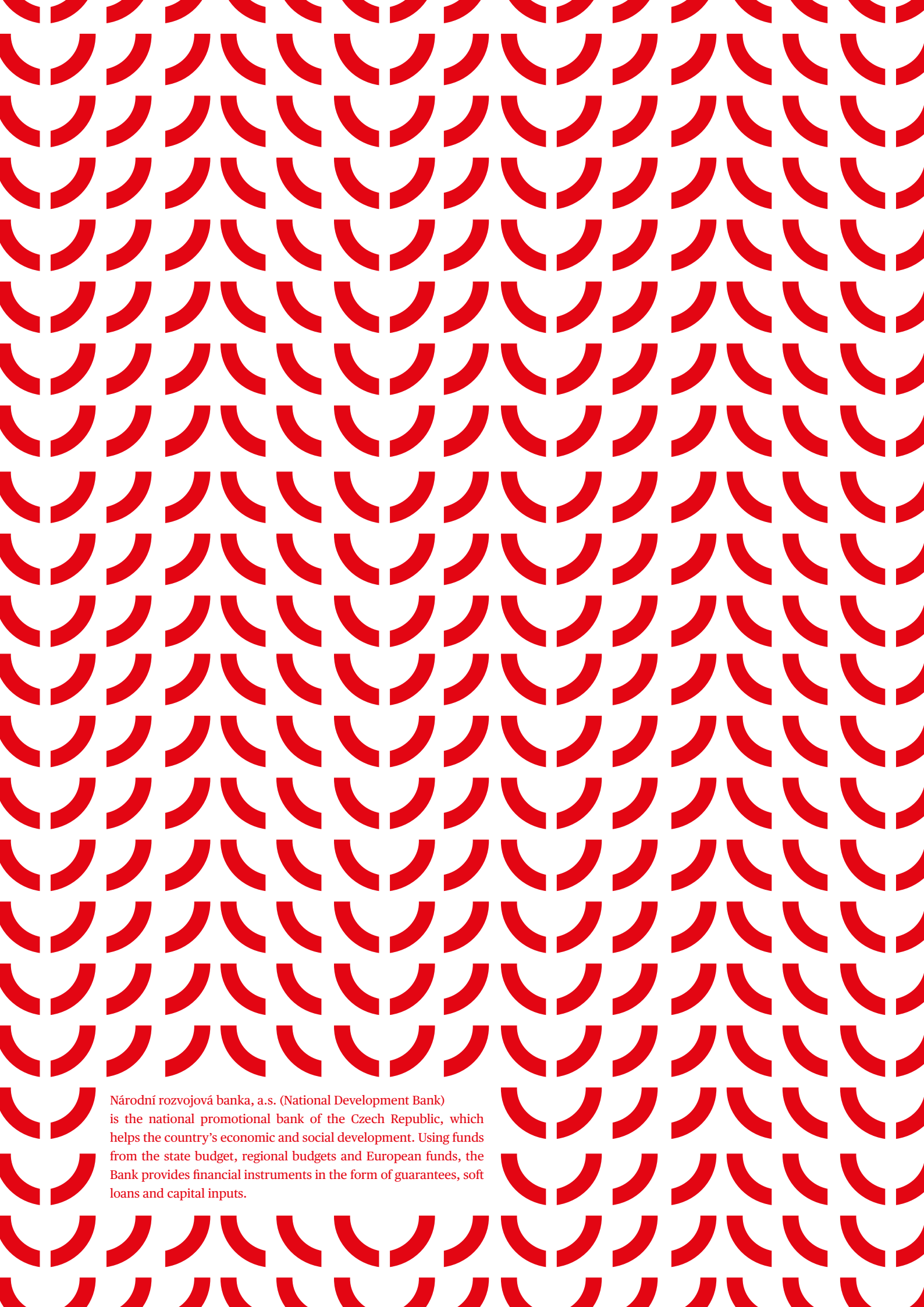


ANNUAL
REPORT

2021

nrb,
Národní
Rozvojová
Banka



Národní rozvojová banka, a.s. (National Development Bank) is the national promotional bank of the Czech Republic, which helps the country's economic and social development. Using funds from the state budget, regional budgets and European funds, the Bank provides financial instruments in the form of guarantees, soft loans and capital inputs.

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INTRO- DUCTION

The year 2021 was a breakthrough year in the history of Českomoravská záruční a rozvojová banka, a.s., now Národní rozvojová banka, a.s. (the National Development Bank, hereinafter the “NDB” or the “Bank”). After almost thirty years of its existence, during which it has supported more than 114 thousand projects of Czech traders, entrepreneurs, municipalities, towns, homeowners’ associations and households and opened the way to almost half a trillion CZK, it has been renamed. However, this was not a “mere” renaming, but rather a logical consequence of the Bank’s activities reflected in the new strategy approved in 2021. In its next era, the Bank is to become an even stronger partner of small and medium-sized enterprises, contribute to the long-term sustainability of the Czech economy and become more involved in building public infrastructure. The Bank’s performance in 2021 clearly demonstrates that it is fully committed to meeting its new challenges.

From a business perspective, the past year did not start very happily. Because of the ongoing and growing coronavirus pandemic, there was a de facto “hard lockdown” until the end of April, during which many industries could only operate to a limited extent or were even prevented from doing business altogether. A repayable form of support for these companies had already been running since mid-2020, mainly through the portfolio guarantee under the COVID III programme. However, entrepreneurs also obtained operational financing from other, traditional programmes of the Bank, such as the Guarantee 2015-2023 and Expansion programmes.

In addition, a guarantee under the COVID Sport programme, provided to complement the working capital commercial loan, was added to this offer in February 2021, together with an interest rate subsidy. This product was created as an extension of the Expansion Guarantees programme and was designed for companies operating in the sports sector. In March 2021, the Bank’s offer was supplemented by the COVID Travel Guarantee programme, which reduced the travel agencies’ exposure to insurance companies. The guarantee aimed at obtaining compulsory insolvency protection insurance.

Increased market demand did not only continue in the area of operational financing, but also increased in the area of investment. Therefore, among other things, the COVID III programme was expanded to include investment financing and the funds allocated to the Expansion Loans programme were increased to CZK 10.2 billion.

Therefore, the financial instruments provided by the NDB became even more important and, thanks to them, the risk of what is termed a credit crunch was eliminated. In 2021, the Bank helped finance 7,466 business projects in excess of CZK 43 billion in directly granted or guaranteed loans. Although this was a year-on-year decline of 15.4%, the amount of aid provided was higher than the combined total for the record pre-crisis years



2018 and 2019. 40% of all the credits up to CZK 30 million taken out by non-financial business entities were granted with the involvement of the NDB!

However, the Bank did not focus “only” on fulfilling its traditional tasks in 2021. It expanded its activities in the area of capital inputs for small and medium-sized enterprises through its subsidiary, National Development Investments (formerly ČMZRB Investments). It also provided consultancy services to businesses, regions and cities on energy savings under the ELENA programme and to social enterprises on production, management and marketing under the S-enterprise programme.

Last but not least, the Bank became more active in the area of financing infrastructure development, providing CZK 1.1 billion to towns and municipalities for both more investment-intensive projects (e.g. the purchase of new trams) and smaller ones (e.g. the development

44.4
billion
CZK
VOLUME
OF SUPPORT

7,474
BUSINESS AND
INFRASTRUCTURE
PROJECTS SUPPORTED

of the water management network, the construction of a kindergarten, local roads or the building of a community centre). In total, the Bank financed eight infrastructure projects. Another one billion CZK was pledged to the City of Brno for the construction of a multifunctional arena.

The Bank's increased investment in infrastructure also requires the provision of sufficient capital, which is why the NDB established cooperation with the European Investment Bank and the Council of Europe Development Bank in the second half of the year. It has thus obtained over CZK 6 billion for the upcoming period, which it can now provide to the public and private sectors to finance various infrastructure projects, ranging from transport and environmental protection to affordable housing and social services.

In the activities of European networks of "common interest", i.e. development or guarantee institutions, such as ELTI, AECM and NEFI. Its representatives participated in a number of meetings organised by the European Commission, the European Investment Bank and other EU institutions, which focused mainly on sustainable finance, ESG approaches, development cooperation or upcoming EU programmes. Cooperation with guarantee and development institutions and EU bodies, in addition to sharing experience in providing repayable forms of support across EU countries, brings the opportunity to be involved in the preparation of the new programming period and addressing current issues resonating in society and the EU. Thanks to this involvement, the NDB will be able to expand its product portfolio to make effective use of all available financial resources from both the European Union (ESI Funds through operational programmes, in particular OP TAC programme of the Ministry of Industry and Trade, InvestEU, Just Transition Mechanism, National Recovery Plan, the funds of the EIB Group, CEB, etc.) and the Czech Republic, including the involvement of private resources.

Although the activities of the NDB Group are growing, the main scope of its activities remains the provision of support to small and medium-sized enterprises in the Czech Republic. Infrastructure development will see a boost. Both areas, however, will be in the context of a

24
million
CZK
PROFIT AFTER TAX

4.4
billion
CZK
EQUITY

15
PRODUCTS

pan-European mindset of green finance and long-term sustainability. The NDB has been working intensively on technological renewal and the digitalisation of all its processes since 2020, as it considers it crucial that communication with the NDB is not "only" professional, but also fast and administratively easy. In addition, it is focusing on consolidating and deepening cooperation with all the public authorities for which it administers programmes of support. It is expanding cooperation with EU institutions and foreign development banks, making the most of their know-how. It is taking appropriate steps to ensure that the Czech Republic makes the most of the next programming period, whether in the area of support to small and medium-sized enterprises or infrastructure development.

This year, a number of economic problems will escalate, mainly related to the rapid rise in inflation, energy prices and the war in Ukraine. Given the rise in interest rates, which the Czech National Bank is using to combat the double-digit rise in price levels, demand for preferential financing from the NDB is expected to remain high. In turn, rising energy prices have led to the launch of two new products designed to make operational financing more accessible to entrepreneurs. In particular, the Energy Guarantee under the Expansion programme could attract more interest from entrepreneurs whose energy costs account for at least ten per cent of the total operating expenses that they need to finance, also in view of the financial contribution – interest rate subsidy that is provided with the guarantee. In the context of the crisis in Ukraine, the NDB does not expect any significant problems related to the insolvency of its clients or in connection with the sanctions imposed or to be imposed on Russia. However, the Bank is ready to flexibly prepare and launch other assistance programmes, especially for entrepreneurs and possibly municipalities, to help them cope with this unfavourable economic situation.

The Bank achieved its second-best-ever business results in 2021, thanks to its employees, who have been doing a very good job for a long time. Thanks are also due to our partners from commercial banks and leasing companies with whom the NDB has long cooperated. Especially in these crisis years, it is clear how important such partnerships are for the business sector in particular.

The year 2021 marks an important milestone for the Bank. Thanks to Českomoravská záruční a rozvojová banka, the National Development Bank has been established; it has an irreplaceable place on the market and its role in the sustainable economic and social development of the Czech Republic will be even stronger in the future. I very much appreciate the efforts of our shareholder for enabling us to achieve this step and for setting new challenges for us. We plan to meet them with honour.

JIŘÍ JIRÁSEK
CHAIRMAN OF THE BOARD
OF DIRECTORS

BANK MANAGEMENT BODIES

BOARD OF DIRECTORS

Chairman of the Board of Directors	Jiří Jirásek
Members of the Board of Directors	Pavel Fiala Pavel Křivonožka

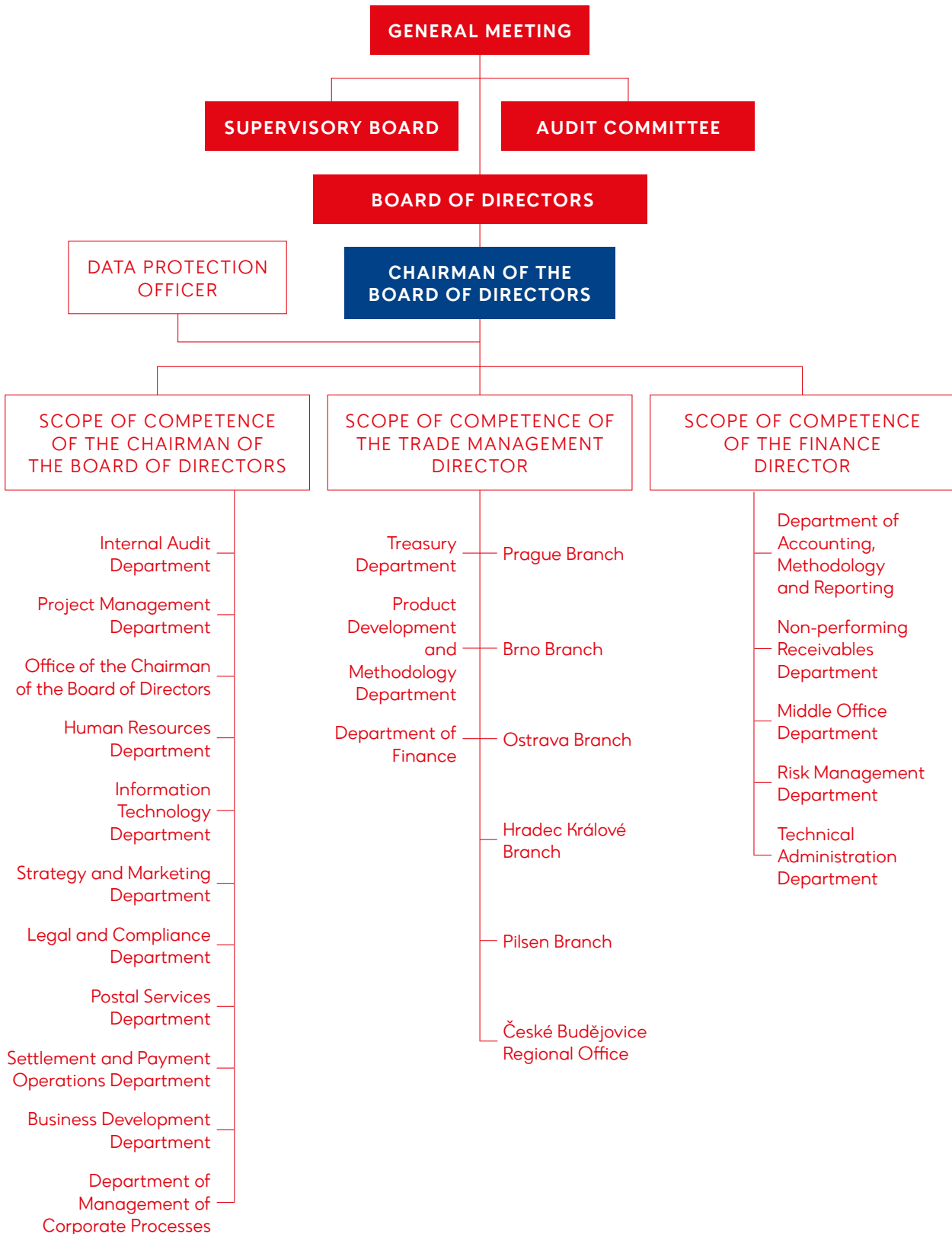
SUPERVISORY BOARD

Chairman of the Supervisory Board	Pavel Závitkovský (reappointed from 16 December 2021)
Deputy Chairman of the Supervisory Board	Martin Hanzlík
Members of the Supervisory Board	Lenka Dupáková Marie Kotrlá Pavel Kysilka Olga Nebeská

AUDIT COMMITTEE

Chairman of the Audit Committee	Milan Novák
Deputy Chairman of the Audit Committee	Pavel Závitkovský (reappointed from 1 September 2021)
Member of the Audit Committee	Tomáš Hlivka (membership terminated by expiry of the office on 1 May 2021) Michal Petrman (appointed from 2 May 2021)

ORGANISATIONAL CHART OF THE BANK





REPORT OF THE BOARD
OF DIRECTORS ON THE
BANK'S ACTIVITIES AND
ASSETS FOR THE FISCAL
YEAR 2021

ECONOMIC PERFORMANCE

BASIC ECONOMIC CHARACTERISTICS OF THE BANK IN THE YEARS 2017-2021

		UNIT	2017	2018	2019	2020	2021
Balance sheet total		CZK millions	23,436	24,105	23,983	30,027	32,719
of assets:	Receivables from banks	CZK millions	262	661	1,133	3,205	6,200
	Securities accepted by the CNB for refinancing	CZK millions	15,430	16,886	15,499	18,168	17,599
	Receivables from clients	CZK millions	4,111	4,378	5,441	6,969	7,540
	Debt securities	CZK millions	3,047	2,145	1,620	1,294	712
of liabilities:	Equity	CZK millions	5,086	4,861	4,929	4,876	4,416
	Debt	CZK millions	18,350	19,244	19,054	25,151	28,303
	of which: provisions	CZK millions	3,214	3,338	3,583	3,311	3,323
	Credit risk funds	CZK millions	1,990	2,212	2,626	6,870	7,554
Off-Balance Sheet:	Guarantees granted	CZK millions	18,622	19,862	24,023	43,705	52,387
Revenues (sum of account class 7)		CZK millions	2,023	2,376	2,725	2,476	3,851
of which:	Interest on securities and interbank operations	CZK millions	281	404	546	335	336
	Interest on transactions with clients	CZK millions	226	164	123	76	51
	Revenues from fees and commissions	CZK millions	293	285	294	357	400
Expenses (sum of account class 6)		CZK millions	1,994	2,348	2,687	2,452	3,827
of which:	Operational costs	CZK millions	367	368	371	434	439
	Net generation of allowances and provisions	CZK millions	319	214	207	227	271
Profit after tax		CZK millions	29	28	38	24	24
Capital ratio		%	21.51	22.31	21.16	21.99	20.12

In the area of guarantee business, the Bank recorded an increase in new business, particularly under the COVID III and COVID Invest programmes. Guarantees are recorded in the accounts under the individual lending institutions in the amount of the cap limit. As of 31 December 2021, the COVID III and COVID Invest programmes had been terminated. As in previous years, guarantee transactions within the National Programme were financed from the Bank's own resources, from the EIF-COSME counter-guarantee funds and from the resources of the

programme sponsor (the MIT). Loan transactions were then financed mainly from the European Structural and Investment Funds under the EXPANSION programme. The total value of the guarantee and loan transaction portfolios increased by 18.3%, to a total value of CZK 59.9 billion, of which the guarantee transaction portfolio increased by 19.9% to CZK 52.4 billion and the loan portfolio increased by 8.2% to CZK 7.5 billion.

The net profit achieved after tax in the amount of CZK 24 million is fully in line with the net profit generation strategy approved by the Bank's shareholder, which does not require the Bank to generate a net profit as the primary objective of financial management. The amount of equity decreased year-on-year to CZK 4.4 billion. The decrease was due to a reduction in valuation differences from securities recognised in OCI. The capital ratio reached 20.12% as at 31 December 2021, i.e. 1.87 of a percentage point less than at the end of the previous year.

The most significant risk incurred by the Bank continued to be the credit risk, to which 93.82% of the risk-linked capital was allocated. At the end of 2021, all expected credit risk losses were fully covered by created provisions and adjustments in the amount corresponding to the international accounting standard IFRS 9 and the total balance sheet value of provisions and adjustments for credit risks amounted to CZK 4.3 billion. Credit risks for some types of guarantee products were covered by credit risk funds provided by programme sponsors in the total amount of CZK 7.6 billion. In addition, at the end of the year, the Bank had reserve funds in equity of CZK 1.35 billion.

The balance sheet total increased by 9.0% to CZK 32.7 billion at the end of 2021. Liabilities to financial institutions decreased by CZK 0.5 billion, liabilities to clients increased by CZK 3.7 bil-

lion and valuation differences for securities recognised in OCI decreased by CZK 0.5 billion. On the assets side, these changes were matched by an increase in receivables from clients by CZK 0.6 billion, a decrease in the value of bonds by CZK 1.1 billion, an increase in receivables from banks by CZK 3 billion and an increase in cash on hand and deposits with central banks by CZK 0.2 billion.

The value of the balance sheet total does not include bank guarantees issued by the NDB for credits to small and medium-sized entrepreneurs and guarantees for loans provided by credit institutions under the COVID III and COVID Invest programmes, which form a significant part of the Bank's business activities and credit exposure. Their value at the end of 2021 was CZK 52.4 billion (of which COVID III and COVID Invest CZK 13.3 billion). The Bank's financial investments of CZK 24.6 billion (75.1% of net assets) are largely made up of investments in debt securities (56% of net assets), receivables from clients (23% of net assets) and receivables from banks (19% of net assets).

Source coverage on the liabilities side was provided mainly by liabilities to clients – programme sponsors (74.4% of liabilities) and banks (1.4% of liabilities), equity (13.5% of liabilities), provisions (10.2% of liabilities) and temporary and other liabilities.

DETERMINATION OF CAPITAL RATIO AND OTHER ADDITIONAL INDICATORS

INDICATOR	UNIT	2017	2018	2019	2020	2021
Tier 1 (T1) capital	CZK millions	4,532	4,542	4,552	4,551	4,121
Common Equity Tier 1 (CET1) capital	CZK millions	4,532	4,542	4,552	4,551	4,121
Instruments applicable to CET1 capital	CZK millions	2,632	2,632	2,632	2,632	2,632
Paid-up CET1 instruments	CZK millions	2,632	2,632	2,632	2,632	2,632
The Bank's own acquired CET1 instruments	CZK millions	0	0	0	0	0
The Bank's own CET1 instruments acquired directly	CZK millions	0	0	0	0	0
Retained earnings/unrecovered loss	CZK millions	766	775	793	819	830
Retained earnings/unrecovered loss for the previous period	CZK millions	766	775	793	819	830
Accumulated other comprehensive income (OCI)	CZK millions	0	0	0	0	-420
Other reserve funds	CZK millions	1,150	1,150	1,150	1,150	1,150
CET1 capital adjustments resulting from the use of prudent filters	CZK millions	-1	-1	0	0	0
Value adjustments according to prudent valuation requirements	CZK millions	-1	-1	0	0	0
Other intangible assets	CZK millions	-15	-14	-21	-48	-69
Other intangible assets – gross value	CZK millions	-15	-14	-21	-48	-69
Other temporary adjustments to CET1 capital	CZK millions	0	0	0	0	0
Over-limit major investments in entities from the financial sector	CZK millions	0	0	-2	-2	-2
Tier 2 (T2) capital	CZK millions	0	0	0	0	0
Capital	CZK millions	4,532	4,542	4,552	4,551	4,121
Total risk exposures	CZK millions	21,071	20,358	21,516	20,692	20,477
Total risk-weighted exposure amounts for credit risk at STA	CZK millions	19,378	18,864	20,193	19,392	19,153

INDICATOR	UNIT	2017	2018	2019	2020	2021
Exposure to central governments and central banks	CZK millions	0	219	407	561	266
Exposure to regional governments and local authorities	CZK millions	159	150	141	124	32
Exposure to public sector entities	CZK millions	0	15	3	2	2
Exposure to international development banks	CZK millions	0	0	0	0	0
Exposure to international organisations	CZK millions	0	0	0	0	0
Exposure to institutions	CZK millions	653	375	158	142	173
Exposure to enterprises	CZK millions	16,572	16,132	16,511	14,601	13,786
Exposure to retail	CZK millions	108	477	1,514	2,078	2,690
Exposures secured by real estate	CZK millions	60	35	24	26	38
Exposure in default	CZK millions	774	698	845	1,229	1,328
High-risk exposures	CZK millions	757	555	373	432	344
Exposures in covered bonds	CZK millions	40	0	0	0	0
Exposure to institutions and companies with short-term credit ratings	CZK millions	40	27	13	2	0
Collective investment instruments	CZK millions	0	0	0	0	0
Shares	CZK millions	50	51	52	53	83
Other exposures	CZK millions	165	130	152	141	411
Risk exposures for position risk, currency and commodity risk at STA	CZK millions	0	2	2	9	24
Marketable debt instruments	CZK millions	0	2	2	9	24
Currency trades	CZK millions	0	0	0	0	0
Total risk exposures for operational risk	CZK millions	1,636	1,456	1,301	1,276	1,241
Operational risk – BIA approach	CZK millions	1,636	1,456	1,301	1,276	1,241
Risk exposures for valuation adjustments for total credit risk	CZK millions	57	36	20	15	59
Standardised method	CZK millions	57	36	20	15	59
Capital ratio for Common Equity Tier 1 capital	%	21.51	22.31	21.16	21.99	20.12
Capital ratio for Tier 1 capital	%	21.51	22.31	21.16	21.99	20.12
Capital ratio for total capital	%	21.51	22.31	21.16	21.99	20.12
Return on average assets (ROAA) ¹⁾	%	0.10	0.11	0.15	0.08	0.06
Return on average equity (ROAE) ¹⁾	%	0.63	0.61	0.84	0.52	0.55
Assets per employee ¹⁾	CZK millions	110.0	112.6	111.6	126.3	133.3
Administrative costs per employee ¹⁾	CZK millions	1.5	1.5	1.5	1.6	1.62
Net profit per employee ¹⁾	CZK millions	0.1	0.1	0.2	0.1	0.1

¹⁾ The calculation was performed in accordance with Decree No. 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.

RECONCILIATION OF REGULATORY AND ACCOUNTING CAPITAL

The tables below summarise the composition of regulatory and accounting capital and individual indicators as at 31 December 2021 and 31 December 2020, thus providing a complete reconciliation of the individual items of regulatory capital to the institution's capital and Balance Sheet.

AS AT 31 DECEMBER 2021	REGULATORY CAPITAL CZK MILLIONS	EQUITY CZK MILLIONS
Paid-up share capital entered in the Common Register	2,632	2,632
(-) Capital investments in the Bank's own instruments	-	-
Retained earnings from previous periods	830	830
Current year profit	-	24
Accumulated other comprehensive income	-420	-420
Other reserve funds	1,150	1,350
(-) Additional value adjustments (AVA) according to the requirements for prudent valuation	-	-
(-) Intangible assets other than goodwill	-69	-
(-) Over-limit major investments in entities from the financial sector	-2	-
Total capital eligible for Tier 1 classification	4,121	
Total equity		4,416
Total amount of Tier 2 capital	0	
Capital relevant for the calculation of large exposure limits, qualifying holding limits and capital ratios	4,121	

AS AT 31 DECEMBER 2020	REGULATORY CAPITAL CZK 000'	EQUITY CZK 000'
Paid-up share capital entered in the Commercial Register	2,632	2,632
(-) Capital investments in the Bank's own instruments	-	-
Retained earnings from previous periods	819	819
Current year profit	-	24
Accumulated other comprehensive income (OCI)	-	51
Other reserve funds	1,150	1,350
(-) Additional value adjustments (AVA) according to the requirements for prudent valuation	-	-
(-) Intangible assets other than goodwill	-48	-
(-) Over-limit major investments in entities from the financial sector	-2	-
Total capital eligible for Tier 1 classification	4,551	
Total equity		4,876
Total amount of Tier 2 capital	0	
Capital relevant for the calculation of large exposure limits, qualifying holding limits and capital ratios	4,551	

BUSINESS ACTIVITIES OF THE NDB IN 2021

1. PRODUCT OVERVIEW

In 2021, the Bank provided the following products:

A) GUARANTEES

GUARANTEE 2015–2023 (ZÁRUKA 2015 AŽ 2023) PROGRAMME

- A portfolio guarantee for a bank loan of up to 70% of the loan principal for small and medium-sized enterprises provided for loans up to CZK 4 million,
- A SMART portfolio guarantee for a bank loan for digitalisation up to 80% of the loan principal granted to small and medium-sized enterprises for loans up to CZK 4 million,
- An individual guarantee for a bank loan of up to 80% of the loan principal provided to social entrepreneurs (small and medium-sized enterprises), with a maximum guarantee amount of CZK 20 million, including a financial contribution in the amount of 10% of the guaranteed loan drawn on eligible expenses, in the maximum amount of CZK 500 thousand,
- An individual guarantee for a bank loan for the transfer of family businesses up to 80% of the loan principal granted to small and medium-sized enterprises up to a maximum of CZK 30 million,
- A portfolio guarantee - forced change of energy supplier - for a bank loan to strengthen the operational financing of small and medium-sized enterprises with an increase in energy advances of more than 100%, up to 80% of the loan principal up to CZK 2 million.

EXPANSION GUARANTEES PROGRAMME

- The COVID SPORT portfolio guarantee with a financial contribution - interest rate subsidy for bank loans up to CZK 15 million, covering up to 80% of the loan principal. The beneficiary can also draw a financial contribution of up to CZK 1 million to pay interest. The objective of the programme is to facilitate access to operational financing for small and medium-sized entrepreneurs in the field of sports whose economic activities are limited as a result of the occurrence of coronavirus infection and the related preventive measures.
- A portfolio guarantee for a commercial loan of up to 70% of the loan principal for small and medium-sized enterprises provided for loans from CZK 4 to 40 million,

- A portfolio guarantee for special supported activities, loan, loan for a commercial loan of up to 80% of the loan principal for small and medium-sized enterprises provided for loans from CZK 1 to 60 million (such special activities are: efficient use of water in industry, high-speed Internet access networks, calamity wood processing, business centres development, material and energy utilisation of waste, project implementation in a privileged region, family businesses).

INTERNATIONAL DEVELOPMENT COOPERATION GUARANTEE PROGRAMME PROGRAMME

- A guarantee for enterprises without size restrictions for a bank loan financing the implementation of projects with a development impact in selected developing countries, up to 80% of the loan principal, maximum guarantee amount of CZK 50 million.

INOSTART PROGRAMME

- A guarantee for bank loans for start-up small and medium-sized entrepreneurs implementing innovative projects throughout the Czech Republic for loans from CZK 500 thousand to CZK 15 million, up to 70% of the loan principal.

VADIUM 2018-2023 PROGRAMME

- A guarantee for tender bids for small and medium-sized entrepreneurs when entering tenders where security in the form of a bank guarantee is required, in the amount of CZK 50 thousand to CZK 5 million.

COVID TRAVEL AGENCY GUARANTEE PROGRAMME

- Support in the form of bank guarantees issued by the NDB in favour of an eligible insurance company, which replace part of the travel agency's excess on the compulsory bankruptcy insurance, up to 75% of the required co-participation, up to a maximum of CZK 4 million. The programme was terminated at the end of 2021.

B) LOANS

EXPANSION LOANS PROGRAMME

- Interest-free investment loans for small and medium-sized entrepreneurs throughout the Czech Republic (except the Capital City of Prague) in an amount of up to CZK 45 million, with a maturity of up to ten years and a financial contribution to pay commercial loan interest of up to CZK 2 million. For special

supported activities (family businesses, efficient use of water in industry, high-speed Internet access networks, processing of bark beetle-infested wood, business centres development, material and energy utilisation of waste), the loan limit is up to CZK 60 million and the financial contribution is up to CZK 4 million. The programme is funded by the ESI Funds under the Operational Programme Enterprise and Innovations for Competitiveness.

ENERGY SAVINGS PROGRAMME

➤ Preferential interest free loans for enterprises, regardless of size, throughout the Czech Republic (with the exception of the City of Prague), the aim of which is to save energy, up to CZK 60 million, with a maturity of up to ten years, a financial contribution for the acquisition of energy assessment in the amount of up to CZK 250 thousand, and in the event of savings also a financial contribution to pay interest on a commercial loan in the amount of up to CZK 4 million. The programme is funded by the ESI Funds under the Operational Programme Enterprise and Innovations for Competitiveness.

ENERG PROGRAMME

➤ Preferential interest-free loans (soft loans) for small and medium-sized enterprises and their projects in the City of Prague, focused on energy savings in their business activities in an amount of up to CZK 60 million, with a maturity of up to ten years, a financial contribution for energy assessment of up to CZK 100 thousand and a financial contribution of 7% of the drawn amount of the preferential loan when achieving energy savings.

SOUTHERN BOHEMIAN PROGRAMME

➤ Preferential regional loans for small entrepreneurs in the South Bohemian Region. Loans of up to CZK 1 million, with a fixed interest rate of 3% p. a. and a maturity of up to six years.

FINANCING OF INFRASTRUCTURE

➤ Investment loans to support the financing of transport, social, healthcare and energy infrastructure projects built by public sector entities (ministries, regions, cities and municipalities) or private investors in order to facilitate and make the implementation of these socio-economically beneficial projects less expensive for their sponsors.

REGIONAL DEVELOPMENT FUND

➤ Long-term loans for municipalities and associations of municipalities (with the exception of the City of Prague and statutory cities) to co-finance projects in order to improve local infrastructure for business and non-business purposes, up to CZK 30 million, with a preferential fixed or floating interest rate determined individually according to current market conditions and a maturity of up to ten years.

MUNICIPALITY 2 PROGRAMME

➤ Long-term loans for cities, municipalities and associations of municipalities in the Czech Republic to finance investments in order to improve living conditions or protect the environ-

ment, up to CZK 130 million, with a fixed or floating interest rate determined individually according to current market conditions and a maturity of up to 15 years. In 2021, the programme was expanded to include large individual investment projects, where the amount of the loan granted can reach up to CZK 1 billion and the maturity period up to 30 years.

INFIN PROGRAMME

➤ Preferential interest-free loans for the implementation of innovative business projects or projects of innovative entrepreneurs within the territory of the City of Prague in an amount of up to CZK 15 million with a maturity of up to ten years. The programme is designed for small and medium-sized entrepreneurs who have been commercially active for not more than seven years, and part of the programme is specifically targeted at businesses with a short history. The programme is financed from the ESI Funds under the Operational Programme Prague - Growth Pole of the Czech Republic. The acceptance of applications closed in April 2021.

S-ENTERPRISE PROGRAMME

➤ Preferential loans of up to CZK 25 million with a maturity of up to 12 years, facilitating the financing of investment projects aimed at starting or developing business activities for social enterprises. Projects can be implemented anywhere in the Czech Republic, including the City of Prague. The programme is financed from the ESI Funds under the Operational Programme Employment.

C) CONSULTANCY

ELENA PROGRAMME

➤ This is consultancy for entrepreneurs who plan to invest in an energy-saving project that is connected either with a building envelope (insulation, replacement of windows/doors, shading, etc.) or with its use (heating, hot water, ventilation, cooling, lighting, etc.). The consultancy service will provide an energy assessment and is linked to the provision of loans under the ENERGY SAVINGS and ENERGETIC programmes. The ELENA consultancy services are also aimed at cities, regions and other public entities that implement energy savings using the EPC method. A total of CZK 6 million is earmarked for entrepreneurs and CZK 46 million for public entities. The ELENA consultancy has contributed to support for seven energy-saving business projects.

S-CONSULTING

➤ In addition to interest-free financing under the S-enterprise (S-podnik) programme, the NDB offers social enterprises expert consultancy in the areas of management, marketing, financial management, organisation and production. The aim is to make it easier for social enterprises to start or develop their business.

FINANCIAL ADVICE

➤ for public sponsors of infrastructure projects - the target group is mainly ministries, regions, cities and organisations established by them. The financial advisory services include,

for example, designing the financing structure of projects, assessing their financial feasibility, monitoring the development of financial markets and evaluating their impact on projects, financial modelling, advising on the financial terms of contractual relations, etc.

2. SUPPORT FOR BUSINESS AND REGIONAL DEVELOPMENT

A) OVERALL RESULTS

The Bank implemented support for small and medium-sized enterprises (hereinafter “SME support”) mainly on the basis of agreements concluded with the Ministry of Industry and Trade.

Another guarantee programme supporting small and medium-sized entrepreneurs in 2021 was the Guarantee 2015-2023 programme, which was launched in February 2015.

The majority of the programme consisted of guarantees for working capital loans. The results of the implementation of that programme confirmed the growing interest in the use of guarantees in 2021. In addition to national resources, the Guarantee 2015-2023 programme is also financed by the European Investment Fund under the COSME programme.

A major guarantee programme supporting small and medium-sized enterprises in 2021 was the EXPANSION Guarantees programme, which was launched in February 2019. The programme runs under the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC). According to the agreement concluded with the expected acceptance of applications until 2023.

As a result of the occurrence of the coronavirus infection and related preventive measures, the COVID SPORT programme was launched in early 2021 as part of the EXPANSION Guarantees programme.

Another programme to eliminate the impact of the pandemic was the COVID Travel Agency Guarantee programme, which supports the liquidity of travel agencies.

The COVID III programme, which is designed for SMEs as well as large enterprises, is another programme to eliminate the impact of the pandemic. The NDB works with financial institutions that create guaranteed portfolios. In 2021, the COVID III OPERATIONS programme was expanded to include the COVID III INVEST programme.

As part of the INOSTART programme, the provision of loan guarantees for start-up entrepreneurs for innovation-oriented projects continued in 2021. Loans supported by the NDB guarantee are provided by Česká spořitelna, a.s.

A major loan programme supporting small and medium-sized enterprises in 2021 was the EXPANSION-LOANS programme, which was launched in June 2017. The programme is implemented within the framework of the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC) and will run until the end of 2023. The conditions of the programme were amended several times during the operation of the programme, which had a major impact on the growing interest of small and medium-sized entrepreneurs in loans under the EXPANSION-LOANS programme.

Other loan programmes in 2021 were the ENERGA and ENERGY SAVINGS programmes. The goal of both of them is to reduce energy consumption. These energy-saving programmes are eligible for consultancy services under the ELENA programme.

In April 2019, the INFIN programme was launched, the aim of which is to increase the offer of available financing for innovative business projects implemented within the territory of the City of Prague. The programme was implemented together with the City of Prague within the Operational Programme Prague - Growth Pole of the Czech Republic (OP PGP) and its activities were terminated in 2021.

On the basis of an agreement with the Regional Authority of the South Bohemian Region, preferential loans were also provided to small and micro enterprises (including start-ups) to finance projects implemented in that region.

In 2021, we were pleased to be able to provide more loans under the S-ENTERPRISE programme. These loans make it easier for social enterprises to finance investment projects aimed at starting or developing a business. Support can also take the form of free advice.

In accordance with the Financial Agreement concluded with the Ministry of Regional Development, the provision of loans for the development of municipal infrastructure under the Regional Development Fund programme continued in 2021.

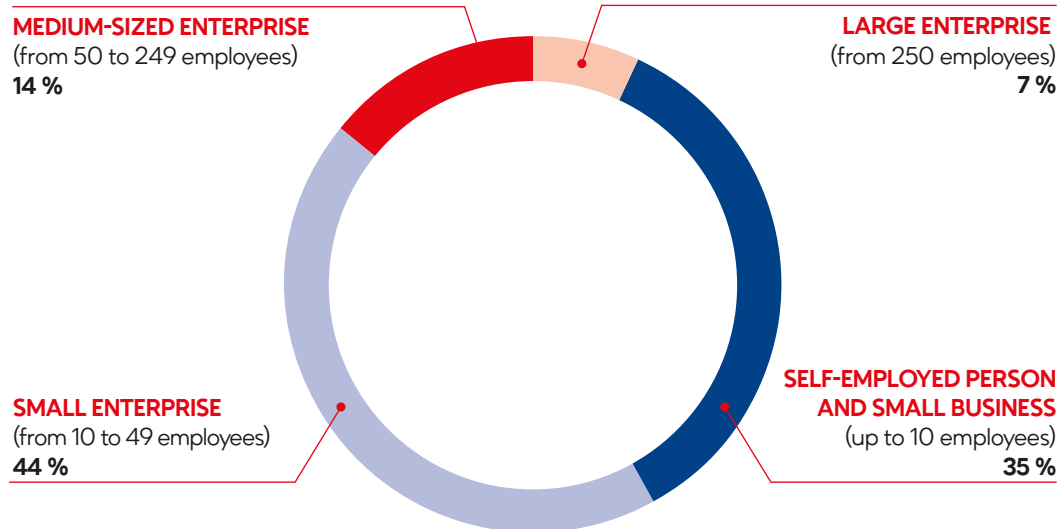
In line with the new strategy, in 2021 the Bank also focused more on financing larger infrastructure development projects and on providing consultancy services to the public sector.

SUMMARY RESULTS FOR STANDARD AND COVID PROGRAMMES OF THE NDB

TABLE 1 TOTAL PROJECTS SUPPORTED (EXCLUDING GUARANTEES IN THE VADIUM AND COVID TRAVEL AGENCY GUARANTEE (COVID CK) PROGRAMMES)

	GUARANTEES			LOANS	
	Number	Amount of guarantees in CZK millions	Amount of guaranteed loans in CZK millions	Number	Amount of loans in CZK millions
STANDARD PROGRAMMES	2,828	9,602	13,784	531	3,979
COVID PROGRAMMES	3,922	23,527	26,408		
TOTAL PROGRAMMES	6,750	33,129	40,192	531	3,979

**CHART 1 PROJECTS BROKEN DOWN BY BUSINESS ENTITIES
(EXCLUDING COVID III PROGRAMMES)**



STANDARD NDB PROGRAMMES (EXCLUDING COVID PROGRAMMES)

GUARANTEES (EXCLUDING COVID PROGRAMMES)

On the basis of guarantee agreements concluded in 2021, the Bank provided 2,828 guarantees in the total amount of CZK 9,602 million. The guarantees supported loans in the amount of CZK 13,784 million (see Table 2).

TABLE 2 GUARANTEES AND GUARANTEED LOANS PROVIDED (EXCLUDING GUARANTEES IN THE VADIUM PROGRAMME)

INDICATOR		2017	2018	2019	2020	2021
Guarantees provided	Number	4,368	5,721	5,627	3,497	2,828
Amount of guarantees provided	CZK millions	8,950	11,044	13,838	9,483	9,602
Amount of guaranteed loans	CZK millions	12,791	17,263	20,814	14,254	13,784
Average amount of guarantee	%	70	70	64	66	70

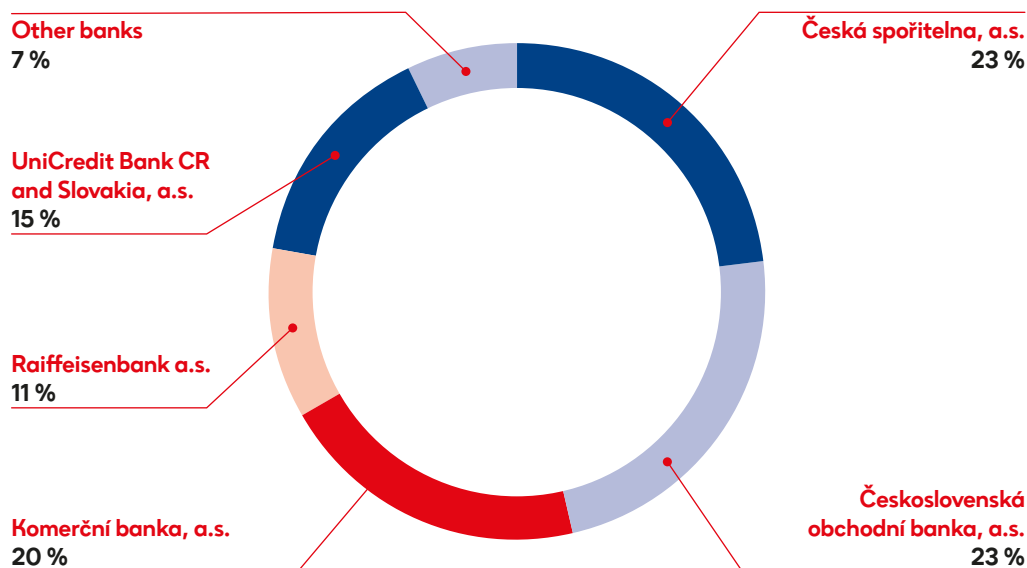
The guarantees were mostly to support projects located in the South Moravian and Moravian-Silesian Regions (see Table 3).

TABLE 3 DEVELOPMENT OF THE REGIONAL STRUCTURE OF THE AMOUNT OF GUARANTEES PROVIDED (IN % OF THE CONTRACTUAL VALUE OF GUARANTEES ISSUED)

REGION		2017	2018	2019	2020	2021
Capital City of Prague	%	26.1	13.6	13.0	11.3	8.8%
Central Bohemian Region	%	6.8	8.8	9.0	8.1	8.8%
South Bohemian Region	%	5.1	5.5	6.7	4.7	5.7%
Pilsen Region	%	4.3	4.1	3.5	5.3	4.3%
Karlovy Vary Region	%	1.6	1.1	1.2	2.2	1.4%
Ústí Region	%	3.3	3.2	3.6	5.7	6.1%
Liberec Region	%	3.7	3.7	3.1	3.2	3.3%
Hradec Králové Region	%	4.7	4.5	4.7	5.7	4.3%
Pardubice Region	%	4.6	5.2	4.3	5.7	5.0%
Vysočina Region	%	3.5	2.9	2.6	3.5	3.5%
South Moravian Region	%	11.0	15.7	13.3	12.7	17.7%
Olomouc Region	%	6.4	7.5	8.5	8.4	7.8%
Zlín Region	%	4.9	5.8	7.5	6.7	6.3%
Moravian-Silesian Region	%	14.0	18.5	19.0	16.8	17.0%
TOTAL	%	100.0	100.0	100.0	100.0	100.0

A decisive part of the guarantee transactions in 2021 was carried out with Komerční banka, Československá obchodní banka and Česká spořitelna.

CHART 2 STRUCTURE OF GUARANTEE TRANSACTIONS IN 2021 BY LENDING BANKS



The largest volume of guarantees was provided for projects in business activities and further in industrial production (see Table 4).

TABLE 4 SECTORAL STRUCTURE OF THE GUARANTEES PROVIDED (IN % OF THE CONTRACTUAL VALUE OF GUARANTEES ISSUED IN 2021)

Commerce	47.9%
Industrial production	23.7%
Construction production	14.4%
Accommodation and catering	1.1%
Transport	3.0%
Other industrial production	1.6%
Healthcare	0.7%
Services	0.9%
Other business	6.7%
TOTAL	100.0%

In addition, in 2021 the Bank provided, under the VADIUM 2018-2023 programme, 66 tender guarantees for small and medium-sized enterprises entering tenders in the total amount of CZK 40 million.

LOANS

In 2021, the Bank provided a total of 531 credits in the total amount of CZK 3,979 million.

TABLE 5 PREFERENTIAL LOANS PROVIDED

INDICATOR		2017	2018	2019	2020	2021
Loans provided	Number	56	254	463	314	531
Amount of loans provided	CZK millions	357	1,440	2,407.1	1,699	3,979
Average amount of loan	CZK millions	6.4	5.8	5.2	5.4	7.5

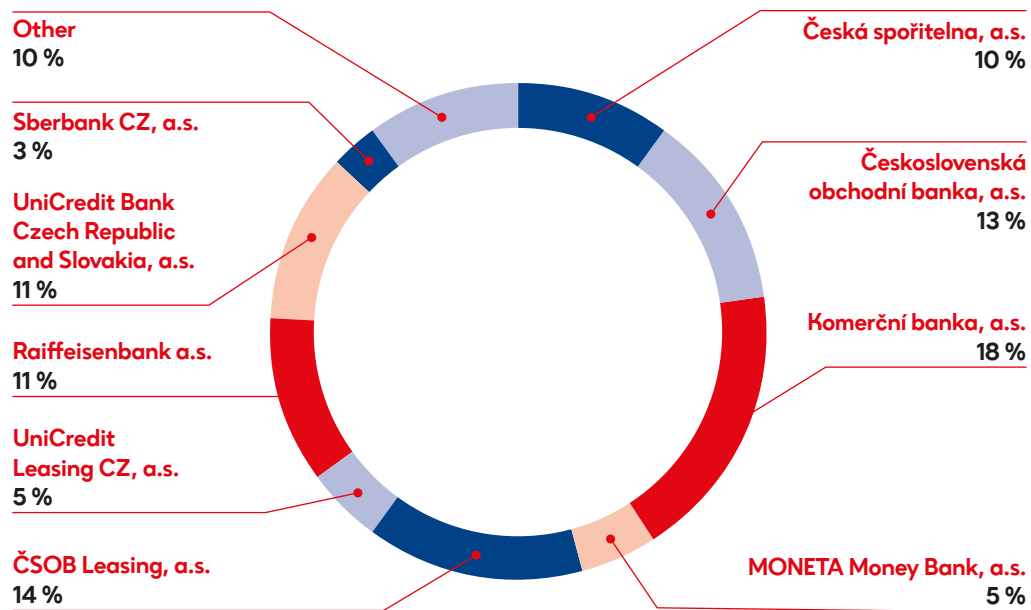
In the EXPANSION programme, 485 loans in the total amount of CZK 2,771.0 million were concluded. Within that programme, the Bank mostly cooperated with Komerční banka, a.s. and Československá obchodní banka, a.s.

In infrastructure programmes, eight loans were granted in the amount of CZK 1,064.2 million.

In other loan programmes (ENERG, Energy Savings, Southern Bohemian, Municipality, INFIN, S-ENTERPRISE), a total of 38 loans were provided, with a total loan volume of CZK 144.2 million.

TABLE 6 REGIONAL STRUCTURE OF THE AMOUNT OF LOANS PROVIDED IN 2021 (IN %)

	AMOUNT OF CREDIT
Capital City of Prague	0.8%
South Bohemian Region	6.2%
South Moravian Region	11.7%
Karlovy Vary Region	1.7%
Hradec Králové Region	5.4%
Liberec Region	3.0%
Moravian-Silesian Region	31.5%
Olomouc Region	3.6%
Pardubice Region	6.0%
Pilsen Region	5.4%
Central Bohemian Region	8.0%
Ústí Region	1.9%
Vysočina Region	5.8%
Zlín Region	9.1%
TOTAL SUM	100.0%

CHART 3 STRUCTURE OF CO-FINANCING IN 2021 IN THE EXPANSION LOANS PROGRAMME BY LENDING COMPANIES

Within leasing companies, ČSOB Leasing, a.s. and UniCredit Leasing CZ, a.s. contributed the most to co-financing.

TABLE 7 SECTORAL STRUCTURE OF THE AMOUNT OF LOANS PROVIDED IN 2021
(IN % OF THE CONTRACTUAL VALUE OF LOANS ISSUED)

Industrial production	25.9%
Commerce	15.6%
Transport	25.9%
Construction production	10.4%
Accommodation and catering	3.1%
Other industrial production	1.0%
Services	1.8%
Healthcare	1.1%
Other business	15.2%
TOTAL	100.0%

COVID PROGRAMMES**TABLE 8** PROJECTS SUPPORTED IN COVID PROGRAMMES IN 2021

	NUMBER	AMOUNT (IN CZK MILLIONS)	GUARANTEED LOANS (IN CZK MILLIONS)	AMOUNT OF GUARANTEES (IN CZK MILLIONS)
COVID Travel Agency Guarantee	127	122		122
COVID EXPANSION – SPORT	18	74	92	74
COVID III OPERATIONS	3,781	25,377	25,377	22,719
COVID III INVEST – bank loans	123	939	939	734
TOTAL COVID PROGRAMMES	4,049	26,512	26,408	23,649

A total of 4,049 loans and guarantees in the total amount of supported loans of CZK 26.4 billion were provided under the COVID programmes.

The largest numbers of business entities under the COVID III programmes were supported in the Capital City of Prague, the Moravian-Silesian Region and the South Moravian Region.

TABLE 9 DEVELOPMENT OF THE REGIONAL STRUCTURE OF THE AMOUNT OF GUARANTEES
AND LOANS PROVIDED IN THE COVID III 2021 PROGRAMMES (IN %)

	TRADE VOLUME
City of Prague	25.6%
Central Bohemian Region	9.6%
South Bohemian Region	4.8%
Pilsen Region	4.5%
Karlovy Vary Region	2.2%
Ústí Region	4.7%
Liberec Region	3.1%
Hradec Králové Region	3.5%
Pardubice Region	4.8%
Vysočina Region	4.5%
South Moravian Region	11.3%
Olomouc Region	4.9%
Zlín Region	4.7%
Moravian-Silesian Region	11.8%
TOTAL	100.0%

CHART 4 STRUCTURE OF GUARANTEE COVID III PROGRAMMES BY LENDING BANKS IN 2021 (IN %)

Within the COVID III programmes, the Bank mostly cooperated with Komerční banka and Československá obchodní banka.

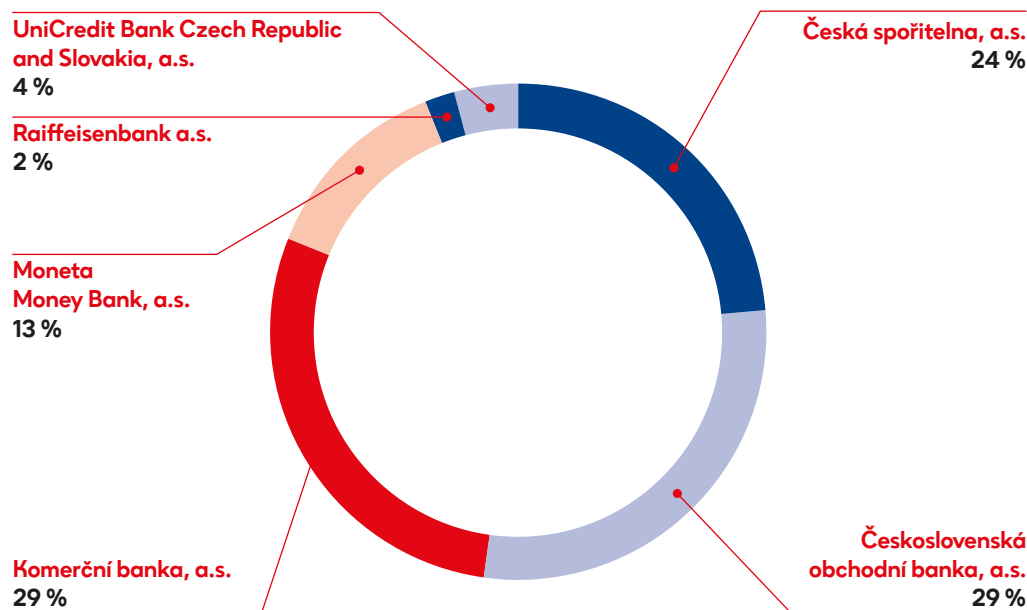


TABLE 10 SECTORAL STRUCTURE OF THE AMOUNT OF LOANS AND GUARANTEES PROVIDED IN THE COVID III PROGRAMMES IN 2021 (IN %)

Industrial production	29.8%
Commerce	32.4%
Transport	4.2%
Construction production	15.2%
Accommodation and catering	1.4%
Other industrial production	1.1%
Services	1.0%
Healthcare	1.4%
Other business	13.5%
TOTAL	100.0%

3. SUPPORT FOR REPAIRS OF APARTMENT BUILDINGS

In 2021, the Bank administered a total of 7,300 active contracts on the provision of grants to cover loan interest on loans (from the original number of 10,122 concluded contracts), on the basis of which it paid out more than CZK 587 million. In total, CZK 12,206 million was paid out to beneficiaries of grants in the period from the start of the programme of support of apartment house reconstruction until the end of 2021, which represents 89.3% of the total volume of concluded contracts on providing grants to cover loan interests on loans (CZK 13,664 million).

In 2021, the Bank also administered a portfolio of guarantees for bank loans, which enabled the owners or co-owners of apartment buildings to obtain loans for their repairs. At the end of 2021, the portfolio consisted of a total of 904 guarantees for a bank loan (of which 84 were portfolio guarantees) and the amount of outstanding principal of guaranteed loans was CZK 1,505 million.

4. FINANCING OF MUNICIPAL INFRASTRUCTURE

Loans from the Regional Development Fund and the MUNICIPALITY 2 programme are intended for projects focused on transport and technical infrastructure, the construction of real estate for business, the environment and energy sectors, social and health infrastructure, and sports, cultural and educational facilities and are provided only as a supplementary service to the overall portfolio of services. In 2021, the Bank aided eight public infrastructure projects. The volume of aid amounted to CZK 1.064 billion.

5. TRADING ON FINANCIAL MARKETS

In 2021, the Bank traded on financial markets for the purpose of liquidity management, bond portfolio management, interest rate and currency risk management, and the refinancing of

credit programmes to aid small and medium-sized enterprises and municipalities. The Bank used standard money market instruments. In the area of portfolio management of bonds and money market instruments, the Bank continued to maintain a conservative investment strategy and focused on purchases of government bonds, government treasury bills and the bonds of selected issuers with high credit ratings. The Bank actively entered the Start market of the Prague Stock Exchange and became one of the investors on the Czech stock market in its Start segment.

6. OTHER LENDING ACTIVITIES

As the financial manager of infrastructure programmes, the Bank secured their financing in 2021 in the total amount of CZK 154 million. These were funds from the State Fund for Transport Infrastructure and were intended for financing the construction of the Lovosice-Ústí nad Labem section of the D8 motorway.

In 2021, the Bank continued to administer interest payments on commercial credits for participants in the Water Supply and Sewerage Infrastructure Construction Project and paid CZK 682 thousand to 29 beneficiaries. Since the start of the financing of the interest rate subsidies administration programme in 2009, the total amount of disbursed interest rate subsidies as at 31 December 2021 reached CZK 229.4 million.

7. CENTRAL EUROPE FUND OF FUNDS

In 2018, the fundraising of the Central Europe Fund of Funds (CEFoF) was concluded; the total amount of investors' commitments is EUR 97 million. The NDB is also a participant in the Fund; the NDB is intermediating the State's investment of EUR 8.2 million. Other investors include the European Investment Fund, the Hungarian national development bank MFB, the Austrian AWS, the Slovenian SEF, the Slovak SIH and SZRB and the International Investment Bank.

As at 30 September 2021, 22.3% of investors' commitments to the CEFoF had been repaid. The liabilities of the CEFoF to eight selected funds (three of them with Czech management teams) amounted to EUR 65.4 million (of which EUR 19.3 million were funds managed by Czech teams). The EIF approved contributions to another fund of EUR 10 million. A total of 30 enterprises have already been supported by the CEFoF (ten of them in the Czech Republic).

8. PROVISION OF INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION

a) Number of requests for information submitted and the number of decisions to reject the request

In 2021, three requests for information were submitted pursuant to Act No. 106/1999 Coll. and two decisions were issued on the rejection of the request (they concerned the same request and in both cases the entire request was rejected). One decision rejecting a request was annulled.

b) Number of appeals lodged against the decision

In 2021, one appeal was filed.

c) A copy of the essential parts of each judgment of the court reviewing the legality of the obliged entity's decision to reject a request for information and an overview of all expenses incurred by the obliged entity in connection with judicial proceedings on rights and obligations under the Act, including costs for its own staff and legal representation costs

In 2021, no court judgment was issued regarding a review of the legality of the decision of an obliged entity on the rejection of a request for information, nor were any judicial proceedings conducted with an obliged entity on rights and obligations pursuant to Act No. 106/1999 Coll.

d) List of exclusive licences granted, including a justification for the need to grant an exclusive licence

In 2021, no exclusive licences were granted.

e) Number of complaints filed pursuant to Section 16a, the reasons for their filing and a brief description of the manner of their settlement

In 2021, no complaints were filed under Section 16a of Act No. 106/1999 Coll.

f) Further information related to the application of the Act
Not applicable.

REPORT OF THE SUPERVISORY BOARD OF THE NATIONAL DEVELOPMENT BANK FOR THE YEAR 2021

During 2021, the Supervisory Board performed the tasks assigned to it by law and the Articles of Association of the National Development Bank (hereinafter the “Bank”). As the Company’s supervisory body, it supervised the performance of the Bank’s Board of Directors and the implementation of business activities, the Bank’s management and the implementation of its strategy. The Supervisory Board was regularly informed by the Bank’s Board of Directors about the Bank’s activities, its financial situation and other significant matters.

After reviewing the Financial Statements as at 31 December 2021 and on the basis of the statement of an external auditor, the Supervisory Board states that the accounting records were kept in a reliable manner and in accordance with generally binding regulations governing bank accounting and in accordance with the Bank’s Articles of Association. The accounting records show the financial position of the Bank from all important points of view and the Financial Statements prepared on the basis of these accounting records give a true and fair view of the accounting and financial situation of the Bank.

The Financial Statements were audited by KPMG Česká republika Audit, s.r.o., which confirmed that the Financial

Statements gave a true and fair view of the financial position of the National Development Bank as at 31 December 2021 and its operations for 2021 in accordance with Czech accounting regulations. The Supervisory Board took note of the auditor’s statement.

The Supervisory Board discussed the Financial Statements and the proposal for profit distribution for the fiscal year 2021. On the basis of the above and in accordance with the valid Articles of Association of the National Development Bank, the Supervisory Board, following the recommendation of the Audit Committee, proposes that the sole shareholder acting supported the General Meeting of the National Development Bank approve the Annual Financial Statements and the proposal for profit distribution for 2021 as proposed by the Bank’s Board of Directors.

The Supervisory Board also discussed the Bank’s Annual Report for 2021, stating that it recommends that the sole shareholder, in the exercise of the powers of the Bank’s General Meeting, approve that Report.

In Prague, on 26 April 2022

On behalf of the Supervisory Board of the National Development Bank:



Pavel Závitkovský
Chairman of the Supervisory Board

REPORT OF THE AUDIT COMMITTEE OF THE NATIONAL DEVELOPMENT BANK FOR THE YEAR 2021

In 2021, the Audit Committee of the National Development Bank fulfilled its duties and performed the tasks assigned to it pursuant to Act No. 93/2009 Coll., on auditors, pursuant to Decree of the Czech National Bank No. 163/2014 Coll., on the performance of the activities of banks, savings and credit unions and securities dealers, and in accordance with the Articles of Association of the National Development Bank (hereinafter the “NDB”).

Within the scope of its competence, the Audit Committee dealt with the monitoring of the procedure for compiling the Financial Statements of the NDB and the process of their mandatory verification by the auditor - KPMG Česká republika Audit, s.r.o. It also dealt with the plan and strategy of the external audit. It assessed the independence of the auditing firm KPMG Česká republika Audit, s.r.o. and the nature of the additional non-audit services provided by the external auditor, stating that on the basis of the documents that had been submitted, the external auditor can be considered independent. The Audit Committee also discussed and took note of the report of the external auditor under MiFID 2020. The cooperation with the external auditor was at a very good level in the past year.

In accordance with the Act on Auditors, the Audit Committee discussed and approved the provision of non-audit services by:

- 1) KPMG Česká republika, s.r.o., namely:
 - general training organised by the statutory auditor;
 - preparation and filing of corporate income tax returns for 2021, and providing tax advice on specific tax issues as required by the Bank.
- 2) KPMG Česká republika Audit, s.r.o., namely:
 - preparation of the external audit of Národní rozvojová investiční, a.s., for the year 2021;
 - confirmation of the verification of individual receivables of the NDB in accordance with the requirements of Section 105 of the Insolvency Act.

The object of the regular meetings of the Audit Committee was the evaluation of the effectiveness of the NDB management and control system and the activities of the Internal Audit Department, including its activity plans and individual audits performed. The Audit Committee stated that the systems set up in the NDB were functional and effective and that the measures taken as regards audit findings were being fulfilled. In 2021, it took note of the final report entitled “External Evaluation of In-

ternal Audit Quality” prepared by Deloitte Czech Republic and agreed with the internal audit measures taken.

In 2021, the Audit Committee considered and noted the IT audit report - reviewing selected areas of ICT from an information security perspective and information on ensuring the functionality and operability of IT systems, in particular its accounting (CORE) system. It discussed and took note of the information on ensuring the integrity of the accounting and financial reporting system.

As part of the performance of the function of the Risk Committee, the Audit Committee assessed and took note of the regular information on the risk management system, a report on the valuation of assets, liabilities and off-balance sheet items when they are reflected in the offer to clients, including taking into account the business model and risk strategies, and the NDB Recovery Plan, as well as information on the consideration of risks, capital, liquidity and the probability and timing of expected profits in the overall remuneration system.

The Audit Committee discussed and submitted the Report on the Activities of the Audit Committee for 2020/2021 (the period under review from 29 April 2020 to 27 April 2021) to the Public Audit Oversight Board.

The Chairman of the Audit Committee regularly informed the Supervisory Board about the results of the meetings of the Audit Committee.

In Prague, on 22 March 2022

On behalf of the Audit Committee
of the National Development Bank:

Milan Novák

Chairman of the Audit Committee

AFFIDAVIT

The National Development Bank declares that all the information and data provided in this Annual Report are true and complete. It further confirms that this document contains all the facts that may be important for investors' decisions.

The National Development Bank further declares that, up till the date of the preparation of the Annual Report, there were no negative changes in the financial situation or other changes that could affect the accurate and correct assessment of the financial situation of the National Development Bank.

In Prague, on 26 April 2022

On behalf of the Board of Directors signed by:



Jiří Jirásek

Chairman of the Board of Directors



Pavel Fiala

Member of the Board of Directors



UNCONSOLIDATED
FINANCIAL STATEMENTS
IN ACCORDANCE WITH
CZECH ACCOUNTING
REGULATIONS AS
AT 31 DECEMBER 2021

BALANCE SHEET AS AT 31 DECEMBER 2021

CZK MILLIONS	NOTES	31 DECEMBER 2021	31 DECEMBER 2020	
1	Cash on hand and deposits with central banks	3	176	6
2	Government zero-coupon bonds and other securities accepted by the central bank for refinancing	4	17,599	18,168
	of which: a) issued by government institutions		17,599	18,168
3	Receivables from banks	5	6,200	3,205
	of which: a) payable on demand		12	3
	b) other receivables		6,188	3,202
4	Receivables from clients	6	7,540	6,969
	b) other receivables		7,540	6,969
5	Debt securities	7	712	1,294
	of which: a) issued by government institutions		0	443
	b) issued by other persons		712	851
6	Shares, share certificates and other interests	8	54	35
7	Participating interests with significant influence	8	1	1
8	Participating interests with decisive influence	8	29	4
9	Intangible fixed assets	9	69	48
10	Tangible fixed assets	9	107	126
	of which: land and buildings for operating activities		107	126
11	Other assets	10	163	105
13	Deferred costs and accrued income	10	69	66
TOTAL ASSETS			32,719	30,027

BALANCE SHEET AS AT 31 DECEMBER 2021 (CONTINUED)

CZK MILLIONS	NOTES	31 DECEMBER 2021	31 DECEMBER 2020
1 Payables to banks – other term liabilities	12	469	942
2 Payables to clients	13	24,334	20,676
of which: a) payable on demand		1,500	600
b) other payables		22,834	20,076
4 Other liabilities	14	55	86
5 Deferred revenues and expenses	14	122	136
6 Other provisions	11	3,323	3,311
Total debt		28,303	25,151
8 Registered capital	15	2,632	2,632
of which: a) paid-up registered capital		2,632	2,632
10 Reserve funds and other funds from profit		1,350	1,350
of which: a) mandatory reserve funds and hedge funds		1,150	1,150
c) other funds from profit		200	200
13 Valuation differences from assets and liabilities	15	-420	51
14 Retained earnings from previous periods		830	819
15 Profit for the fiscal period	15	24	24
Total equity		4,416	4,876
TOTAL LIABILITIES		32,719	30,027

OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2021


CZK MILLIONS	NOTES	31 DECEMBER 2021	31 DECEMBER 2020	
Off-balance sheet assets:				
1	Commitments and guarantees provided	16	55,955	44,771
3	Receivables from spot operations		0	49
4	Receivables from fixed-term operations	24c	203	549
6	Written-off receivables		166	174
Total off-balance sheet assets			56,324	45,543
Off-balance sheet liabilities:				
9	Commitments and guarantees received	16	21,806	7,405
10	Pledges and collateral received	16	9,487	6,075
11	Liabilities from spot operations		0	49
12	Liabilities from fixed-term operations	24c	209	542
14	Values taken into escrow, administration and storage	16	5,691	3,857
Total off-balance sheet liabilities			37,193	17,928

PROFIT AND LOSS ACCOUNT FOR 2021

CZK MILLIONS	NOTES	2021	2020
1 Interest income and similar revenues	17	387	411
of which: interest on debt securities		229	277
2 Interest expenses and similar costs	17	-96	-109
4 Revenues from fees and commissions	18	400	357
5 Fee and commission costs		-3	-2
6 Profit or loss from financial operations	19	25	17
7 Other operating revenues		12	8
8 Other operating costs	20	-20	-18
9 Administrative costs	21	-378	-388
of which: a) staff costs		-288	-286
of which: aa) wages and salaries		-205	-204
ab) social security and health insurance		-71	-69
b) other administrative costs		-90	-102
11 Depreciation of tangible and intangible fixed assets		-41	-28
12 Release of adjustments and provisions for receivables, securities and guarantees, revenues from previously written-off receivables	11	1	1
13 Depreciation, creation and use of adjustments and provisions for receivables, securities and guarantees	11	-272	-228
16 Release of other provisions	11	7	3
17 Creation and use of other provisions	11	-9	0
19 Profit or loss for the fiscal period before tax		13	24
23 Income tax	22	11	0
24 Profit or loss for the fiscal period after tax	15	24	24

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

CZK MILLIONS	REGISTERED CAPITAL	RESERVE FUNDS AND HEDGE FUNDS	SOCIAL FUNDS AND OTHER FUNDS FROM PROFIT	VALUATION DIFFERENCES	RETAINED EARNINGS	TOTAL EQUITY
As at 1 January 2020	2,632	1,150	200	116	832	4,930
Profit for 2020	0	0	0	0	24	24
Movements in valuation differences	0	0	0	-65	0	-65
Allocation to the social fund	0	0	13	0	-13	0
Drawing on the social fund	0	0	-13	0	0	-13
As at 31 December 2020	2,632	1,150	200	51	843	4,876
Profit for 2021	0	0	0	0	24	24
Movements in valuation differences	0	0	0	-471	0	-471
Allocation to the social fund	0	0	13	0	-13	0
Drawing on the social fund	0	0	-13	0	0	-13
As at 31 December 2021	2,632	1,150	200	-420	854	4,416



NOTES TO THE
UNCONSOLIDATED
FINANCIAL STATEMENTS
IN ACCORDANCE WITH
CZECH ACCOUNTING
REGULATIONS AS
AT 31 DECEMBER 2021

1 GENERAL INFORMATION

The National Development Bank, a joint-stock company, until 31 August 2021 the Czech-Moravian Guarantee and Development Bank (Českomoravská záruční a rozvojová banka, a.s., hereinafter the “Bank” or the “NDB”), was established pursuant to the Commercial Code as a joint-stock company and was incorporated in the Commercial Register kept by the District Court of Prague 1 on 28 January 1992 (Section B, Insert 1329). The Bank’s registered office is at Jeruzalémská 964/4, Prague 1. The Bank has five branches in the Czech Republic: in Prague, Brno, Ostrava, Hradec Králové and Pilsen, and one regional office in České Budějovice.

The Bank was issued with a banking licence by the Czech National Bank (hereinafter the “CNB”) to perform the activities specified in Section 1(1)a) and b) of the Act on Banks and to perform the activities specified in Section 1(3) of the Act on Banks.

Banking activities specialise in supporting small and medium-sized enterprises in the Czech Republic through guarantee and loans products, in supporting repairs of housing units in apartment buildings, in providing loans to municipalities, especially from sources from international financial institutions, and in the activities of a finance manager for project financing in the field of infrastructure.

The National Development Bank, based on Government Resolution No. 574/2017 of 21 August 2017, fulfils the role of a national development bank. This presupposes, among other things, the key role of the Bank in the implementation of financial instruments in the Czech Republic, most of which are financed from European funds. Following the adoption of European Commission Regulation No. 2018/1046 (known as the Omnibus) in August 2018, the managing authorities of individual operational programmes can cooperate with national development banks as administrators of financial instruments directly, without the need to announce tenders.

THE BANK’S ACTIVITIES CONSIST MAINLY OF:

- ✓ accepting deposits;
- ✓ providing loans;
- ✓ investing in securities on its own account;
- ✓ payment and settlement;
- ✓ providing bank and financial guarantees;
- ✓ the provision of banking information;
- ✓ trading on financial markets on its own account;
- ✓ activities that are directly related to the activities specified in the Bank’s banking licence.

USE OF THE BANK’S OWN RESOURCES TO FINANCE SME AID IN 2021

The Bank used part of its own resources to cover the credit risk of guarantees for the small and medium-sized enterprise (SME) sector under the national guarantee programme. This measure helped maintain continuity in SME support in 2021.

The Bank does not have a branch abroad and does not hold its own shares. The Bank has long supported activities related to

the financing of the science, research and innovation sectors. It is also involved in the Innovation Strategy of the Czech Republic for 2019-2030. However, the Bank itself does not carry out any research or other activities in this area. The Bank has long supported environmental protection and is actively involved in landscape maintenance and tree planting. It regularly organises company-wide and development events for employees.

IMPACTS OF THE COVID-19 PANDEMIC ON THE BANK’S ACTIVITIES IN 2021

On 11 March 2020, the World Health Organization declared the spread of coronavirus infection a pandemic, and on 12 March 2020, the Czech Government declared a state of emergency. In response to the potentially serious threat that the disease called COVID-19 poses to public health, the state administration authorities of the Czech Republic took measures to stop the spread of the pandemic.

The broader economic impacts of these events include, in particular, the disruption of business and economic activity in the Czech Republic, with a consequent impact on lower and higher levels of the supply chain, and significant disruption of business activity in specific sectors both within the Czech Republic and in markets heavily dependent on the foreign supply chain, as well as export-oriented enterprises dependent on foreign markets. The sectors that are affected include, in particular, trade and transport, travel and tourism, restaurants, hotels, sports facilities, the entertainment industry, manufacturing, construction, retail, insurance, education and the financial sector.

Subsequently, the Government of the Czech Republic adopted measures in the area of aid for self-employed persons and small and medium-sized entrepreneurs whose economic activity was limited as a result of the spread of coronavirus infection. The Bank has become an important supporting financial institution as regards these measures.

In line with its operational risk management procedures and business continuity plans, the Bank has implemented a number of measures to ensure day-to-day operations so that it can fully and adequately fulfil its role in the relevant aid programmes announced by the Government. Measures include hygiene rules, rules for working from home, rules for social contact, including contact with clients, the provision of backup workplaces and other measures.

The Bank accepted applications for preferential working capital loans in the COVID I programme. The aim of the programme was to provide operational financing to self-employed persons and small and medium-sized entrepreneurs whose economic activities were limited as a result of the occurrence of coronavirus infection and the related preventive measures of the Czech Government. The loans were provided as interest-free with a grace period. The programme was financed from the MIT and from the structural funds under the OP EIC.

The Bank accepted applications for preferential guarantees with a financial contribution for the payment of interest in the COVID II programme, which had been created by modifying the existing Expansion Guarantees and COVID Prague programmes. The aim of the programme was to facilitate the access of self-employed persons and small and medium-sized entrepreneurs to financing their business projects in order to

overcome the economic crisis situation caused by the spread of coronavirus infection. The programmes were financed from the EU structural funds within the OP EIC and from the OP PGP resources.

In cooperation with the MIT, the Bank prepared the COVID III guarantee programme with the aim of supporting the provision of additional operational financing to clients affected by the coronavirus pandemic. The programme is funded by the Czech Republic.

From 1 February 2021, the Bank began accepting applications for guarantees in the COVID SPORT programme. The aim of the programme is to help small and medium-sized entrepreneurs operating in the field of sports to overcome the economic crisis situation caused by the spread of the coronavirus SARS-CoV-2. Projects can be implemented anywhere in the Czech Republic, except the Capital City of Prague. The COVID SPORT guarantee is provided within the Expansion Guarantees programme, which is financed from the ESI Funds within the Operational Programme Enterprise and Innovations for Competitiveness of the Ministry of Industry and Trade.

From 1 March 2021, the Bank began accepting applications for guarantees in the COVID Travel Agency Guarantee programme. The aim of the programme is to contribute to the resolution of tourism problems resulting from the occurrence of coronavirus infection caused by the spread of the coronavirus SARS-CoV-2 and related preventive measures, and to support, through bank guarantees, the access of travel agencies to bankruptcy insurance, which is mandatory for travel agencies according to Section 6 of Act No. 159/1999 Coll., on certain business conditions and activities in the field of tourism. The guarantee is provided for the purpose of its use by travel agencies as part of the co-participation in the maximum limit of indemnity required by the insurance company for concluding a contract for insuring a guarantee in the event of bankruptcy (insurance policy).

From 1 July 2021, the Bank provided investment guarantees under the COVID Invest programme. The aim of the programme was to support, through the guarantee of investment bank loans, companies with up to 500 employees whose economic activities were limited as a result of coronavirus infection and the related preventive measures.

According to Act No. 228/2020 Coll., on the provision of state guarantees, support under this programme applies to investment loans contracted until 31 December 2021.

During 2021, the Bank continuously monitored and evaluated the impact of the COVID-19 pandemic on its risk profile, including the impact on its models of creating adjustments and provisions in accordance with IFRS 9, with an emphasis on the precautionary principle. Further details, especially in the area of asset reclassification and FLI “management adjustment”, are provided in Chapter 24.

In the area of previously concluded credit transactions, the Bank is fully prepared to assess and make possible adjustments to repayment schedules in accordance with the current situation of individual clients.

As a result of the long-term high ratio between highly liquid assets and expected liquidity outflows, the Bank does not expect a significant impact of the current situation on its liquidity position. Highly liquid assets (mainly government bonds of the Czech Republic) held by the Bank in the long term are resistant

to the current unstable situation on the markets. The Bank does not find any increased risks on the liabilities side and thus possible outflows, either. Deposits consist mainly of long-term programme funds of the state. The Bank does not accept deposits or maintain current accounts for the public, and therefore no increase in liquidity outflows can be expected.

At the moment, the Bank fully meets the capital requirements set by the regulator and will regularly update its capital ratio calculation models with respect to current assumptions and the outlook. In the event that the need for capital strengthening in connection with the increase in business activity is indicated within the capital ratio modelling, the Bank’s management is prepared to initiate negotiations in terms of possible capital strengthening by the shareholder, i.e. the Czech Republic.

The Bank’s management considered the potential impacts of COVID-19 on its activities and business and concluded that they did not have a significant effect on the going concern assumption. Because of this, the Financial Statements as at 31 December 2021 were prepared on the basis of the assumption that the Bank would be able to continue its activities.

The Bank’s management cannot rule out the possibility that the extension or tightening of restrictive measures in connection with the fight against the coronavirus pandemic in the Czech Republic will have an adverse effect on the Bank and its financial condition and operating results in both the medium and long term. The Bank’s management will continue to monitor developments closely and subsequently respond to them in order to mitigate the consequences of any events and circumstances.

2 ACCOUNTING POLICIES

A) BASIC PRINCIPLES OF ACCOUNTING

The Financial Statements for the fiscal period of 2021 are prepared on the basis of the Bank’s accounting kept in accordance with Act No. 563/1991 Coll., on accounting, and relevant regulations, measures and decrees, in particular Decree No. 501/2002 Coll., issued by the Ministry of Finance of the Czech Republic, as amended (hereinafter the “Decree”), which implements certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for accounting entities that are banks and other financial institutions, as amended, and in accordance with the Czech Accounting Standards for financial institutions.

In accordance with the Decree, the arrangement and designation of items in the Financial Statements and the content definition of the items in these Financial Statements are determined. At the same time, the Decree stipulates in Section 4a(1) that the Bank should follow the International Accounting Standards as amended by the directly applicable European Union regulations on the application of the International Accounting Standards (hereinafter the “International Accounting Standard” or “IFRS”) for the purpose of reporting and valuing financial instruments and disclosing information on them in the Notes to the Financial Statements.

The Financial Statements are based on the principle of the accrual of costs and revenues, with transactions and other events being recognised at the time of their occurrence and accounted for in the period to which they relate. The Financial Statements

have been prepared under the historical acquisition cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and at fair value through equity.

In order to prepare Financial Statements in accordance with the Czech accounting regulations, it is necessary for the Bank's management to make estimates that affect the amounts of assets and liabilities reported at the balance sheet date, disclosures about contingent assets and liabilities, and costs and revenues reported for the period. These estimates, which relate in particular to the determination of the fair value of financial instruments, the valuation of intangible assets, the impairment of assets and the creation of provisions, are based on information available at the date of the Financial Statements. The main areas where there may be significant differences between the actual result and the estimate include, in particular, credit adjustments, provisions for guarantees and credit commitments and the fair value of securities. Information about key forward-looking assumptions and other key sources of estimation uncertainty at the date of the Financial Statements that are likely to cause significant adjustments to the carrying amounts of assets and liabilities within the next fiscal period is disclosed in the individual sections of the Financial Statements.

The fair values of listed investments in active markets are based on current ask prices (financial assets) or bid prices (financial liabilities). In the absence of an active market for a financial instrument, the Bank determines fair value using valuation methods. Valuation methods reflect current market conditions at the valuation date, which may not correspond to market conditions before or after the valuation date. At the date of the Financial Statements, the Bank's management assessed the methods used to ensure that they adequately reflected current market conditions, including relative market liquidity and credit spread.

Financial assets and liabilities denominated in foreign currencies are converted into Czech crowns at the exchange rate published by the CNB as at the balance sheet date. All foreign exchange gains and losses on monetary items are recognised in profit or loss from financial operations.

B) MOMENT OF EXECUTION OF A BUSINESS TRANSACTION

The moment of execution of a business transaction is the day of settlement of spot trades in the case of the spot purchase and sale of financial assets. Spot operations are monitored on off-balance sheet accounts from the moment the trade is agreed to the moment the trade is settled.

The following rules apply to the derecognition of financial assets and liabilities:

- The Bank derecognises a financial asset or a part of it from the Balance Sheet if it loses control over the contractual rights to that financial asset or that part. The Bank loses control if it exercises the rights to the benefits defined in a contract, these rights expire or it waives these rights.
- The financial liability or part thereof expires, i.e. the obligation defined in the contract is fulfilled, cancelled or expires and the Bank no longer recognises that financial liability or part thereof in the Balance Sheet. The difference between the value of the liability in accounting, i.e. part of the liability

that expires or has been transferred to another entity, and the amount paid for that liability is recognised in costs or revenues.

C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) RECOGNITION AND INITIAL VALUATION

The Bank initially recognises selected financial assets and financial liabilities (e.g. receivables from clients, payables to clients, etc.) at the time when they arise. All other financial instruments (including spot purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the relevant financial instrument.

A financial asset or financial liability is initially measured at fair value, adjusted for transaction costs. Transaction costs are costs that are directly attributable to the acquisition or issue.

(ii) CLASSIFICATION

FINANCIAL ASSETS

On initial recognition, a financial asset is classified as measured at:

- amortised cost (AC),
- fair value through equity (FVOCI),
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost (AC) if it meets both of the following conditions and is not designated as measured at fair value through profit or loss (FVTPL):

- the asset is held within a business model that aims to hold financial assets to obtain contractual cash flows,
- the contractual terms of the financial asset specify the dates of cash flows consisting exclusively of repayments of principal and payments of interest on the principal amount outstanding (what is called the "SPPI test").

A debt instrument is measured at fair value through equity (FVOCI) only if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- the asset is held within a business model of which the objective is achieved both by the collection of contractual cash flows and by the sale of financial assets,
- the contractual terms of the financial asset specify the dates of cash flows consisting exclusively of principal repayments and payments of interest on the principal amount outstanding (what is called the "SPPI test").

On the initial recognition of equity securities not held for trading, the Bank irrevocably determined that it would recognise subsequent changes in fair value through equity (FVOCI). For more details see clause 2g (Shares, share certificates and other interests). This choice was made and applied at the level of the investment in question.

All other financial assets are measured at fair value through profit or loss (FVTPL).

On initial recognition, the Bank classifies a financial asset that otherwise meets the requirements for being measured at AC or FVOCI as being measured at FVTPL if this eliminates or significantly reduces a valuation or accounting mismatch that would otherwise arise; see clause 2c(vii) below.

EVALUATION OF THE BUSINESS MODEL

The business model in the Bank reflects the way in which groups of financial assets are jointly managed in order to achieve a certain business goal. Therefore, this condition does not represent an approach to classification by instruments individually but is set at a higher level of aggregation. The Bank takes into account all relevant information and evidence available at the assessment date. This relevant information and evidence includes, but is not limited to, the following:

- ✎ established methods and objectives for the portfolio and the approach to these methods in practice, i.e. in particular, whether the accounting entity's strategy focuses on contractual interest revenues, maintaining the interest rate profile, matching the duration of financial assets to the duration of liabilities that serve as a source of funding for those financial assets or realising cash flows by selling assets;
- ✎ evaluating the performance of the business model and financial assets held within each business model, including how to present it to key management personnel of the accounting entity;
- ✎ risks that affect the performance of business models and financial assets held within selected business models and, in particular, the way in which those risks are managed;
- ✎ the method of remuneration of the Bank's managers and executives;
- ✎ the frequency, volume and timing of sales in previous periods, the reasons for the sales and their expectations in the future. Sales information is not evaluated in isolation but as part of an overall assessment of how the accounting entity's objectives for managing financial assets are achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is measured on the basis of fair value are measured at FVTPL because the financial assets are not held to obtain contractual cash flows or held to achieve the objective of collecting contractual cash flows or sales of financial assets.

EVALUATION OF WHETHER CASH FLOWS ARE FORMED EXCLUSIVELY BY (RE)PAYMENTS OF PRINCIPAL AND INTEREST (WHAT IS CALLED THE "SPPI TEST")

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

In assessing whether cash flows consist exclusively of principal and interest payments, the Bank evaluates the contractu-

al terms of the instrument. This includes evaluating whether a financial asset includes contractual arrangements that may change the timing and amount of the contractual cash flows. As part of the evaluation, it evaluates:

- ✎ contingent events that may change the timing and amount of contractual cash flows;
- ✎ leverage;
- ✎ early repayment and extension of maturity;
- ✎ conditions that restrict an accounting entity's ability to collect cash flows from specific assets;
- ✎ conditions that modify the payment for the time value of money (e.g. the methods used for the regular determination of the interest rate).

RECLASSIFICATION

Subsequent to initial recognition, financial assets are not reclassified unless the Bank changes its business model for managing financial assets in the current fiscal period.

FINANCIAL LIABILITIES

The Bank classifies its financial liabilities, other than financial guarantees and commitments, as valued at:

- ✎ amortised cost (AC), or
- ✎ fair value through profit or loss (FVTPL).

(iii) DERECOGNITION

FINANCIAL ASSETS

The Bank derecognises a financial asset if

- ✎ the contractual rights to the cash flows from the financial asset expire - see clause 2c(iv) below - or
- ✎ it transfers the rights to receive cash flows in a transaction in which substantially all the risks and rewards of ownership of a financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset and does not retain control of the financial asset.

When derecognising a financial asset, the difference between

- a) the book value of the asset (or part of the book value allocated to the portion of the derecognised asset) and
- b) the sum of the consideration received (including any acquired asset less the value of any new liability) and the cumulative gain or loss that was recognised in equity shall be reported in the Profit and Loss Account.

The cumulative gain or loss recognised in equity in connection with equity securities that are designated as measured at fair value through equity (FVOCI) is not recognised in the Profit and Loss Account when derecognised. See clause 2f below.

The Bank enters into transactions in which it transfers the assets recognised in the Balance Sheet but retains either all or substantially all the risks and rewards of the transferred financial assets or parts thereof. In such cases, the transferred assets are not derecognised. See clause 2j (Sale and repurchase operations).

In transactions in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset but retains control of the financial asset, the Bank continues to recognise the asset to the extent that it is exposed to changes in the value of the transferred asset.

FINANCIAL LIABILITIES

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) MODIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS

If the terms of a financial asset are modified, then the Bank assesses whether the cash flows of the modified financial asset are different.

In the event that the client owes more than two repayments of the principal of the credit, the Bank proceeds to extend the maturity of the credit or postpone repayments that do not result in a change in the amount of cash flows from the financial asset.

If the cash flows of a financial asset change as a result of a change in the contractual terms between the Bank and the counterparty (a change not just resulting from financial difficulties) and the change in contractual terms is classified as significant, the original asset is derecognised and a new one is recognised at fair value, including the transaction costs associated with the restatement of the asset. The present value of the cash flows for that asset is discounted using the new effective interest rate, which is also used to calculate interest income. In such a case, the original financial asset is derecognised - see clause 2c(iii) above - and the new financial asset is recognised and reported at fair value.

If the change in the contractual terms is not classified as significant (i.e. the difference between the net present value of the asset using the original interest rate and the net present value of the asset using the updated interest rate is close to 10%, or on the basis of an individual assessment) and the financial asset has not been derecognised, the Bank recalculates the present value of the adjusted cash flows from the financial asset, and the difference between the gross book value before the change in the terms (excluding existing adjustments) and the gross book value after the change is recognised as the impact of the modification of the asset in profit or loss. The present value of the adjusted cash flows is discounted using the original effective interest rate, which is also used to calculate interest income. The related costs and charges adjusting the book value of the modified financial asset are amortised over the residual maturity of the modified financial asset. If such a modification is made because of the debtor's financial difficulties - see clause 2c(vi) below - then the gain or loss is recognised together with the creation, release or use of adjustments in the Profit and Loss Account. In other cases, the gain or loss is recognised together with interest income in the Profit and Loss Account.

FINANCIAL LIABILITIES

The Bank derecognises a financial liability when the terms of the financial liability are modified and the cash flows of the modified liability are significantly different. In that case, the

new financial liability is recognised at fair value on the basis of the modified terms. The difference between the book value of a defunct financial liability and a new financial liability with modified terms is recognised in the Profit and Loss Account.

The Bank does not modify financial liabilities. Financial liabilities to programme sponsors are repaid on completion of the business case recovery process.

(v) VALUATION AT FAIR VALUE

“Fair value” is the price that would be received from the sale of an asset or paid for the assumption of a liability in an orderly transaction between market participants at the measurement date in the principal (or most advantageous) market to which the Bank has access at that date. The fair value of a liability reflects the risk of default.

The Bank measures the fair value of an instrument using the price listed in an active market for that instrument, if available. An active market is a market in which transactions for assets or liabilities are carried out with sufficient frequency and volume to ensure a regular supply of price information.

If the price listed in an active market is not available, then the Bank will use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The selected valuation technique includes all of the factors that market participants would include in the valuation of the transaction in question.

The best evidence of the fair value of a financial instrument at initial recognition is usually the transaction price (i.e. the fair value of the consideration given or received).

If an asset or liability that is measured at fair value has a bid price and ask price, then the Bank measures

- ✓ assets and long positions at bid price and
- ✓ liabilities and short positions at ask price.

The fair value of a financial liability that includes a demand repayment element (e.g. a deposit repayable on demand) is not less than the amount repayable on demand, discounted from the first day on which repayment can be required.

HIERARCHY OF FAIR VALUE

The Bank determines fair values using the following fair value hierarchy, which reflects the significance of the inputs used for valuation.

Level 1: Level 1 inputs are (unadjusted) prices listed in active markets for identical assets or liabilities to which the Bank has access at the measurement date.

Level 2: Level 2 inputs are inputs other than listed prices included within Level 1 that are observable directly (i.e. as prices) or indirectly (i.e. as derived from prices) for an asset or liability. This level includes instruments valued using:

- ✓ listed prices for similar instruments in active markets;
- ✓ listed prices for identical or similar instruments in markets that are considered less than active;
- ✓ or other valuation methods in which all significant inputs are directly or indirectly observable from market data.

Level 3: Level 3 inputs are unobservable inputs. This level includes all instruments for which valuation methods include

inputs that are not observable, and the unobservable inputs have a significant impact on the valuation of the instrument. This level includes instruments that are valued on the basis of listed prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

(vi) IMPAIRMENT

The Bank recognises adjustments and provisions for expected credit losses (ECL) for the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- ✎ financial assets that are debt instruments;
- ✎ credit commitments issued;
- ✎ financial guarantees provided.

Equity financial instruments are not recognised for impairment.

The Bank establishes adjustments equal to lifetime ECL, with the exception of the following financial instruments, the adjustments of which are determined as 12-month ECL:

- ✎ debt securities for which a low credit risk is determined at the balance sheet date;
- ✎ other financial instruments (other than lease receivables) for which the credit risk has not increased significantly since their initial recognition.

The Bank assumes a low credit risk for debt securities if their respective credit risk rating is in accordance with the generally understood definition of “Low credit risk”.

The 12-month ECL are part of the expected credit losses that may arise as a result of the expected default of a financial instrument that may occur within 12 months of the balance sheet date.

DETERMINATION OF EXPECTED CREDIT LOSSES (ECL)

ECL represent a probability-weighted estimate of expected credit losses and are determined as follows:

- ✎ financial assets that are not credit-impaired: as the present value of all cash deficits (i.e. the difference between the contractual cash flows in favour of the Bank and the cash flows expected by the Bank);
- ✎ financial assets that are credit-impaired: as the difference between the gross book value of the financial asset and the present value of estimated future cash flows;
- ✎ undrawn credit commitments: as the present value of the difference between the contractual cash flows to the accounting entity if the credit commitment is drawn and the cash flows the Bank expects to receive;
- ✎ financial guarantees: as the difference between the expected payments required to satisfy the holder of the financial guarantee and the payments that the Bank expects to receive.

Further information is provided in clause 24a).

RESTRUCTURED FINANCIAL ASSETS

If the contractual terms of a financial asset are modified or an existing financial asset is replaced with a new one as a result of the financial difficulties of the debtor, the Bank assesses whether

the financial asset should be derecognised and the expected credit losses (ECL) are determined as follows:

- ✎ if the expected restructuring does not result in the derecognition of the existing asset, then the expected cash flows from the modified financial asset are included in the calculation of cash deficits from the existing asset;
- ✎ if the expected restructuring results in the derecognition of an existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing asset at the time of derecognition. This value is included in the calculation of cash deficits on an existing asset that are discounted from the expected date of derecognition at the balance sheet date using the original effective interest rate of the existing financial asset.

CREDIT-IMPAIRED FINANCIAL ASSETS

At each balance sheet date, the Bank assesses whether financial assets measured at amortised cost and debt financial assets measured at fair value through equity (FVOCI) are not credit-impaired. A financial asset is credit-impaired if one or more events have occurred that have an adverse effect on the estimated future cash flows of that financial asset.

Evidence that a financial asset has been credit-impaired includes the following observations:

- ✎ significant financial problems of the debtor or issuer;
- ✎ significant delay in fulfilling the contractual non-payment terms;
- ✎ breach of contract, such as default by the debtor or failure to pay;
- ✎ credit restructuring carried out by the Bank which the Bank would not otherwise have considered;
- ✎ if it becomes probable that the debtor will enter bankruptcy, insolvency or some other reorganisation; or
- ✎ the disappearance of an active market for the securities in question as a result of financial difficulties.

A credit whose contractual terms have been adjusted as a result of a deterioration in the debtor’s solvency is usually considered to be credit-impaired if there is no evidence that the risk of non-receipt of contractual cash flows has been significantly reduced and there are no other indicators of impairment. In addition, credits that are 90 days or more overdue are considered credit-impaired.

When assessing the credit impairment of bonds, the Bank considers the following:

- ✎ how the market assessment of the issuer’s creditworthiness is reflected in the yield of the bond;
- ✎ creditworthiness assessment by rating agencies;
- ✎ the issuer’s access to the capital markets for the purpose of issuing new bonds;
- ✎ the likelihood of restructuring of the issuer resulting in a loss for the Bank as a result of voluntary or compulsory debt forgiveness.

PRESENTATION OF ADJUSTMENTS FOR ECL IN THE BALANCE SHEET

Adjustments for ECL are presented as follows:

- ✓ financial assets measured at amortised cost: the adjustment is deducted from the gross book value of the assets;
- ✓ credit commitments and financial guarantees: as a provision with the exception mentioned in the clause below;
- ✓ if a financial instrument includes both an exhausted (financial asset) and an undrawn portion (credit commitment) and the Bank cannot separately distinguish between the expected credit losses from a credit commitment and losses from a financial asset, then the Bank recognises the expected credit losses from the credit commitment together with the adjustment for the financial asset. These expected credit losses are recognised as a provision only to the extent that the combined expected credit losses exceed the gross book value of the financial asset.
- ✓ Debt instruments measured at fair value through equity (FVOCI): the adjustment is not recognised in assets in the Balance Sheet, as these instruments are recognised in assets at their fair value. However, the adjustment is reported under Valuation differences in equity and its amount is stated in the Notes to the Financial Statements.

Adjustments and provisions for ECL created against costs are reported in the Profit and Loss Account in the item “Depreciation, creation and use of adjustments and provisions for receivables and guarantees”. This item also recognises any subsequent use of adjustments.

Release of adjustments and provisions for ECL as a result of their unnecessary nature is recognised in the Profit and Loss Account under “Release of adjustments and provisions for receivables and guarantees, revenues from previously written off receivables”.

TAX ADJUSTMENTS

The tax-deductible part of the total adjustments for credit losses for the fiscal period is calculated in accordance with Section 5 (“Bank provisions and adjustments”) and Section 8 (“Adjustments for receivables from debtors”) of Act No. 593/1992 Coll., on provisions for determining the income tax base, as amended. Adjustments are kept in the analytical records for the purpose of calculating the tax liability.

DEPRECIATION

Credits and debt securities are depreciated (either in part or in full) unless there is a realistic and achievable possibility of recovery. This generally occurs when the Bank finds that a debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount due that is being depreciated. However, depreciated financial assets may still be subject to recovery in order to comply with the Bank’s recovery procedures.

Depreciation of receivables is included in the item “Depreciation, creation and use of adjustments and provisions for receivables and guarantees” in the Profit and Loss Account. In the case of a write-off of a receivable for which an adjustment has been created in full, the adjustments in the same item of

the Profit and Loss Account are reduced by the same amount. Revenues from previously written-off credits are shown in the Profit and Loss Account under “Release of adjustments and provisions for receivables and guarantees, revenues from previously written-off receivables”.

(vii) CLASSIFICATION OF A FINANCIAL INSTRUMENT IN THE CATEGORY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

FINANCIAL ASSETS

Upon initial recognition, the Bank may classify certain financial assets in the FVTPL valuation category because this designation/classification eliminates or significantly reduces an accounting mismatch that would otherwise occur.

FINANCIAL LIABILITIES

The Bank may classify certain financial liabilities in the FVTPL valuation category for the following reasons:

- ✓ the liabilities are managed, assessed and internally reported on a fair value basis;
- ✓ this classification eliminates or significantly reduces an accounting mismatch that would otherwise occur.

D) RECEIVABLES FROM BANKS

The Balance Sheet item Receivables from banks as follows:

- ✓ credits and loans measured at amortised cost - see clause 2c(ii) above - which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;

accrued interest is part of the account groups in which the assets are recognised, and is reported together with the relevant asset.

E) RECEIVABLES FROM CLIENTS

The Balance Sheet item Receivables from clients includes the following:

- ✓ credits and loans measured at amortised cost - see clause 2c(ii) above - which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;
- ✓ credits and loans that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL - see clauses 2c(ii) and 2c(vii) above - that are measured at fair value, any change in which is immediately recognised in profit or loss.

Accrued interest is part of the account groups in which the assets are recognised, and is reported together with the relevant asset.

If the Bank purchases a financial asset and at the same time enters into a contract to sell the financial asset that was purchased (or a significantly similar asset) at a fixed price in the future (reverse repo operations or lending securities), then the

transaction is reported as a credit or loan and the underlying asset is not reported in the Bank's Balance Sheet. See clause 2j below (Sale and repurchase operations).

F) SECURITIES

DEBT SECURITIES

Debt securities reported in the Balance Sheet items "Government zero-coupon bonds and other securities accepted by the central bank for refinancing" and "Debt securities" include the following valuation categories:

- debt securities measured at amortised cost - see clause 2c(ii) above - which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;
- debt securities measured at fair value through equity (FVOCI);
- debt securities that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL - see clauses 2c(ii) and 2c(vii) above - that are measured at fair value, any change in which is immediately recognised in profit or loss.

For debt securities valued at FVOCI, gains or losses are recognised in the item Valuation differences in equity, except for the following, which are recognised in the Profit and Loss Account in the same way as financial assets measured at amortised cost:

- interest income using the effective interest rate;
- creation of an adjustment for expected credit losses (ECL) and its release or use;
- foreign exchange gains and losses.

If a debt security valued at FVOCI is derecognised, then the cumulative gain or loss recognised up to that point in the item Valuation differences in equity is reclassified from equity and recognised in the Profit and Loss Account.

Gains/losses that are recognised in the Profit and Loss Account are reported under the item "Profit or loss from financial operations".

DERECOGNITION OF SECURITIES

When selling securities in the FVTPL valuation category, the Bank uses the average price method to value the decrease in securities.

When selling equity securities in the FVOCI valuation category, the Bank uses the average price method to value the decrease in securities.

When selling debt securities in the FVOCI valuation category or valued at amortised cost, the Bank uses the pro rata method to value the decrease in securities.

G) SHARES, SHARE CERTIFICATES AND OTHER INTERESTS

EQUITY SECURITIES

Equity securities reported in the Balance Sheet item "Shares, share certificates and other interests" include the following:

- equity securities for which it is irrevocably determined that the subsequent changes in their fair value will be reported through equity (FVOCI). This determination is based on individual instruments at initial recognition and the equity securities in question must not be "held for trading";
- equity securities that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL - see clauses 2c(ii) and 2c(vii) above - that are measured at fair value, any change in which is immediately recognised in profit or loss.

Gains and losses on equity securities irrevocably identified in FVOCI are never reclassified from Valuation differences in equity to profit or loss (i.e. recognised in the Profit and Loss Account). Dividends received are recognised in the Profit and Loss Account unless they clearly represent a reimbursement of part of the cost of the investment (acquisition cost). If the dividends received clearly represent a refund of part of the investment costs (acquisition costs), then they are recognised in equity. The cumulative gains and losses recognised in Valuation differences are transferred to the item "Retained earnings or unrecovered loss from previous periods" at the time of the sale of the securities.

Dividends received are recognised in the Profit and Loss Account when the right to receive payment is established. Dividends received are reported under "Revenues from shares and interests".

H) FAIR VALUE OF SECURITIES

The fair value of securities is determined as the price listed by the relevant stock exchange or other active public market. In other cases, fair value is estimated as the net present value of cash flows taking into account the risks in the case of bonds.

The Bank uses only data available from the market in its models designed to determine the fair value of securities. Valuation models take into account current market conditions existing at the valuation date, which may not reflect the market situation before or after that date. At the balance sheet date, the Bank's management reviewed these models and ensured that they adequately reflected current market conditions, including relative market liquidity and credit spread.

I) PARTICIPATING INTERESTS IN COMPANIES WITH DECISIVE AND SIGNIFICANT INFLUENCE

PARTICIPATING INTERESTS WITH DECISIVE INFLUENCE

A subsidiary (participating interest with a decisive influence) is an accounting entity controlled by another accounting entity.

Controlling an entity in which an investment has been made means that the investor controls the entity if it is exposed to or entitled to variable revenues by virtue of its exposure to the entity and can influence those revenues through its power over the entity.

The investor therefore controls the entity in which it has invested only if all of the following points apply:

- it has power over the entity in which it has invested,

- ✓ on the basis of its exposure to the entity in which it has invested, it is exposed to variable revenues or is entitled to such revenues,
- ✓ it is able to use its power over the entity in which it has invested to influence the amount of its revenues.

PARTICIPATING INTERESTS WITH SIGNIFICANT INFLUENCE

A company with significant influence (hereinafter an “affiliate”) is a company in which the Bank exercises significant influence through its share in financial and operational decisions but does not have the ability to control that company. A company with significant influence that the Bank controls together with another person and in which it does not itself have a decisive influence is also considered to be a participating interest.

Participating interests in companies with significant and decisive influence are valued at acquisition cost, taking into account any permanent impairment.

The creation, release and use of related adjustments are recognised in the Profit and Loss Account in the items “Release of adjustments for participating interests with decisive and significant influence” and “Losses from the transfer of participating interests with decisive and significant influence, creation and use of adjustments for participating interests with decisive and significant influence”.

J) SALE AND REPURCHASE OPERATIONS

Securities purchased or lent under agreements to resell (reverse repo operations) are not recognised in the Balance Sheet. In the case of the sale of securities thus acquired, the resulting short position is reported at fair value in liabilities arising from debt securities. Securities sold or lent under repurchase agreements (repo operations) are retained in their original portfolio. The underlying cash flows are reported at the settlement date as receivables from banks, receivables from clients, payables to banks and payables to clients.

Securities temporarily exchanged under a collateral exchange agreement are retained in their original portfolio in the case of lent securities. Borrowed (lent) securities are not reported in the Balance Sheet. In the case of the sale of securities thus acquired, the resulting short position is reported at fair value in liabilities arising from debt securities.

K) FINANCIAL DERIVATIVES

Financial derivatives are initially recognised in the Balance Sheet at acquisition cost and subsequently measured at fair value.

Fair values are derived from discounted cash flow models that are based only on available market data. Valuation models take into account current market conditions existing at the valuation date, which may not reflect the market situation before or after that date. At the balance sheet date, the Bank reviewed these models and ensured that they adequately reflected current market conditions, including relative market liquidity and credit spread.

All derivatives are reported under other assets if they have a positive fair value or under other liabilities if their fair value is negative for the Bank.

Valuation differences on financial derivatives held for trading are included in the profit or loss from financial operations.

In the off-balance sheet, derivatives are reported at the undiscounted contractual value of the underlying instrument in the items “Receivables from fixed-term operations” and “Liabilities from fixed-term operations”.

L) BANK GUARANTEES AND LOAN COMMITMENTS

Issued bank guarantees are recorded in the off-balance sheet from the date of execution of the bank guarantee agreement. The Bank’s off-balance sheet liability resulting from a bank guarantee is reduced on the basis of the lending bank’s information on the amount of the accumulated repaid principal of the guaranteed credit.

Guarantee revenues are recognised on an accrual basis (see clause 2 o below). As of the date of delivery of the request for performance from the creditor, the request is accounted for in the off-balance sheet records. If the conditions specified in the deed of guarantee are met, the bank guarantee is paid in favour of the creditor. At the moment of performance under the guarantee, the off-balance sheet liability from the request for performance is derecognised and the balance sheet receivable from the client resulting from the performance under the guarantee is still recognised.

Issued credit commitments are commitments to provide a credit according to the agreed conditions. In 2020 and 2021, the Bank did not issue any credit commitments that were valued at FVTPL.

M) INTEREST INCOME AND EXPENSE

Interest income and expense from all interest-bearing instruments are reported on an accrual basis.

The effective interest rate method is a method for calculating the amortised cost of a financial asset or a financial liability and for allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows until maturity or until the nearest date of a change in the interest rate to the current value of the financial asset or liability.

When calculating the effective interest rate, the Bank takes into account all contractual cash flows arising from the financial instrument (e.g. early repayment options) but does not include future credit losses in the calculation. The calculation includes all fees paid or received between the parties that are part of the effective interest rate, transaction costs and any premiums or discounts, with the exception of credit fees, which are recognised immediately in revenues from fees and commissions. The straight-line method is used as an approximation of the effective interest rate for securities with a remaining maturity of less than one year at the time of the settlement of the purchase, for credits, other receivables and payables if the periods between repayments are less than one year. Interest income includes accrued coupons and accrued discounts and premiums on all fixed revenue instruments.

Interest income from credits within the support of small and medium-sized enterprises includes accrued interest income paid by clients or interest income paid within that support of

small and medium-sized enterprises by the state in accordance with concluded contracts.

Revenues from non-performing credits are also accrued and included in the balances of the respective credit. These amounts are taken into account when determining the adjustment for outstanding credits.

N) PENALTY INTEREST

Penalty interest is accrued to revenues only for receivables at level 1. For other receivables, the accrual of penalty interest income is suspended. This interest is excluded from revenue until it is collected.

O) REVENUES FROM FEES AND COMMISSIONS

Fees and commissions are reported on an accrual basis as of the date on which the service is provided. Fees and commissions for arranging a transaction for a third party or for contributing to such negotiations are recognised when the transaction to which they relate is completed.

Commissions for the provision of guarantees (with the exception of guarantees financed from OP EIC funds: EXPANSION (EXPANZE), COVID II, COVID Prague (COVID Praha) guarantees) are deferred to revenues on the basis of the expected course of repayment of the principal of the guaranteed credit.

For guarantees financed from OP EIC funds (EXPANSION (EXPANZE), COVID II, COVID Prague (COVID Praha) guarantees), the Bank is entitled to a fee for each managed guarantee in a given calendar month. The fee is charged to the Bank's revenues on a monthly basis.

For COVID III guarantees, the guarantee bank is entitled to a % share of the fee paid by banks.

P) PROVISIONS

Provisions are established if the Bank has an existing liability as a result of past events and it is probable that an outflow of resources will be required to settle the liability, and the amount of the liability can be reasonably estimated. All provisions are included in liabilities.

The creation of a provision is reported in the relevant item of the Profit and Loss Account; its use is reported together with the costs or losses for which the provisions were created in the relevant item of the Profit and Loss Account. The release of an unnecessary provision is recognised in revenues.

The provision is created in the currency in which the Bank expects the relevant performance.

Q) TANGIBLE AND INTANGIBLE ASSETS AND LEASED ASSETS

Tangible and intangible assets

Tangible and intangible fixed assets are valued at their acquisition cost and depreciated over their estimated useful life using depreciation rates based on the Income Tax Act, as amended. Tangible assets are depreciated using the accelerated depreciation method. Intangible assets are depreciated using

the accelerated or straight-line depreciation method, depending on the date of acquisition of the intangible asset. The costs of repairs and maintenance of tangible assets are charged directly to costs. The technical appreciation of an individual asset item is capitalised and depreciated.

Leased tangible and intangible assets

The accounting entity has been applying the International Accounting Standard IFRS 16 Leases since 1 January 2019. A contract is considered to be a lease if it transfers the right to control the use of the identified asset for a specified period of time for a consideration.

IFRS 16 introduces, in particular, changes in the accounting and reporting on the part of the lessee. An accounting entity in the role of the lessee shall recognise an asset from the right to use the leased asset and the related lease liability in the Balance Sheet, except where:

- the lease period is not more than 12 months;
- or the underlying asset has a low acquisition cost.

A contract contains a lease if, under it, the right to control the use of an identifiable asset for a specified period in exchange for a consideration is transferred.

For individual contracts, the Bank assesses whether the contract meets the definition of a lease, i.e. whether:

- there is an identifiable asset and whether the lessor has a material right to replace the asset with another asset;
- the Bank, as the lessee, has the right to obtain all economic benefits for the period of their use;
- the Bank has the right to control the use of assets, i.e. the lessor cannot change the conditions of use.

At the inception of the lease, the Bank recognises in the statement of financial position:

- the right to use the assets in the item "Tangible fixed assets";
- the lease liability in "Other liabilities".

The right of use is measured at acquisition cost, which includes the initial amount of the lease liability adjusted for all lease payments made on or before the commencement date, plus direct costs and an estimate of the costs of dismantling and removing the underlying asset or renewing the underlying asset, less lease incentives.

Subsequently, the right of use is depreciated on a straight-line basis over its expected useful life or over the duration of the lease if shorter. The estimated useful life of the right of use is determined on the same basis as for the asset; in addition, this asset is regularly reduced by any impairment losses and adjusted by a certain revaluation of the lease liability.

At the commencement of the lease, the lease liability is measured at the present value of the lease payments not yet paid at the discounted incremental interest rate. Lease payments include:

- fixed payments, including what are called essentially fixed payments;
- index- or rate-dependent variable lease payments (the index or rate that exists at the inception of the lease is used at the inception of the lease);

- ✓ the amount that the lessee must pay within what is called the guaranteed residual value;
- ✓ a call option if the Bank envisages its exercise and lease payments, including an extension option, if the Bank has reasonable assurance that it will exercise the extension option; and
- ✓ penalties for termination of the lease.

Subsequently, the lease liability is measured at amortised acquisition cost using the effective interest rate method. The liability is divided into interest recognised at interest expense and amortisation recognised as a reduction of the lease liability.

The liability is reassessed in the event of a change in future lease payments resulting from a change in the index or rate if the Bank's estimates of the amount due change or if the Bank changes its estimates as regards the exercise of the call option or extension or termination of the lease of the asset in question.

In the event that the liability is reassessed, the book value of the right of use is adjusted with an impact on the assets, or directly to the Profit and Loss Account if the right of use is fully depreciated, i.e. the book value of the asset is nil.

The Bank applies an exception in the reporting of leases and does not account for rights of use and lease liabilities if the duration of the lease is 12 months or less and/or the subject of the lease is of low value. Lease payments from such contracts are charged directly to costs by the Bank on a straight-line basis over the duration of the lease and are recognised in the item "Administrative costs".

In the event that the Bank acts as the lessor, it evaluates at the beginning of the lease whether it is a financial or operating lease. The transition to IFRS 16 did not result in differences in the reporting of leases in the Bank from the perspective of the lessor.

R) TAXATION

TAX PAYABLE

The tax base for income tax is calculated from the profit or loss for the current period before tax by adding non-deductible costs, deducting revenue that is not subject to income tax, and adjusting for tax rebates and setoffs if any. Current tax stated in the Balance Sheet is already offset against tax advances.

VALUE ADDED TAX

The Bank is a registered payer of value added tax (hereinafter "VAT"). Tangible and intangible fixed assets and inventories are valued at acquisition cost, including value added tax. The Bank does not apply input VAT as the ratio of income subject to VAT to the total income of the Bank does not reach such an amount that it is cost-effective for the Bank to apply input VAT. Input VAT (excluding tangible and intangible fixed assets) is recognised in costs immediately.

DEFERRED TAXES

Deferred tax is recognised for all temporary differences between the residual value of assets and liabilities in the Balance Sheet and their tax value, using the full liability method. A deferred tax receivable is recognised to the extent that it is probable that it will be realised against expected taxable profits in the future.

The deferred tax is calculated using the approved tax rate for the period in which the Bank expects its realisation.

Deferred tax arising from the revaluation of available-for-sale securities to fair value recognised directly in equity is also recognised in equity.

S) STAFF COSTS, ADDITIONAL PENSION INSURANCE AND SOCIAL FUND

Staff costs (employees of the Bank and members of the Board of Directors of the Bank in executive management offices) are part of administrative costs and also include remuneration paid to members of the Board of Directors, the Supervisory Board and the Audit Committee.

The Bank contributes to its employees' pension savings and life insurance. These contributions paid by the Bank for pension savings and life insurance are charged directly to costs.

To finance the state pension plan, the Bank makes regular payments to the state budget.

The Bank has created a social fund to cover the social needs of its employees and employee benefits. In accordance with the accounting regulations in force in the Czech Republic, the allocation to the social fund is not reported in the Profit and Loss Account but as a profit distribution. The drawdown of the social fund is not reported in the Profit and Loss Account either; it is reported as a reduction of the fund.

T) PERSONS WITH A SPECIAL RELATIONSHIP WITH THE BANK

Persons with a special relationship with the Bank (hereinafter "related parties") are defined in accordance with Section 19(1) of the Act on Banks, as amended, as follows:

- a) members of the governing body of the Bank;
- b) members of the Board of Directors and the Supervisory Board of the Bank and members of the Audit Committee, Risk Committee, Remuneration Committee and Appointment Committee;
- c) persons controlling the Bank (see clause 15 of the Notes), persons with a qualifying holding in these persons and members of the management of these persons;
- d) persons close to members of the Bank's governing body, members of the Board of Directors and members of the Supervisory Board of the Bank, members of the Audit Committee, Risk Committee, Remuneration Committee and Appointment Committee and persons controlling the Bank;
- e) legal entities in which any of the persons referred to in clauses (a), (b) and (c) has a "qualifying holding";
- f) persons with a qualifying holding in the Bank and any person controlled by them;
- g) members of the Bank Board of the Czech National Bank;
- h) persons controlled by the Bank.

SUBSEQUENT EVENTS

The effect of events that occurred between the balance sheet date and the date of the Financial Statements is recognised in

the financial reports if those events provide additional evidence about conditions that existed at the balance sheet date.

If significant events occurred between the balance sheet date and the date of the Financial Statements that take into account conditions that occurred after the balance sheet date, the consequences of those events are described in the Notes but are not recognised in the financial reports.

V) REGULATORY REQUIREMENTS

The Bank must comply with the regulatory requirements of the CNB and the EU. These requirements include limits and other restrictions on banks' capital ratios, classification of loans and off-balance sheet liabilities, the creation of adjustments and provisions to cover loan risk associated with banks' clients, liquidity and the Bank's currency positions.

X) SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Through the Bank, the state provides support to small and medium-sized entrepreneurs in the following forms:

PREFERENTIAL SME GUARANTEES

For the provision of guarantees, guarantee funds are created as separate blocks of accounts in which the funds invested by the sponsors of individual support programmes are kept. One guarantee fund can serve several support programmes. From the resources of these guarantee funds, entrepreneurs are provided with a contribution used to pay a part of the guarantee price (guarantee commission) called the contribution to the guarantee price (see clause 2 o above) and for a part of guarantees also a financial contribution to the guaranteed loan.

For guarantees of the GUARANTEE 2015-2023 programme, the client does not participate in the payment of the price for the provision of the bank guarantee. The commission is fully paid from the MIT funds.

For the EXPANSION, COVID II and COVID Prague guarantees, the Bank is paid a fee for the administration of the Guarantee Fund. The amount and structure of the fee are in accordance with EU Regulation No. 1303/2013 and are specified in the relevant agreement concluded with the managing authority.

The guarantee funds kept in risk coverage accounts which are part of the guarantee funds cover losses from the performance of guarantees. These funds are used to satisfy these receivables in the event of unsuccessful recovery of receivables arising from guarantees. Losses arising from the performance of guarantees that exceed the amount of funds held in the relevant risk coverage account are settled by the Bank. In the event of no special-purpose use of these funds to cover the Bank's final losses from individual programmes, these funds will be returned to the sponsors of these programmes, either continuously or when the guarantee fund is settled. Balances in risk coverage accounts and other guarantee fund accounts are reported as part of Payables to state institutions.

In the case of the COVID II and COVID Prague guarantees, clients are provided with a financial contribution to the guaran-

teed loan in the amount of interest paid by the client from the OP EIC funds.

Since 2012, with the consent of shareholders, preferential guarantees have been provided that are co-financed from the Bank's own resources.

PREFERENTIAL LOANS

The Bank provides soft loans at lower-than-market rates and uses variously structured combinations of state funds, funds obtained from international financial institutions or the financial market to refinance them. For loans provided without the use of structural funds and preferential regional loans from the resources of the South Bohemian Region, state funds represent a source for covering part or the full amount of losses from loans provided and reimbursement of that part of the Bank's costs and reasonable profit not reflected in the interest rate amount. The Bank agreed with the sponsors on the following loan programmes: in 2017 EXPANSION, ENERGY SAVINGS and ENERGA with the MIT, in 2018 the INFIN loans programme with the City of Prague, and in 2019 the S-ENTERPRISE loan programme with the MoLSA, which are provided in the form of co-financing investment loans with a zero interest rate and a possible interest rate subsidy for a co-financed commercial loan. In 2020, the Bank entered into an Agreement with the MIT on the COVID Loan Fund, on the basis of which loans were provided to clients of SMEs affected by the COVID pandemic. In 2020, the provision of loan was also expanded to include COVID loans.

For loans provided since 2004 with the participation of the Structural Funds, the source has been loan funds, which are created as separate blocks of accounts in which funds deposited by the sponsors of individual support programmes and funds deposited by the Bank obtained from international financial institutions or the financial market are kept. Interest on loans paid by the client and default interest on the loans provided are transferred to the relevant loan funds. Remuneration (commission) in the amount and structure agreed with the managing authority is paid to the Bank for activities related to the management of loan funds and individual loans.

In the case of loan transactions, unlike guarantees, no risk coverage fund is created and the percentages of allowable losses are set in the contracts with the programme sponsors. Losses above the set limit are covered by the Bank. The amount of allowable losses is recorded in the off-balance sheet and is reported in the item Commitments and guarantees received.

Y) SUPPORT FOR REPAIRS OF APARTMENT BUILDINGS

Through the Bank, the State Housing Development Fund provides aid to apartment building owners in the following forms:

PREFERENTIAL GUARANTEES

Guarantees were provided by the Bank in its own name. Following the provision of the guarantee, the resources of the State Housing Development Fund were transferred to risk coverage accounts, from which losses arising from the performance of guarantees are covered. These funds are used to satisfy these receivables in the event of unsuccessful recovery of receivables arising from guar-

antees. Losses arising from the performance of guarantees that exceed the amount of funds held in the relevant risk coverage account are settled by the Bank. In the event of no special-purpose use of these funds (receivables are fully repaid, the guarantees in question expire or guarantee receivables are repaid in full), these funds will be returned to the State Housing Development Fund, either continuously (for portfolio guarantees) or upon the settlement of the guarantee fund. The balances in risk coverage accounts were transferred to the CNB in 2013; there they are earmarked for their original purpose. The Bank records balances in off-balance sheet accounts. The State Housing Development Fund pays a fee to the Bank for the administration of the guarantees that are provided. The provision of new guarantees was terminated in 2012 by the decision of the programme sponsor.

INTEREST RATE SUBSIDIES

As a representative, the Bank, in the name of and on behalf of the State Housing Development Fund, entered into agreements with apartment building owners on the gradual payment of subsidies for the payment of interest, for a period of up to 15 years. These subsidies are paid by the Bank from the State Housing Development Fund. The State Housing Development Fund pays the Bank the remuneration as the representative and the remuneration for payment services and related banking services. The provision of new subsidies was terminated in 2011 by the decision of the programme sponsor.

Z) LOANS TO MUNICIPALITIES

The Bank provides loans to municipalities from funds obtained under special programmes from international financial institutions invested by the Czech Republic in the Regional Development Fund programme, supplemented by funds obtained by the Bank from the financial market.

AA) THE BANK'S PARTICIPATION IN THE CENTRAL EUROPE FUND OF FUNDS

On the basis of Czech Government Resolution No. 1164/2016, which approved the participation of the Czech Republic in the Central Europe Fund of Funds (CEFoF) managed by the European Investment Fund (EIF) through the Bank, agreements with the EIF and the Ministry of Industry and Trade (MIT) were signed by the Bank in December 2017, fulfilling this. Of the total framework of CZK 240 million of the participation of the Czech Republic, the total investment in the CEFoF as at 31 December 2021 was in the nominal amount of CZK 50 million and the change in fair value was CZK 16 million. The total investment in the CEFoF as at 31 December 2021 was at the nominal amount of CZK 50 million and the change in fair value is CZK 16 million. The book value of the total investment in the CEFoF as at 31 December 2021 was CZK 66 million. Further drawing will take place gradually, on the basis of the individual requirements of the CEFoF.

In 2021, the Bank assessed that the investment in the Central Europe Fund of Funds, which is funded by the MIT, did not meet the criteria for recognition in the Bank's Balance Sheet, for which reason the investment was derecognised from the Bank's Balance Sheet (Other assets) against the funds received from the MIT (Payables to clients) and recognised within Values taken into escrow and administration. As at 31 December 2020, the investment amount was CZK 30 million.

BB) IMPACT OF CHANGES IN ACCOUNTING METHODS

In 2021, the method of accounting for the statutory auditor's fees for the audit of the Financial Statements was changed. The fee is now charged to the period to which it is materially and temporally related. In previous years, fees were charged to the period in which the Bank received invoices for the services rendered.

3 CASH ON HAND AND DEPOSITS WITH THE CENTRAL BANK

CASH ON HAND AND DEPOSITS WITH CENTRAL BANKS BY TYPE OF INSTRUMENT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Cash on hand	1	1
Mandatory minimum provisions	70	5
Deposits with the CNB	105	0
NET BOOK VALUE	176	6

The mandatory minimum provisions represent the Bank's mandatory deposits with the CNB. They bear interest at the repo rate for the Czech crown, which as at 31 December 2021 was 3.75% p.a. (as at 31 December 2020: 0.25% p.a.).

DEPOSITS WITH CENTRAL BANKS – ADJUSTMENT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Gross amount	175	5
Adjustments	0	0
TOTAL	175	5

As at 31 December 2021 and 2020, deposits with central banks were not credit-impaired, and no significant increase in credit risk was identified for them. Adjustments are calculated on the basis of the expected 12-month credit loss.

4 GOVERNMENT ZERO-COUPON BONDS AND OTHER SECURITIES ACCEPTED BY THE CENTRAL BANK FOR REFINANCING

GOVERNMENT ZERO-COUPON BONDS AND OTHER SECURITIES ACCEPTED BY THE CNB FOR REFINANCING, BY TYPE OF INSTRUMENT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Government bonds	17,599	18,168
NET BOOK VALUE	17,599	18,168

In the periods under review, the Bank did not hold securities with a contractual maturity of up to one year. As at 31 December 2021 and 2020, the total value of government bonds and other securities accepted by the central bank for refinancing is represented only by securities issued by related parties, i.e. the Czech Republic.

CLASSIFICATION OF GOVERNMENT ZERO-COUPON BONDS AND OTHER SECURITIES ACCEPTED BY THE CNB FOR REFINANCING BY VALUATION CATEGORIES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
At amortised cost (AC)	7,481	7,161
Measured at fair value through equity (FVOCI)	10,118	11,007
NET BOOK VALUE	17,599	18,168

GOVERNMENT ZERO-COUPON BONDS AND OTHER SECURITIES ACCEPTED BY THE CNB FOR REFINANCING – ADJUSTMENT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Gross amount	17,601	18,170
Adjustments	-2	-2
TOTAL	17,599	18,168

As at 31 December 2021 and 2020, government zero-coupon bonds and other securities accepted by the CNB for refinancing were not credit-impaired and were not associated with a significant increase in credit risk. Adjustments were calculated on the basis of the expected 12-month credit loss.

GOVERNMENT ZERO-COUPON BONDS AND OTHER SECURITIES ACCEPTED BY THE CNB FOR REFINANCING AT FVOCI

Government zero-coupon bonds and other securities accepted by the CNB for refinancing at FVOCI are reported in the Balance Sheet at fair value. The set adjustment of CZK 4 million as at 31 December 2021 (as at 31 December 2020: CZK 4 million) is part of the item Valuation differences in the Bank's equity.

5 RECEIVABLES FROM BANKS

RECEIVABLES FROM BANKS BY TYPE

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Current accounts with banks	12	3
Receivables from reverse REPO operations with the CNB	6,186	3,202
Other receivables from banks	2	0
NET BOOK VALUE	6,200	3,205

As at 31 December 2021 and 2020, no receivables from related parties were recorded.

CLASSIFICATION OF RECEIVABLES FROM BANKS BY VALUATION CATEGORIES

All receivables from banks as at 31 December 2021 and 31 December 2020 are measured at amortised cost in accordance with IFRS 9.

RECEIVABLES FROM BANKS BY TYPE – ADJUSTMENT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Gross amount	6,202	3,206
Adjustments*	-2	-1
TOTAL	6,200	3,205

* Adjustments as at 31 December 2021 in the amount of CZK 2 million (as at 31 December 2020: CZK 1 million) are created for receivables from reverse repo operations with the CNB.

As at 31 December 2021 and 2020, receivables from banks were not credit-impaired, and no significant increase in credit risk was identified for them. Adjustments were calculated on the basis of the expected 12-month credit loss.

6 RECEIVABLES FROM CLIENTS

RECEIVABLES FROM CLIENTS BY TYPE

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Credit receivables	7,531	6,873
Credit-impaired financial assets (Purchased or Originated Credit-Impaired; POCI)*	1,000	841
Gross value of receivables from clients	8,531	7,714
Adjustment for expected losses (item 11)	-991	-745
NET VALUE OF RECEIVABLES FROM CLIENTS	7,540	6,969

Of the total amount of receivables from clients, receivables from related parties amounted to CZK 266 million as at 31 December 2021 (31 December 2020: CZK 561 million).

* This is performance under guarantee. The gross value of receivables from clients under guarantees as at 31 December 2021 was CZK 1,864 million, and the Bank's adjustment for guarantees was CZK 864 million (as at 31 December 2020: CZK 1,882 million, adjustment of CZK 1,041 million). The difference between the gross value of receivables from clients from the performance of guarantees and the adjustment is covered by funds in the accounts of the programme sponsors, accounting synthesis 271 (Special-purpose deposits), in the form of risk coverage funds (guarantees in the OPEL, INOSTART, EXPANSION, GUARANTEE 2015-2023, COVID Prague and COVID Travel Agency Guarantee programmes).

RECEIVABLES FROM CLIENTS BY VALUATION CATEGORIES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Receivables from clients at amortised cost	7,539	6,963
Receivables from clients mandatorily in FVTPL	1	6
NET VALUE OF RECEIVABLES FROM CLIENTS	7,540	6,969

RECEIVABLES FROM CLIENTS AT AMORTISED COST ACCORDING TO THE CREDIT RISK RATING GRADE

31 DECEMBER 2021 IN CZK MILLIONS	PD	GRADE 1	GRADE 2	GRADE 3	PURCHASED OR PROVIDED CREDIT- IMPAIRED FINANCIAL ASSETS	TOTAL
		EXPECTED 12-MONTH CREDIT LOSSES	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE NOT CREDIT-IMPAIRED	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE CREDIT-IMPAIRED		
Rating grade						
No credit rating		11	0	0	0	11
Credit rating 4	0.07	266	0	0	0	266
Credit rating 5	1.41	318	0	0	0	318
Credit rating 6	1.88	2,321	0	0	0	2,321
Credit rating X7	7.42	3,308	0	0	0	3,308
Credit rating 1–6 (up to X7)		6,224	0	0	0	6,224
Credit rating 7	39.01	0	1	0	0	1
Credit rating X8	58.08	0	610	0	0	610
Credit rating 7 (up to X8)		0	611	0	0	611
Credit rating 8–10 (including X9)	100.00	0	0	696	1,000	1,696
Gross value of receivables from clients		6,224	611	696	1,000	8,531
Adjustments		-300	-303	-388	0	-991
Net value of receivables from clients		5,924	308	308	1,000	7,540

31 DECEMBER 2020 IN CZK MILLIONS	PD	GRADE 1	GRADE 2	GRADE 3	PURCHASED OR PROVIDED CREDIT- IMPAIRED FINANCIAL ASSETS	TOTAL
		EXPECTED 12-MONTH CREDIT LOSS- ES	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE NOT CREDIT-IMPAIRED	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE CREDIT-IMPAIRED		
Rating grade						
No credit rating		13	0	0	0	13
Credit rating 4	0.07	561	0	0	0	561
Credit rating 5	1.40	385	0	0	0	382
Credit rating 6	2.56	2,160	0	0	0	2,160
Credit rating X7	9.97	2,725	0	0	0	2,725
Credit rating 1–6 (up to X7)		5,844	0	0	0	5,844
Credit rating 7	53.85	0	11	0	0	11
Credit rating X8	65.19	0	536	0	0	536
Credit rating 7 (up to X8)		0	547	0	0	547
Credit rating 8–10 (including X9)	100.00	0	0	482	841	1,323
Gross value of receivables from clients		5,844	547	482	841	7,714
Adjustments		-295	-273	-177	0	-745
Net value of receivables from clients		5,549	274	305	841	6,969

The amount of adjustments for receivables from clients is described in more detail in clause 11.

CONSORTIUM CREDITS

Of receivables from clients as at 31 December 2021, consortium credits amount to CZK 137 million (2020: CZK 183 million).

ANALYSIS OF RECEIVABLES FROM CLIENTS BY TYPE OF COLLATERAL

The table shows the value of collateral received, up to the value of the credit. The unsecured part of the credits is then reported under the item Not secured.

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Bank guarantees and collateral by reliable guarantors	1,643	1,370
Money collateral	4	3
Collateral as real estate mortgage	527	354
Other credit collateral	177	164
Not secured	6,180	5,823
GROSS VALUE OF RECEIVABLES	8,531	7,714

SECTORAL BREAKDOWN OF RECEIVABLES FROM CLIENTS

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Government institutions	423	753
Non-financial enterprises	7,701	6,604
Other financial institutions	12	29
Households (include homeowners' associations)	395	328
GROSS VALUE OF RECEIVABLES FROM CLIENTS	8,531	7,714

Breakdown of receivables from clients according to the classification of economic activities (CZ-NACE)

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Administrative and support service activities	64	86
Real estate activities	408	192
Transport and storage	421	284
Information and communication activities	93	87
Cultural, entertainment and recreational activities	74	65
Other activities	45	50
Finance and insurance	13	42
Professional, scientific and technical activities	514	249
Construction	856	612
Mining and quarrying	37	4
Accommodation, catering and hospitality	235	242
Wholesale and retail	1,857	1,684
Public administration and defence	423	753
Production and distribution of electricity, gas and heat	132	202
Education	52	34
Water supply	90	108
Health and social care	89	98
Agriculture, forestry and fishing	232	195
Manufacturing industry	2896	2,727
GROSS VALUE OF RECEIVABLES FROM CLIENTS	8,531	7,714

BREAKDOWN OF RECEIVABLES FROM CLIENTS BY INDIVIDUAL PROGRAMMES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Credits granted to state institutions	266	561
Credits for financing water management and municipal infrastructure	158	197
Other credits for small and medium-sized entrepreneurs	7,063	6,051
Credits for small and beginning entrepreneurs	32	35
Receivables from guarantees	1,000	841
Other receivables	12	29
GROSS VALUE OF RECEIVABLES FROM CLIENTS	8,531	7,714

7 SECURITIES

DEBT SECURITIES BY TYPE

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Bonds issued by government institutions	0	443
Bonds issued by credit institutions	500	597
Bonds issued by other financial institutions	42	44
Bonds issued by non-financial enterprises	170	210
NET BOOK VALUE	712	1,294

Of the total value of securities, securities issued by related parties amount to CZK 25 million as at 31 December 2021 (as at 31 December 2020: CZK 78 million).

DEBT SECURITIES BY VALUATION CATEGORIES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Debt securities measured at fair value through equity (FVOCI)	712	1,294
NET BOOK VALUE	712	1,294

Debt securities held by the Bank are traded on stock exchanges.

DEBT SECURITIES IN FVOCI

31 DECEMBER 2021 IN CZK MILLIONS	GRADE 1	GRADE 2	GRADE 3	TOTAL
	EXPECTED 12-MONTH CREDIT LOSSES	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE NOT CREDIT-IMPAIRED	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE CREDIT-IMPAIRED	
Book value of debt securities	712	0	0	712

31 DECEMBER 2020 CZK MILLIONS	GRADE 1	GRADE 2	GRADE 3	TOTAL
	EXPECTED 12-MONTH CREDIT LOSSES	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE NOT CREDIT-IMPAIRED	EXPECTED CREDIT LOSSES OVER THE DURATION FOR FINANCIAL ASSETS THAT ARE CREDIT-IMPAIRED	
Book value of debt securities	1,294	0	0	1,294

Debt securities at FVOCI are reported in the Balance Sheet at fair value. Their book value is not reduced by the adjustment of CZK 4 million as at 31 December 2021 (as at 31 December 2020: CZK 4 million) set by the Bank. This is part of the item Valuation differences in the Bank's equity.

8 SHARES, SHARE CERTIFICATES AND OTHER INTERESTS AND PARTICIPATING INTERESTS IN COMPANIES WITH DECISIVE AND SIGNIFICANT INFLUENCE

SHARES, SHARE CERTIFICATES AND OTHER INTERESTS

SHARES, SHARE CERTIFICATES AND OTHER INTERESTS BY TYPE

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Shares issued by financial institutions	54	35
NET BOOK VALUE	54	35

SHARES, SHARE CERTIFICATES AND OTHER INTERESTS BY VALUATION CATEGORY

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Shares measured at fair value through equity (FVOCI)	54	35
NET BOOK VALUE	54	35

The Bank owns five shares in the European Investment Fund. In 2017, the Bank purchased from the European Investment Bank three shares with a par value of EUR 3,000,000 and thus became, like many other development banks and institutions, a minority shareholder in the EIF. The acquisition cost of the three shares was EUR 1,280,858.04. In September 2021, the Bank purchased an additional two shares with a par value of EUR 2,000,000 at an acquisition cost of EUR 871,941.76.

PARTICIPATING INTERESTS WITH DECISIVE INFLUENCE

In 2021, an investment fund of qualified investors was established, the National Development Fund SICAV (Národní rozvojový fond SICAV a.s.), with its registered office at Na Florenci 1496/5, 110 00 Prague 1, in which the Bank holds 100% of the founder's shares. The objective of the company is to secure private funds for financing public benefit projects using capital from responsible investors on the basis of the principle of return on the invested funds. This is the fulfilment of the objectives set out in the Memorandum of Cooperation for the implementation of the project of establishment of the National Development Fund between the Czech Republic, represented by the Ministry of Industry and Trade of the Czech Republic, and the banks Česká spořitelna, a.s., Československá obchodní banka, a.s., Komerční banka, a.s., UniCredit Bank Czech Republic and Slovakia, a.s. and the National Development Bank (Národní rozvojová banka, a.s.).

The value of this participating interest as at 31 December 2021 was as follows:

YEAR	NET BOOK VALUE IN CZK MILLIONS	ACQUISITION COST IN CZK MILLIONS	PAR VALUE IN CZK MILLIONS	REGISTERED CAPITAL IN CZK MILLIONS	OTHER EQUITY ITEMS IN CZK MILLIONS	DIRECT SHARE IN THE REGISTERED CAPITAL AND VOTING RIGHTS IN %
2021	25	2	2	2	23	100

SUMMARY FINANCIAL INFORMATION ABOUT THE NATIONAL DEVELOPMENT FUND SICAV (NÁRODNÍ ROZVOJOVÝ FOND SICAV A.S.)

FINANCIAL INFORMATION OF THE AFFILIATE				
IN CZK MILLIONS	EQUITY	TOTAL ASSETS	REVENUES	NET INCOME
As at 31 December 2021 and for 2021	13	18	0	-12

In 2019, the Bank established a subsidiary, Národní rozvojová investiční, a.s., with its registered office at Na Florenci 1496/5, 110 00 Prague 1, in which it holds a 100% share. The company's objective is to fulfil the strategic goals of the NDB as a national development bank in the area of capital investments within the MIT programmes for small and medium-sized enterprises.

The value of this participating interest as at 31 December 2021 and 2020 was as follows:

YEAR	NET BOOK VALUE IN CZK MILLIONS	ACQUISITION COST IN CZK MILLIONS	PAR VALUE IN CZK MILLIONS	REGISTERED CAPITAL IN CZK MILLIONS	OTHER EQUITY ITEMS IN CZK MILLIONS	DIRECT SHARE IN THE REGISTERED CAPITAL AND VOTING RIGHTS IN %
2021	4	2	2	2	2	100
2020	4	2	2	2	2	100

SUMMARY FINANCIAL INFORMATION ABOUT NÁRODNÍ ROZVOJOVÁ INVESTIČNÍ, A.S.

FINANCIAL INFORMATION OF THE AFFILIATE				
IN CZK MILLIONS	EQUITY	TOTAL ASSETS	REVENUES	NET INCOME
AS AT 31 DECEMBER 2021 AND FOR 2021	4	5	10	2
As at 31 December 2020 and for 2020	2	4	9	0

PARTICIPATING INTERESTS WITH SIGNIFICANT INFLUENCE

The Bank has one affiliate, which is MUFIS a.s. (hereinafter "MUFIS"), with its registered office at Jeruzalémská 964/4, 110 00 Prague 1. The Ministry of Finance of the Czech Republic holds a participating interest of 49% and the Union of Towns and Municipalities of the Czech Republic holds 2%.

The value of this participating interest as at 31 December 2021 and 2020 was as follows:

YEAR	NET BOOK VALUE IN CZK MILLIONS	ACQUISITION COST IN CZK MILLIONS	PAR VALUE IN CZK MILLIONS	REGISTERED CAPITAL IN CZK MILLIONS	DIRECT SHARE IN THE REGISTERED CAPITAL AND VOTING RIGHTS IN %
2021	1	1	1	2	49
2020	1	1	1	2	49

SUMMARY FINANCIAL INFORMATION ABOUT MUFIS A.S.

FINANCIAL INFORMATION OF THE AFFILIATE				
IN CZK MILLIONS	EQUITY	TOTAL ASSETS	REVENUES	NET INCOME
AS AT 31 DECEMBER 2021 AND FOR 2021	4	4	0	-1
As at 31 December 2020 and for 2020	5	5	0	-1

In terms of share, the Bank is the controlling entity, together with the Ministry of Finance of the Czech Republic. For the Bank, MUFIS represents an affiliate that does not meet the characteristics of a jointly managed enterprise, as the Bank does not participate in the management of the affiliate MUFIS.

At present, the company's activities are subdued.

9 TANGIBLE AND INTANGIBLE FIXED ASSETS

TANGIBLE FIXED ASSETS

IN CZK MILLIONS	LAND AND ARTWORKS	BUILDINGS	EQUIPMENT AND FACILITIES	LEASEHOLD PROPERTY AND ASSETS (IFRS 16)	INVESTMENTS IN PROGRESS AND PREPAYMENTS	TOTAL
As at 1 January 2020						
Acquisition cost	11	336	85	17	4	453
Accumulated depreciation	0	-232	-74	-6	0	-312
Residual value	11	104	11	11	4	141
Year ended on 31 December 2020						
Initial residual value	11	104	11	11	4	141
Acquisition	0	0	6	0	3	9
Disposals at residual value	0	0	0	0	-7	-7
Additions of accumulated depreciation (depreciation)	0	-8	-4	-5	0	-17
Final residual value	11	96	13	6	0	126
As at 31 December 2020						
Acquisition cost	11	336	84	17	0	448
Accumulated depreciation	0	-240	-71	-11	0	-322
Residual value	11	96	13	6	0	126
Year ended on 31 December 2021						
Initial residual value	11	96	13	6	0	126
Acquisition	0	0	0	0	0	0
Disposals at residual value	0	0	0	0	0	0
Additions of accumulated depreciation (depreciation)	0	-9	-5	-5	0	-19
Final residual value	11	87	8	1	0	107
As at 31 December 2021						
Acquisition cost	11	336	81	17	0	445
Accumulated depreciation	0	-249	-73	-16	0	-338
Residual value	11	87	8	1	0	107

INTANGIBLE FIXED ASSETS

IN CZK MILLIONS	SOFTWARE	OTHER INTANGIBLE ASSETS	INVESTMENTS IN PROGRESS AND PREPAYMENTS	TOTAL
As at 1 January 2020				
Acquisition cost	258	14	12	284
Accumulated depreciation	-250	-13	0	-263
Residual value	8	1	12	21
Year ended on 31 December 2020				
Initial residual value	8	1	12	21
Acquisition	44	0	37	81
Disposals at residual value	0	0	-44	-44
Additions of accumulated depreciation (depreciation)	-10	0	0	-10
Final residual value	42	1	5	48
As at 31 December 2020				
Acquisition cost	300	14	5	319
Accumulated depreciation	-258	-13	0	-271
Residual value	42	1	5	48
Year ended on 31 December 2021				
Initial residual value	42	1	5	48
Acquisition	36	0	43	79
Disposals at residual value	0	0	-36	-36
Additions of accumulated depreciation (depreciation)	-22	0	0	-22
Final residual value	56	1	12	69
As at 31 December 2021				
Acquisition cost	337	14	12	363
Accumulated depreciation	-281	-13	0	-294
Residual value	56	1	12	69

10 OTHER ASSETS, DEFERRED COSTS AND ACCRUED INCOME

OTHER ASSETS

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Positive fair value of financial derivatives (item 24 c)	0	9
Receivables from the Fund's deposits	0	25
Deferred tax receivables	117	1
Corporate income tax advance	33	63
Other receivables	26	20
Gross value of other assets	176	118
Adjustments (item 11)	-13	-13
TOTAL	163	105

Of the total value of other assets, other assets from related parties amount to CZK 5 million as at 31 December 2021 (as at 31 December 2020: CZK 27 million).

DEFERRED COSTS AND ACCRUED INCOME

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Deferred costs	5	6
Accrued income	64	60
Gross value	69	66
Adjustments (item 11)	0	0
TOTAL	69	66

Of the total value of accrued income, accrued income from related parties amounts to CZK 64 million as at 31 December 2021 (as at 31 December 2020: CZK 60 million).

11 ADJUSTMENTS, PROVISIONS AND DEPRECIATION OF ASSETS

The Bank reported the following provisions and adjustments:

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Provisions		
Provisions for guarantees provided (item 16)	3,211	3,259
Provisions for credit commitments (item 16)	69	34
Provisions for lines of credit (item 16)	24	1
Other provisions	19	17
Total	3,323	3,311
Adjustments		
Receivables from central banks (item 3)	0	0
Receivables from banks (item 5)	2	1
Receivables from clients (item 6)	991	745
Securities at amortised cost (item 4)	2	2
Other assets, deferred costs and accrued income (item 10)	13	13
Total	1,008	761

The change in other provisions can be analysed as follows:

IN CZK MILLIONS	PROVISION FOR CORPORATE INCOME TAX	PROVISION CRISIS RESOLUTION FUND	PROVISION DEPOSIT INSURANCE FUND	OTHER PROVISIONS IN TOTAL
As at 1 January 2020	0	20	0	20
Net creation/release	0	14	1	15
Application	0	-17	-1	-18
As at 31 December 2020	0	17	0	17
Net creation/release	0	19	1	20
Application	0	-17	-1	-18
AS AT 31 DECEMBER 2021	0	19	0	19

The table for other provisions includes the following items:

- in 2021 and 2020, the net creation of a provision for corporate income tax was zero. As at 31 December 2021 and 31 December 2020, the Bank did not incur any tax liability.
- Creation of a provision for the annual contribution to the Crisis Resolution Fund in the amount of CZK 26 million (as at 31 December 2020: CZK 17 million). Simultaneously with the payment to the Crisis Resolution Fund, a provision of CZK 17 million (in 2020: CZK 17 million) was used and the remaining part of the created provision of CZK 7 million (as at 31 December 2020: CZK 3 million) was released because it was no longer needed. The provision of CZK 19 million will be used to pay the contribution in 2022, depending on the actual amount of the contribution set by the CNB.

RECONCILIATION OF OPENING AND CLOSING PROVISION BALANCES

GUARANTEES PROVIDED

IN CZK MILLIONS	12-MONTH ECL	LIFETIME ECL FOR NON-CREDIT-IMPAIRED FINANCIAL ASSETS	LIFETIME ECL FOR CREDIT-IMPAIRED FINANCIAL ASSETS	TOTAL
	(GRADE 1)	(GRADE 2)	(GRADE 3)	
Balance as at 1 January 2020	3,277	88	179	3,544
Conversion from 12-month ECL (grade 1)	-2,240	2,228	12	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 2)	1	-24	23	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 3)	1	14	-15	0
Newly provided or purchased financial assets	508	0	0	508
Derecognition of financial assets	-745	-12	-99	-856
Depreciation	0	0	0	0
Revaluations and changes in models/risk parameters	55	-70	78	63
Exchange rate differences and other movements	0	0	0	0
Balance as at 31 December 2020	857	2,224	178	3,259
Conversion from 12-month ECL (grade 1)	-190	148	42	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 2)	33	-49	16	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 3)	1	1	-2	0
Newly provided or purchased financial assets	705	0	0	705
Derecognition of financial assets	-201	-1,033	-90	-1,324
Depreciation	0	0	0	0
Revaluations and changes in models/risk parameters	182	389	0	571
Exchange rate differences and other movements	0	0	0	0
BALANCE AS AT 31 DECEMBER 2021	1,387	1,680	144	3,211

CREDIT COMMITMENTS AND LINES OF CREDIT

IN CZK MILLIONS	12-MONTH ECL	LIFETIME ECL FOR NON-CREDIT-IMPAIRED FINANCIAL ASSETS	LIFETIME ECL FOR CREDIT-IMPAIRED FINANCIAL ASSETS	TOTAL
	(GRADE 1)	(GRADE 2)	(GRADE 3)	
Balance as at 1 January 2020	18	1	0	19
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 2)	-5	2	3	0
Newly provided or purchased financial assets	25	0	0	25
Derecognition of financial assets	-13	-3	0	-16
Revaluations and changes in models/risk parameters	5	2	0	7
Balance as at 31 December 2020	30	2	3	35
Conversion from 12-month ECL (grade 1)	-17	8	9	0
Newly provided or purchased financial assets	73	0	0	73
Derecognition of financial assets	-27	-9	-6	-42
Revaluations and changes in models/risk parameters	17	7	3	27
BALANCE AS AT 31 DECEMBER 2021	76	8	9	93

RECONCILIATION OF OPENING AND CLOSING ADJUSTMENT BALANCES

RECEIVABLES FROM CLIENTS

IN CZK MILLIONS	12-MONTH ECL	LIFETIME ECL FOR NON-CREDIT-IMPAIRED FINANCIAL ASSETS	LIFETIME ECL FOR CREDIT-IMPAIRED FINANCIAL ASSETS	TOTAL
	(GRADE 1)	(GRADE 2)	(GRADE 3) + POCI	
Balance as at 1 January 2020	80	88	95	263
Conversion from 12-month ECL (grade 1)	-306	235	71	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 2)	5	-25	20	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 3)	0	4	-4	0
Newly provided or purchased financial assets	56	0	0	56
Derecognition of financial assets	-3	-6	0	-9
Depreciation	0	0	-183	-183
Income from previously written-off receivables	0	0	1	1
Revaluations and changes in models/risk parameters	463	-23	177	617
Balance as at 31 December 2020	295	273	177	745
Conversion from 12-month ECL (grade 1)	-43	20	23	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 2)	89	-118	29	0
Conversion from lifetime ECL for non-credit-impaired financial assets (grade 3)	6	31	-37	0
Newly provided or purchased financial assets	70	0	0	70
Derecognition of financial assets	-4	-4	-8	-16
Depreciation	0	0	-199	-199
Income from previously written off receivables	0	0	1	1
Revaluations and changes in models/risk parameters	-113	101	402	350
BALANCE AS AT 31 DECEMBER 2021	300	303	388	991

UNDISCOUNTED EXPECTED CREDIT LOSSES FROM FIRST REPORTED POCI

The overview of undiscounted expected credit losses (ECL) on initial recognition of purchased or provided credit-impaired financial assets (POCI) first reported during the fiscal period is as follows:

IN CZK MILLIONS	2021	2020
Receivables from clients	110	42
TOTAL	110	42

SECURITIES

IN CZK MILLIONS	12-MONTH ECL	LIFETIME ECL FOR NON-CREDIT-IMPAIRED FINANCIAL ASSETS	LIFETIME ECL FOR CREDIT-IMPAIRED FINANCIAL ASSETS	TOTAL
	(GRADE 1)	(GRADE 2)	(GRADE 3)	
Balance as at 1 January 2020	2	0	0	2
Newly provided or purchased financial assets	0	0	0	0
Revaluations and changes in models/risk parameters	0	0	0	0
Balance as at 31 December 2020	2	0	0	2
Newly provided or purchased financial assets	0	0	0	0
Revaluations and changes in models/risk parameters	0	0	0	0
BALANCE AS AT 31 DECEMBER 2021	2	0	0	2

OTHER FINANCIAL ASSETS

IN CZK MILLIONS	12-MONTH ECL	LIFETIME ECL FOR NON-CREDIT-IMPAIRED FINANCIAL ASSETS	LIFETIME ECL FOR CREDIT-IMPAIRED FINANCIAL ASSETS	TOTAL
	(GRADE 1)	(GRADE 2)	(GRADE 3)	
Balance as at 1 January 2020	0	0	11	11
Newly provided or purchased financial assets	25	0	0	25
Derecognition of financial assets	-24	0	0	-24
Depreciation	0	0	-1	-1
Revaluations and changes in models/risk parameters	0	0	3	3
Balance as at 31 December 2020	1	0	13	14
Newly provided or purchased financial assets	54	0	0	54
Derecognition of financial assets	-53	0	0	-53
Depreciation	0	0	-1	-1
Revaluations and changes in models/risk parameters	0	0	1	1
BALANCE AS AT 31 DECEMBER 2021	2	0	13	15

OVERVIEW OF THE BALANCE OF ADJUSTMENTS

31 DECEMBER 2021					
IN CZK MILLIONS BANK'S RATING GRADE	IMPAIRMENT GRADE IFRS 9	RECEIVABLES FROM CLIENTS	SECURITIES	OTHER FINANCIAL ASSETS	TOTAL
Credit rating 1-6 (up to X7)	Grade 1	300	2	2	304
Credit rating 7 (up to X8)	Grade 2	303	0	0	303
Credit rating 8-10 (including X9) and credit-impaired financial assets	Grade 3	388	0	13	401
TOTAL		991	2	15	1,008
31 December 2020					
Credit rating 1-6 (up to X7)	Grade 1	295	2	1	298
Credit rating 7 (up to X8)	Grade 2	273	0	0	273
Credit rating 8-10 (including X9) and credit-impaired financial assets	Grade 3	177	0	13	190
TOTAL		745	2	14	761

RECONCILIATION OF THE CREATION, RELEASE AND USE OF ADJUSTMENTS AND PROVISIONS

IN CZK MILLIONS	2021	2020
Revenues from previously written-off receivables	1	1
TOTAL	1	1
Net creation of adjustments for financial assets	-262	-497
Use of adjustments	192	174
Write-off of receivables	-192	-174
Net provisioning of financial assets	-10	268
TOTAL	-272	-228

12 PAYABLES TO BANKS

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Credits received from development banks *	469	942
TOTAL	469	942

* Development banks are: the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the Nordic Investment Bank (NIB) and the Council of Europe Development Bank (CEB).

As at 31 December 2021 and 2020, no payables to related parties were recorded.

13 PAYABLES TO CLIENTS

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Payables to government institutions	19,598	17,351
Payables to financial institutions	4,573	3,273
Payables to non-financial enterprises	159	48
Payables to households (include homeowners' associations)	4	4
TOTAL	24,334	20,676

Of the total amount of payables to clients, payables to related parties as at 31 December 2021: CZK 18,988 million (as at 31 December 2020: CZK 16,679 million). The Bank's management believes that such deposits were accepted in principle under the same conditions and interest rates as comparable transactions with other clients made at the same time. In the opinion of the Bank's management, an interest rate other than the usual interest rate was not used in these cases and these deposits do not show a different liquidity risk or other unfavourable factors.

Under the item "Payables to government institutions", funds are included, inter alia, in risk coverage accounts if they are created from funds provided by programme sponsors. The structure of these payables is as follows:

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Funds of sponsors from closed programme aid	12,788	11,030
Guarantee risk coverage accounts	7,554	6,870

FUNDS OF SPONSORS FROM CLOSED PROGRAMME AID

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Funds of sponsors from closed programme aid	12,788	11,030
of which:		
OP EIC Expansion (Expanze) credits	7,815	6,289
OP EIC – Expansion (Expanze) – COVID credits	164	428
OP EIC – ENERGY SAVINGS (ÚSPORY ENERGIÍ) credits	291	192
ENERG credits	129	129
COVID operating credits	490	496
OP EIC EXPANSION (EXPANZE) guarantees	1,123	818

GUARANTEE RISK COVERAGE ACCOUNTS

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Guarantee risk coverage accounts	7,554	6,870
of which:		
COVID II guarantees	3,495	3,584
COVID Prague (COVID Praha) guarantees	390	402
COVID Travel Agency (COVID CK) guarantees	122	0
Panel and New Panel (Nový Panel) guarantees	969	969

14 OTHER DEFERRED LIABILITIES, REVENUES AND EXPENSES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Negative fair value of interest rate derivatives (clause 24 c)	0	5
Negative fair value of currency derivatives (clause 24 c)	6	7
Other special-purpose deposits and liabilities – resulting credit balance	0	1
Liabilities arising from leases	1	7
Fund's deposited funds	0	25
Payables to suppliers	12	13
Payables to employees	20	17
Social security and health insurance payables of the Bank	7	5
Settlement with the state budget	2	2
Estimated liabilities	7	4
TOTAL	55	86

Of the total value of other liabilities, other liabilities to related parties amount to CZK 0 million as at 31 December 2021 (as at 31 December 2020: CZK 25 million).

DEFERRED REVENUES AND EXPENSES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Accrued revenues	45	85
of which: accrued guarantee management fees	41	78
Deferred expenses *	77	51
TOTAL	122	136

* The item Deferred expenses includes an estimate for staff remuneration, including social security and health insurance payments, as at 31 December 2021: CZK 64 million (as at 31 December 2020: CZK 36 million).

Of the total amount of deferred revenues and expenses, revenues from and expenses to related parties as at 31 December 2021 are CZK 15 million (as at 31 December 2020: CZK 20 million).

LIABILITIES ARISING FROM LEASES

CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Up to one year	1	5
More than one year but a maximum of five years	0	2
Over five years	0	0
Total undiscounted lease payables	1	7
Lease payables after taking into account the discount	1	7
Up to one year	1	5
Over one year	0	2

15 EQUITY AND PROFIT DISTRIBUTION**REGISTERED CAPITAL**

	PAR VALUE OF ONE SHARE (CZK)	31 DECEMBER 2021		31 DECEMBER 2020	
		NUMBER OF SHARES (PCS)	VALUE (IN CZK MILLIONS)	NUMBER OF SHARES (PCS)	VALUE (IN CZK MILLIONS)
Paid-up registered capital	239,500	10,988	2,632	10,988	2,632
Total registered capital			2,632		2,632

The shares are issued in book-entry registered form. The Central Securities Depository registers shares of the Czech Republic in the asset accounts of the Ministry of Industry and Trade, the Ministry of Regional Development and the Ministry of Finance.

The shares of the Bank's shareholders in its registered capital can be analysed as follows:

SHAREHOLDER/SHARE IN THE REGISTERED CAPITAL	2021 %	2020 %
Czech Republic	100.00	100.00
TOTAL	100.00	100.00
Registration of shares of the Czech Republic in the Central Securities Depository in the asset accounts of ministries	2021 %	2020 %
Ministry of Industry and Trade of the Czech Republic	33.53	33.53
Ministry of Regional Development of the Czech Republic	33.53	33.53
Ministry of Finance of the Czech Republic	32.94	32.94
TOTAL	100.00	100.00

SHARES IN PROFIT

In 2021 and 2020, the Bank did not pay out any shares in profit.

PROFIT DISTRIBUTION

The net profit for 2020 was distributed and the profit for 2021 is proposed to be distributed as follows:

IN CZK MILLIONS	2021	2020
Allocation to the social fund	13	13
Other funds created from profit	0	0
Transfer to retained earnings	11	11
NET PROFIT	24	24

VALUATION DIFFERENCES

IN CZK MILLIONS	2021	2020
Initial balance	51	116
Items that will not be reclassified to the Profit and Loss Account		
Change in valuation differences (equity instruments)		
Net change in fair value	0	0
Tax effect	0	0
Subtotal	0	0
Items that are, or may subsequently be, reclassified to the Profit and Loss Account		
Change in valuation differences (debt instruments)		
Net change in fair value	-591	-80
Net (profit) or loss transferred to the Profit and Loss Account	10	0
Tax effect (item 22)	111	15
Subtotal	-470	-65
Change in adjustments for debt securities in FVOCI	-1	0
Net change in valuation differences	-471	-65
VALUE OF VALUATION DIFFERENCES	-420	51

16 POTENTIAL RECEIVABLES AND PAYABLES

FINANCIAL GUARANTEES, CREDIT COMMITMENTS AND LINES OF CREDIT PROVIDED

Commitments to provide credit, lines of credit and credit guarantees to third parties expose the Bank to credit risk and loss in the event of non-compliance by the client.

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Financial guarantees provided	52,387	43,705
Credit commitments provided	2,475	595
Lines of credit provided	1,093	471
Provision for off-balance sheet liabilities (item 11)	-3,304	-3,294
TOTAL NET VALUE	52,651	41,477

As at 31 December 2021, lines of credit provided to related parties in the amount of CZK 300 million were recorded (as at 31 December 2020: CZK 300 million) in the form of an undrawn credit limit.

The Bank's management believes that as at 31 December 2021 and 2020, there are no liabilities arising from the performance of fiduciary duties.

SECTORAL BREAKDOWN OF FINANCIAL GUARANTEES

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Credit institutions*	13,323	5,433
Other financial institutions	54	55
Non-financial enterprises	36,290	35,153
Households	2,720	3,064
GROSS VALUE OF FINANCIAL GUARANTEES	52,387	43,705

* The value is given in the amount of the maximum possible performance towards individual credit institutions under the Portfolio Guarantee Agreement between the NDB and the credit institutions.

COVERAGE OF FINANCIAL GUARANTEES PROVIDED

The financial guarantees provided are covered by the risk coverage funds in the special-purpose deposits of the programme sponsors under the Panel, Inostart, OPEI, Vadium and OP EIC - Expansion programmes, including guarantees under the COVID II, COVID Prague and COVID Travel Agency Guarantee programmes, or by provisions created from the Bank's own resources under the National Programme 2012-2014. The financial guarantees provided since 2015 under the National Programme 2015-2023 are covered by the provisions created from the Bank's own resources, the risk coverage fund and the counter-guarantee of the European Investment Fund (EIF), COSME. The guarantees to credit institutions under the COVID III and COVID Invest programmes are covered by the Ministry of Industry and Trade on the basis of the respective contracts concluded, which imply the obligation of the Ministry of Industry and Trade to pay the required guarantee amounts to the NDB before any disbursement to credit institutions.

ANALYSIS OF FINANCIAL GUARANTEES BY TYPE OF COLLATERAL

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Cash collateral (risk coverage funds)	7,554	6,869
Guarantees received from the EIF	524	524
Guarantees received under COVID III	13,323	5,433
Not secured	3,855	4,141
Not secured (exposure from guarantees without performance risk)	27,131	26,738
GROSS VALUE OF FINANCIAL GUARANTEES	52,387	43,705

SECTORAL BREAKDOWN OF CREDIT COMMITMENTS AND LINES OF CREDIT

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Government institutions	322	303
Other financial institutions	188	171
Non-financial enterprises	3,032	566
Households	26	26
GROSS VALUE OF CREDIT COMMITMENTS AND LINES OF CREDIT	3,568	1,066

FINANCIAL GUARANTEES RECEIVED

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Government institutions*	14,987	6,823
Other financial institutions	524	524
Non-financial enterprises	51	58
Households	1	0
GROSS VALUE OF FINANCIAL GUARANTEES	15,563	7,405

* The value of guarantees received from government institutions includes the COVID III financial guarantee of CZK 13,041 million (as at 31 December 2020: CZK 5,433 million) and the COVID Invest financial guarantee of CZK 282 million (as at 31 December 2020: CZK 0 million) towards credit institutions.

Furthermore, the Bank records credit commitments received in the amount of CZK 6,243 million (as at 31 December 2020: CZK 0 million).

COLLATERAL RECEIVED AND PROVIDED IN REPO TRADES

CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Credits granted in reverse repo operations	6,188	3,202
Collateral received at fair value	6,056	3,138

The total value of Accepted pledges and collateral as at 31 December 2021 in the amount of CZK 9,487 million (as at 31 December 2020: CZK 6,075 million) also includes collateral received for securing credit exposures as at 31 December 2021 in the amount of CZK 3,431 million (as at 31 December 2020: CZK 2,937 million).

As at 31 December 2021 and 2020, the Bank does not record collateral received from related parties and at the same time did not provide collateral to related parties.

The Bank uses exclusively bonds and other interest-bearing securities in repo operations and reverse repo operations and operations based on collateral exchange agreements (loans and borrowings of securities). Receivables from reverse repo operations are included in receivables from banks and clients (clause 5). Liabilities from repo operations are included in payables to banks and clients (clauses 12 and 13).

As part of these transactions, the Bank accepts and provides, as collateral, securities issued by the CNB and the Ministry of Finance of the Czech Republic.

ASSET ACCOUNTS OF CLIENTS MANAGED IN THE CENTRAL SECURITIES DEPOSITORY BY THE BANK

As part of its services, the Bank manages securities in asset accounts maintained with the Central Securities Depository.

VALUE OF ASSETS MANAGED IN THE CENTRAL SECURITIES DEPOSITORY

IN CZK MILLIONS	2021	2020
Czech Export Bank (Česká exportní banka, a.s.)	1,890	2,386
Ministry of Industry and Trade*	2 300	0
Ministry of Regional Development*	882	882
Národní rozvojová investiční, a.s.	12	0

* Securities not priced on the public market are listed at par value.

The Bank records additional values received for administration in the amount of CZK 607 million (as at 31 December 2020: CZK 589 million).

17 NET INTEREST INCOME

IN CZK MILLIONS	2021	2020
Interest on interbank transactions	107	59
Interest on credits to clients	28	35
Interest on credits to government institutions	23	41
Interest on bonds	229	276
Total interest income	387	411
Interest expense on short sales of debt securities	1	0
Interest on interbank transactions	46	53
Interest on deposits and credits from clients	15	23
Interest on deposits from government institutions	34	33
Total interest expense	96	109
NET INTEREST INCOME	291	302

Interest income and interest expense calculated on the basis of the effective interest rate method for the following items are as follows:

IN CZK MILLIONS	2021	2020
Financial assets measured at amortised cost	258	229
Financial assets in FVOCI	129	179
Financial assets other than financial assets in FTVPL	387	408
Financial liabilities measured at amortised cost	96	109

In accordance with the applicable accounting procedures, only the penalty interest actually paid is transferred from the recorded penalty interest on non-performing credits to revenues. Recorded unpaid penalty interest in the amount of CZK 435 million (2020: CZK 435 million) was not accrued to revenues.

18 FEE AND COMMISSION REVENUES AND COSTS

IN CZK MILLIONS	2021	2020
Fees and commissions from guarantees	287	262
Fees and commissions from lending activities	89	66
Fees and commissions from payments	24	29
Fees and commissions from securities transactions *	0	0
Total revenues from fees and commissions	400	357
Fees and commissions on securities transactions	3	2
Total costs of fees and commissions	3	2
Net revenues from fees and commissions	397	355

* Fees and commissions from securities transactions for 2021 in the amount of CZK 16 thousand (2020: CZK 13 thousand) serve as the basis for the calculation of the contribution to the Securities Dealers' Guarantee Fund (see clause 20).

19 NET PROFIT/(LOSS) FROM FINANCIAL OPERATIONS

IN CZK MILLIONS	2021	2020
Profit and loss from securities	21	9
– Debt securities at amortised cost	5	8
– Debt securities in FVOCI	11	0
– Amounts transferred from comprehensive income	10	0
– Net creation of adjustments	1	0
– Change in fair value of trading securities	0	3
– Change in fair value of securities charged to costs or revenues	0	-2
– Short sales of securities	5	0
Profit/loss from financial assets mandatorily recognised at fair value	4	1
Profit/loss from trading derivatives	-14	-15
Net change in the fair value of hedging derivatives	0	28
Profit/loss from foreign exchange operations	14	-6
TOTAL	25	17

20 OTHER OPERATING COSTS

Of the total amount of other operating costs, the contribution paid in 2021 to:

- ✓ the Crisis Resolution Fund is CZK 19 million (in 2020: CZK 17 million). Simultaneously with the payment, the provision created in the amount of CZK 17 million was used (clause 11);
- ✓ the Deposit Insurance Fund is CZK 0.6 million (in 2020: CZK 0.5 million). Simultaneously with the payment, the provision created in the amount of CZK 0.5 million was used (clause 11);
- ✓ the Securities Dealers' Guarantee Fund is CZK 0.01 million (2020: CZK 0.01 million).

21 ADMINISTRATIVE COSTS

IN CZK MILLIONS	2021	2020
Remuneration of management and supervisory bodies *	17	17
Management wages and salaries *	34	36
Wages and salaries of other employees	157	154
Social security and health insurance	70	69
Other staff costs	10	10
Audit, legal and tax advice	17	24
Other administrative costs	73	78
TOTAL	378	388

* Part of the remuneration has a deferred payment.

EMPLOYEE STATISTICS

	2021	2020
Average number of members of the Supervisory Board	6	6
Average number of members of the Audit Committee	2	3
Average number of members of the Board of Directors	3	2
Average number of members of the management	21	18
Average number of other employees	214	208

The Bank's management includes: the Directors of the Head Office Departments and the Branch Directors.

COSTS OF REMUNERATION PAID TO THE STATUTORY AUDITOR ON AN ACCRUAL BASIS

IN CZK MILLIONS	2021	2020
Mandatory audit of financial statements	1.2	1.2
Tax consultation	0.6	0.7
Other audit services	0.8	0.9
Consultancy	0.5	0.0
TOTAL	3.1	2.8

The statutory auditor also provided a company controlled by the Bank with an optional audit of the financial statements in the amount of CZK 0.2 million (2020: 0.3 million).

22 INCOME TAX

IN CZK MILLIONS	2021	2020
Profit before tax	13	24
Non-taxable revenues	-2,364	-1,121
Non-deductible costs	2,410	956
Other items reducing/increasing the tax base	-59	-1
Tax base	0	0
Corporate income tax payable (19%)	0	0
Income tax – deferred (19%)	6	1
Adjustment of income tax from previous years	5	-1
Total income tax	11	0

DEFERRED TAXES

The recorded deferred tax can be analysed as follows:

IN CZK MILLIONS	31 DECEMBER 2021	31 DECEMBER 2020
Other provisions and adjustments	18	13
Difference between the book value and the tax base of an asset	0	-1
Tax effect of revaluation of securities to fair value in equity	99	-11
Total deferred taxes	117	1
Deferred tax status as at 1 January	1	-15
Movement through the Profit and Loss Account	6	1
Movement through equity	111	15
DEFERRED TAX STATUS AS AT 31 DECEMBER	117	1

23 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides a reconciliation between Balance Sheet items and the valuation categories of financial instruments:

31 DECEMBER 2021 IN CZK MILLIONS	CLAUSE OF THE NOTES	MANDA- TORILY IN FVTPL	DETER- MINED IN FVTPL	FVOCI – DEBT INSTRU- MENTS	FVOCI – EQUITY IN- STRUMENTS	AMOR- TISED COST	TOTAL
Cash on hand and deposits with central banks	3	0	0	0	0	176	176
Government zero-coupon bonds and other securities accepted by the central bank for refinancing	4	0	0	10,118	0	7,481	17,599
Receivables from banks	5	0	0	0	0	6,200	6,200
Receivables from clients	6	1	0	0	0	7,539	7,540
Debt securities	7	0	0	712	0	0	712
Shares, share certificates and other interests	8	0	0	0	54	0	54
Participating interests with significant influence	8	0	0	0	0	1	1
Participating interests with decisive influence	8	0	0	0	0	29	29
Other assets	10	0	0	0	0	64	64
TOTAL FINANCIAL ASSETS		1	0	10,830	54	21,490	32,375

31 DECEMBER 2020 IN CZK MILLIONS	CLAUSE OF THE NOTES	MANDA- TORILY IN FVTPL	DETER- MINED IN FVTPL	FVOCI – DEBT INSTRU- MENTS	FVOCI – EQUITY IN- STRUMENTS	AMOR- TISED COST	TOTAL
Cash on hand and deposits with central banks	3	0	0	0	0	6	6
Government zero-coupon bonds and other securities accepted by the central bank for refinancing	4	0	0	11,007	0	7,161	18,168
Receivables from banks	5	0	0	0	0	3,205	3,205
Receivables from clients	6	6	0	0	0	6,963	6,969
Debt securities	7	0	0	1,294	0	0	1,294
Shares, share certificates and other interests	8	0	0	0	35	0	35
Participating interests with significant influence	8	0	0	0	0	1	1
Participating interests with decisive influence	8	0	0	0	0	4	4
Other assets	10	0	9	0	0	60	69
TOTAL FINANCIAL ASSETS		6	9	12,301	35	17,400	29,751

31 DECEMBER 2021 IN CZK MILLIONS	CLAUSE	MANDA- TORILY IN FVTPL	DETER- MINED IN FVTPL	FVOCI – DEBT INSTRU- MENTS	FVOCI – EQUITY IN- STRUMENTS	AMOR- TISED COST	TOTAL
Payables to banks	12	0	0	0	0	469	469
Payables to clients	13	0	0	0	0	24,334	24,334
Other liabilities and deferred expenses	14	0	6	0	0	77	83
TOTAL FINANCIAL LIABILITIES		0	6	0	0	24,880	24,886

31 DECEMBER 2020 IN CZK MILLIONS	CLAUSE	MANDA- TORILY IN FVTPL	DETER- MINED IN FVTPL	FVOCI – DEBT INSTRU- MENTS	FVOCI – EQUITY IN- STRUMENTS	AMOR- TISED COST	TOTAL
Payables to banks	12	0	0	0	0	942	942
Payables to clients	13	0	0	0	0	20,676	20,676
Other liabilities and deferred expenses	14	0	12	0	0	52	64
TOTAL FINANCIAL LIABILITIES		0	12	0	0	21,670	21,682

24 INFORMATION ON RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

A) CREDIT RISK

CREDIT RATING OF THE DEBTOR

In the case of small and medium-sized entrepreneurs, as well as in that of municipalities, water management companies, housing cooperatives, associations of housing unit owners and non-profit organisations, the credit assessment is performed in accordance with the Bank's internal guidelines and is based on the client's creditworthiness assessment resulting from economic and non-economic analysis. Non-economic evaluation

includes analysis of external and internal factors that affect the client's activities. The economic evaluation is based on a financial analysis performed on the basis of economic indicators and additional information. The creditworthiness assessment is performed for each credit risk transaction at the initial assessment and the credit risk assessment is performed regularly throughout the duration of the credit transaction, usually at regular quarterly intervals. As part of its regular credit risk assessment, the Bank focuses mainly on information on payment history obtained from the Central Credit Register and also on information resulting from the analysis and financial analysis of financial reports regularly sent by the clients that document their economic situation.

For the credit assessment of a debtor, the Bank uses its own internally developed rating tool, which is based on the principle of the synthesis of economic and non-economic informa-

tion about the client. The Bank regularly updates its rating tool with relevant risk-free rates and surcharges in connection with the line of business and other parameters. The rating tool and its principles are documented in the Bank. The rating tool serves as an aid to the analyst's decision.

The credit risk is expressed by assigning the client to the relevant risk category. The credit risk in a specific case is regulated by setting contractual terms, including trade collateral.

The Bank determines the riskiness of individual clients in the segment of small and medium-sized entrepreneurs on the basis of an analysis of the client's financial situation and evaluation of non-economic aspects (e.g. management experience, management qualifications, market position). The Bank generally classifies clients into ten basic risk categories according to the internal rating assigned to individual clients.

For transactions concluded on financial markets and for issuers of securities, the client's creditworthiness rating is based on a rating from internationally renowned rating agencies, as well as an assessment of economic and non-economic aspects. Standard and Poor's, Moody's and Fitch Ratings are considered renowned agencies. The creditworthiness of counterparties and issuers is regularly reassessed throughout the duration of the business credit relationship. The frequency of the reassessment depends on the risk category of counterparties and issuers.

PORTFOLIO CREDIT RISK MEASUREMENT

The Bank analyses the loss rates of products in individual years and determines the rate of actual losses on the portfolios closed in individual years. The Bank monitors the loss-making of its guarantee and credit portfolio according to individual product classes, as well as according to annual tranches. The results of the analyses are regularly presented to the Bank's management as a basis for decision making in the areas of credit risk.

The Bank mainly analyses the following segments of its products: infrastructure and municipal credits, credits to small and medium-sized entrepreneurs and individual guarantees to small and medium-sized entrepreneurs.

EXPECTED CREDIT LOSSES

INPUTS, ASSUMPTIONS AND TECHNIQUES USED IN DETERMINING IMPAIRMENT

Credit risk rating grades are the basic input in creating a PD curve for credit exposures over time. The Bank collects performance and default information about its credit and guarantee exposures. The Bank uses statistical models to analyse the data obtained and to create PD curves and their course, depending on the period remaining to maturity of the exposures (time structure), and to determine their expected changes over time.

Significant increases in credit risk are objectively assessed through ongoing client monitoring. As part of the monitoring, the Bank assesses changes in the client's performance and changes in the client's expected future development. The Bank considers a situation in which the client is in default for more than 30 days or where information on the development of the client's performance indicates that the credit risk has deteriorated to be a significant increase in credit risk. Ratings from client monitoring are reflected in internal client ratings. If the credit risk increases significantly, the client is reassigned to Stage 2 or Stage 3.

In addition to the internal rating, additional default indicators can be used to indicate a significant increase in credit risk:

Market information:

- ↷ actual or expected significant adverse changes in the debtor's regulatory, economic or technological environment, resulting in a significant change in the debtor's ability to meet its debt liabilities,
- ↷ significant negative information from the market,
- ↷ the sector is facing structural competitive challenges,
- ↷ the sector is facing serious challenges related to environmental protection, public health, etc.,
- ↷ substantial change in the legal regulation of the sector, entry of a strong new competitor.

Economic environment/Sector:

- ↷ the sector is facing structural competitive challenges,
- ↷ the sector is facing serious challenges related to environmental protection, public health, etc.,
- ↷ substantial change in the legal regulation of the sector,
- ↷ entry of a strong new competitor.

Transaction behaviour:

- ↷ material fines from the tax or other authorities or investigations for tax evasion or similar benefits,
- ↷ disruption, interruption or cessation of business,
- ↷ new major litigation.

Quality and checking of collateral:

- ↷ significant changes in the value of the collateral securing the liability in question,
- ↷ negative change in the status and enforceability of the collateral, e.g.:
 - a significant insured event on a key credit collateral
 - a defect in the legal documentation that affects the enforceability
 - expiry of insurance
 - Inability to exercise control over assets (flows)
 - unreliable valuation, etc.

The Bank determines a significant increase in the credit risk on the basis of the consideration and assessment of adequate and verifiable information and factors that are available without incurring disproportionate costs or effort to indicate future prospects.

DEFINITION OF DEFAULT

The Bank considers a debtor to be in default if the principal, interest or fees on any exposure to the debtor are more than 90 days past due and/or the Bank has concluded, on the basis of an analysis and/or other information about the client, that the client is unlikely to repay in full its credit payables to the Bank without taking specific action such as the utilisation of collateral.

For the purposes of calculating expected losses, the Bank divides exposures into three levels. Level 1 and level 2 are credits and guarantees without default. In level 2, there are credits and guarantees for which a significant increase in the credit risk has been recorded since their inception. In addition to credits and guarantees with default, purchased or originated credit-impaired financial assets (POCI) are also recorded in level 3. The Bank classifies performance under guarantees in the POCI category.

CALCULATION OF EXPECTED CREDIT LOSSES

The key inputs for the calculation of expected credit losses (ECL) are the time structures of the following variables/parameters:

- probability of default (PD);
- loss given by default (LGD);
- exposure at default (EAD).

These parameters are derived from our own internally developed statistical models and historical data, which need to be adjusted to match the information about future prospects (FLI).

In order to ensure reliable and robust estimates of the future evolution of the PD value, several approaches are used in the FLI, which are then combined according to expertly determined weights representing the influence of each estimate on the resulting value. Specifically, the following approaches are combined:

- **A statistical approach that is based** on the estimation of a statistical model that predicts the future evolution of the default rate of the NDB portfolio using the macroeconomic forecast of the MoF of the Czech Republic, weight 50%
- **A statistical approach with an optimistic scenario, which is based** on the statistical approach, but where the macroeconomic forecast of the MoF of the Czech Republic is adjusted in an optimistic direction, weight 15%
- **A statistical approach with a negative scenario, which is based on the statistical** approach, but where the macroeconomic forecast of the MoF of the Czech Republic is adjusted in a negative direction, weight 15%

The positive and negative scenarios are based on the macroeconomic forecast of the Ministry of Finance of the Czech Republic, which is adjusted for the purposes of the scenarios as follows:

- variables representing the relative or absolute change in a macroeconomic variable (i.e. variables that do not “accumulate” over multiple periods, e.g. quarterly GDP change) are adjusted by adding/subtracting the product of the standard deviation from the available history of the variable
- other variables (i.e. variables that represent a “state” or are “cumulative” over multiple periods, e.g. GDP or the share of the balance of goods and services in GDP) are adjusted by adding/subtracting the product of the standard deviation of the change in the variable over the corresponding future horizon (e.g. for a horizon of one year, the standard deviation of the annual changes in the variable is used), determined on the basis of the available history of the variable
- An approach based on the CNB’s forecast on the basis of the CNB’s baseline scenario according to the Financial Stability Report, weight 20%

- Specifically, it is based on the expected evolution of the 12-month default rate on bank credits to non-financial companies under the baseline (BS) scenario described in the Financial Stability Report.
- The Financial Stability Report is issued once a year (usually in June) with data up to date as at 31 March of that year. The 12-month default rates for bank credits to non-financial companies are indicated there:
 - always for the last year and forecasts for the next three years
 - in some years, a quarterly forecast is added.
- The use of the CNB forecast approach as an “alternative” view of the expected future evolution of the default rate is justified by the relatively strong dependence of the CNB default rate of non-financial companies and the default rate observed on the NDB portfolio.
- An expert approach capturing effects that are not captured in the forecast of the MoF of the Czech Republic or the CNB or that may invalidate the relationships used in the statistical approach, weight 0%.

The combination of the above approaches, including the above weights, results in an increase in the creation of adjustments of 8.9% for Stage 1 and 0.1% for Stage 2 as a result of the application of FLI. As part of the sensitivity analysis, the Bank modelled the changes in weights for each scenario with the following results. A possible increase in the weight of the statistical approach with a positive scenario (from 15% to 50%) at the expense of the statistical scenario (from 50% to 15%) would lead the application of FLI to a 0.3% increase in the creation of adjustments for Stage 1 and a 3% decrease in the creation of adjustments for Stage 2. A possible increase in the weight of the statistical approach with a negative scenario (from 15% to 50%) at the expense of the statistical scenario (from 50% to 15%) would lead the application of FLI to a 19.9% increase in the creation of adjustments for Stage 1 and a 4.7% increase in the creation of adjustments for Stage 2.

PD estimates are point-in-time estimates that are calculated on the basis of statistical models and rating tools tailored to different categories of counterparties and exposures. These statistical models are based on internally obtained data, including both quantitative and qualitative factors. If available, market data can also be used to determine the PD for large corporate counterparties. If a counterparty or exposure is shifted between rating grades, then this leads to a change in the estimate of the relevant PD.

The LGD represents the amount of probable loss if a default occurs. The Bank estimates the LGD parameters on the basis of the historical recovery yield from debtors in default. LGD models take into account collateral, subordination of receivables, counterparty sector and debt collection costs.

The calculation is performed on the basis of discounted cash flows using the effective interest rate as a discount factor, except for exposures in the SME segment, where the EIR is 0. The reason for this procedure is the fact that the Bank provides privileged guarantees and credits to clients at a zero rate, which corresponds to the standard market conditions of development and guarantee institutions.

The EAD represents the expected credit exposure at the time of default. The Bank determines the EAD on the basis of

the current exposure to the given counterparty and possible changes in the current exposure on the basis of a contract concluded with the counterparty, including regular and early repayments.

The EAD of a financial asset is its gross book value. For credit commitments and financial guarantees, the EAD includes the amount drawn, as well as possible future drawdowns that may occur on the basis of the concluded contract. These future drawdowns are estimated on the basis of historical experience and forecasts of future prospects. For some financial assets, the EAD is determined by modelling the range of possible resulting exposures at different future times using scenarios and statistical methods.

The economic situation in the Czech Republic in 2021 was still considerably affected by the coronavirus pandemic, significant inflation and rising interest rates, which of course had a significant negative impact on the portfolio of bank guarantees and credits. Given the significant concentration of banking products in the SME segment, it is necessary to take into account the relatively significant correlation between the growth/decline of domestic and European GDP and the performance of the SME sector. The unique situation that arose in 2020 and continued in 2021 in the context of nationwide lockdowns in a number of sectors and inflation causes possible inaccuracies in the standard ECL parameter estimation models used by the Bank, exacerbated by the difficulty the Bank's usual clients had in delivering adequate and relevant performance information that the Bank normally takes into account in its internal rating. Furthermore, the Bank is not a parent bank for any client, does not conduct payment transactions and always provides only supporting complementary products for projects that the client normally implements through credit financing or other banking products from its parent bank. The absence of payment information, combined with the ex-post information obligation of the client, also leads to a certain information asymmetry.

In connection with the above reasons and taking into account the necessary prudence, the Bank has implemented a management overlay in the calculation of adjustments. The management overlay is applied across the entire portfolio and amounts to approximately 25% of the total volume of Stage 1 and Stage 2 adjustments and is evenly distributed across the different internal rating grades. In view of a certain information asymmetry resulting from the specifics of the Bank's products, SME banking clients and especially the complex economic situation in the Czech Republic and Europe, with an emphasis on a significantly inflationary environment, the management overlay for 2021 is an important and necessary element of the risk management system and the long-term stability of the Bank.

METHOD FOR CALCULATING PROVISIONS FOR M-GUARANTEES

In the case of portfolio M-guarantees, the credit risk is divided between the lending banks and the NDB and its amount is precisely limited by the maximum possible performance of the bank guarantee within the individual aid programmes. The exact amount of the total possible payments from the portfolio of issued bank guarantees, for which the Bank creates provisions or funds to cover risks in full, is contractually agreed with the lending banks.

When calculating provisions for the M-guarantees, the Bank divides the M-guarantees into guarantees with uncompleted

drawdown of the guaranteed credit and guarantees with completed drawdown of the guaranteed credit. The amount of the provisions is calculated on the original amount of the guarantee for guarantees with uncompleted drawdown of the credit, and on the drawn-down amount of the credit for guarantees with completed drawdown of the credit. The maximum benefit is limited to an agreed percentage of the relevant portfolio, e.g. 10% of the volume of credits drawn for the M-guarantee portfolio in the National Programme (NP) 2015-2023. For the portfolio of M-guarantees in NP 2015-2023, the value of the calculated provisions is reduced by the effect of the counter-guarantee of the European Investment Fund (EIF), COSME. The maximum benefit from the M-guarantees is covered by the sum of the established provisions and risk coverage funds.

As at 31 December 2020, the Bank undertook a reclassification between Stage 1 and Stage 2 in the area of M-guarantees, which was based on a sectoral approach in relation to the identification of sectors whose performance had suffered in connection with restrictive measures applied in the fight against the coronavirus pandemic. The transfer of the relevant positions to Stage 2 reflected an increase in the credit risk level for individual business cases for which the Bank did not have sufficiently reliable information on an individual basis and the Bank considers it to be correct from the point of view of risk management.

SECURING CREDIT AND GUARANTEE RECEIVABLES

Movable and immovable pledges are recorded in the accounts and are valued on the basis of an expert's opinion (par value of collateral). For real estate, the Bank performs central revaluations to market prices when market conditions change on the basis of price maps prepared by an external agency. The Bank keeps the liabilities of natural persons and legal entities and bills of exchange in its records and they are valued at the values set by the Bank's internal guidelines.

The realisable value of collateral takes into account the costs of realisation of collateral, including the time value of money.

RECOVERY OF RECEIVABLES FROM DEBTORS

The Bank recovers due receivables from bank guarantees and credits in its own system of risk-based business case management using all legal instruments in accordance with generally applicable legal regulations. To speed up the recovery process, it works with an arbitration clause on credit and guarantee agreements and with enforceable entries.

PREFERENTIAL LOANS AND PREFERENTIAL GUARANTEES WITHIN THE OPERATIONAL PROGRAMME ENTERPRISE AND INNOVATION (OPEI)

The Bank ensures, at its own expense, the recovery of receivables for the return of state aid, as well as possible receivables from a guarantee or a loan provided under the Operational Programme Enterprise and Innovation (OPEI). After the payment of the receivable or after its settlement to the debit of the programme funds in the event of its irrecoverability, the receivable is derecognised from the accounting, and the loss exceeding the agreed share of drawn credits or the amount of funds in the risk coverage accounts in the case of guarantees is covered by the Bank.

PREFERENTIAL LOANS UNDER THE OPERATIONAL PROGRAMME ENTERPRISE AND INNOVATIONS FOR COMPETITIVENESS (OP EIC)

Since 1 June 2017, the Bank has been providing soft loans in the Expansion programme and since 19 September 2017 also soft loans in the ENERGY SAVINGS programme within the Operational Programme Enterprise and Innovation for Competitiveness. The loans are financed from a loan fund created from the European Structural and Investment Funds.

The loans are provided as interest-free with a grace period. A financial contribution for the payment of interest is provided for selected loans, which serves the ultimate beneficiaries for the partial or full payment of interest on a commercial loan drawn for the implementation of an supported project. In the case of the ENERGY SAVINGS programme, clients are also provided with a financial contribution to cover the costs of the energy assessment.

PREFERENTIAL LOANS UNDER THE ENER G PROGRAMME

Since 1 June 2017, the Bank has been providing soft loans in the national ENER G programme. The loans are financed from a loan fund created from the state budget.

The loans are provided as interest-free with a grace period. A financial contribution is provided for the loans for achieving the results of the project and a financial contribution to cover the costs of the energy assessment.

PREFERENTIAL LOANS UNDER THE INFIN PROGRAMME

Since 2018, the Bank has been providing soft loans in the INFIN programme. The INFIN programme offers small and medium-sized enterprises soft loans to finance innovative business projects in the City of Prague. The programme is financed from the ESI Funds within the Operational Programme Prague - Growth Pole of the City of Prague. The loans are provided as interest-free with a grace period.

PREFERENTIAL LOANS FROM THE MINISTRY OF LABOUR AND SOCIAL AFFAIRS – S-ENTERPRISE

Since 2020, the Bank has been providing preferential loans named S-ENTERPRISE from MoLSA. The programme funds finance soft loans for social enterprises, for which it is often difficult, if not impossible, to meet the requirements of financial institutions. The loans are provided as interest-free with a grace period. The programme is funded by the ESIF Funds.

COVID I LOAN PROGRAMME

In connection with the COVID-19 pandemic, the Bank provided a COVID I preferential loan for small and medium-sized enterprises in 2020 in accordance with the decision of the Government of the Czech Republic. The aim of this loan was to facilitate access to operational financing for small and medium-sized enterprises. The loan could be used for the acquisition of small tangible and intangible assets, for the acquisition and financing of inventories and for other operating expenses.

PREFERENTIAL GUARANTEES IN NATIONAL GUARANTEE PROGRAMMES

In the period from 2009 to 2021, the Bank provided preferential guarantees in programmes announced by the Ministry of Industry and Trade to support small and medium-sized enterprises. The products were financed from the funds of guarantee funds created with the participation of state budget funds and from funds revised within other business support programmes and, since 2012, also from the Bank's own funds. The GUARANTEE 2015-2023 programme has been expanded to include a SMART digitalisation loan guarantee since April 2021.

PREFERENTIAL GUARANTEES IN THE EXPANSION PROGRAMME

Since March 2019, the Bank has been providing preferential guarantees in the EXPANSION programme. These guarantees are financed from the European Structural and Investment Funds under the Operational Programme Enterprise and Innovation for Competitiveness.

COVID GUARANTEE PROGRAMMES

In connection with the COVID-19 pandemic, in 2020 the Bank introduced the COVID II, COVID Prague and COVID III guarantee programmes in accordance with the decision of the Government of the Capital City of Prague.

The COVID II guarantee programme served to facilitate the access of self-employed persons and small and medium-sized entrepreneurs affected by the pandemic to operational financing in the form of a commercial loan guarantee. The programme is financed from the EU structural funds and is not intended to finance projects in the City of Prague.

The COVID Prague guarantee programme was prepared by the Bank in cooperation with the Capital City of Prague. The aim of this guarantee programme was to facilitate access to operational financing for self-employed persons and small and medium-sized entrepreneurs active within the territory of the City of Prague who were affected by the pandemic. The programme is financed from the Operational Programme Prague - Growth Pole.

The aim of the COVID III guarantee programme was to support enterprises affected by the coronavirus pandemic and related preventive measures through guarantees for working capital loans. This programme covered entrepreneurs with up to 500 employees.

The Bank ensures, at its own expense, the recovery of receivables from performance under guarantees and from sanctions for breaches of the terms of the guarantee agreements. After the payment of the receivable or after its settlement to the debit of the programme funds in the event of its irrecoverability, the receivable is removed from the Bank's accounting. Losses in excess of the funds in the risk coverage accounts are covered by the Bank.

RISK CONCENTRATION

The Bank considers it a significant concentration of risk if unreasonable concentrations of exposures to variously related persons or groups of persons or to persons from the same industry, geographical area or the same activity could cause a

significant impact on the Bank's operations and stability in the event of adverse developments.

The risks in the Bank are concentrated primarily in the area of preferential guarantees for SME loans and loans for repairs of apartment buildings, soft loans provided by the Bank to small and medium-sized entrepreneurs and the Bank's loans for business entities and municipalities for water management projects. Most of these loans and guarantees are provided in cooperation with the state administration, and since the state participates in covering some of the risks in some transactions, the risk is spread over several entities. The Bank manages concentration risk in relation to the rules for loan exposure and through a system of limits for loan risk management. To determine the concentration of loan risk, the Bank mainly uses methods and procedures based on the analysis of data stored in the Bank's internal business and accounting system. The Bank does not use any hedging derivatives to eliminate these risks. These risks are monitored periodically.

FINANCIAL MARKET INSTRUMENTS

In accordance with internal guidelines, the Bank defines financial instruments in which it can invest and with which it can manage currency and interest rate risks. These are mainly deposits, bonds (mortgage bonds, Czech crown bonds, foreign currency bonds and Eurobonds), bills of exchange, derivatives (forex operations - FX, cross-currency swaps - CCS and interest rate swaps - IRS). The loan rating of counterparties and issuers is based on the rating of the client's loanworthiness, which results from a rating from internationally renowned rating agencies and an assessment of economic and non-economic aspects. The loanworthiness of counterparties and issuers is regularly reassessed throughout the duration of the business loan relationship.

QUALITY OF THE SECURITIES PORTFOLIO

Portfolio of securities by individual rating grades and broken down by individual groups of financial assets:

31 December 2021

IN CZK MILLIONS	AA- TO AA+	A- TO A+	A TO BBB	TOTAL
Equity instruments in FVOCI	0	0	54	54
Debt instruments in FVOCI	10,524	0	306	10,830
Securities at amortised cost	7,481	0	0	7,481
TOTAL	18,005	0	360	18,365

31 December 2020

IN CZK MILLIONS	AA- TO AA+	A- TO A+	A TO BBB	TOTAL
Equity instruments in FVOCI	0	0	35	35
Debt instruments in FVOCI	11,900	0	401	12,301
Securities at amortised cost	7,161	0	0	7,161
TOTAL	19,061	0	436	19,497

The Bank uses an external rating to assess the quality of its securities portfolio. An overview of the rating grades and the breakdown into investment grade and speculative grade is shown in the attached table.

	S&P*	MOODY'S	FITCH	DEFINITION OF A COUNTRY'S CREDITWORTHINESS
Investment grade	AAA	Aaa	AAA	The most creditworthy
	AA	Aa	AA	Highly creditworthy
	A	A	A	Creditworthy
	BBB	Baa	BBB	Less creditworthy
Speculative grade	BB	Ba	BB	Slightly speculative
	B	B	B	Moderately speculative
	CCC	Caa	CCC	Highly speculative
	CC	Ca	CC	Highly speculative
	C	C	C	Non-performance of liabilities
	DDD,DD,D		DDD,DD,D	Non-performance of liabilities

QUALITY OF THE DERIVATIVES PORTFOLIO

The portfolio of derivatives as at 31 December 2021 and 2020 consists of transactions with trustworthy bank counterparties (with an external rating in the range from AA+ to A).

BREAKDOWN OF ASSETS BY GEOGRAPHICAL SEGMENTS

31 December 2021

IN CZK MILLIONS ASSETS	CZECH REPUBLIC	EUROPEAN UNION	ADJUSTMENTS AND ACCUMULATED DEPRECIATION	TOTAL CZK 000'
Cash and deposits with central banks	176	0	0	176
Receivables from banks	6,200	2	-2	6,200
Receivables from clients	8,531	0	-991	7,540
Securities valued through profit or loss	0	0	0	0
Debt instruments in FVOCI	10,288	542	0	10,830
Securities at amortised cost	7,483	0	-2	7,481
Financial derivatives	0	0	0	0
Equity instruments in FVOCI	0	54	0	54
Participating interests with significant influence	1	0	0	1
Participating interests with decisive influence	29	0	0	29
Other financial assets	77	0	-13	64
Total financial assets	32,785	598	-1,008	32,375
Other non-financial assets	975	0	-631	344
TOTAL	33,760	598	-1,639	32,719

31 December 2020

IN CZK MILLIONS ASSETS	CZECH REPUBLIC	EUROPEAN UNION	ADJUSTMENTS AND ACCUMULATED DEPRECIATION	TOTAL CZK 000'
Cash and deposits with central banks	6	0	0	6
Receivables from banks	3,206	0	-1	3,205
Receivables from clients	7,714	0	-745	6,969
Securities valued through profit or loss	0	0	0	0
Debt instruments in FVOCI	11,629	672	0	12,301
Securities at amortised cost	7,163	0	-2	7,161
Financial derivatives	9	0	0	9
Equity instruments in FVOCI	0	35	0	35
Participating interests with significant influence	1	0	0	1
Participating interests with decisive influence	4	0	0	4
Other financial assets	73	0	-13	60
Total financial assets	29,805	707	-761	29,751
Other non-financial assets	869	0	-593	276
TOTAL	30,674	707	-1,354	30,027

MAXIMUM CREDIT RISK EXPOSURE

31 December 2021

IN CZK MILLIONS	BALANCE SHEET	OFF-BALANCE SHEET	EXPOSURE TO CREDIT RISK IN TOTAL	ACCEPTED COLLATERAL
Cash on hand and deposits with central banks	176	0	176	0
Receivables from banks	6,200	0	6,200	6,056
Securities valued through profit or loss	0	0	0	0
Financial derivatives	0	0	0	0
Receivables from clients *	7,540	3,568	11,108	2,351
Equity instruments in FVOCI	54	0	54	0
Debt instruments in FVOCI	10,830	0	10,830	0
Securities at amortised cost	7,481	0	7,481	0
Participating interests with significant influence	1	0	1	0
Participating interests with decisive influence	29	0	29	0
Other financial assets	64	0	64	0
Financial guarantees	0	52,387	52,387	24,612
Total financial assets	32,375	55,955	88,330	33,019
Non-financial assets	344			
TOTAL ASSETS	32,719			

31 December 2020

IN CZK MILLIONS	BALANCE SHEET	OFF-BALANCE SHEET	EXPOSURE TO CREDIT RISK IN TOTAL	ACCEPTED COLLATERAL
Cash on hand and deposits with central banks	6	0	6	0
Receivables from banks	3,205	0	3,205	3,138
Securities valued through profit or loss	0	0	0	0
Financial derivatives	9	0	9	0
Receivables from clients *	6,969	1,066	8,035	1,891
Equity instruments in FVOCI	35	0	35	0
Debt instruments in FVOCI	12,301	0	12,301	0
Securities at amortised cost	7,161	0	7,161	0
Participating interests with significant influence	1	0	1	0
Participating interests with decisive influence	4	0	4	0
Other financial assets	60	0	60	0
Financial guarantees	0	43,705	43,705	16,086
Total financial assets	29,751	44,771	74,522	21,115
Non-financial assets	276			
TOTAL ASSETS	30,027			

* The value of collateral received is reported only up to the amount of the credit exposure.

The amount of collateral provided is disclosed in clause 6 Receivables from clients.

QUANTITATIVE INFORMATION ON COLLATERAL FOR CREDIT-IMPAIRED FINANCIAL ASSETS (LEVEL 3)

IN CZK MILLIONS	31 DECEMBER 2021		31 DECEMBER 2020	
	GROSS	NET	GROSS	NET
Less than 50%	1,360	66	1,017	30
51-70%	53	34	34	19
More than 70%	283	268	272	265
TOTAL	1,696	368	1,323	314

OVERVIEW OF RESTRUCTURED RECEIVABLES

YEAR	AMOUNT IN CZK MILLIONS *	NUMBER OF RECEIVABLES
2021	262	83
2020	87	31

* The data is presented including interest on arrears recorded in the off-balance sheet.

B) MARKET RISK

CHARACTERISTICS OF MARKET RISKS

The basic market risk management strategy is set out in internal guidelines and documents approved by the Bank's Board of Directors.

CHARACTERISTICS OF OPERATIONS RELATED TO MARKET RISK

The Bank is exposed to market risks of loss in the purchase, holding and sale of investment instruments defined in the NDB Investment Strategy. This risk arises from open positions in interest rates and currencies. The Bank applies a conservative approach to currency risk. The Bank is not interested in holding open positions in foreign currencies.

MARKET RISK MEASUREMENT

To measure the interest rate risk, the Bank uses the basic methods (interest rate GAP analysis, duration, interest rate elasticity) and methods for calculating capital ratios set by the Regulation of the European Parliament and of the Council (EU), as amended.

Furthermore, the Bank has set internal limits limiting the market risk. Interest rate GAP analysis measures the interest rate risk of the trading and investment portfolio together and is restricted by limits for the net interest rate position in each time zone. The interest rate risk of all bond portfolios is restricted by

the limits on the interest rate risk of bond portfolios. The Bank performs stress testing on a quarterly basis in accordance with Decree No. 163/2014 Coll., as amended.

MARKET RISK MANAGEMENT

The market risk management tools include an external capital ratio limit and internal limits for interest rate change risk and for the interest rate elasticity of the bond portfolio. Furthermore, the market risk is limited by the internal capital ratio limit. The currency risk is limited by the limits set out in the Regulation of the European Parliament and of the Council (EU), as amended.

The limits on the risk of changes in the interest rate limit the size of the interest rate GAP in each time zone of the interest rate GAP analysis in relation to the Bank's capital and are expressed in %.

The interest rate risk limits on bond portfolios limit the market risk of portfolios of bonds measured at fair value through profit or loss and realised bonds together and portfolios of bonds held to maturity and not held for trading together. The methods for calculating these limits are based on the principles of duration analysis (e.g. the limit on interest rate elasticity).

The internal capital ratio limit tightens the external capital ratio limit set by the banking regulator.

All derivatives are negotiated on the over-the-counter market.

C) FINANCIAL DERIVATIVES

DERIVATIVES FOR TRADING

IN CZK MILLIONS	31 DECEMBER 2021		31 DECEMBER 2020	
	PAR VALUE		PAR VALUE	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
Interest rate derivatives				
Swaps	0	0	200	200
Currency derivatives				
Swaps	203	209	349	342
TOTAL	203	209	549	542

IN CZK MILLIONS	31 DECEMBER 2021		31 DECEMBER 2020	
	FAIR VALUE		FAIR VALUE	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Interest rate derivatives				
Swaps	0	0	0	5
Currency derivatives				
Swaps	0	6	9	7
TOTAL	0	6	5	20

Maturity of trading derivatives as at 31 December 2021:

IN CZK MILLIONS	UP TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate swaps	0	0	0	0	0
Currency swaps	0	21	109	73	203
TOTAL	0	21	109	73	203

Maturity of trading derivatives as at 31 December 2020:

IN CZK MILLIONS	UP TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate swaps	0	200	0	0	200
Currency swaps	48	5	206	90	349
TOTAL	48	205	206	90	549

D) CURRENCY RISK

The Bank's financial position and cash flows are exposed to the risk of fluctuations in the exchange rates of common currencies. Currency position values are available daily. In the event that the limits are exceeded, the Bank shall proceed in accordance with internal guidelines.

31 December 2021

IN CZK MILLIONS	EUR	USD	CZK	TOTAL
Cash on hand and deposits with central banks	0	0	176	176
Receivables from banks	9	3	6,188	6,200
Receivables from clients	266	0	7,274	7,540
Securities valued through profit or loss	0	0	0	0
Debt instruments in FVOCI	41	0	10,789	10,830
Securities at amortised cost	0	0	7,481	7,481
Financial derivatives	0	0	0	0
Equity instruments in FVOCI	54	0	0	54
Participating interests with significant influence	0	0	1	1
Participating interests with decisive influence	0	0	29	29
Other financial assets	0	0	64	64
Total financial assets	370	3	32,002	32,375
Other non-financial assets	0	0	344	344
TOTAL ASSETS	370	3	32,346	32,719
Payables to banks	469	0	0	469
Payables to clients	101	0	24,233	24,334
Financial derivatives	0	0	6	6
Other financial liabilities	0	0	77	77
Total financial liabilities	570	0	24,316	24,886
Other non-financial liabilities	0	1	93	94
Provisions	0	0	3,323	3,323
Equity	2	0	4,414	4,416
TOTAL LIABILITIES AND EQUITY	572	1	32,146	32,719
Net balance sheet position	-202	2	200	-
Net off-balance sheet position	203	0	-209	-
Net position	1	2	-9	-

31 December 2020

IN CZK MILLIONS	EUR	USD	CZK	TOTAL
Cash on hand and deposits with central banks	0	0	6	6
Receivables from banks	3	0	3,202	3,205
Receivables from clients	561	0	6,408	6,969
Securities valued through profit or loss	0	0	0	0
Debt instruments in FVOCI	126	0	12,175	12,301
Securities at amortised cost	0	0	7,161	7,161
Financial derivatives	0	0	9	9
Equity instruments in FVOCI	35	0	0	35
Participating interests with significant influence	0	0	1	1
Participating interests with decisive influence	0	0	4	4
Other financial assets	0	0	60	60
Total financial assets	725	0	29,026	29,751
Other non-financial assets	0	0	276	276
TOTAL ASSETS	725	0	29,302	30,027
Payables to banks	942	0	0	942
Payables to clients	83	0	20,593	20,676
Financial derivatives	0	0	12	12
Other financial liabilities	0	0	52	52
Total financial liabilities	1,025	0	20,657	21,682
Other non-financial liabilities	0	0	158	158
Provisions	0	0	3,311	3,311
Equity	4	0	4,872	4,876
TOTAL LIABILITIES AND EQUITY	1,029	0	28,998	30,027
Net balance sheet position	-304	0	304	-
Net off-balance sheet position	349	0	-342	-
Net position	45	0	-38	-

CURRENCY RISK SENSITIVITY ANALYSIS

The table below provides an analysis of currency risk sensitivity. The foreign currency items of the Balance Sheet were tested with regard to an increase in the exchange rate by 10% (10% appreciation of currencies would have the same and the opposite effect). The open position in EUR is hedged using trading derivatives. Hedging instruments almost completely offset the open position (see the tables above) and therefore the impact of exchange rate movements on the Profit and Loss Account and equity is not significant. As the euro was the only significant currency in which the Bank had an open position at the end of the year, the table below summarises the sensitivity of the Czech crown compared to the CZK/EUR exchange rate applicable on 31 December 2021 and 2020.

IN CZK MILLIONS	2021	2020
Sensitivity to changes in the EUR exchange rate		
Expected rate fluctuation, %	10%	10%
Open position	1	87
Effect on the Profit and Loss Account	-9	-7
Effect on capital	4	13

E) INTEREST RATE RISK

The Bank's intention is to manage the interest rate risk arising from changes in interest rates through gap analysis between assets and liabilities in individual groups.

The table below provides information on the extent to which the Bank is exposed to interest rate risk. It is based either on the contractual maturity of the financial instruments or, if the interest rate of these instruments changes before the maturity date, on the date of the determination of the new interest rate.

In the case of a transaction that does not carry information about the contractual maturity or change in the rate, the volume is shown in the "Not specified" column. The Not specified column also includes changes in the fair values of hedged balance sheet items resulting from the interest rate risk.

31 December 2021

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Cash and deposits with central banks	175	0	0	0	1	176
Receivables from banks	6,198	0	0	0	2	6,200
Receivables from clients*	398	1,108	3,813	1,214	1,007	7,540
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	13	160	7,000	3,657	0	10,830
Securities at amortised cost	0	51	3,154	4,276	0	7,481
Financial derivatives	0	0	0	0	0	0
Equity instruments in FVOCI	0	0	0	0	54	54
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	29	29
Other financial assets	0	0	0	0	64	64
Total financial assets	6,784	1,319	13,967	9,147	1,158	32,375
Tangible fixed assets	0	0	0	0	107	107
Intangible fixed assets	0	0	0	0	69	69
Other non-financial assets	0	0	0	0	168	168
Total assets	6,784	1,319	13,967	9,147	1,502	32,719
Payables to banks	62	312	80	12	3	469
Payables to clients	4,046	13,272	0	7,016	0	24,334
Financial derivatives	0	0	0	0	6	6
Other financial liabilities	0	0	0	0	77	77
Total financial liabilities	4,108	13,584	80	7,028	86	24,886
Other non-financial liabilities	0	0	0	0	94	94
Provisions	0	0	0	0	3,323	3,323
Equity	0	0	0	0	4,416	4,416
Total liabilities and equity	4,108	13,584	80	7,028	7,919	32,719
Net balance sheet position	2,676	-12,265	13,887	2,119	-6,417	0

* The "not specified" column in the line "Receivables from clients" shows receivables in STAGE 3 and POCI reduced by total adjustments.

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Cash and deposits with central banks	5	0	0	0	1	6
Receivables from banks	3,205	0	0	0	0	3,205
Receivables from clients*	205	1,396	3,760	993	615	6,969
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	159	661	7,170	4,311	0	12,301
Securities at amortised cost	0	207	2,645	4,309	0	7,161
Financial derivatives	0	0	0	0	9	9
Equity instruments in FVOCI	0	0	0	0	35	35
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	4	4
Other financial assets	0	0	0	0	60	60
Total financial assets	3,574	2,264	13,575	9,613	725	29,751
Tangible fixed assets	0	0	0	0	126	126
Intangible fixed assets	0	0	0	0	48	48
Other non-financial assets	0	0	0	0	102	102
Total assets	3,574	2,264	13,575	9,613	1,001	30,027
Payables to banks	181	335	394	26	6	942
Payables to clients	3,578	6,388	4,439	6,270	1	20,676
Financial derivatives	0	0	0	0	12	12
Other financial liabilities	0	0	0	0	52	52
Total financial liabilities	3,759	6,723	4,833	6,296	71	21,682
Other non-financial liabilities	0	0	0	0	158	158
Provisions	0	0	0	0	3,311	3,311
Equity	0	0	0	0	4,876	4,876
Total liabilities and equity	3,759	6,723	4,833	6,296	8,416	30,027
Net balance sheet position	-185	-4,459	8,742	3,317	-7,415	0

* The “not specified” column in the line “Receivables from clients” shows receivables in STAGE 3 and POCI reduced by total adjustments.

INTEREST RATE SENSITIVITY ANALYSIS

Balance sheet items sensitive to interest rate movements were analysed for the expected parallel increase in interest rates by 2%. The Bank modelled eight possible scenarios and the most likely alternative of a 2% parallel shift was selected for reporting purposes.

SENSITIVITY/IMPACT

BALANCE SHEET ITEMS (IN CZK MILLIONS)	31 DECEMBER 2021	31 DECEMBER 2020
Assets		
Receivables from clients	0	0
Receivables from banks	-4	-1
Securities at amortised cost	-646	-824
Securities in FVOCI	-436	-479
Financial derivatives	0	0
Payables		
Payables to banks	0	0
Payables to clients	699	507
Financial derivatives	3	7

The total impact of the parallel shock (+200 bp) on the Bank’s capital was 9.3% as at 31 December 2021 (as at 31 December 2020: 9.06%).

F) LIQUIDITY RISK

The Bank sees liquidity risk as the risk of losing the ability to meet its financial obligations when they fall due or when the Bank is unable to finance its assets. The Bank measures and monitors net cash flows in individual major currencies and at the same time compiles a daily liquidity gap analysis in all the individual major currencies in which it has open positions. The Bank also uses a set of limits for liquidity risk management, compiles liquidity scenarios and has prepared a contingency plan for possible threats to the Bank's liquidity.

CONTRACTUAL RESIDUAL MATURITY

31 December 2021

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Cash and deposits with central banks	175	0	0	0	1	176
Receivables from banks	6,198	0	0	0	2	6,200
Receivables from clients	1,398	1,108	3,813	1,214	7	7,540
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	13	160	7,000	3,657	0	10,830
Securities at amortised cost	0	51	3,154	4,276	0	7,481
Financial derivatives	0	0	0	0	0	0
Equity instruments in FVOCI	0	0	0	0	54	54
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	29	29
Other financial assets	62	0	0	0	2	64
Total financial assets	7,846	1,319	13,967	9,147	96	32,375
Other non-financial assets	2	2	1	0	339	344
TOTAL	7,848	1,321	13,968	9,147	435	32,719
Payables to banks	14	329	114	12	0	469
Payables to clients	4,046	13,272	0	7,016	0	24,334
Financial derivatives	6	0	0	0	0	6
Other financial liabilities	0	0	0	0	77	77
Total financial liabilities	4,066	13,601	114	7,028	77	24,886
Other non-financial liabilities	24	21	20	1	28	94
Provisions	150	225	2,425	504	19	3,323
Equity	0	0	2	1	4,413	4,416
TOTAL	4,240	13,847	2,561	7,534	4,537	32,719
Net balance sheet position	3,608	-12,526	11,407	1,613	-4,102	0
Commitments and guarantees provided	1,591	2,968	43,380	8,016	0	55,955
Commitments and guarantees received	19	0	6,243	0	15,544	21,806

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Cash and deposits with central banks	5	0	0	0	1	6
Receivables from banks	3,205	0	0	0	0	3,205
Receivables from clients	917	77	3,552	2,423	0	6,969
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	159	661	7,170	4,311	0	12,301
Securities at amortised cost	0	207	2,645	4,309	0	7,161
Financial derivatives	9	0	0	0	0	9
Equity instruments in FVOCI	0	0	0	0	35	35
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	4	4
Other financial assets	57	0	0	0	3	60
Total financial assets	4,352	945	13,367	11,043	44	29,751
Other non-financial assets	0	0	6	0	270	276
TOTAL	4,352	945	13,373	11,043	314	30,027
Payables to banks	86	5	761	90	0	942
Payables to clients	2,434	12,733	0	5,509	0	20,676
Financial derivatives	12	0	0	0	0	12
Other financial liabilities	0	0	0	0	52	52
Total financial liabilities	2,532	12,738	761	5,599	52	21,682
Other non-financial liabilities	11	4	78	9	56	158
Provisions	1	7	1,595	1,691	17	3,311
Equity	0	0	0	4	4,872	4,876
TOTAL	2,544	12,749	2,434	7,303	4,997	30,027
Net balance sheet position	1,808	-11,804	10,939	3,740	-4,683	0
Commitments and guarantees provided	1,077	2,570	35,247	5,877	0	44,771
Commitments and guarantees received	0	0	0	0	7,405	7,405

CONTRACTUAL LIQUIDITY OF THE MAIN NON-DERIVATIVE FINANCIAL LIABILITIES AT AMORTISED COST AND DERIVATIVES BASED ON UNDISCOUNTED CASH FLOWS

A) PAYABLES TO BANKS AND CLIENTS

31 December 2021

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Payables to banks	12	339	116	12	479
Payables to clients	4,050	13,970	0	6,389	24,409

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Payables to banks	61	378	478	26	943
Payables to clients	2,435	12,764	2	5,509	20,710

B) DERIVATIVES SETTLED ON A NET BASIS

The table below shows the Bank's derivative financial liabilities, which will be settled on a net basis and which are included in the relevant time baskets on the basis of the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

31 December 2021

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate swaps	0	0	0	0	0

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate swaps	0	-5	0	0	-5

C) DERIVATIVES SETTLED ON A GROSS BASIS

Bank derivatives that will be settled on a gross basis include foreign exchange derivatives: foreign exchange forwards, currency swaps and currency interest rate swaps.

The table below shows the Bank's derivative financial liabilities, which will be settled on a gross basis and which are included in the relevant time baskets on the basis of the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

31 December 2021

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Currency derivatives:					
Inflows	12	66	116	12	206
Outflows	-7	-82	-128	-13	-230

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Currency derivatives:					
Inflows	61	75	190	26	352
Outflows	-53	-86	-195	-26	-360

D) COMMITMENTS AND GUARANTEES PROVIDED**31 December 2021**

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Commitments provided	6	2,234	840	488	0	3,568
Guarantees provided	0	35	27,930	24,422	0	52,387

31 December 2020

IN CZK MILLIONS	UP TO 3 MONTHS	3-12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NOT SPECIFIED	TOTAL
Commitments provided	4	115	476	471	0	1,066
Guarantees provided	3	44	32,148	11,510	0	44,771

G) OPERATIONAL RISK

The Bank defines operational risk as the risk of loss as a result of deficiencies or failures of internal processes, human factors or systems, or the risk of loss as a result of external events, including the risk of loss as a result of violation of, or non-compliance with, a legal standard.

The main objectives of the Bank's operational risk management system are:

- ✓ protection of the Bank from possible negative consequences caused by operational risk;
- ✓ better information for decision making;
- ✓ meeting the requirements set by the CNB and the EU;
- ✓ compliance with best practices defined by the relevant EU regulations.

25 TRANSACTIONS WITH RELATED PARTIES

Persons with a special relationship with the Bank, known as “Related parties”; see clause 2t) of the Notes.

RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

IN CZK MILLIONS	31 DECEMBER 2021 GROSS	31 DECEMBER 2020 GROSS
Government zero-coupon bonds and other securities accepted by the central bank for refinancing, issued by government institutions	17,601	18,170
Receivables from clients	266	561
Debt securities	25	78
Participating interests with significant and decisive influence	30	5
Other assets	69	87
Payables to banks	0	0
Payables to clients	18,988	16,679
Other liabilities	15	45
Commitments and guarantees provided	300	300
Commitments and guarantees received	14,938	6,648
Pledges and collateral received	969	969

RELATED PARTY TRANSACTIONS

IN CZK MILLIONS	2021	2020
Interest income*	214	244
Interest expense	-28	-27
Revenues from fees and commissions	360	306
Staff costs	-17	-17
Other operating revenues	9	4

RECEIVABLES FROM PERSONS WITH A SPECIAL RELATIONSHIP WITH THE BANK

As at 31 December 2021 and 31 December 2020, the Bank does not record receivables from persons with a special relationship with the Bank.

26 FAIR VALUE

The fair value of financial instruments is the amount for which an asset could be sold or a liability settled between informed parties in an independent transaction. Estimates of fair value are made on the basis of listed market prices, if available. However, there are no available market price listings for a significant part of the Bank’s financial instruments. In cases where listed market prices are not readily available, fair value is estimated using discounted cash flow models or other acceptable pricing models. Estimates significantly affect changes in basic assumptions - discount rates, estimated future cash flows, etc. - and therefore these estimates may differ from the sale price of the financial instrument. The following methods and assumptions were used in estimating the fair value of the Bank’s financial instruments.

CASH ON HAND AND DEPOSITS WITH CENTRAL BANKS

The book values of cash and balances with central banks correspond in principle to their fair values.

SECURITIES MEASURED AT AMORTISED COST

The fair values of securities are taken from the active market where these instruments are listed.

RECEIVABLES FROM BANKS

The fair value of receivables from banks is estimated on the basis of an analysis of discounted cash flows using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

RECEIVABLES FROM CLIENTS

The fair value of variable revenue credits without a significant change in credit risk is generally close to their book value. The fair value of credits with fixed interest rates is estimated using discounted cash flow analyses based on interest rates currently offered for credits with similar terms to borrowers of similar credit quality.

PAYABLES TO BANKS

The fair value of term deposits repayable on demand approximates the book value of the amounts at the end of the period. The fair value of term deposits with variable interest rates approximates their book values at the end of the period. The fair value of fixed rate deposits is estimated by discounting their future cash flows using market interest rates.

FINANCIAL INSTRUMENTS THAT ARE NOT MEASURED AT FAIR VALUE IN THE BALANCE SHEET

The table below sets out the book values and fair values of financial assets and financial liabilities that are not carried at fair value in the accounting entity's Balance Sheet.

31 December 2021

IN CZK MILLIONS		BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS			
1	Cash on hand and deposits with CB (level 2)	176	176
2	Government zero-coupon bonds and other securities (level 1)	7,481	6,735
3	Receivables from banks (level 2)	6,200	6,195
4	Receivables from clients (level 3)	7,539	7,471
8	Participating interests with significant influence (level 3)	1	1
8	Participating interests with decisive influence (level 3)	29	29
11	Other financial assets (level 3)	64	64
FINANCIAL LIABILITIES			
1	Payables to banks (level 2)	469	470
2	Payables to clients (level 2)	24,334	23,294
4	Other financial liabilities (level 2)	77	77

31 December 2020

IN CZK MILLIONS		BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS			
1	Cash on hand and deposits with CB (level 2)	6	6
2	Government zero-coupon bonds and other securities (level 1)	7,161	7,230
3	Receivables from banks (level 2)	3,205	3,205
4	Receivables from clients (level 3)	6,963	6,606
8	Participating interests with significant influence (level 3)	1	1
8	Participating interests with decisive influence (level 3)	4	4
11	Other financial assets (level 3)	60	60
FINANCIAL LIABILITIES			
1	Payables to banks (level 2)	942	953
2	Payables to clients (level 2)	20,676	20,398
4	Other financial liabilities (level 2)	52	52

HIERARCHY OF FAIR VALUES

IFRS 7 specifies a hierarchy of valuation techniques that is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's assumptions. These two types of inputs form the following hierarchy of fair values:

- Level 1 - Listed prices (unadjusted) in active markets for identical assets and liabilities. This level includes listed debt instruments on stock exchanges (e.g. the Prague Stock Exchange).
- Level 2 - Other inputs (other than listed prices included within Level 1) that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes over-the-counter derivative transactions. Bloomberg and Reuters are the source of input parameters such as PRIBOR or yield curves.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (invisible inputs). This level includes financial instruments with significant unobservable components.

The table below analyses financial instruments measured at fair value by level in the fair value hierarchy. The amounts are based on the values reported in the Bank's Balance Sheet.

FINANCIAL INSTRUMENTS THAT ARE MEASURED AT FAIR VALUE IN THE BALANCE SHEET

31 DECEMBER 2021 (IN CZK MILLIONS)	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets at fair value			
Financial assets mandatorily recognised at fair value			
– Receivables from clients	0	0	1
Financial assets charged against costs or revenues			
– Debt securities	0	0	0
– Other assets	0	0	0
Securities in FVOCI			
– Equity instruments	0	0	54
– Debt instruments	10,830	0	0
Total assets at fair value	10,830	0	55
Financial liabilities against costs and revenues			
– Other liabilities	0	6	0
Total liabilities at fair value	0	6	0

31 DECEMBER 2020 (IN CZK MILLIONS)	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets at fair value			
Financial assets mandatorily recognised at fair value			
– Receivables from clients	0	0	6
Financial assets charged against costs or revenues			
– Debt securities	0	0	0
– Other assets	0	9	0
Securities in FVOCI			
– Equity instruments	0	0	35
– Debt instruments	12,301	0	0
Total assets at fair value	12,301	9	41
Financial liabilities against costs and revenues			
– Other liabilities	0	12	0
Total liabilities at fair value	0	12	0

No reclassifications between levels were made during these periods.

RECONCILIATION OF OPENING AND CLOSING BALANCES AT LEVEL 3

IN CZK MILLIONS	EQUITY INSTRUMENTS IN FVOCI	CREDITS AND RECEIVABLES MANDATORILY AT FAIR VALUE	TOTAL
Balance as at 1 January 2021	35	6	41
Gains and losses for the period recognised in the Profit and Loss Account	0	–4	–4
Gains and losses for the period recognised in equity	–3	0	–3
Purchases	22	0	22
Repayment	0	–1	–1
Balance as at 31 December 2021	54	1	55

27 SUBSEQUENT EVENTS

The following events that may affect the operation of the company occurred after the date of the Financial Statements.

In the context of the crisis in Ukraine, which escalated on 24 February 2022, the Bank assessed the potential risks. The Bank does not have any direct exposure to Ukrainian or Russian counterparties and we do not anticipate any impact in this regard; however, some of the Bank's clients may have supplier-customer relationships in those countries and disruption of these relationships may adversely affect their ability to settle outstanding payables.

Therefore, in order to map the situation in more detail, an analysis of the credit and guarantee portfolio will be carried out with a focus on possible factors increasing credit risk in con-

nection with the situation in Ukraine. The analysis will focus, in particular, on supplier-customer relationships.

On the basis of our experience to date, we are convinced that the vast majority of the Bank's clients are focused on the domestic and EU markets. At the moment, we assume that the Bank should be able to bear the potential impact of the crisis in Ukraine without any problems.

In connection with the crisis in Ukraine, on 28 February 2022 the Czech National Bank initiated steps aimed at withdrawing the licence of Sberbank CZ, a.s. to operate as a bank. The Bank has no active exposure to Sberbank CZ, a.s.

Apart from the above facts, the Bank's management is not aware of any other events that have a significant impact on these Financial Statements.


26 April 2022

Governing body of the accounting entity:



Jiří Jirásek

Chairman of the Board of Directors



Pavel Fiala

Member of the Board of Directors



REPORT OF THE BOARD
OF DIRECTORS OF THE
NATIONAL DEVELOPMENT
BANK ON RELATIONS
BETWEEN AFFILIATED
ENTITIES FOR THE FISCAL
PERIOD OF 2021

REPORT OF THE BOARD OF DIRECTORS OF THE NDB ON RELATIONS BETWEEN AFFILIATED ENTITIES FOR THE FISCAL PERIOD OF 2021

I. AFFILIATED ENTITIES

Controlled entity:

Národní rozvojová banka, a.s. (National Development Bank),

with its registered office at Jeruzalémská 964/4, Prague 1, postal code 110 00,

Company ID No.: 44848943, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 1329 (hereinafter the “NDB”).

Controlling entity:

Czech Republic represented by:

- Ministry of Industry and Trade, with its registered office at Na Františku 32, Prague 1, postal code 110 15, Company ID No.: 47609109,
- Ministry of Regional Development, with its registered office at Staroměstské nám. 6, Prague 1, postal code 110 15, Company ID No.: 66002222,
- Ministry of Finance, with its registered office at Letenská 15, Prague 1, postal code 118 10, Company ID No.: 00006947.

The registered capital of the NDB in the amount of CZK 2,631,626,000 is divided into 10,988 registered shares in book-entry form, each with a par value of CZK 239,500, which are owned by the Czech Republic.

This Report has been prepared in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on commercial companies and cooperatives, as amended, and provides, inter alia, an overview of all contractual relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity that were effective in the fiscal period for which the Report on Relations is prepared, i.e. 2021.

The controlled entity represents a special state banking institution performing its activities in the public interest, designed to implement the measures of the economic policy of the Czech Republic and carried out through various types of financial instruments, in particular preferential bank guarantees and loans. Its role is to perform activities in the public interest from the position of a specialised banking institution, especially the implementation of programmes to support small and medium-sized enterprises and other selected areas of the economy requiring state support. The controlled entity fulfils this role by managing financial instruments using mainly the ESI Funds, funds from the European Fund for Strategic Investments and funds of the Czech Republic.

The relationship between the controlling entity and the controlled entity is balanced, the advantages and disadvantages are balanced and there are no significant risks arising from mutual relations. The relationship between the controlled entity and the entities controlled by the same controlling entity is also in balance.

In 2019, the NDB established a subsidiary, National Development Investments, j.s.c. (Národní rozvojová investiční, a.s.), Company ID No.: 08465797, with its registered office at Na Florenci 1496/5, Nové Město, 110 00 Prague 1 (hereinafter “NRI”), in which it holds a 100% share. The company was incorporated on 29 August 2019 by registration in the Commercial Register. The company’s objective is to fulfil the strategic goals of the NDB as a national development bank in the area of capital investments and subordinated credits within the Ministry of Industry and Trade’s programmes for small and medium-sized enterprises.

In addition, in 2020 the NDB established another subsidiary company, National Development Fund SICAV (Národní rozvojový fond SICAV, a.s.), Company ID No.: 09829482, with its registered office at Na Florenci 1496/5, Nové Město, 110 00 Prague 1 (herein after the “Fund”), in which it holds 100% of the founder’s shares. The company was incorporated on 1 February 2021 by registration in the Commercial Register. The objective of the company, which is a regulated over-limit investment fund of qualified investors, is to secure private funds for financing public benefit projects using capital from responsible investors on the basis of the principle of return on the invested funds.

The NDB has one affiliate, which is MUFIS a.s., Company ID No.: 60196696, with its registered office at Jeruzalémská 964/4, 110 00 Prague 1. A participating interest of 49% is held by the Czech Republic, represented by the Ministry of Finance, 49% is held by the NDB and 2% by the Union of Towns and Municipalities of the Czech Republic. The company was incorporated on 15 April 1994 by registration in the Commercial Register.

II. RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

In the relevant period, no damage occurred in connection with the fulfilment of the following contracts and agreements and their amendments, which the NDB concluded in 2021 or previous years in the following areas of its activities.

1. PROGRAMMES TO SUPPORT SMALL AND MEDIUM-SIZED ENTERPRISES

Agreement on the implementation of the Programme of loans for the business of workers (support off from the metallurgical industry, START, in 2000)

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 21 September 2000
- Subject matter: Determination of conditions for providing support for the business activities of workers (support off from the metallurgical industry).

Agreement on the implementation of regional programmes to support small and medium-sized enterprises in the Czech Republic approved for the period of 2001-2004, as amended by Amendment 1 of 4 April 2001, Amendment 2 of 2 October 2001, Amendment 3 of 14 January 2002 and Amendment 4 of 19 February 2002

- Parties: NDB and the Ministry of Regional Development
- Date of conclusion: 28 February 2001
- Subject matter: Negotiation of conditions for the implementation of programmes to support small and medium-sized enterprises, namely PREFERENCES, OPERATIONS, REGION, VILLAGE, REGENERATION, BORDERS and REGIONAL GUARANTEE, and conditions for the use and settlement of funds intended for financing the programmes.

Agreement on the implementation of the programme of support for entrepreneurs in areas affected by floods in 2002, RECONSTRUCTION, as amended by Amendment 1 of 20 December 2002, Amendment 2 of 29 April 2003 and Amendment 3 of 26 January 2010

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 18 September 2002
- Subject matter: Negotiating the conditions and procedures for the implementation of the programme of support for entrepreneurs in areas affected by floods in 2002, RECONSTRUCTION, and the use and settlement of funds intended to finance the programme.

Agreement No. 02/3220/051 on the use of funds from the Phare Revolving Fund managed by the Business Development Agency to finance the Programme of soft loans for start-up entrepreneurs – START, as amended by Amendment 1 of 20 December 2002, Amendment 2 of 12 September 2003 and Amendment 3 of 26 April 2010

- Parties: NDB, the Ministry of Industry and Trade and the Business and Innovation Agency (formerly the Business Development Agency)
- Date of conclusion: 27 September 2002
- Subject matter: Negotiation of conditions and procedures under which funds from the Phare Revolving Fund provided on the basis of the Memorandum of Understanding of 12 August 1997 on the use of returned Phare programme funds concluded between the European Commission and the Ministry of Industry and Trade to finance the START programme will be provided and settled, starting in 2002.

Agreement on the implementation of selected programmes under the Operational Programme Industry and Enterprise in the years 2004-2006, as amended by Amendment 1 of 5 November 2004, Amendment 2 of 10 August 2005, Amendment 3 of 4 November 2005, Amendment 4 of 17 March 2006, Amendment 5 of 4 April 2006, Amendment 6 of 18 April 2009, Amendment 7 of 5 June 2012, Amendment 8 of 15 February 2013, Amendment 9 of 23 February 2015 and Amendment 10 of 25 March 2020

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 20 May 2004
- ▀ Subject matter: The agreement stipulated the conditions and procedures for the implementation of the LOAN, START and INNOVATION programmes approved by Czech Government Resolution No. 414/2004 of 28 April 2004 and the conditions and procedures for the use and settlement of funds intended for financing these programmes under the Operational Programme Industry and Enterprise in the years 2004-2006.

Agreement on the implementation of programmes of support for small and medium-sized enterprises in the Czech Republic approved for the period of 2005-2006, as amended by Amendment 1 of 16 March 2005, Amendment 2 of 11 July 2005, Amendment 3 of 25 August 2005, Amendment 4 of 14 September 2005, Amendment 5 of 29 November 2005, Amendment 6 of 30 December 2005, Amendment 7 of 4 April 2006, Amendment 8 of 3 May 2006, Amendment 9 of 30 August 2006, Amendment 10 of 4 January 2007, Amendment 11 of 23 August 2007, Amendment 12 of 30 November 2007, Amendment 13 of 26 January 2010, Amendment 14 of 22 June 2010, Amendment 15 of 21 May 2018 and Amendment 16 of 25 March 2020

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 12 January 2005
- ▀ Subject matter: Determination of procedures and conditions for the implementation of the GUARANTEE, MARKET and PROGRESS programmes and conditions and procedures for the use and financing of these programmes.

Agreement on the establishment, use and management of the R 2006 Loan Fund from the resources of the Phare Revolving Fund, as amended by Amendment 1 of 16 February 2009 and Amendment 2 of 25 March 2020

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 21 November 2006
- ▀ Subject matter: Negotiation of conditions and procedures for the implementation of the LOAN programme in cases where the funds of the R 2006 Loan Fund are used for its financing, for the creation of which the funds of the Phare Revolving Fund were used.

Agreement on the implementation of the MARKET programme and on the creation and management of a loan fund and a guarantee fund, as amended by Amendment 1 of 23 August 2007, Amendment 2 of 30 November 2007, Amendment 3 of 25 April 2012 and Amendment 4 of 21 September 2015

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 14 May 2007
- ▀ Subject matter: Negotiation of conditions and procedures for the establishment of a loan and guarantee fund. In the part concerning the replenishment and administration of the P 2007 Guarantee Fund, the Agreement was replaced by the Agreement on the Implementation of the MARKET and GUARANTEE (guarantees for operating loans) programmes and on the creation and administration of the P 2007 Guarantee Fund, as amended.

Agreement on the completion of the implementation of the GUARANTEE and START programmes (preferential guarantees) and on the management of the E 2007 Guarantee Fund in the Operational Programme Enterprise and Innovation for the years 2007-2013

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 4 May 2015
- ▀ Subject matter: Agreeing on the conditions and procedures for completing the implementation of the Programmes in cases where the resources of the E 2007 Guarantee Fund are used for their financing.

This agreement replaced the Agreement on the implementation of the GUARANTEE, START (preferential guarantees) and PROGRESS (annex) programmes and on the establishment and management of the E 2007 Guarantee Fund in the Operational Programme Enterprise and Innovation for the years 2007-2013.

Agreement on the implementation of the MARKET and GUARANTEE (guarantees for working capital loans) programmes and on the creation and management of the P 2007 Guarantee Fund, as amended by Amendment 1 of 22 April 2009, Amendment 2 of 6 November 2009, Amendment 3 of 3 March 2010, Amendment 4 of 17 August 2010, Amendment 5 of 25 October 2010, Amendment 6 of 7 June 2011, Amendment 7 of 25 April 2012, Amendment 8 of 5 June 2012, Amendment 9 of 15 February 2013, Amendment 10 of 21 June 2013, Amendment 11 of 25 June 2014, Amendment 12 of 23 February 2015 and Amendment 13 of 9 December 2016

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 16 February 2009
- ▀ Subject matter: Negotiation of conditions for the administration of the P 2007 Guarantee Fund.

Agreement on the implementation of the PROGRESS and START programmes and on the creation and management of the E 2007 loan fund in the Operational Programme Enterprise and Innovation for 2007-2013, as amended by Amendment 1 of 12 July 2012, Amendment 2 of 21 June 2013, Amendment 3 of 11 December 2013, Amendment 4 of 4 May 2015, Amendment 5 of 21 May 2018 and Amendment 6 of 25 March 2020

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 13 March 2009
- ▀ Subject matter: Regulation of mutual relations in the creation, supplementation and administration of the E 2007 Loan Fund and determination of procedures and conditions for the implementation of programmes.

Agreement on the creation and management of the SV 2012 guarantee fund (INOSTART), as amended by Amendment 1 of 30 April 2014, Amendment 2 of 25 June 2014, Amendment 3 of 15 February 2016 and Amendment 4 of 20 June 2019

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 6 September 2012
- ▀ Subject matter: Creation, supplementation and administration of a guarantee fund to support innovative projects, including the establishment of procedures and conditions for the provision of guarantees.

Agreement on the creation and administration of the N 2013 Loan Fund, as amended by Amendment 1 of 25 June 2014, Amendment 2 of 21 September 2015 and Amendment 3 of 25 March 2020

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 11 December 2013
- ▀ Subject matter: Regulation of relations in the creation, financing and administration of the N 2013 Loan Fund and negotiation of conditions and procedures for the implementation of the REVIT programme.

Agreement on the implementation of the GUARANTEE 2015-2023 programme and on the creation and administration of the N 2015 Guarantee Fund, as amended by Amendment 1 of 21 September 2015, Amendment 2 of 8 February 2016, Amendment 3 of 23 August 2016, Amendment 4 of 9 December 2016, Amendment 5 of 26 October 2017, Amendment 6 of 21 May 2018 and Amendment 7 of 9 December 2019

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 23 February 2015
- ▀ Subject matter: Determination of conditions and procedures for the implementation of the GUARANTEE 2015-2023 programme and negotiation of conditions for the administration of the N 2015 Guarantee Fund.

Agreement on the creation and administration of the NX 2017 Loan Fund, as amended by Amendment 1 of 1 June 2017, Amendment 2 of 22 December 2017 and Amendment 3 of 5 September 2018

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 9 May 2017
- ▀ Subject matter: Regulation of relations in the creation, financing and administration of the NX 2017 Loan Fund and negotiation of conditions and procedures for the implementation of the ENERG programme.

Agreement on the creation and management of the E 2017 Loan Fund, as amended by Amendment 1 of 21 May 2018, Amendment 2 of 19 November 2018, Amendment 3 of 11 November 2019, Amendment 4 of 28 April 2020, Amendment 5 of 13 August 2020, Amendment 6 of 30 June 2021 and Amendment 7 of 13 December 2021

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 24 March 2017
- ▀ Subject matter: Regulation of relations in the creation, financing and administration of the E 2017 Loan Fund and negotiation of conditions and procedures for the implementation of the EXPANSION programme.

Agreement on the creation and management of the EX 2017 Loan Fund, as amended by Amendment 1 of 26 June 2018, Amendment 2 of 16 April 2019, Amendment 3 of 3 February 2020, Amendment 4 of 6 August 2020 and Amendment 5 of 20 January 2021

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 21 June 2017
- Subject matter: Regulation of relations in the creation, financing and administration of the EX 2017 Loan Fund and negotiation of conditions and procedures for the implementation of the ENERGY SAVINGS programme.

Agreement on the creation and management of the VC 2017 fund

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 20 December 2017
- Subject matter: Regulation of relations in the creation, financing and administration of the VC 2017 fund and negotiation of conditions and procedures for the implementation of investments in the Central Europe Fund of Funds.

Agreement on the implementation of the VADIUM programme and on the creation and administration of the V 2018 Guarantee Fund

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 26 June 2018
- Subject matter: Regulation of relations in the creation, financing and administration of the V 2018 Guarantee Fund and negotiation of conditions and procedures for the implementation of the VADIUM programme.

Agreement on the creation and administration of the E 2018 Guarantee Fund, as amended by Amendment 1 of 27 March 2020, Amendment 2 of 22 May 2020, Amendment 3 of 3 August 2020 and Amendment 4 of 30 June 2021

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 19 November 2018
- Subject matter: Regulation of relations in the creation, financing and administration of the E 2018 Guarantee Fund and negotiation of conditions and procedures for the implementation of the EXPANSION programme.

Agreement on the creation and management of the COVID 2020 loan fund, as amended by Amendment 1 of 25 March 2020

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 16 March 2020
- Subject matter: creation, supplementation and administration of the COVID 2020 Loan Fund, agreement on the conditions and procedures for the implementation of the Programme, regulation of relations and rights and obligations.

Agreement on the creation and administration of the COVID PRAGUE 2020 Guarantee Fund, as amended by Amendment 1 of 15 July 2020 and Amendment 2 of 9 June 2021

- Parties: NDB, the Ministry of Industry and Trade and the City of Prague
- Date of conclusion: 16 April 2020
- Subject matter: creation, supplementation and administration of the COVID PRAGUE 2020 Guarantee Fund, agreement on the conditions and procedures for the implementation of the programme, regulation of relations and rights and obligations.

Agreement on the creation and administration of the COVID III guarantee fund, as amended by Amendment 1 of 25 June 2020, Amendment 2 of 22 December 2020, Amendment 3 of 30 June 2021 and Amendment 4 of 13 December 2021

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 19 May 2020
- Subject matter: Regulation of conditions and relations in the creation and administration of the COVID III Guarantee Fund, transfer of funds from the state budget and disbursement of funds from the COVID III Guarantee Fund, creation of conditions for portfolio liability and regulation of other rights and obligations.

Agreement on the implementation of the COVID Travel Agency Guarantee programme and on the creation and administration of the CK 2021 guarantee fund

- Parties: NDB and the Ministry of Industry and Trade
- Date of conclusion: 19 February 2021
- Subject matter: Creation, supplementation and administration of the CK 2021 Guarantee Fund, agreement on the conditions and procedures for the implementation of the Programme, regulation of relations and rights and obligations.

Agreement on the creation and administration of the COVID III - Invest Guarantee Fund

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 30 June 2021
- ▀ Subject matter: Creation and administration of the COVID III - Invest Guarantee Fund, transfer and disbursement of funds, agreement on the conditions and procedures for the implementation of the Programme, regulation of relations and rights and obligations.

2. PROGRAMMES TO SUPPORT HOUSING FOR CITIZENS AFFECTED BY FLOODS**Agreement on the implementation of Government Regulation No. 190/1997 Coll., as amended by Amendment 1 of 30 October 2002, Amendment 2 of 31 October 2008 and Amendment 3 of 15 September 2014**

- ▀ Parties: NDB and the Ministry of Regional Development
- ▀ Date of conclusion: 23 September 1997
- ▀ Subject matter: Negotiation of mutual relations between the contracting parties aimed at the implementation of the Regulation of the Government of the Czech Republic No. 190/1997 Coll., on the provision of financial assistance in the area of housing to citizens affected by the floods in 1997.

Agreement on the implementation of Government Regulation No. 148/1997 Coll. and Government Regulation No. 149/1997 Coll., as amended by Amendment 1 of 23 June 1998, Amendment 2 of 30 March 1999, Amendment 3 of 29 April 1999, Amendment 4 of 26 April 2000, Amendment 5 of 30 October 2002, Amendment 6 of 31 October 2008 and Amendment 7 of 15 September 2014

- ▀ Parties: NDB and the Ministry of Regional Development
- ▀ Date of conclusion: 7 November 1997
- ▀ Subject matter: Negotiation of mutual relations between the contracting parties aimed at the implementation of Government Regulation No. 148/1997 Coll., on the provision of interest-free loans for housing construction, and Government Regulation No. 149/1997 Coll., which lays down the conditions for providing additional financial assistance for mortgage lending.

3. PROGRAMME COOPERATION WITH OTHER MINISTRIES**Agreement on the implementation of the Guarantee of Foreign Development Cooperation (ZRS) programme and on the creation and administration of the ZRS 2019 Guarantee Fund, as amended by Amendment 1 of 27 October 2021**

- ▀ Parties: NDB and the Ministry of Foreign Affairs
- ▀ Date of conclusion: 19 December 2018
- ▀ Subject matter: Creation, supplementation and administration of the ZRS 2019 Guarantee Fund and negotiation of conditions and procedures for the implementation of the ZRS Guarantee (Záruka) programme, where the funds of the ZRS 2019 Guarantee Fund are used for their financing.

Agreement on the creation and administration of the SP 2019 Loan Fund

- ▀ Parties: NDB and the Ministry of Labour and Social Affairs
- ▀ Date of conclusion: 30 July 2019
- ▀ Subject matter: Regulation of relations in the creation, financing and administration of the SP 2019 Loan Fund and negotiation of conditions and procedures for the implementation of the S-enterprise (S-podnik) programme.

Agreement on the implementation of the travel agency guarantee subtitle and on the creation and administration of the CK 2022 guarantee fund

- ▀ Parties: NDB and the Ministry of Regional Development
- ▀ Date of conclusion: 22 December 2021
- ▀ Subject matter: Creation, supplementation and administration of the CK 2022 Guarantee Fund, agreement on the conditions and procedures for the implementation of the Subtitle, regulation of relations and rights and obligations.

4. LOANS TO MUNICIPALITIES

Financial agreement on the establishment and management of the Regional Development Fund in the Czech Republic CZ 96.03.01, as amended by Amendment 1 of 23 May 2000, Amendment 2 of 30 June 2003, Amendment 3 of 18 December 2003, Amendment 4 of 16 June 2006, Amendment 5 of 28 April 2008, Amendment 6 of 11 February 2009, Amendment 7 of 18 October 2010, Amendment 8 of 20 October 2014, Amendment 9 of 21 September 2015 and Amendment 10 of 16 December 2020

- ▀ Parties: NDB and the Ministry of Regional Development
- ▀ Date of conclusion: 30 June 1999
- ▀ Subject matter: Establishment of the Regional Development Fund with the original goal of supporting the construction and development of industrial zones, which was subsequently expanded to support the development of transport, water and other municipal infrastructure, as well as setting the principles for organising, managing and providing loans from the Regional Development Fund.

5. PROVISION OF BANKING SERVICES

5.1 CONTRACTS WITH STATE ORGANISATIONAL CONSTITUENTS TO ENSURE THE IMPLEMENTATION AND ADMINISTRATION OF PAYMENTS UNDER INFRASTRUCTURE PROGRAMMES

Agreement on securing the activities of a finance manager in connection with loans received from the European Investment Bank, Reg. No. 2001-9003

- ▀ Parties: NDB, the Ministry of Finance and the State Fund for Transport Infrastructure
- ▀ Date of conclusion: 3 September 2001
- ▀ Subject matter: Arranging mutual relations between the contracting parties in securing activities related to loans received by the NDB from the European Investment Bank to finance programmes for the renewal and construction of transport and water management infrastructure in the Czech Republic.

Agreement on ensuring cooperation between the Ministry of Finance, the Ministry of Agriculture and the NDB in the implementation of measures included in the Water Management Investment Support Programme in the Czech Republic (EIB), Reg. No. 2002-9009, as amended by Amendment 1 of 16 August 2005

- ▀ Parties: NDB, the Ministry of Finance and the Ministry of Agriculture
- ▀ Date of conclusion: 24 February 2002
- ▀ Subject matter: Arranging mutual relations between the contracting parties in securing activities related to loans received by the NDB from the European Investment Bank and the Bank of the Council of Europe to finance programmes for the renewal and construction of water management infrastructure in the Czech Republic.

Agreement on the management of financial resources for the Czech Motorways B Project, as amended by Amendment 1 of 22 December 2004 and Amendment 2 of 22 March 2013

- ▀ Parties: NDB, the Ministry of Finance and the State Fund for Transport Infrastructure
- ▀ Date of conclusion: 4 July 2002
- ▀ Subject matter: Arranging mutual relations between the contracting parties in securing activities related to the implementation of a loan received by the Czech Republic from the European Investment Bank for the Czech Motorways B Project.

Agreement on ensuring mutual cooperation in the implementation of the Czech Motorways B Project, as amended by Amendment 1 of 16 March 2005

- ▀ Parties: NDB and the Ministry of Transport
- ▀ Date of conclusion: 20 September 2002
- ▀ Subject matter: Negotiation of mutual relations between the contracting parties in the financing of the Czech Motorways B Project.

Agreement on ensuring mutual cooperation in the administration of payments of part of the interest on commercial loans under the programme 229 310 - Construction and renovation of water supply and sewerage infrastructure and programme 129 180 - Construction and renovation of water supply and sewerage infrastructure II, as amended by Amendment 1 of 15 October 2009 and Amendment 2 of 29 July 2010

- ▀ Parties: NDB and the Ministry of Agriculture
- ▀ Date of conclusion: 7 August 2008
- ▀ Subject matter: Negotiation of mutual relations between the contracting parties in the administration of payments of part of the interest on commercial loans within the two programmes for the construction and renewal of water management infrastructure.

Agreement on the administration of the owner's account with the Central Securities Depository

- ▀ Parties: NDB and the Ministry of Regional Development
- ▀ Date of conclusion: 29 August 2014
- ▀ Subject matter: Regulation of mutual rights and obligations of the contracting parties in the administration of the owner's account in the Central Securities Depository.

Agreement on the administration of the owner's account with the Central Securities Depository

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 11 November 2021
- ▀ Subject matter: Regulation of mutual rights and obligations of the contracting parties in the administration of the owner's account in the Central Securities Depository.

5.2 CONTRACTS FOR THE ESTABLISHMENT AND MAINTENANCE OF ACCOUNTS

Agreement on the opening and maintenance of a special current account number 21/2006/U

- ▀ Parties: NDB and the Ministry of Industry and Trade
- ▀ Date of conclusion: 21 November 2006
- ▀ Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Agreement on the opening and maintenance of special current accounts number 09/2009/U, as amended by Amendment 1 of 17 March 2011 and Amendment 2 of 10 May 2013

- ▀ Parties: NDB and the Ministry of Agriculture
- ▀ Date of conclusion: 15 October 2009
- ▀ Subject matter: Agreement on the opening and maintenance of special current accounts in CZK.

6. AML COOPERATION AGREEMENT

Agreement on cooperation within the Money Web Lite project

- ▀ Parties: NDB and the Ministry of Finance - Financial Analytical Department
- ▀ Date of conclusion: 21 May 2014
- ▀ Subject matter: Transmission of information for the purpose of fulfilling the statutory notification obligation.

7. FINANCIAL MARKETS

In the course of 2021, the NDB accepted short-term deposits from the Ministry of Finance with a maturity of up to 14 days in the form of deposits and reverse repo operations. The operations took place under standard conditions for concluding transactions in the financial markets.

III. RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

In the fiscal period, the contractual relations between the NDB, the subsidiaries of the NDB and other entities controlled by the Czech Republic were concentrated on activities to the extent specified in items 1 to 12 of this chapter.

No damage occurred during the fiscal period in connection with the fulfilment of the following contracts and amendments. Individual banking services were performed under standard business conditions and the NDB did not incur additional costs, risks or any harm from them.

1. IMPLEMENTATION OF A PROGRAMME TO SUPPORT REPAIRS OF APARTMENT BUILDINGS

Agreement on the implementation of the Programme for the support of repairs of apartment buildings built with panel technology in the part concerning subsidies, as amended by Amendment 1 of 29 February 2012, Amendment 2 of 8 April 2013, Amendment 3 of 3 September 2013, Amendment 4 of 1 September 2014 and Amendment 5 of 11 August 2016

- ✓ Parties: NDB and the State Fund for Investment Support (formerly the State Housing Development Fund)
- ✓ Date of conclusion: 21 December 2011
- ✓ Subject matter: Regulation of mutual relations between the State Fund for Investment Support and the NDB in the implementation of the Regulation, the PANEL programme to support repairs of apartment buildings built with panel technology and the NEW PANEL programme to support repairs and modernisation of apartment buildings.

Agreement on the implementation of the Programme for the support of repairs of apartment buildings in the part concerning bank guarantees (Consolidated Agreement 2), as amended by Amendment 1 of 3 September 2013, Amendment 2 of 23 February 2017

- ✓ Parties: NDB and the State Fund for Investment Support
- ✓ Date of conclusion: 17 June 2013
- ✓ Subject matter: Regulation of mutual relations between the State Fund for Investment Support and the NDB in the administration of guarantees provided under the PANEL programme to support repairs of apartment buildings built with panel technology and the NEW PANEL programme to support repairs and modernisation of apartment buildings for the period in which new guarantees will no longer be provided.

2. IMPLEMENTATION OF RELATIONS WITH THE NATIONAL DEVELOPMENT INVESTMENTS, J.S.C.

Agreement on the provision of a voluntary shareholder surcharge outside the company's registered capital

- ✓ Parties: NDB and NRI
- ✓ Date of conclusion: 18 December 2019
- ✓ Subject matter: Regulation of mutual relations between the NDB and NRI in connection with the provision of a voluntary surcharge of the sole shareholder (NDB) to the equity of NRI outside the registered capital of NRI.

Agreement on cooperation and provision of services

- ✓ Parties: NDB and NRI
- ✓ Date of conclusion: 6 May 2020
- ✓ Subject matter: Negotiation of more detailed conditions and the nature of services provided by the NDB for NRI in order to fully secure its activities.

Agreement on the fee for the provision of services pursuant to the Agreement on cooperation and provision of services of 6 May 2020

- ✓ Parties: NDB and NRI
- ✓ Date of conclusion: 14 April 2021
- ✓ Subject matter: Determination of the amount of the fee for the provision of services for 2021, resulting from the agreement on cooperation and provision of services concluded between the NDB and NRI.

Agreement to procure the purchase or sale of investment instruments

- ✓ Parties: NDB and NRI
- ✓ Date of conclusion: 6 May 2021
- ✓ Subject matter: The procurement of the purchase, sale or other disposition of investment instruments by the NDB for the client for the purpose of implementing what is known as the IPO Fund.

Personal Data Processing Agreement

- ▣ Parties: NDB and NRI
- ▣ Date of conclusion: 11 June 2021
- ▣ Subject matter: The Fund, as the controller, entrusted the NDB, as the processor, with the processing of personal data provided in the context of the performance of the Agreement on cooperation and provision of services concluded between the parties.

3. IMPLEMENTATION OF RELATIONS WITH THE NATIONAL DEVELOPMENT FUND SICAV

Agreement on cooperation and provision of services

- ▣ Parties: NDB and the Fund
- ▣ Date of conclusion: 11 February 2021
- ▣ Subject matter: Negotiation of the detailed terms and nature of the services covered by the management and administration of the investment funds provided by the NDB to the Fund in order to fully secure the activities carried out by it.

Agreement on the fee for the provision of services following the Agreement on cooperation and provision of services

- ▣ Parties: NDB and the Fund
- ▣ Date of conclusion: 21 April 2021
- ▣ Subject matter: Determination of the amount of the fee for the provision of services, resulting from the agreement on cooperation and provision of services concluded between the NDB and the Fund.

Agreement on the lease of premises for commercial purposes

- ▣ Parties: NDB and the Fund
- ▣ Date of conclusion: 12 February 2021
- ▣ Subject matter: The provision of a lease of premises by the NDB for use by the Fund for the purpose of administrative activities in accordance with its business.

Personal Data Processing Agreement

- ▣ Parties: NDB and the Fund
- ▣ Date of conclusion: 14 June 2021
- ▣ Subject matter: The Fund, as the controller, entrusted the NDB, as the processor, with the processing of personal data provided in the context of the performance of the Agreement on cooperation and provision of services concluded between the parties.

4. IMPLEMENTATION OF RELATIONS WITH MUFIS A.S.

Mandate agreement, as amended by Amendment 1 of 20 December 2017 and Amendment 2 of 28 August 2018

- ▣ Parties: NDB and MUFIS a.s.
- ▣ Date of conclusion: 7 November 2012
- ▣ Subject matter: The NDB, on behalf of MUFIS a.s. and on its account, for a fee, performs and procures activities aimed at the realisation of receivables and liabilities of MUFIS a.s., as well as the company's obligations arising from generally binding regulations.

5. IMPLEMENTATION OF RELATIONS WITH THE CZECH EXPORT BANK (ČESKÁ EXPORTNÍ BANKA, A.S.)

Agreement on the conditions for providing portfolio guarantees in the GUARANTEE 2015-2023 programme

- ▣ Parties: NDB and Česká exportní banka, a.s.
- ▣ Date of conclusion: 4 May 2015
- ▣ Subject matter: Establishment of principles for the coordination of procedures for the provision of bank guarantees for loans of Česká exportní banka, a.s. and principles for the inclusion of loans in the portfolio of guaranteed loans and information obligations of Česká exportní banka, a.s. to the NDB.

Agreement on cooperation in the provision of individual guarantees in the GUARANTEE 2015-2023 programme

- ▀ Parties: NDB and Česká exportní banka, a.s.
- ▀ Date of conclusion: 11 May 2015
- ▀ Subject matter: Establishment of principles for the coordination of procedures for the provision of bank guarantees for loans of Česká exportní banka, a.s. and information obligations of Česká exportní banka, a.s. to the NDB.

Partnership and cooperation memorandum

- ▀ Parties: NDB and Česká exportní banka, a.s.
- ▀ Date of conclusion: 30 June 2017
- ▀ Subject matter: Support and financing of SMEs, development and joint implementation of financial instruments and preparation of their legislative environment.

6. IMPLEMENTATION OF RELATIONS WITH THE CZECH DEVELOPMENT AGENCY AND THE EXPORT GUARANTEE AND INSURANCE CORPORATION

Partnership and cooperation memorandum

- ▀ Parties: NDB, the Czech Development Agency and the Export Guarantee and Insurance Corporation
- ▀ Date of conclusion: 11 October 2017
- ▀ Subject matter: Exchange of information and coordination of activities, especially in the implementation of national programmes and the implementation of European Union initiatives; informing target groups about products and projects provided by the NDB, the Czech Development Agency and the Export Guarantee and Insurance Corporation.

7. IMPLEMENTATION OF RELATIONS WITH CZECHINVEST, BUSINESS AND INVESTMENT DEVELOPMENT AGENCY

Partnership and cooperation memorandum

- ▀ Parties: NDB and CzechInvest, Business and Investment Development Agency
- ▀ Date of conclusion: 10 October 2017
- ▀ Subject matter: Exchange of information and coordination of activities, especially in the provision of products in the regions, informing target groups about the products of the NDB and CzechInvest, Business and Investment Development Agency, support for startups, support for the development of brownfields, innovation and technology transfer.

8. IMPLEMENTATION OF RELATIONS WITH THE TECHNOLOGY AGENCY OF THE CZECH REPUBLIC

Partnership and cooperation memorandum

- ▀ Contractual relations: NDB and the Technology Agency of the Czech Republic
- ▀ Date of conclusion: 19 March 2018
- ▀ Subject matter: Cooperation on the common interest in support for research, experimental development and innovation with a focus on support for innovative small and medium-sized enterprises and their involvement in research and development projects in cooperation with research organisations.

9. IMPLEMENTATION OF RELATIONS WITHIN THE MINISTRY OF INDUSTRY AND TRADE PROJECT "CZECH REPUBLIC – THE COUNTRY FOR THE FUTURE"

Memorandum on shared business support

- ▀ Parties: Ministry of Industry and Trade, the NDB, CzechInvest (Business and Investment Development Agency), CzechTrade (Czech Trade Promotion Agency), CzechTourism, the Czech Export Bank (Česká exportní banka, a.s.), the Export Guarantee and Insurance Corporation, and the Technology Agency of the Czech Republic

- 📌 Date of conclusion: 2 October 2018
- 📌 Subject matter: Cooperation between partners through the exchange of information, sharing contacts, coordination of activities, strengthening horizontal links and other activities.

10. PROVISION OF BANKING SERVICES

Internet Banking Agreement No. 09/2009/IB

- 📌 Parties: NDB and the State Fund for Investment Support
- 📌 Date of conclusion: 5 May 2009
- 📌 Subject matter: Mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

Agreement on management of current accounts No. 1/1999 of 16 April 1999, Amendment 1 of 30 June 2011, Amendment 2 of 17 December 2013 and Amendment 3 of 24 March 2015

- 📌 Parties: NDB and MUFIS a.s.
- 📌 Date of conclusion: 16 April 1999
- 📌 Subject matter: Agreement on management of current accounts in CZK.

Agreement on the establishment and maintenance of a special current account No. 23/2004/UE, as amended by Amendment 1 of 15 November 2005, Amendment 2 of 14 May 2009 and Amendment 3 of 6 December 2012

- 📌 Parties: NDB and MUFIS a.s.
- 📌 Date of conclusion: 14 December 2004
- 📌 Subject matter: Agreement on the establishment and maintenance of a special current account in CZK and mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

Framework agreement on term deposits number 23/2004/T

- 📌 Parties: NDB and MUFIS a.s.
- 📌 Date of conclusion: 14 December 2004
- 📌 Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Internet Banking Agreement No. 06/2009/IB

- 📌 Parties: NDB and MUFIS a.s.
- 📌 Date of conclusion: 14 May 2009
- 📌 Subject matter: Mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

Agreement on settlement of over-the-counter trades and transactions number 1/2015/MOT

- 📌 Parties: NDB and Česká exportní banka, a.s.
- 📌 Date of conclusion: 14 October 2015
- 📌 Subject matter: Settlement of agreed securities transactions on the basis of an instruction from the Czech Export Bank, as well as the conclusion and settlement of block transactions between the contracting parties.

Agreement on cooperation in payments made by type A postal orders

- 📌 Parties: NDB and Česká pošta, s.p.
- 📌 Date of conclusion: 30 January 2006
- 📌 Subject matter: Arrangement of mutual relations between the contracting parties in the execution of payment transactions via type A postal orders.

Cooperation agreement

- 📌 Parties: NDB and the State Fund for Transport Infrastructure
- 📌 Date of conclusion: 26 May 2017
- 📌 Subject matter: creation of a framework for cooperation between the contracting parties to secure payments for selected projects in the transport sector, which are financed from the budget of the State Housing Development Fund.

Agreement on the opening and maintenance of a special current account number 04/2017/UK

- Parties: NDB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK with an overdraft facility.

Framework agreement on term deposits number 01/2017/TC

- Parties: NDB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Internet Banking Agreement No. 02/2017/IB

- Parties: NDB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

Agreement on the opening and maintenance of a special current account number 03/2019/U

- Parties: NDB and NRI
- Date of conclusion: 3 September 2019
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK, an account for a subsidiary.

Internet Banking Agreement No. 02/2019/IB

- Parties: NDB and NRI
- Date of conclusion: 3 September 2019
- Subject matter: Mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

Framework agreement on term deposits number 03/2019/T

- Parties: NDB and NRI
- Date of conclusion: 3 September 2019
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Agreement on the opening and maintenance of a special current account number 02/2020/U

- Parties: NDB and NRI
- Date of conclusion: 26 March 2020
- Subject matter: Agreement on the opening and maintenance of special accounts in CZK, an account for a subsidiary (IPO Fund).

Agreement on the opening and maintenance of a special current account number 03/2020/U

- Parties: NDB and NRI
- Date of conclusion: 26 March 2020
- Subject matter: Agreement on the opening and maintenance of special accounts in CZK, an account for a subsidiary (Brownfield Fund).

Agreement on the opening and maintenance of a special current account number 01/2020/U

- Parties: NDB and ČPP Transgas, s.p.
- Date of conclusion: 13 February 2020
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Framework agreement on term deposits number 1/2020/T

- Parties: NDB and ČPP Transgas, s.p.
- Date of conclusion: 13 February 2020
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Agreement on the opening and maintenance of a special current account number 02/2021/U

- Parties: NDB and the Fund
- Date of conclusion: 3 February 2021
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Internet Banking Agreement No. 02/2021/IB

- Parties: NDB and the Fund
- Date of conclusion: 3 February 2021
- Subject matter: Mutual agreement of the parties enabling remote access of the client to the NDB Internet Banking.

11. OTHER

Agreement on the use of a payment machine to pay for postal services number 2017/26469

- Parties: NDB and Česká pošta, s.p.
- Date of conclusion: 12 December 2017
- Subject matter: Agreement on the conditions and use of the NEOPOST stamping machine.

Hybrid Mail Services Agreement No. 2018/18523

- Parties: NDB and Česká pošta, s.p.
- Date of conclusion: 20 December 2018
- Subject matter: Agreement on the conditions and use of the Hybrid Mail service.

12. FINANCIAL MARKETS

During 2021, the NDB accepted deposits from the Czech Export Bank, the Export Guarantee and Insurance Corporation and MUFIS a.s., in the form of short-term deposits with a maturity of up to 90 days. The operations took place under standard conditions for concluding transactions in the financial markets.

In Prague, on 24 February 2022



Jiří Jirásek
Chairman of the Board of Directors



Pavel Fiala
Member of the Board of Directors

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