

365.bank, a. s.

Interim separate financial statements

Prepared in accordance with International
accounting standard IAS 34 Interim Financial
Reporting as adopted by European Union

for 9 months ending 30 September 2021

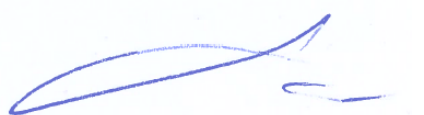
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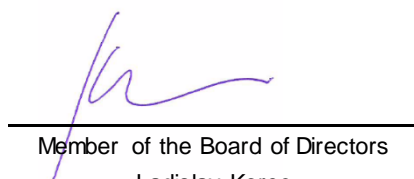
A. Separate statement of financial position

EUR'000	Notes	30.9.2021	31.12.2020
Assets			
Cash, cash balances at central banks and other demand deposits	4	88 547	293 661
Financial assets held for trading	5	133	2 648
Non-trading financial assets mandatorily at fair value through profit or loss	6	320 056	309 513
Financial assets at fair value through other comprehensive income	7	390 393	437 064
Financial assets at amortised cost	8	3 453 529	3 177 481
<i>Debt securities</i>	8	397 132	364 764
<i>Loans and advances</i>	8	3 027 336	2 780 170
thereof: Loans and advances to financial institutions	8	13 079	13 107
thereof: Loans and advances to customers	8	3 014 257	2 767 063
<i>Other financial assets</i>	8	29 061	32 547
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1 456	2 276
Investments in subsidiaries, joint ventures and associates	10	68 662	78 579
Tangible assets	11	62 651	58 134
Intangible assets	12	31 705	35 348
Deferred tax assets	13	23 314	24 688
Other assets	14	19 966	18 514
TOTAL ASSETS		4 460 412	4 437 906
Liabilities			
Financial liabilities held for trading	5	2 179	746
Financial liabilities at amortised cost	15	3 697 631	3 723 793
<i>Deposits</i>	15	3 633 674	3 671 084
thereof: Subordinated debt	15	8 013	8 014
<i>Other financial liabilities</i>	15	63 957	52 709
Derivatives – Hedge accounting	9	6 440	10 318
Provisions	16	757	2 594
Current tax liabilities		3 499	1 552
Other liabilities	17	8 737	11 552
Total liabilities		3 719 243	3 750 555
Share capital and share premium	18	367 043	367 043
Retained earnings	18	299 744	254 082
Other equity	18	74 382	66 226
Total equity	18	741 169	687 351
TOTAL EQUITY AND LIABILITIES		4 460 412	4 437 906

These separate financial statements, which include the notes on pages 7 - 47, were approved by the Board of Directors on 27 October 2021.



Chairman of the Board of Directors
Andrej Zat'ko



Member of the Board of Directors
Ladislav Korec

B. Separate statement of profit or loss and other comprehensive income

EUR'000	Notes	1-9/2021	1-9/2020
Statement of profit or loss			
Net interest income	20	99 754	108 245
<i>Interest income</i>		103 625	114 416
<i>Interest expenses</i>		(3 871)	(6 171)
Net fee and commission income	21	25 653	25 512
<i>Fee and commission income</i>		47 195	45 011
<i>Fee and commission expenses</i>		(21 542)	(19 499)
Dividend income	22	14 781	15 754
Net gains/(losses) from financial transactions	23	15 285	71
Other operating income and expenses	24	(1 258)	(7 134)
<i>Other operating income</i>	24	3 727	1 885
<i>Other operating expenses</i>	24	(4 663)	(8 906)
<i>Gains/(losses) on derecognition of non-financial assets, net</i>	24	(322)	(113)
Administrative expenses	25	(56 652)	(53 574)
Depreciation	26	(18 686)	(14 866)
Operating profit before impairment losses and provisions		78 877	74 008
Release/(creation) of provisions	27	1 844	1 051
Net impairment of financial assets not valued at fair value through profit and loss	27	(21 903)	(35 729)
Net impairment of investments in subsidiaries, joint ventures and associates	27	2 142	-
Net impairment on non-financial assets	27	318	-
Profit before tax		61 278	39 330
Income tax	28	(11 184)	(7 061)
Profit after tax		50 094	32 269
Statement of other comprehensive income			
Items that may be reclassified to profit or loss		3 720	(716)
<i>Revaluation of debt securities at fair value through other comprehensive income</i>		(3 399)	(200)
<i>Impairment losses for debt securities at fair value through other comprehensive income</i>		8 124	(550)
<i>Deferred tax related to items that may be reclassified to profit or loss</i>		(1 007)	153
<i>Foreign currency translation</i>		2	(119)
Items that may not be reclassified to profit or loss		-	116
<i>Revaluation of equity instruments at fair value through other comprehensive income</i>		(1)	149
<i>Deferred tax related to items that may not be reclassified to profit or loss</i>		1	(33)
Total other comprehensive income		3 720	(600)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		53 814	31 669
Earnings per share			
Profit after tax		50 094	32 269
Number of issued shares		330 899	330 899
Basic and diluted earnings per share in EUR		151	98

The notes on pages 7 - 47 are an integral part of these financial statements.

C. Separate statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2021	366 305	738	59 561	6 667	(2)	254 082	687 351
Total comprehensive income	-	-	-	3 718	2	50 094	53 814
Profit after tax	-	-	-	-	-	50 094	50 094
Items that may be reclassified to profit or loss	-	-	-	3 718	2	-	3 720
Other transactions	-	-	4 436	-	-	(4 432)	4
Transfer to legal reserve fund	-	-	4 436	-	-	(4 436)	-
Other movements	-	-	-	-	-	4	4
Closing balance as of 30 September 2021	366 305	738	63 997	10 385	-	299 744	741 169

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2020	366 305	738	54 988	6 364	7	214 297	642 699
Total comprehensive income	-	-	-	(481)	(119)	32 269	31 669
Profit after tax	-	-	-	-	-	32 269	32 269
Items that may be reclassified to profit or loss	-	-	-	(597)	(119)	-	(716)
Items that may not be reclassified to profit or loss	-	-	-	116	-	-	116
Other transactions	-	-	4 573	-	-	(4 573)	-
Transfer to legal reserve fund	-	-	4 573	-	-	(4 573)	-
Closing balance as of 30 September 2020	366 305	738	59 561	5 883	(112)	241 993	674 368

The notes on pages 7 - 47 are an integral part of these financial statements.

D. Separate statement of cash flows

EUR'000	Notes	30.9.2021	30.9.2020
Profit before tax		61 278	39 330
<i>Adjustments:</i>			
Net interest income		(99 754)	(108 245)
Dividend income		(14 781)	(15 754)
Depreciation		18 686	14 866
Release/(creation) of provisions		(1 844)	(1 051)
Gains/(losses) on derecognition of non-financial assets, net		322	113
Gains on derecognition of subsidiaries		(10 092)	-
Net impairment of financial assets not valued at fair value through profit and loss		21 903	35 729
Net impairment of investments in subsidiaries, joint ventures and associates		(2 142)	-
Net impairment on non-financial assets		(318)	-
Cash flows from/(used in) operating activities before changes in working capital		(26 742)	(35 012)
<i>(Increase)/decrease in operating assets:</i>			
Cash balances at central banks		202 608	190 997
Financial assets held for trading		2 515	(7 611)
Non-trading financial assets mandatorily at fair value through profit or loss		(10 544)	(38 513)
Financial assets at amortised cost		(248 466)	(412 095)
Loans and advances		(251 952)	(411 142)
Other financial assets		3 486	(953)
Other assets		(1 452)	5 134
<i>Increase/(decrease) in operating liabilities:</i>			
Financial liabilities held for trading		1 433	(3 766)
Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities		(25 452)	(11 216)
Deposits		(31 148)	(11 620)
Other financial liabilities		5 696	404
Derivatives – Hedge accounting		(3 878)	925
Other liabilities		(2 816)	(5 608)
Cash flows from operating activities before interest and income tax		(112 794)	(316 765)
Interest received		95 322	92 324
Interest paid		(9 366)	(3 002)
Income tax paid		(8 869)	(5 400)
Net cash flows from/(used in) operating activities		(35 707)	(232 843)
Cash flows from investing activities			
<i>Financial assets at amortised cost - debt securities</i>			
Purchase		(39 652)	(27 483)
Proceeds from sale and maturity		8 951	164 514
Interest received		1 611	8 888
<i>Financial assets at fair value through other comprehensive income - debt securities</i>			
Purchase		(67 827)	(31 160)
Proceeds from sale and maturity		104 872	100 343
Interest received		8 117	10 602
<i>Investments in subsidiaries, joint ventures and associates</i>		32 049	4 242
<i>Tangible and intangible assets</i>			
Purchase		(10 003)	(16 798)
Proceeds from sale		2	4
Net cash flows from/(used in) investing activities		38 120	213 152
Cash flows from financing activities			
<i>Financial liabilities at amortised cost - subordinated debt</i>			
Interest paid		(360)	(361)
<i>Financial liabilities at amortised cost - lease liabilities</i>			
Lease payments		(4 205)	(4 086)
Interest expense		(408)	(332)
Net cash flows from/(used in) financing activities		(4 973)	(4 779)
Net increase/(decrease) in cash and cash equivalents	4	(2 560)	(24 470)
Cash and cash equivalents at the beginning of the period	4	50 612	70 317
Cash and cash equivalents at the end of the period	4	48 052	45 847

The notes on pages 7 - 47 are an integral part of these financial statements.

E. Notes to the separate financial statements

1. General information

Poštová banka, a.s. („the Bank“) was established and incorporated in the Commercial Register on 31 December 1992. The Bank commenced its activities on 1 January 1993. On 3.7.2021 the Bank changed its business name to 365.bank, a.s. („the Bank“). The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank's identification ('IČO') is 31340890, tax ('DIČ') is 2020294221 and value added tax ('IČ DPH') number is SK7020000680. The Bank is registered as a VAT member of Poštová banka Group.

The principal activities of the Bank are as follows:

- Accepting and providing deposits in euro and in foreign currencies
- Providing loans and guarantees in euro and foreign currencies
- Providing banking services to the public
- Providing services on the capital market.

The Bank operates in the Slovak Republic through a network of branches, and, under a contract with Slovenská Pošta, a.s., the Bank sells its products and services through post offices and financial services compartments located throughout the Slovak Republic.

On 18 November 2009, Poštová banka, a.s. branch Czech Republic was incorporated in the Commercial Register of the Czech Republic. In meeting of the Board of Directors dated 28.4. 2021, the Bank decided on termination of the activities of its branch and on disposal of the organizational unit as at 30.6.2021. The process of disposal included the accounting and tax settlement of credit transactions that were managed by the branch. A portion of the loans was repaid, the remaining loans were transferred to the bank's assets by an accounting transfer, and one loan transaction was refinanced by the bank. All other assets and liabilities, including off-balance sheet exposures, were also transferred from the branch to the bank.

Shareholder's structure is as follows:

Name of shareholder	Address	30 September 2021		31 December 2020	
		Number of shares	Ownership in %	Number of shares	Ownership in %
J&T FINANCE GROUP SE	Sokolovská 700/113 a, 186 00 Praha 8, Česká republika	325 794	98.45%	325 794	98.45%
Slovenská pošta, a.s.	Partizánska cesta 9, 975 99 Banská Bystrica, Slovak republic	4 918	1.49%	4 918	1.49%
Ministerstvo dopravy a výstavby Slovenskej republiky	Námestie slobody 6, 810 05 Bratislava, Slovak republic	100	0.03%	100	0.03%
UNIQA Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0.03%	87	0.03%
Total		330 899	100.00%	330 899	100.00%

On 1 January 2020, the Bank's shareholder structure changed due to merging of PBI, a.s. with its 100% parent company J&T FINANCE GROUP SE. Through this merger, J&T FINANCE GROUP SE acquired another 34% of the shares and voting rights in Poštová banka, increasing its direct share in the Bank's share capital to 98.457%.

Members of the Board of Directors

Andrej Zatlko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	Board member
Ladislav Korec	Board member (since July 2nd 2021)

Members of the Supervisory Board

Jozef Tkáč	Chairman
Vladimír Ohlidal	Board member
Jan Kotek	Board member

The separate financial statements of the Bank for the year ended 31 December 2020, were approved by the Board of Directors on 10 March 2021.

The Bank's financial statements are included in the consolidated financial statements of J&T FINANCE GROUP SE, Sokolovská 700/113a, Karlín, 186 00 Praha 8, Prague, Czech Republic. The consolidated financial statements are available at the registered office of J&T FINANCE GROUP SE.

2. Accounting policies

2.1 Basis of preparation of the separate financial statements

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

These financial statements are prepared as separate financial statements under Section 17 of the Slovak Act on Accounting 431/2002, as amended. Consequently, in these financial statements the Bank's investments in subsidiaries are accounted for at cost, decreased by impairment losses, if any.

The financial statements were prepared using the going concern assumption that the Bank will continue in operation for the foreseeable future.

These financial statements are presented in euro (EUR), which is the Bank's functional currency. Except for otherwise indicated, financial information presented in euro has been rounded to the nearest thousand. The tables in these financial statements may contain rounding differences.

2.2 Subsidiaries, joint ventures and associates

As at 30 September 2021, the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in %
Subsidiaries		
365.invest, správ. spol., a. s.	Asset management	100.00%
365.life, d. s. s., a. s.	Management of pension funds	100.00%
Ahoj, a.s.	Consumer loans	95.00%
PB Servís, a. s.	Real estate administration	100.00%
PB Finančné služby, a.s.	Financial and operational leasing and factoring	100.00%
365.fintech, a.s.	Investment fund	100.00%
Cards&Co, a.s.	Information technology services industry	100.00%
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	Art and sales	87.99%
365.nadácia	Charitable foundation	x
Joint ventures		
SKPAY, a.s.	Payment services	40.00%

2.3 Changes in accounting policies

The adoption of the new accounting standards from 1 January 2021 did not have a significant impact on the Bank.

2.4 Significant accounting methods and policies

These separate financial statements include segment reporting as the Bank fulfill the criteria under *IFRS 8 Operating segments* for reporting of detailed segment reporting.

(a) Foreign currency

i. Foreign currency transactions

Transactions denominated in foreign currency are translated into euro at the exchange rate valid on the date of the transaction. Financial assets and liabilities in foreign currency are translated at the exchange rate valid on the balance sheet date. All resulting gains and losses are recorded in *Net gains/(losses) from financial transactions* in profit or loss.

ii. Foreign operations

The assets and liabilities of foreign operations are translated to euro at the spot exchange rate on the balance sheet date. The income and expenses of foreign operations are translated to euro at the spot exchange rate on the date of the transaction. Exchange rate differences in the translation of foreign operations are recognised in other comprehensive income as *Foreign currency translation*.

(b) Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest rate ('EIR') method. EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. EIR is determined on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of EIR rate does not consider expected credit losses and includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or retirement of a financial asset or liability.

Interest income and expense from financial assets and liabilities at fair value through profit or loss are presented as part of *Net interest income*, and changes in the fair values of such instruments are presented at fair value in *Net gains/(losses) from financial transactions*.

(c) Fee and commission income and expenses

Fee and commission income and expense which are an integral part of EIR financial asset or liability are included in the calculation of EIR. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees, and syndication fees, are recognised when the related services are performed. Loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commissions relate mainly to transaction costs and service fees, which are recognised when the services are received.

(d) Net gains or losses from financial transactions

Net gains or losses from financial transactions comprise the following transactions:

- Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss;
- Gains/(losses) on financial assets and liabilities held for trading;
- Gains/(losses) on non-trading financial assets and liabilities mandatorily at fair value through profit or loss;
- Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss;
- Gains/(losses) from hedge accounting;
- Exchange differences.

(e) Dividend income

Dividend income is recognised when the right to receive income is established.

(f) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except for items recognised directly in equity and in other comprehensive income.

Current tax is the expected tax payable on taxable income for the year, calculated using the tax rate valid at the end of the reporting period, and including any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is calculated using the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Financial assets

i. Initial recognition

The Bank initially recognises loans, advances and other financial assets on the date they are originated. All purchases and sales of securities are recognised on settlement day. Derivative instruments are initially recognised on the trade date, when the Bank becomes a contractual party in relation to the instrument.

Financial assets are measured initially at fair value, plus transaction costs that are directly attributable to their acquisition or issue (for items that are not valued at fair value through profit or loss). Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognised for financial assets measured at amortised cost or FVOCI.

ii. Classification and subsequent measurement

The Bank classifies its financial assets into the following measurement categories:

- Amortised cost ('AC')
- Fair value through profit or loss ('FVPL')
- Fair value through other comprehensive income ('FVOCI')

This is an English language translation of the original Slovak language document.

The classification requirements for debt and equity instruments under IFRS 9 are described below:

Debt instruments

Debt instruments are those instruments which meet the definition of financial liability from the issuer's perspective, such as loans, government and corporate bonds, and trade receivables purchased from clients in factoring and other financial assets.

Classification and subsequent measurement of debt instruments depends on:

a. Business model for managing the assets

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets, or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. the financial assets are held for trading purposes), then financial assets are classified as part of the 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

The business model for asset management is evaluated on a portfolio basis. Financial assets are classified accordingly, together with products of the same characteristics, in relation to generated cash flows.

b. Cash flow characteristics of assets

Where the business model is to hold assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement (interest includes only consideration for the time value of money), credit risk, or other basic lending risks plus a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are treated as a whole when determining whether their cash flows represent only principal and interest payments.

The Bank reclassifies debt investments only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. It is expected that such changes will not occur, or they will be very infrequent.

Based on the business model and SPPI test, the Bank classifies its debt instruments into one of the following measurement categories:

- *Amortised cost*

(A) Cash, cash balances at central banks and other demand deposits

Cash and cash balances at central banks comprise cash on hand, unrestricted cash balances at central banks, and other demand deposits at other credit institutions. Collateral accounts at other credit institutions, whose use is restricted, are reported within *Financial assets at amortised cost*.

(B) Financial assets at amortised cost

Assets that are held for collection of contractual cash flows, where those cash flows represent only solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus cumulative amortisation using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in *Net interest income* using the effective interest rate method.

- *Fair value through profit or loss*

(A) Financial assets held for trading

These are financial assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term or hold as part of a portfolio that is managed to achieve short-term profit or to maintaining position. These assets do not meet the criteria for amortised cost or FVOCI based on Bank's business model, so they are measured

at FVPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss, and is not part of a hedging relationship, is recognised in the profit or loss statement within *Net gains/(losses) from financial transactions* in the period in which it arises.

(B) Non-trading financial assets mandatorily at fair value through profit or loss

Assets whose cash flows do not represent solely payments of principal and interest, and therefore fail the SPPI test, are mandatorily measured at FVPL. Their measurement and subsequent recognition are the same as for financial assets held for trading.

(C) Financial assets designated at fair value through profit or loss

Under IFRS 9 it is permitted to irrevocably designate financial assets at FVPL, if by doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. The Bank did not use the fair value option for any financial assets that meet the criteria for measurement at amortised cost or FVOCI.

- *Fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income

Financial assets that are held both for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are measured through other comprehensive income ('OCI'), except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains and losses on the instrument cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in *Net gains/(losses) from financial transactions*. Interest income from these financial assets is included in *Net interest income* using the effective interest method.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. When this election is used, fair value gains and losses are recognised in OCI and are never reclassified to profit or loss, including on disposal.

Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established within *Dividend income*.

Gains and losses on equity investments at FVPL (those designated at FVPL or classified as held for trading) are included within *Net gains/(losses) from financial transactions* in the statement of profit or loss.

No expected credit losses are recognised for equity instruments.

The Bank concluded that share certificates held in the Bank's portfolio meet the definition of puttable instruments. According to IFRS 9, puttable instruments do not meet the definition of an equity instrument, and therefore, entities cannot make an irrevocable election to present the changes in fair value of such instruments in other comprehensive income. Due to cash flow characteristics of the assets, share certificates fail to meet the solely payments of principal and interest ('SPPI') requirement. As a result, these instruments are classified as *Non-trading financial assets mandatorily at fair value through profit or loss*.

iii. Identification and measurement of credit losses

Credit loss is the difference between all contractual cash flows that are attributable to the entity in accordance with the contract, and all cash flows that are expected to be received, discounted at the original effective interest rate. In estimating cash flows, the Bank considers all the terms and conditions of the financial asset during the expected life of that financial asset. Considered cash flows should also include cash flows from sale of collateral, or any other form of credit risk mitigation that is an integral part of the terms and conditions.

The Bank assesses expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI, and with exposures arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- The time value of money

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 33. *Credit risk* provides more detail of how the expected credit loss allowance is measured.

iv. *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the contractual rights to receive the cash flows from the financial asset, in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets, which is created or retained by the Bank, is recognised as a separate assets.

The Bank enters contracts whereby it transfers assets recognised in its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all, or substantially all, risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank also derecognises certain assets when it writes off assets deemed to be uncollectible.

v. *Modifications of financial assets*

If any change in the contractual terms occurs, the Bank evaluates whether there is a significant change in the contractual cash flows. Significant modifications to cash flows result in the derecognition of the original financial asset and the recognition of the new financial asset at fair value.

If the modification does not result in the derecognition of a financial asset, the Bank recalculates the gross carrying amount as the present value of the changed cash flows discounted by the original EIR. The difference between the new and the original value is recognised in the income statement as '*Net profit/(loss) from the modification of financial assets*'. The impact of the modifications was insignificant during the reported accounting periods.

(h) **Derivatives**

Derivatives are measured at fair value in the statement of financial position. Changes in fair value depend on their classification:

Hedging derivatives

Under the Bank's strategy, hedging derivatives are designed to hedge and manage selected risks. The Bank has elected to adopt IFRS 9 for hedge accounting purposes.

The main Bank criteria for classification of hedging derivatives are as follows:

- The relationship between hedging instrument and hedged item, in meaning of risk characteristics, function, target and strategy of hedging is formally documented at origination of the hedging transaction, together with the method that is used for assessment of effectiveness of the hedging relationship;
- The relationship between hedging instrument and hedged item is formally documented at the origination of the hedging transaction, and the Bank expects that it will decrease the risk of the hedged item;
- Hedging meets all effectiveness criteria:
 - There is an economic relationship between the hedging instrument and hedged item
 - The impact of credit risk does not consider changes in value resulting from this economic relationship
 - The hedge ratio of the hedge is the same as the hedge ratio resulting from the amount of the hedging instrument used by the entity for hedging of the hedged item. However, this indication should not reflect the imbalance between the weighted shares of the hedged item and the hedging instrument that could create hedge ineffectiveness (whether or not recognised), that could also result in a business result inconsistent with the purpose of hedge accounting.

i. *Fair value hedge*

The Bank uses financial derivatives to manage the level of risk in relation to interest rate risk. The Bank uses hedging derivatives to hedge the fair value of recognised assets. In the case of micro-hedging the Bank hedges the fair value of bonds with fixed coupon. In the case of macro-hedging the Bank hedges the fixed interest rate loan and advances portfolio. As the purchase of bonds with fixed coupon and origination of loans and advances with fixed interest rate increases the interest rate risk of the Bank, the Bank enters into interest rate swaps to hedge the changes in fair value, caused by changes in risk-free interest rates, and pays a fixed and receives a floating rate. The notional and fair values of the aforementioned hedging derivatives are described in Note 9. *Hedging derivatives*.

Changes in fair value without interest component (clean price) of hedging instruments are recognised in a separate profit and loss statement line as Net gains/(losses) from financial transactions. For micro-hedging, changes in fair value without the interest component of the hedged items attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss as *Net gains/(losses) from financial transactions*. For macro-hedging, changes in fair value without the interest component of the hedged items are presented separately as the *Fair value changes of the hedged items in portfolio hedge of interest rate risk*, and in profit and loss are also included in *Net gains/(losses) from financial transactions*.

Interest expense and interest income from hedging instruments are presented, together with interest income and expense from hedged items, in the profit and loss statement under *Net interest income*. The positive value of hedging instruments is recognised in the statement of financial position as an asset in *Derivatives – Hedge accounting*. The negative value of hedging instruments is recognised as a liability in *Derivatives – Hedge accounting*. A summary of hedging derivatives is presented in Note 9. *Hedging derivatives*.

If the derivative expires or is sold, terminated, exercised or no longer meets the criteria for hedge accounting, then hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised in profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

ii. Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows, attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period, as hedged cash flows affect profit or loss under the same profit and loss statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in periods when the hedged item affects profit or loss. These are recorded in the income or expense lines, in which the revenue or expense associated with the related hedged item is reported.

If the derivative expires or is sold, terminated, exercised or no longer meets the criteria for hedge accounting, then hedge accounting is discontinued. The amount previously recognised in other comprehensive income remains until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of *Net gains/(losses) from financial transactions*.

Embedded derivatives

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as a financial asset and applies classification and measurement accounting principles according to IFRS 9.

Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative;
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss, unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

(i) Investments in subsidiaries, joint ventures and associates

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements, from the date on which control commences until the date on which control ceases.

If the Bank loses control, it derecognises the assets and liabilities of its subsidiary, and any related non-controlling interests and other component of equity. Any resulting gain or loss is recognised in profit or loss. Any non-controlling interest retained in the former subsidiary is measured at fair value when control is lost.

Associates are those entities in which the Bank has significant influence, but with no control or joint control, over the financial and operating policies.

A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

These financial statements are prepared as separate financial statements under Section 17 of the Slovak Act on Accounting 431/2002, as amended. Consequently, in these financial statements, the Bank's investments in subsidiaries are accounted for at cost decreased by impairment losses, if any.

An impairment represents the difference between the carrying amount of investment, and the present value of expected future cash-flows, discounted by the actual market rate of return of similar financial assets. The value adjustments on investments in subsidiaries are recognised in the separate statement of profit or loss and other comprehensive income as *Net impairment losses for investments in subsidiaries, joint ventures and associates*.

The Bank conducts an impairment test annually, based on the financing and sales budgets of subsidiaries prepared for the subsequent 5 years. The present value of cash-flows is calculated as discounted cash-flows at an interest rate resulting from the Capital Assets Pricing Model valuation. Cash-flows are calculated as a present value of perpetuity, with a particular expected growth after termination of the 5-year period. The discount rate derives from the long-term risk-free interest rate, adjusted by the risk of sale and country. The model is mainly sensitive to the change of discount rate and profitability growth.

(j) Tangible and intangible assets

i. Recognition and measurement

Items of tangible and intangible assets are measured at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of related equipment is capitalised as part of the cost of that asset. When separate parts of a particular asset have different useful lives, they are accounted for as separate items (major components) or assets.

ii. Subsequent costs

The cost of replacing part of an item of tangible asset is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part of asset will flow to the Bank, and its cost can be reliably measured. The costs of day-to-day maintenance of tangible assets are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation and amortisation are recognised in profit or loss on a straight-line basis, over the estimated useful lives of each item of tangible and intangible assets. Land is not depreciated. Depreciation of tangible and intangible assets commences as soon as they are put into use.

The estimated useful lives for the current and comparative periods are as follows:

Type of asset	Period	Method
Buildings	40 years	straight line
Hardware	4-8 years	straight line
Fittings and other equipment	4-15 years	straight line
Software	individually	straight line
Other intangible assets	individually	straight line

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(k) Right-of-use assets and lease liabilities

The Bank assesses whether the contract is a lease or contains a lease, according to IFRS 16, at the inception of the contract. The contract is a lease, or contains a lease, when it conveys a right to use the underlying asset for a period of time in exchange for consideration. In cases where the contract is a lease, or contains a lease, the Bank accounts for each lease component relating to the contract separately from the non-lease components of the contract.

The Bank as a lessee recognises initially the right-of-use asset and the lease liability. The right-of-use asset is measured at cost, which equals the initial measurement of the lease liability. On the commencement day, the Bank recognises the lease liability as a present value of minimum lease payments over the lease term, which were not paid until the commencement day. The lease term is a non-cancellable period of a lease, together with periods covered by an option to extend the lease – if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease – if the lessee is reasonably certain not to exercise that option. Lease payments are discounted using the interest rate implicit in the lease in relation to the operating lease of cars and using the incremental borrowing rate in relation to other leasing contracts, or leasing contracts containing a lease.

Right-of-use assets are depreciated evenly over the shorter of either the lease term or the useful life.

The Bank uses a practical guide and portfolio approach for contracts with similar characteristics, when accounting for the lease.

Right-of-use assets are represented mainly by the lease of headquarter and branch premises, office space in post offices, IT lease contracts, lease of cars, and lease of other devices. The Bank applies exemptions related to short term leases, i.e. lease contracts or contracts containing a lease with a lease term of 12 months or less, and to low value leases. Lease payments are recognised evenly as an expense over the lease term.

Right-of-use assets are presented in Note 11. *Tangible assets*, and lease liabilities are presented in Note 15. *Financial liabilities at amortised cost*. Interest expenses relating to lease liabilities are presented separately from depreciation relating to right-of-use assets.

(l) Impairment losses on non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows which are largely independent from other assets and groups.

Impairment losses are recognised directly in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use, or its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Financial liabilities

i. Initial recognition

The Bank initially recognises deposits by banks and customers, loans received, and other financial liabilities on the date they are originated. Derivative instruments are initially recognised on the trade date, when the Bank becomes the contractual party in relation to the instrument.

Financial liabilities are measured initially at fair value, including transaction costs which are directly attributable to their acquisition or issue (for items that are not valued at fair value through profit or loss).

ii. Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking), and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities, designated at fair value through profit or loss, are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk), and partially profit or loss (the remaining amount of change in the fair value of the liability). It only applies when presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability;
- Financial guarantee contracts and loan commitments.

iii. Derecognition

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

(n) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for off-balance sheet exposures arising from provided loan and other commitments and from provided guarantees are calculated in accordance with IFRS 9 based on the same principles as the ECL for financial assets.

(o) Employee benefits

i. Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

ii. Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus, or profit-sharing plans, if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(p) Offsetting

In general, financial assets and liabilities are not offset. They are presented net in the statement of financial position only when the Bank has a legal right to offset the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right to offset financial assets and financial liabilities is applicable only if it is not contingent on a future event and is enforceable by all counterparties in the normal course of business, as well as in the event of insolvency and bankruptcy. Compensation mainly concerns supplier-customer relations, and it is booked based on offsetting supporting evidence.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions, such as in the Bank's trading activity.

3. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and in any future periods affected.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes.

Expected credit losses

The measurement of ECL allowance for debt financial assets, measured at amortised cost and FVOCI, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Further information about determining ECL is included in Note 33. *Credit risk*.

Determining fair values

The determination of fair value for financial assets and liabilities, for which there is no observable market price, requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions, and other risks affecting the specific instrument. Determining fair value of such instruments is also influenced by the assessment of credit risk from the counterparty.

Further information about the amounts of financial instruments at fair value, analysed according to the valuation methodology (broken down into individual valuation levels), are included in Note 30. *Fair values of financial assets and liabilities*.

4. Cash, cash balances at central banks and other demand deposits

The compulsory minimum reserve account is reported within cash balances at central banks and is held at the National Bank of Slovakia ('NBS'). The account contains funds from the payment system, as well as funds that the Bank is obliged to maintain at an average level set by requirement of the NBS.

The amount of set reserve depends on the amount of received deposits, and is calculated by multiplying particular items, using the valid rate defined for calculation of the compulsory minimum reserve. The account balance of compulsory minimum reserve may significantly vary depending on the amount of incoming and outgoing payments. During the reporting period, the Bank fulfilled the set amount of compulsory minimum reserves.

EUR'000	30.9.2021	31.12.2020
Cash on hand	28 706	25 875
Cash balances at central banks	40 495	243 049
Other demand deposits	19 346	24 737
Total	88 547	293 661

The above-mentioned financial assets are not restricted.

Cash and cash equivalents comprise cash on hand and other deposits repayable on demand. The Bank does not recognise compulsory minimum reserves as part of cash equivalents due to the obligation to maintain them at the average amount stipulated by the NBS measure. The balance of cash and cash equivalents is as follows:

EUR'000	30.9.2021	31.12.2020	30.9.2020	31.12.2019
Cash on hand	28 706	25 875	25 501	27 791
Other demand deposits	19 346	24 737	20 346	42 526
Total	48 052	50 612	45 847	70 317

5. Financial assets and liabilities held for trading

EUR'000	30.9.2021	31.12.2020
Financial assets held for trading		
Derivatives	133	2 648
Foreign exchange	133	2 648
Total	133	2 648
Financial liabilities held for trading		
Derivatives	2 179	746
Foreign exchange	2 179	746
Total	2 179	746

The table below summarises the notional amount and fair value of derivatives held for trading.

EUR'000	30 September 2021			31 December 2020		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange	134 451	133	2 179	214 006	2 648	746
Total	134 451	133	2 179	214 006	2 648	746

6. Non-trading financial assets mandatorily measured at fair value through profit or loss

EUR'000	30.9.2021	31.12.2020
Equity instruments	320 056	309 513
Shares	-	2 980
Share certificates	320 056	306 533
Total	320 056	309 513

7. Financial assets at fair value through other comprehensive income

EUR'000	30.9.2021	31.12.2020
Equity instruments	65	65
Shares	65	65
Debt securities	390 328	436 999
General governments	269 042	295 664
Credit institutions	28 441	48 816
Other financial corporations	29 225	19 784
Non-financial corporations	63 620	72 735
Total	390 393	437 064
Impairment allowances for debt securities in OCI	(8 601)	(477)

The movements in impairment allowances for financial assets at fair value through other comprehensive income are as follows:

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	(477)	-	-	-	(477)
Increases due to origination and acquisition	(83)	-	-	-	(83)
Decreases due to derecognition	39	-	-	-	39
Changes due to change in credit risk (net)	130	(8 210)	-	-	(8 080)
Transfers:	73	(73)	-	-	-
to/(from) Stage 1	x	(73)	-	-	(73)
to/(from) Stage 2	73	x	-	-	73
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 30 September 2021	(318)	(8 283)	-	-	(8 601)

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Debt securities	404 747	372 485	(7 615)	(7 721)	397 132	364 764
Central banks	-	-	-	-	-	-
General governments	323 972	284 612	(96)	(90)	323 876	284 522
Credit institutions	30 985	30 986	(3)	(5)	30 982	30 981
Other financial corporations	1 425	1 486	-	-	1 425	1 486
Non-financial corporations	48 365	55 401	(7 516)	(7 626)	40 849	47 775
Loans and advances	3 248 598	2 996 470	(221 262)	(216 300)	3 027 336	2 780 170
Central banks	-	-	-	-	-	-
General governments	60 075	-	(19)	-	60 056	-
Credit institutions	13 080	13 123	(1)	(16)	13 079	13 107
Other financial corporations	391 781	455 783	(11 072)	(11 471)	380 709	444 312
Non-financial corporations	1 141 550	1 071 900	(86 596)	(86 405)	1 054 954	985 495
Households	1 642 112	1 455 664	(123 574)	(118 408)	1 518 538	1 337 256
Other financial assets	29 172	32 698	(111)	(151)	29 061	32 547
Total	3 682 517	3 401 653	(228 988)	(224 172)	3 453 529	3 177 481

Other financial assets comprise the following:

EUR'000	30.9.2021	31.12.2020
Other financial assets, gross	29 172	32 698
Clearing and settlement items	5 356	3 478
Cash collateral	6 604	6 235
Tax receivables	-	16
Trade receivables	5 442	5 775
Other	11 770	17 194
Impairment allowances	(111)	(151)
Total	29 061	32 547

The following table shows the gross value and impairment allowances by the impairment stage:

30.9.2021	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	356 382	48 365	-	-	(99)	(7 516)	-	-
Central banks	-	-	-	-	-	-	-	-
General governments	323 972	-	-	-	(96)	-	-	-
Credit institutions	30 985	-	-	-	(3)	-	-	-
Other financial corporations	1 425	-	-	-	-	-	-	-
Non-financial corporations	-	48 365	-	-	-	(7 516)	-	-
Loans and advances	2 597 742	448 582	177 259	25 015	(21 683)	(36 962)	(153 492)	(9 125)
Central banks	-	-	-	-	-	-	-	-
General governments	60 075	-	-	-	(19)	-	-	-
Credit institutions	13 080	-	-	-	(1)	-	-	-
Other financial corporations	378 118	115	34	13 514	(1 920)	(20)	(31)	(9 101)
Non-financial corporations	835 271	241 809	53 017	11 453	(14 629)	(23 232)	(48 735)	-
Households	1 311 198	206 658	124 208	48	(5 114)	(13 710)	(104 726)	(24)
Other financial assets	-	29 172	-	-	-	(111)	-	-
Total	2 954 124	526 119	177 259	25 015	(21 782)	(44 589)	(153 492)	(9 125)

The movements in impairment allowances for debt securities, and loans and advances at amortised cost are as follows:

EUR'000	Debt securities				Total
	Stage 1	Stage 2	Stage 3	POCI	
As of 1 January 2021	(95)	(7 626)	-	-	(7 721)
Increases due to origination and acquisition	(18)	-	-	-	(18)
Decreases due to derecognition	8	-	-	-	8
Changes due to change in credit risk (net)	6	110	-	-	116
Transfers:	-	-	-	-	-
to/(from) Stage 1	x	-	-	-	-
to/(from) Stage 2	-	x	-	-	-
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 30 September 2021	(99)	(7 516)	-	-	(7 615)

EUR'000	Loans and advances				Total
	Stage 1	Stage 2	Stage 3	POCI	
As of 1 January 2021	(22 766)	(39 696)	(142 971)	(10 867)	(216 300)
Increases due to origination and acquisition	(3 863)	-	-	(7)	(3 870)
Decreases due to derecognition	2 222	1 412	22 103	316	26 053
Changes due to change in credit risk (net)	6 052	(8 069)	(26 549)	1 454	(27 112)
Transfers:	(3 307)	9 391	(6 084)	-	-
to/(from) Stage 1	x	2 825	482	-	3 307
to/(from) Stage 2	(2 825)	x	(6 566)	-	(9 391)
to/(from) Stage 3	(482)	6 566	x	-	6 084
Changes due to movements in FX rates	(21)	-	9	(21)	(33)
As of 30 September 2021	(21 683)	(36 962)	(153 492)	(9 125)	(221 262)

9. Hedging derivatives

The Bank uses fair value hedges. For micro-hedging, the hedged items are selected, fixed-coupon debt securities from the portfolio of *Financial assets at FVOCI*. For macro-hedging, the hedged items are selected, fixed-interest rate loans and advances to customers. In both cases, interest rate swaps are used as hedging instruments, for which the Bank pays fixed interest rate and receives floating interest rate. The hedges were effective in hedging the fair value exposure to interest rate movements during the entire hedge relationship. Changes in the fair value of these interest rate swaps, due to changes in interest rates, substantially offset changes in the fair value of the hedged items caused by changes in interest rates.

The table below summarises notional amounts and fair value of hedging derivatives. The notional amounts represent the volume of unpaid transactions at a certain point in time. They do not represent potential gain or loss associated with the market risk or credit risk of these transactions. All hedging derivatives of the Group comply with IFRS 9.

EUR'000	30 September 2021			31 December 2020		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Fair value hedges	134 476	-	4 700	174 476	-	7 792
Interest rate	134 476	-	4 700	174 476	-	7 792
Portfolio fair value hedges of interest rate risk	93 400	-	1 740	93 400	-	2 526
Total	227 876	-	6 440	267 876	-	10 318

The following table provides the carrying amount of the hedges, the hedge adjustment due to hedging and the statement of financial position in which the hedged item is recognised.

EUR'000	Carrying amount		Amount of fair value hedge adjustments		Line item in the statement of financial position in which the hedged item is included
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	
Fair value hedges					
Portfolio hedge of interest rate risk	195 774	197 635	1 456	2 276	Financial assets at amortised cost
Interest rate	146 306	191 489	(3 080)	(5 739)	Revaluation of FVOCI financial assets

The impact of hedge accounting on profit or loss is as follows:

EUR'000	1-9/2021	1-9/2020
Fair value changes of the hedging instrument	3 457	(1 872)
Fair value changes of the hedged item attributable to the hedged risk	(3 479)	1 906
Total	(22)	34

10. Investments in subsidiaries, joint ventures and associates

EUR'000	30.9.2021	31.12.2020
Cost	75 684	87 743
Subsidiaries	75 544	87 129
365.invest, správ. spol., a. s.	9 230	9 230
Poštová poisťovňa, a.s.	-	9 129
365.life, d. s. s., a. s.	14 500	14 500
Ahoj, a.s.	36 477	36 477
PB Servis, a.s.	605	605
PB Finančné služby, a.s.	7 115	7 115
PB Partner, a.s.	-	4 603
365.fintech, a.s.	4 000	3 000
Cards&Co, a.s.	2 470	2 470
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	1 147	-
Joint ventures	140	140
SKPAY, a.s.	140	140
Associates	-	474
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	-	474
Impairment	(7 022)	(9 164)
Total	68 662	78 579

During 2021, the following significant changes occurred in investments:

- PB Partner, a.s. has been liquidated
- The Bank bought shares in ART FOND - Stredoeurópsky fond súčasného umenia, a.s.
- The Bank increased its exposure to 365.fintech by increasing other capital funds
- The Bank sold its entire stake in the subsidiary Poštová poisťovňa, a.s.

During November 2020, the Bank acquired a 100% stake and control in Cards&Co.

During 2020, the Bank replenished other capital funds in the subsidiaries Ahoj, PB Finančné služby and 365.fintech.

Recognition of the investment in unit certificates of the 365.world fund as the Bank's subsidiary was terminated due to its insignificance.

11. Tangible assets

EUR'000	30.9.2021	31.12.2020
Tangible assets owned	25 493	26 409
Property, plant and equipment	25 493	26 409
Right of use assets	37 158	31 725
Total	62 651	58 134

EUR'000	Tangible assets owned				Total
	Land and buildings	Hardware	Fittings and other equipment	Assets not yet in use	
Cost					
As of 1 January 2021	18 618	11 663	19 516	1 287	51 084
Additions	-	-	-	2 933	2 933
Transfers	1 050	1 337	1 023	(3 410)	-
Disposals	(213)	(1 402)	(508)	(24)	(2 147)
As of 30 September 2021	19 455	11 598	20 031	786	51 870
Accumulated depreciation					
As of 1 January 2021	(5 635)	(8 502)	(9 597)	-	(23 734)
Depreciation for the year	(1 218)	(1 240)	(1 358)	-	(3 816)
Disposals	39	1 400	360	-	1 799
As of 30 September 2021	(6 814)	(8 342)	(10 595)	-	(25 751)
Impairment losses	(413)	-	(213)	-	(626)
Carrying amount as at 30.9.2021	12 228	3 256	9 223	786	25 493

EUR'000	Land and buildings	Right of use assets		Total
		Hardware	Fittings and other equipment	
Cost				
As of 1 January 2021	38 016	211	4 115	42 342
Additions	1 905	-	59	1 964
Remeasurements	7 710	-	-	7 710
Disposals	(994)	-	(191)	(1 185)
As of 30 September 2021	46 637	211	3 983	50 831
Accumulated depreciation				
As of 1 January 2021	(9 187)	(105)	(1 324)	(10 616)
Depreciation for the year	(3 687)	(39)	(479)	(4 205)
Disposals	958	-	191	1 149
As of 30 September 2021	(11 916)	(145)	(1 612)	(13 673)
Impairment losses	-	-	-	-
Carrying amount as at 30.9.2021	34 721	66	2 371	37 158

12. Intangible assets

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As of 1 January 2021	74 737	88	5 082	79 907
Additions	-	-	7 070	7 070
Transfers	3 631	-	(3 631)	-
Disposals	(303)	-	(49)	(352)
As of 30 September 2021	78 065	88	8 472	86 625
Accumulated amortisation				
As of 1 January 2021	(44 149)	(87)	-	(44 236)
Amortisation for the year	(10 663)	(1)	-	(10 664)
Disposals	301	-	-	301
As of 30 September 2021	(54 511)	(88)	-	(54 599)
Impairment losses	(321)	-	-	(321)
Carrying amount as at 30.9.2021	23 233	-	8 472	31 705

13. Deferred tax assets and liabilities

The deferred tax asset and deferred tax liabilities are calculated using the following tax rates:

	30.9.2021	31.12.2020
Companies in Slovak Republic	21%	21%
Branch in Czech Republic	-	19%

EUR'000	30.9.2021	31.12.2020
Slovak Republic		
Impairment on financial assets at AC	23 088	22 782
Provisions for off-balance sheet exposures	158	183
Revaluation of financial assets at FVOCI	(2 777)	(1 770)
Tangible assets	276	111
Other	2 569	3 251
Total	23 314	24 557
Czech Republic		
Provisions for off-balance sheet exposures	-	117
Tangible assets	-	(1)
Other	-	15
Total	-	131
Total deferred tax assets	23 314	24 688

Due to the disposal of the branch in the Czech Republic, the Group does not account for a deferred tax asset as at 30 September 2021.

Movements in deferred tax were as follows:

EUR'000	Note	30.9.2021	31.12.2020
Opening balance as at 1 January		24 688	18 457
Through profit or loss	28	(368)	6 313
Through other comprehensive income		(1 006)	(82)
Closing balance		23 314	24 688

14. Other assets

EUR'000	30.9.2021	31.12.2020
Deferred expenses	10 849	9 878
Accrued income	3 494	2 394
Inventories	290	333
Prepayments	5 333	5 909
Total	19 966	18 514

15. Financial liabilities measured at amortised cost

EUR'000	30.9.2021	31.12.2020
Deposits	3 633 674	3 671 084
General governments	3 498	3 390
Credit institutions	53 084	26 024
Other financial corporations	159 598	202 578
Non-financial corporations	158 023	163 629
Households	3 259 471	3 275 463
Other financial liabilities	63 957	52 709
Clearing and settlement items	13 162	11 796
Liabilities to employees	3 431	4 044
Liabilities from social and health insurance and social fund	1 429	1 423
Tax liabilities	537	847
Received prepayments	5 002	2
Liabilities from dividends	28	28
Lease liabilities	37 639	32 086
Other creditors	2 729	2 483
Total	3 697 631	3 723 793

The table below summarises loans received, classified under financial liabilities and measured at amortised cost:

EUR'000	30.9.2021	31.12.2020
Subordinated debt	8 013	8 014

In the event of bankruptcy or liquidation of the Bank, subordinated debt will be subordinated to the claims of all other creditors of the Bank.

Creditor	Debtor	Carrying amount	Interest rate	Maturity
Subordinated debt				
J&T BANKA, a.s.	Poštová banka, a.s.	8 013	3M EURIBOR+6%	31.12.2026

16. Provisions

EUR'000	30.9.2021	31.12.2020
Commitments and guarantees given	751	1 488
Loan commitments	516	799
Guarantees given	235	689
Other provisions	6	1 106
Total	757	2 594

The movements in provisions for commitments and guarantees provided were as follows:

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	429	439	620	-	1 488
Increases due to origination and acquisition	564	-	-	-	564
Decreases due to derecognition	(420)	(458)	(357)	-	(1 235)
Changes due to change in credit risk (net)	(292)	381	(155)	-	(66)
Transfers:	(33)	33	-	-	-
(to)/from Stage 1	x	33	-	-	33
(to)/from Stage 2	(33)	x	-	-	(33)
(to)/from Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 30 September 2021	248	395	108	-	751

17. Other liabilities

EUR'000	30.9.2021	31.12.2020
Estimated payables (PEREX, OPEX)	8 736	11 406
Deferred income	1	146
Total	8 737	11 552

18. Equity

a) Share capital

	30.9.2021	31.12.2020
Nominal value per share in EUR	1 107	1 107
Number of shares	330 899	330 899
Total share capital in EUR'000	366 305	366 305

All shares of the Bank are ordinary registered shares.

b) Legal reserve fund

Under the Slovak Commercial Code, all companies are required to create a legal reserve fund to cover losses. The Bank is obliged to contribute an amount of at least 10% of the profit for reporting period, until the aggregate amount reaches a level equal to 20% of the issued share capital. The legal reserve fund is not readily distributable to shareholders.

c) Revaluation of financial instruments measured through other comprehensive income

This item includes the revaluation of FVOCI financial assets after deferred tax. As of 1 January 2018, in connection with the implementation of IFRS 9, the Group also recognises impairment allowances for debt securities measured at fair value through other comprehensive income within equity.

d) Translation reserve

The translation reserve comprises all foreign exchange rate differences arising from the translation of financial statements of foreign operations.

e) Distribution of profit in the previous period

The General Meeting of shareholders decided to distribute the profit for the previous period as follows:

EUR'000	
Profit for the year	44 358
Dividends	-
Transfer to retained earnings	39 922
Transfer to legal reserve fund	4 436

19. Off-balance sheet items

a) *Loan commitments, financial guarantees and other commitments given*

EUR'000	30.9.2021	31.12.2020
Loan commitments given	177 744	243 612
Financial guarantees given	15 635	18 236
Total	193 379	261 848

b) *Assets involved in the services provided*

EUR'000	30.9.2021	31.12.2020
Asset management	1 003 314	976 727
Custody assets	99 839	100 592
Total	1 103 153	1 077 319

c) *Securities provided as collateral*

The Bank has pledged debt securities at carrying amount as summarised in the table below. The pledge was provided against transactions with central bank and credit institutions. These debt securities have not been derecognised from the Bank's statement of financial position.

EUR'000	30.9.2021	31.12.2020
Financial assets at fair value through other comprehensive income	42 136	42 291
Financial assets at amortised cost	298 644	298 644
Total	340 780	340 935

20. Net interest income

Cash balances at central banks	1-9/2021	1-9/2020
Interest income		
Financial assets at fair value through other comprehensive income	4 334	5 121
Financial assets at amortised cost	101 016	110 955
<i>Debt securities</i>	4 208	6 754
<i>Loans and advances</i>	96 808	104 201
Derivatives - Hedge accounting, interest rate risk	(1 730)	(1 766)
Other assets	5	106
<i>Cash balances at central banks</i>	-	2
<i>Other</i>	5	104
Total interest income	103 625	114 416
Interest expenses		
Financial liabilities measured at amortised cost	(3 779)	(6 165)
<i>thereof: lease liabilities</i>	(408)	(332)
Other liabilities	-	(6)
Interest expense on assets	(92)	-
Total interest expense	(3 871)	(6 171)
Net interest income	99 754	108 245
EUR'000	1-9/2021	1-9/2020
Interest income calculated on an EIR	103 625	114 416
Other interest income	-	-
Total interest income	103 625	114 416

21. Net fee and commission income

EUR'000	1-9/2021	1-9/2020
Fee and commission income		
Securities	50	63
Clearing and settlement	10 977	11 773
Custody	2 460	2 083
Payment services	22 060	22 383
<i>Current accounts</i>	<i>18 309</i>	<i>20 128</i>
<i>Debit cards and other card payments</i>	<i>273</i>	<i>290</i>
<i>Transfers and other payment orders</i>	<i>1 409</i>	<i>1 430</i>
<i>Other fee and commission income in relation to payment services</i>	<i>2 069</i>	<i>535</i>
Loan servicing activities	1 768	1 839
Loan commitments given	617	718
Financial guarantees given	226	271
Other	9 037	5 881
Total fee and commission income	47 195	45 011
Of which: Revenue recognized under IFRS 15: Recognition of Revenue from Customer contracts	46 352	44 022
Fee and commission expenses		
Clearing and settlement	(16 337)	(15 598)
Custody	(301)	(310)
Loan servicing activities	(2 090)	(1 556)
Other	(2 814)	(2 035)
Total fee and commission expenses	(21 542)	(19 499)
Net fee and commission income	25 653	25 512

22. Dividend income

EUR'000	1-9/2021	1-9/2020
Non-trading financial assets mandatorily at fair value through profit or loss	11	-
Financial assets at fair value through other comprehensive income	-	12
Investments in subsidiaries, joint ventures and associates	14 770	15 742
Total	14 781	15 754

23. Net gains/(losses) from financial transactions

EUR'000	1-9/2021	1-9/2020
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	5 490	551
Financial assets at fair value through other comprehensive income	-	551
<i>Equity instruments</i>	-	9
<i>Debt securities</i>	-	542
<i>thereof: reclassified from other comprehensive income</i>	-	1 086
Other	5 490	-
Gains/(losses) on financial assets and liabilities held for trading, net	(6 062)	15 416
Derivatives	(6 062)	15 416
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	9 442	2 797
Revaluation gains/(losses), net	9 442	2 797
Gains/(losses) from hedge accounting, net	(22)	34
Fair value changes of the hedging instrument	3 457	(1 872)
Fair value changes of the hedged item attributable to the hedged risk	(3 479)	1 906
Exchange differences, net	6 437	(18 727)
Total	15 285	71

24. Other operating income and expenses

EUR'000	1-9/2021	1-9/2020
Other operating expenses	(4 663)	(8 906)
Bank and insurance companies specific fees	(2 358)	(7 962)
Special levy for banking institutions	-	(7 453)
Resolution fund	(235)	(256)
Deposit protection fund	(2 123)	(253)
Other	(2 305)	(944)
Other operating income	3 727	1 885
Other	3 727	1 885
Gains/(losses) on derecognition of non-financial assets, net	(322)	(113)
Total	(1 258)	(7 134)

25. Administrative expenses

EUR'000	1-9/2021	1-9/2020
Staff expenses	(30 894)	(30 995)
Wages and salaries (including bonuses)	(22 174)	(22 468)
Social expenses	(8 720)	(8 527)
Other administrative expenses	(25 758)	(22 579)
Rental expenses	(1 158)	(836)
Short-term lease contracts	(776)	(555)
Variable lease payments not included in the lease liabilities	(213)	(160)
Other	(169)	(121)
Real estate expenses	(1 999)	(1 766)
IT expenses	(6 141)	(4 314)
Marketing and advertisement	(3 547)	(3 533)
Legal and consulting services	(1 818)	(1 316)
Post and telecommunication	(2 994)	(3 027)
Material consumption	(740)	(685)
Repair and maintenance	(2 495)	(2 183)
Other administrative expenses - Rest	(4 866)	(4 919)
Total	(56 652)	(53 574)

	1-9/2021	1-9/2020
Number of employees as of balance sheet date	1 191	1 164
Average number of employees for the period	1 182	1 170
thereof, key management	21	21

26. Depreciation

EUR'000	1-9/2021	1-9/2020
Property, plant and equipment	(3 816)	(3 912)
Buildings	(1 218)	(1 165)
Hardware	(1 240)	(1 219)
Fittings and other equipment	(1 358)	(1 528)
Right of use assets	(4 205)	(4 086)
Buildings	(3 687)	(3 530)
Hardware	(39)	(39)
Fittings and other equipment	(479)	(517)
Intangible assets	(10 665)	(6 868)
Software	(10 663)	(6 858)
Other intangible assets	(2)	(10)
Total	(18 686)	(14 866)

27. Impairment losses and provisions

EUR'000	1-9/2021	1-9/2020
Net impairment of financial assets not valued at fair value through profit or loss	(21 903)	(35 729)
Financial assets at fair value through other comprehensive income	(8 125)	550
<i>Debt securities</i>	(8 125)	550
Financial assets at amortised cost	(13 778)	(36 279)
<i>Debt securities</i>	107	(307)
<i>Loans and advances</i>	(14 155)	(35 639)
<i>Other financial assets</i>	270	(333)
Net impairment of investments in subsidiaries, joint ventures and associates	2 142	-
Subsidiaries	2 142	-
Release/(creation) of provisions	1 844	1 051
Net impairment on non-financial assets	318	-
Total	(17 599)	(34 678)

28. Income tax

EUR'000	1-9/2021	1-9/2020
Current income tax	(10 816)	(7 220)
Deferred tax	(368)	159
Total	(11 184)	(7 061)

29. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, or it has, through its financial and operational decisions, significant influence over the other party.

The following persons or companies meet the definition of related parties:

- Companies that directly or indirectly, through one or more intermediaries, control or are controlled, have significant influence, or are under joint control of the reporting company;
- Affiliated companies in which the parent company has significant influence, and which are not a subsidiary, nor a joint venture;
- Individuals owning, directly or indirectly, shares in the voting right of the Bank that gives them significant influence over the Bank, and any other individual who may be expected to influence, or be influenced by that person in their dealings with the Bank;
- Key management personnel, i.e. individuals having authority and responsibility for planning, managing and controlling the activities of the Bank, including directors and managing employees of the Bank, and individuals related to them;
- Companies in which a significant share of voting rights is owned, directly or indirectly, by any person described in points (a), (c) or (d) above, or over which such party may have a significant influence. This includes companies owned by directors or major shareholders of the Bank.

30.9.2021	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Assets	59 958	148 966	84 193	532	-	1 918	41 470
Other demand deposits	-	777	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	138 258	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	9 862	-	-	-	-	-
Financial assets at amortised cost	59 958	69	84 193	532	-	1 918	41 470
<i>Debt securities</i>	-	-	-	-	-	-	-
<i>Loans and advances</i>	59 958	15	82 029	-	-	1 918	41 470
<i>Other financial assets</i>	-	54	2 164	532	-	-	-
Liabilities	-	19 180	5 736	3 393	-	1 053	1 623
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	19 180	5 736	3 393	-	1 053	1 623
<i>Deposits</i>	-	19 180	5 338	3 393	-	1 053	1 626
<i>Other financial liabilities</i>	-	-	397	-	-	-	(3)
Derivatives – Hedge accounting	-	-	-	-	-	-	-
1-9/2021	-	-	-	-	-	-	-
Income/expenses	-	-	-	-	-	-	-
Net interest income	771	253	966	-	-	6	2 280
Net fee and commission income	16	235	4 954	5 892	-	1	291
Net gains/(losses) from financial transactions	-	255	-	-	-	-	-
Net other operating expenses	-	-	(148)	90	-	-	-
Administrative expenses	-	(43)	(3 580)	-	-	-	(86)

This is an English language translation of the original Slovak language document.

31.12.2020	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Assets	14 980	176 359	89 547	705	-	1 071	34 081
Other demand deposits	-	186	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	137 567	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-	-
Financial assets at amortised cost	14 980	38 606	89 547	705	-	1 071	34 081
Debt securities	-	-	-	-	-	-	-
Loans and advances	14 980	38 481	86 679	-	-	1 071	34 081
Other financial assets	-	125	2 868	705	-	-	-
Liabilities	-	18 754	13 333	4 392	-	1 452	1 608
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	18 754	13 333	4 392	-	1 452	1 608
Deposits	-	18 733	12 885	4 392	-	1 452	1 589
Other financial liabilities	-	21	449	-	-	-	19
Derivatives – Hedge accounting	-	-	-	-	-	-	-
1-9/2020	-	-	-	-	-	-	-
Income/expenses	-	-	-	-	-	-	-
Net interest income	340	(357)	626	-	-	6	562
Net fee and commission income	(12)	257	3 754	6 393	-	1	50
Net gains/(losses) from financial transactions	-	(1 856)	-	-	-	-	-
Net other operating expenses	-	46	136	54	-	-	-
Administrative expenses	-	(42)	(4 756)	-	-	-	(83)

Remuneration of members of the Board of Directors, members of the Supervisory Board and executives directly responsible to the members of the Board of Directors for the 9 months ending 30 September 2021 in the amount of: EUR 2 397 thousand (2020: EUR 2 228 thousand). Remuneration includes basic wages and salaries, bonuses and payments for health and social insurance.

30. Fair value of financial assets and liabilities

According to IFRS 13, fair value is the price that would be received when selling an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Bank measures fair values using the following fair value level hierarchy:

- Level 1: Quoted market price in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and where the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The determination of fair values for financial assets and financial liabilities is based on quoted market prices. Shares in funds are measured at prices obtained from an asset management company. The funds are not listed, however they are audited on an annual basis. Fund prices are determined using NAV, with valuation techniques corresponding to the above-mentioned fair value hierarchies.

For all other financial instruments, fair value is determined by using valuation techniques. These valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, and other premiums used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

For fair value measurement of debt financial instruments, the Bank uses models based on net present value. The key estimation parameter is the discount interest rate. Determination of the discount interest rate is based on the risk-free market rate, which corresponds to the incremental maturity of particular financial instruments, plus a risk premium. The risk premium is determined to be consistent with regular market practice.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed based on recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices and rates, or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans, and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows from the financial instrument being valued, determination of the probability of counterparty default or prepayments, and selection of appropriate discount rates.

Basic parameters entering into the valuation model to determine the fair value of equity financial instruments are forecast economic results and equity of the company, market multiples, and indicators such as EBITDA, sales etc. for comparable companies, all of which are published by reputable companies for different sectors.

Even though these valuation techniques are considered to be appropriate and in compliance with market practice, the estimations in discount interest rates, and changes of basic assumptions in future cash flows, may lead to different fair value of financial instruments.

Transfers of financial instruments between particular levels can occur only if market activity has changed.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a control function, performed by the Market Risks department, which is independent from front office management. Specific controls include: verification of observable pricing inputs and reperformance of model valuations; review and approval processes for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; and review of significant unobservable inputs and valuation adjustments.

The reported fair values of financial instruments analysed according to fair value levels are as follows:

EUR'000	Level 1		Level 2		Level 3		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
ASSETS								
Financial assets held for trading	-	-	133	2 648	-	-	133	2 648
Derivatives	-	-	133	2 648	-	-	133	2 648
Non-trading financial assets mandatorily at FVPL	-	-	320 056	309 513	-	-	320 056	309 513
Equity instruments	-	-	320 056	309 513	-	-	320 056	309 513
Financial assets at FVOCI	349 755	349 425	-	78 973	40 638	8 666	390 393	437 064
Equity instruments	-	-	-	-	65	65	65	65
Debt securities	349 755	349 425	-	78 973	40 573	8 601	390 328	436 999
Total assets	349 755	349 425	320 189	391 134	40 638	8 666	710 582	749 225

EUR'000	Level 1		Level 2		Level 3		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
LIABILITIES								
Financial liabilities held for trading	-	-	2 179	746	-	-	2 179	746
Derivatives	-	-	2 179	746	-	-	2 179	746
Derivatives – Hedge accounting	-	-	6 440	10 318	-	-	6 440	10 318
Total liabilities	-	-	8 619	11 064	-	-	8 619	11 064

31. Segment reporting

The Bank uses the following strategic segment divisions. Within these segments, various products and services are offered and are managed separately by the Bank's management.

- Retail banking - loans, deposits and other transactions with retail customers
- Corporate banking - loans, deposits and other transactions with corporate customers and investments in liquid assets such as short-term investments and corporate or government debt securities
- Others - asset management (fund management activities) and treasury (financing and centralized risk management activities through loans, use of derivatives for risk management)

The Board of Directors continuously monitors internal reports for each segment at least once a month.

Segment reporting is as follows:

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	1-9/2021	1-9/2020	1-9/2021	1-9/2020	1-9/2021	1-9/2020	1-9/2021	1-9/2020
Interest income	48 564	52 477	52 918	55 702	2 143	6 237	103 625	114 416
Interest expenses	(2 840)	(4 327)	(24)	(85)	(1 007)	(1 759)	(3 871)	(6 171)
Net interest income	45 724	48 150	52 894	55 617	1 136	4 478	99 754	108 245
Fee and commission income	35 870	31 985	11 058	12 705	267	321	47 195	45 011
Fee and commission expenses	(16 373)	(14 292)	(4 567)	(4 857)	(602)	(350)	(21 542)	(19 499)
Net fee and commission income	19 497	17 693	6 491	7 848	(335)	(29)	25 653	25 512
Net interest and fee margin	65 221	65 843	59 385	63 465	801	4 449	125 407	133 757
Impairment losses and provisions	(10 904)	(19 867)	(6 787)	(14 817)	92	6	(17 599)	(34 678)

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Assets	1 517 016	1 332 067	1 935 445	1 864 226	1 007 951	1 241 613	4 460 412	4 437 906
Liabilities	3 272 360	3 296 533	285 089	319 263	902 963	822 110	4 460 412	4 437 906

32. Risk management

The ultimate body responsible for risk management is the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Some responsibilities are delegated to special advisory bodies (committees).

The Bank's risk management policies are based on the Risk Management Strategy, as a primary document for risk management, which is further described in the Risk Appetite document. These documents are regularly reassessed, updated and approved by the Board of Directors. The risk management process is a dynamic and continuous process of identification, measurement, monitoring, control, and reporting of risks within the Bank. For management of the risks faced by the Bank, there are defined appropriate limits, and controls for risk monitoring and adherence to those limits.

Evaluation of key performance limits defined in the Bank's risk profile is presented to the Board of Directors on a monthly basis. Risk management policies and systems are reviewed and amended regularly to reflect changes in legislation, market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The rights and responsibilities of the Bank's Audit Committee are assigned to the Supervisory Board, who are responsible for monitoring the effectiveness of internal control and risk management systems. Its activities also cover review of the external auditor's independence, and evaluation of the findings from audit of the financial statements, made by the external auditor. They also monitor the Bank's compliance with financial accounting standards. The Audit Committee is assisted in these functions by the Department of Internal control and audit.

The Bank has exposure to the following main risks:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Settlement risk.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent, to ensure that a trade is settled only when both parties have fulfilled their contractual obligations.

Settlement limits form part of the credit approval/limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty-specific approval by ALCO.

33. Credit risk

Credit risk is the risk of financial loss to the Bank if a debtor, or counterparty to a financial instrument, fails to meet its contractual obligations, and arises from the Bank's financial assets – primarily from loans and advances, debt securities, and off-balance sheet exposures. For risk management reporting purposes, the Bank considers and consolidates all elements of its credit risk exposure (such as individual obligor default risk, management failure, country, sector or concentration risk).

Credit risk management within the Bank is the responsibility of the Risk Management division. The Board of Directors has delegated responsibility for the oversight of credit risk in compliance with a formal competence order.

Credit risk management includes:

- Examination of the clients' creditworthiness,
- Assessing limits for clients and economically connected parties, including monitoring portfolio concentration,
- Assessing limits for counterparties, industries, countries, and banks,
- Mitigation of risk by various forms of collateral,
- Continuous monitoring of loan portfolio development, and prompt decision-making to minimise possible losses.

In order to mitigate credit risk, the Bank assesses the creditworthiness of the client deal using a rating tool with parameters specific to each client segment, when initially providing the loan, as well as during the life of the credit loan trade. The Bank has various rating models depending on the type of business.

When analysing client deals the Bank uses:

- Client rating,
- Project assessment tools,
- Scoring for retail loans.

The approval process of active bank transactions includes a review of the individual applicant of the transactions, credit limit of the counterparty, and collateral in order to mitigate credit risk. The Bank monitors the development of the portfolio of active bank transactions yearly, or more often as necessary, to ensure that prompt action can be taken to minimise potential risks.

Credit risk limits are generally determined on the basis of economic analysis of the client, sector, region or country. The procedure of determining individual limits is part of the Bank's internal guidelines.

To mitigate credit risk, the Bank uses the following types of limits:

- Financial involvement limits of the client or economically connected entities (clients),
- Country limits,
- Limits on banks,
- Industry limits.

The Bank continuously monitors and evaluates compliance with the limits and translates these into its activities.

The tables below provide sector and geographical summaries of financial assets at amortised cost, financial assets at fair value through other comprehensive income, and off-balance sheet exposures (in gross amounts):

EUR'000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	323 972	284 612	60 075	-	269 042	295 664	-	-	-	-
Credit institutions	30 985	30 986	13 080	13 123	28 441	48 816	-	-	-	-
Other financial corporations	1 425	1 486	391 781	455 783	29 225	19 784	-	61	-	4 953
Non-financial corporations	48 365	55 401	1 141 550	1 071 900	63 620	72 735	20 829	113 801	15 635	13 283
A Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	59 936	57 070	3 146	3 138	581	1 561	76	79
D Electricity, gas, steam and air conditioning supply	-	-	142 922	198 740	-	-	107	74 531	-	-
E Water supply	-	-	37	-	-	-	-	-	-	-
F Construction	-	-	116 086	106 141	-	-	1 394	2 413	2 088	3 458
G Wholesale and retail trade	-	-	28 079	31 518	-	-	382	592	299	2 079
H Transport and storage	-	-	559	288	-	-	23	21	3	247
I Accommodation and food service activities	-	-	56 439	54 954	-	37 950	273	197	-	-
J Information and communication	-	-	11 334	16 899	-	-	3 375	4 227	150	-
K Financial and insurance activities	-	-	-	-	-	8 601	14 218	23 678	5 099	-
L Real estate activities	48 365	55 401	450 103	326 503	-	-	251	5 898	-	-
M Professional, scientific and technical activities	-	-	103 761	96 040	-	-	151	77	7 669	7 420
N Administrative and support service activities	-	-	83 398	87 742	-	-	72	605	251	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	15	25	-	-	-	-	-	-
Q Human health services and social work activities	-	-	18 553	19 508	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	68 217	76 315	60 474	23 046	-	-	-	-
S Other services	-	-	2 111	157	-	-	2	1	-	-
Households	-	-	1 642 112	1 455 664	-	-	156 915	129 750	-	-
Total	404 747	372 485	3 248 598	2 996 470	390 328	436 999	177 744	243 612	15 635	18 236



EUR'000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Slovak Republic	323 341	290 779	2 266 539	2 173 211	251 096	245 587	176 971	166 756	2 796	4 408
Czech Republic	-	-	338 892	319 087	29 659	80 288	744	76 807	320	1 454
Cyprus	-	-	339 166	274 392	-	-	17	37	-	-
Luxembourg	1 425	1 486	168 829	115 421	11 701	12 374	-	-	-	-
Switzerland	-	-	68 201	76 295	-	-	2	2	-	-
France	-	-	1 540	1 845	52 609	52 914	1	1	-	-
Netherlands	20 000	20 001	22 694	30 437	-	-	-	1	5 099	-
Poland	15 131	15 127	1	1	14 152	14 654	1	-	-	4 954
Lithuania	10 108	10 174	-	-	13 378	13 475	-	-	-	-
Latvia	2 182	2 208	-	-	17 733	17 707	-	-	-	-
Austria	-	-	35 552	16	-	-	4	4	-	-
Other countries	32 560	32 710	7 184	5 765	-	-	4	4	7 420	7 420
Total	404 747	372 485	3 248 598	2 996 470	390 328	436 999	177 744	243 612	15 635	18 236

Rating system

The Bank uses a rating system to evaluate the financial performance of companies. The rating system evaluates quantitative and qualitative indicators of economic activities (e.g. liquidity ratio, profitability, gearing etc.), and compares them with the subjective assessment of the client by the Bank. The Bank categorises clients into rating levels from best to worst, the worst level representing the highest probability of default. The Bank has established processes for creation of ratings, their regular update, and control for assigning the ratings, and these are defined in the Bank's internal guidelines.

The Bank uses internal credit risk ratings which reflect the probability of default by individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Information regarding borrower and loan, collected at the time of application (such as disposable income, level of collateral for retail exposures, or turnover and industry type for corporate exposures) is entered into this rating model. This is supplemented with external data, such as credit bureau scoring information on retail customers. In addition, the models enable expert judgement to be included in the final internal credit rating for each exposure. In addition to this, the system also allows inclusion of an expert judgement, which is information that may not be captured from other data inputs.

The rating methods are subject to regular validation and recalibration, so that they reflect the latest projections in the light of all actually observed defaults.

Measurement of expected credit losses

IFRS 9 outlines a three-stage model for impairment, based on changes in credit quality since initial recognition, as summarised below:

- **Stage 1:** A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank. This includes all financial instruments, where no significant increase in credit risk has been identified, from the date of initial recognition
- **Stage 2:** If significant increase in credit risk ('SICR') since initial recognition is identified, or if information on initial credit rating is not available, the financial instrument is moved to Stage 2, but is not yet deemed to be credit-impaired
- **Stage 3:** If the financial instrument is credit-impaired, the financial instrument is moved to Stage 3

Financial instruments in *Stage 1* have their ECL measured, at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in *Stages 2 or 3* have their ECL measured based on expected credit losses on a lifetime basis. The Bank has a defined remedial period for returning from *Stage 3* to *Stage 2* and from *Stage 2* to *Stage 1*. Direct movement from *Stage 3* to *Stage 1* is not allowed.

Purchased or originated credit-impaired financial assets ('POCI') are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime loss basis.

A general concept in measuring ECL is that it should consider forward-looking information.

The Bank sets the level of significance at EUR 300 thousand (31 December 2020: EUR 300 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (31 December 2020: EUR 300 thousand) are assessed individually in the staging process.

The same principles are also applied to measurement of provisions for off-balance sheet exposures, arising from loan and other commitments, and guarantees given.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

i. Quantitative criteria:

Remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold.

These thresholds are determined separately for retail and corporate portfolios, by assessing how the Lifetime PD changes prior to an instrument becoming problematic.

The protection criterion applies, and the financial asset is considered to have experienced a significant increase in credit risk, when the borrower is past due with contractual payments for more than 30 days. The Bank does not benefit from the exception of low credit risk for any financial instrument.

This is an English language translation of the original Slovak language document.

The following thresholds apply to retail portfolios:

- deterioration of the internal rating to the worst degree;
- forbearance indicator.

The following thresholds apply to corporate portfolios:

- deterioration of the internal rating to the worst degree
- forbearance indicator
- non-compliance with financial covenants.

ii. Qualitative criteria:

The Bank uses the following indicators to assess whether SICR has occurred:

- The debtor violates the financial covenants or contracts;
- Actual or expected significant adverse change in operating results of the borrower;
- Negative information about the borrower from external sources;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Significant change in collateral value (secured facilities only), which is expected to increase risk of default;
- Actual or expected concession, restructuring or change in the repayment schedule.

The assessment of SICR for individually assessed exposures is carried out at the level of the counterparty on an ongoing basis. The criteria used to identify SICR are monitored and reassessed, in order to assess their suitability, at least once a year.

Definition of default and credit impaired financial assets

The Bank defines a financial asset as defaulted when it fully complies with the definition of credit impairment, or when one or more events occur that have a detrimental effect on the estimated future cash flows of the financial asset.

i. Hard criteria:

- Any significant credit obligation of the borrower towards the Bank, parent company, or any of its subsidiaries is more than 90 days past due, while:
 - the materiality does not apply to retail portfolios;
 - for corporate portfolios, the materiality is set at EUR 250 or 1% of the amount of the debtor's balance sheet exposure;
- The Borrower has declared bankruptcy or other form of reorganisation;
- The Borrower has asked the Bank for concession due to economic or contractual reasons, related to the borrower's financial difficulties and a significant reduction in the quality of the loan;
- The loan was forfeited;
- Fraud.

If the Bank identifies any of hard criteria, the loan is classified as defaulted immediately.

ii. Soft criteria:

- The receivable is overdue (up to 90 days);
- The Bank recognises a specific concession to the loan agreement, resulting from a significant reduction in the quality of the loan;
- Signs of impairment, leading to the assumption that the borrower will not pay its credit obligations to the Bank in full amount and in time, without the Bank taking any actions such as realisation of the collateral;
- Significant impairment of main collateral;
- Failure of the debtor in another financial institution, or failure of another client's loans and advances in the Bank;
- Any other warning signs identified in the client monitoring and engagement process that, according to the Bank's assessment, will result in the debtor not paying his credit commitments to the Bank in full and in time, without the bank taking steps toward loan collateral.

Soft criteria are the subject of a qualified bank assessment as to whether the receivable is in default.

Forward-looking information

Both, the assessment of SICR and the calculation of ECL incorporate forward-looking information ('FLI').

i. Individually assessed exposures

Considering the abundance and high diversity of corporate exposures, the Bank does not identify a reliable correlation between macroeconomic indicators and ECL. Using future-oriented information for individually assessed exposures would lead to unpredictable results, due to a lack of reliable correlation, and the Bank therefore concludes that the use of future-oriented information is not appropriate for individually assessed exposures. Therefore, the Bank assesses the potential impacts of macroeconomic changes at the level of individual loans in their regular monitoring, and any possible impacts are considered when modelling expected cash flows.

ii. Portfolio-based exposures

In assessing the amount of expected loss of portfolio exposures, the Bank considers estimated future economic conditions. This is achieved by appropriate PD value modifications via a multiplier. The FLI setting consists of determining the values of two parameters:

- The coefficient of increase of 12-month marginal PD values
- The number of months during which the PD will revert to the original values

As at 30 September 2021, the setting of FLI parameters for portfolio assessed exposures is based on macroeconomic predictions of the NBS, which forecast an increased probability of failure of exposures which have been granted a deferral due to COVID-19.

Calculation of ECL

The Bank calculates ECL on an individual or portfolio basis. Individual basis is defined as an individual estimate of cash flows at the exposure level. In calculating the ECL on a portfolio basis, exposures are classified from common risk characteristics into a homogenous group.

The aggregation of exposures follows a business purpose and also considers the risk perspective. Separate portfolios are created for retail secured and unsecured loans, while the Bank also creates additional portfolios according to the amount of LTV or product type. Corporate exposures are aggregated into instalment loans, overdrafts, guarantees and bonds. Other portfolios mainly represent money-market exposures to financial institutions and government bonds.

i. Individual calculation:

The individual basis for calculating ECL is used for individually assessed exposures in Stage 3:

The ECL calculation is generally based on three scenarios (and at least two scenarios), and each scenario is given a certain probability:

- **Contractual scenario** - scenario based on the expectation of maturity of all contractual cash flows in time and in full amount
- **Going concern** - scenario based on the expectation of both contractual cash flows and cash flows from collateral recovery
- **Gone concern** - the worst scenario based on the expectation of both contractual cash flows and cash flow from collateral recovery. Compared to the Going concern scenario, the Bank expects lower cash flow values

The ECL is subsequently calculated as the probability-weighted amount of expected cash flows from each scenario, discounted by the original EIR.

ii. Portfolio calculation

Portfolio ECL calculation is used for all other cases. Portfolio ECL is calculated using the following formula $ECL = PD \times EAD \times LGD$, where:

- PD: The probability of default is the likelihood that the borrower does not meet its financial obligations. PD depends on the rating and the following rules apply:
 - Stage 1: Use of 12-month PD, i.e. probability of default over the next 12 months;
 - Stage 2: PD is used over the lifetime, i.e. probability of default over the entire maturity of the exposure;
 - Stage 3: The PD is equal to 1 because the exposure is already defaulted;
- EAD: Unsecured Exposure at default;
- LGD: Loss given default means the ratio of credit loss in case of default to EAD.

The Bank calculates the ECL on an individual or portfolio basis. An individual basis represents an individual estimate.

The tables below summarise the classification of financial assets and off-balance sheet exposures (in gross amount) by credit risk ratings:

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Financial assets at AC - Debt securities	-	-	-	-	-	-	-	-	-	-
Low credit risk	356 382	317 084	-	-	-	-	-	-	356 382	317 084
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	48 365	55 401	-	-	-	-	48 365	55 401
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	356 382	317 084	48 365	55 401	-	-	-	-	404 747	372 485
Impairment allowance	(99)	(95)	(7 516)	(7 626)	-	-	-	-	(7 615)	(7 721)
Carrying amount	356 283	316 989	40 849	47 775	-	-	-	-	397 132	364 764

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Financial assets at AC - Loans and advances	-	-	-	-	-	-	-	-	-	-
Low credit risk	911 530	855 189	68 475	19 804	-	-	-	-	980 005	874 993
Moderate credit risk	1 499 739	1 304 850	80 860	124 811	-	-	-	4	1 580 599	1 429 665
High credit risk	173 393	183 569	289 976	277 326	-	-	16 115	22 066	479 484	482 961
Default	-	-	-	-	173 636	168 867	8 885	8 630	182 521	177 497
Not rated	13 080	11 581	9 271	19 223	3 623	550	15	-	25 989	31 354
Gross amount	2 597 742	2 355 189	448 582	441 164	177 259	169 417	25 015	30 700	3 248 598	2 996 470
Impairment allowance	(21 683)	(22 766)	(36 962)	(39 696)	(153 492)	(142 971)	(9 125)	(10 867)	(221 262)	(216 300)
Carrying amount	2 576 059	2 332 423	411 620	401 468	23 767	26 446	15 890	19 833	3 027 336	2 780 170

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Financial assets at FVOCI - Debt securities	-	-	-	-	-	-	-	-	-	-
Low credit risk	309 185	356 854	-	-	-	-	-	-	309 185	356 854
Moderate credit risk	40 569	77 007	-	-	-	-	-	-	40 569	77 007
High credit risk	3 146	3 138	37 428	-	-	-	-	-	40 574	3 138
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	352 900	436 999	37 428	-	-	-	-	-	390 328	436 999
Impairment allowance in OCI	(318)	(477)	(8 283)	-	-	-	-	-	(8 601)	(477)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Loan and other commitments given	-	-	-	-	-	-	-	-	-	-
Low credit risk	115 143	121 567	6	5	-	-	-	-	115 149	121 572
Moderate credit risk	46 401	103 662	-	1	-	-	-	-	46 401	103 663
High credit risk	4 799	2 133	1 293	974	-	-	-	-	6 092	3 107
Default	-	-	-	-	123	44	-	-	123	44
Not rated	3 000	3 000	6 979	12 226	-	-	-	-	9 979	15 226
Gross amount	169 343	230 362	8 278	13 206	123	44	-	-	177 744	243 612
Provision	216	349	261	439	39	11	-	-	516	799

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020	30.9.2021	31.12.2020
Financial guarantees given	-	-	-	-	-	-	-	-	-	-
Low credit risk	226	2 121	-	-	-	-	-	-	226	2 121
Moderate credit risk	13 047	12 973	-	-	-	-	-	-	13 047	12 973
High credit risk	248	1 932	2 045	-	-	-	-	-	2 293	1 932
Default	-	-	-	-	69	1 210	-	-	69	1 210
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	13 521	17 026	2 045	-	69	1 210	-	-	15 635	18 236
Provision	32	80	134	-	69	609	-	-	235	689

Received collateral

The Bank generally requires collateral in order to mitigate its credit risk from exposures on financial assets. The following collateral types are accepted:

- Cash;
- Guarantees issued by banks, governments or reputable third parties;
- Securities;
- Receivables;
- Commercial and residential real estate;
- Tangible assets.

Estimates of fair value are based on the value of collateral assessed at the time before executing the deal and are reassessed on a regular basis. Generally, collateral is not held on exposures against credit institutions, except when securities are held as part of reverse repurchase and securities lending activity.

An estimate of the fair value of received collateral is shown below (including received collateral from reverse repurchase agreements). Received collateral value is disclosed up to the gross carrying amount of the asset (so-called recoverable amount):

EUR'000	30.9.2021	31.12.2020
Real estates	943 437	712 835
Securities	293 818	230 593
Cash	3	6
Other	151 471	167 795
Total	1 388 729	1 111 229

Collateral in default loans and advances at amortised cost:

EUR'000	30.9.2021	31.12.2020
Gross amount	186 144	178 047
Impairment allowance	(161 926)	(151 136)
Carrying amount	24 218	26 911
Collateral	6 568	5 663

The Bank's assessment of the net realisable value of the collateral is based on independent expert appraisals, which are reviewed by the Bank's specialists, or internal evaluations prepared by the Bank. The realisable value of collateral is derived from this value using a correction coefficient, that is the result of the current market situation, and reflects the Bank's ability to realise the collateral in case of involuntary sale, for a price that is possibly lower than the market price. The Bank, at least annually, updates the values of the collateral and the correction coefficients.

Recovery of receivables

The Bank takes the necessary steps in judicial and non-judicial processes to obtain the maximum recovery from defaulted receivables. In case of default receivables, the activities of taking possession of collateral, representing the Bank in bankruptcy, and restructuring proceedings are realised separately.

In the retail segment, the recovery process for overdue receivables is defined and centrally operated by a workflow system. The system provides complex evidence of problematic receivables, uses a segmented strategy of recovery, and it also processes numerous task flows, automated collection tasks, etc. The Bank also uses outsourced services of collection companies.

34. Liquidity risk

Liquidity risk arises from financing of the Bank's activities and management of its positions. It includes risk of ability to financing the Bank's assets with instruments of appropriate maturity, and the Bank's ability to dispose of its assets for acceptable prices within acceptable time periods. The Bank promotes a conservative and prudent approach to liquidity risk management.

The Bank has a system of limits and indicators consisting of the following elements:

- Short-term liquidity management is performed by monitoring the liabilities and receivables due, and fulfilling the compulsory minimum reserves
- Long-term liquidity management is also performed using the method of liquidity gap analysis (the classification of assets and liabilities based on their maturity into different maturity ranges). Liquidity gap analysis uses the Liquidity at Risk deposit stability model, as well as other behavioural assumptions

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank finances its assets mostly from primary sources. In addition, the Bank has open credit lines from several financial institutions and is therefore also able to finance its assets by loans and deposits from other banks. Due to its structure of assets, the Bank has at its disposal sufficient amount of bonds that are, if necessary, acceptable for acquiring additional resources through refinancing operations organised by the European Central Bank.

The Bank monitors the liquidity profile of its financial assets and liabilities, and details about other projected cash flows arising from projected future business. Based on such information, the Bank maintains a portfolio of short-term liquid assets, made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored, and monthly liquidity stress testing is conducted, under a variety of scenarios covering both normal and severe market conditions. The Bank also has a contingency plan and, communication crisis plan that describes the principles and procedures of management in extraordinary conditions and secures the availability of financial back-up sources. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee ('ALCO'). A summary report, including any exceptions and remedial actions, is submitted to ALCO at least once a month.

Exposure to liquidity risk

The key measures used by the Bank for managing liquidity risk are:

- *Primary liquidity ratio and Liquidity coverage ratio* - tracking short-term liquidity under stress scenarios
- *Net stable financing ratio* - structural funding monitoring
- *Modified liquidity gap indicator* - management of structural medium- to long-term liquidity
- *Analysis of survival time in stress conditions*

Cash flows expected by the Bank for certain assets and liabilities may differ significantly from their contractual flows. For example, for deposits from clients (current accounts, term deposits without notice period) the Bank expects that they will remain in the Bank over a longer period, or more precisely, their value will increase over time as a result of receiving new funds. Receivables from clients may also be prematurely repaid.

The liquidity coverage ratio is defined by Regulation of the European Parliament and of the Council no. 575/2013, as the ratio of the sum of the liquid assets to the sum of the net negative cash outflows. The ratio must not fall below 1. The ratio was as follows:

	30.9.2021	31.12.2020
End of the period	1.66	2.15
Average for the period	2.18	1.95
Maximum for the period	3.00	2.15
Minimum for the period	1.66	1.81

The Net Stable Funding Ratio requirement stipulated in Article 413 (2) 1 (EU Regulation No. 575/2013 of 26 June 2013) equals the ratio of the available stable funding of the institution to the required stable funding of the institution. The value of the indicator must not fall below 1. The value of the indicator was as follows:

	30.9.2021	31.12.2020
End of the period	1.34	1.22

35. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing), will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include proprietary position-taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the ALCO. The members of ALCO are responsible for the development of detailed market risk management policies.

Management of market risks

Limits, indicators and methods of equity risk management are defined in accordance with the principles described in the Market Risk Management Strategy. In managing market risk, the Bank uses the following limits, indicators and methods for identifying, measuring and monitoring market risks:

- Open positions in individual financial instruments
- Value at Risk
- Expected shortfall
- Basis point value
- Credit spread point value
- Analysis of interest rate gap
- Capital at Risk / Change of economic value of capital
- Earnings at Risk / Change of net interest income
- Stop loss limits for trading book
- Stress testing
- VaR back-testing

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk ('VaR'). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period), from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence for a one day holding period. The VaR model used is primarily based on historical simulations. Based on market data from previous years, as well as observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A holding period assumes that it is possible to acquire or dispose of positions during that period. This is considered to be a realistic assumption in almost all cases, but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- A 99 % confidence level does not reflect losses that may occur beyond this level. Within the model used there is a one percent probability that losses could exceed the VaR. To mitigate this shortage, the Bank uses the ratio expected shortfall, which monitors potential loss beyond the set confidence interval
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature. To mitigate this shortage, the Bank uses the Stressed VaR indicator, which considers historical scenarios with the greatest negative impact

Daily reports of utilisation of VaR limits are submitted to members of ALCO, and departments responsible for risk position management. Information on market risks development is regularly submitted to ALCO.

Interest rate risk

The main source of the Bank's interest rate risk results from revaluation risk, which is due to timing differences in maturity dates (fixed rate positions), and in revaluation (variable rate positions) of banking assets and liabilities, and positions in commitments, contingencies and derivative financial instruments.

Other sources of interest rate risk are:

- *Yield curve risk* – risk of changes in the yield curve, due to the fact that a change in interest rates on the financial market will occur to different extents at different periods of time for interest-sensitive financial instruments
- *Different interest base risk* - reference rates, to which active and passive transactions are attached, are dissimilar and do not move simultaneously.
- *Risk from provisioning* - resulting from the decrease of interest sensitive exposure, with increasing volume of impairment loss allowances. Reducing exposure affects the Bank's interest sensitivity, based on a short or long position.
- *Option risk* - arising from potential embedded options in financial instruments in the portfolio of the Bank, allowing early withdrawals and repayments by counterparties, and subsequent deviation from their contractual maturities.

On the asset side of the statement of financial position, the Bank manages its interest rate risk by providing a majority of corporate loans with variable rates. The Bank continuously uses asset-liability management in its interest risk management. When purchasing debt securities, the current interest position of the Bank is considered, which then serves as a basis for purchase of fixed or variable debt securities. The Bank uses interest swaps to hedge interest rate debt securities classified within FVOCI financial assets.

The priorities of the Bank for interest rate risk management of liabilities comprise:

- Stability of deposits, especially over longer time periods
- Fast and flexible reactions to significant changes in inter-bank interest rates, through adjustments to interest rates on deposit products;
- Continuously evaluating interest rate levels offered to clients, compared to competitors, and actual or expected development of interest rates on the local market;
- Managing the structure of liabilities in compliance with the expected development of money market rates, in order to optimise interest revenues and minimise interest rate risk.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows, or fair values of financial instruments, because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management Division in its day-to-day monitoring activities. Setting interest rates for banking products is under the responsibility of ALCO.

Share price risk

Share price risk is the risk of movements in the prices of equity instruments held in the Bank's portfolio, and financial derivatives derived from these instruments. The main source of the Bank's share price risk is speculative and strategic positions held in shares and share certificates.

When investing in equity instruments, the Bank:

- Follows an investment strategy which is updated on a regular basis;
- Prefers publicly traded stocks;
- Monitors limits to minimise share price risk;
- Performs a risk analysis, which usually includes forecasts of the development of the share price, various models and scenarios for the development of external and internal factors with an impact on the statement of profit or loss, asset concentration, and the adequacy of own resources.

Share price risk is expressed above as part of the VaR ratio.

Foreign exchange risk

The Bank is exposed to foreign exchange risk when trading in foreign currency for its own account, as well as for its clients. The Bank assumes a foreign exchange risk if the assets and liabilities denominated in foreign currencies are not in the same amount, i.e. the bank has unsecured foreign exchange positions. The Bank reduces its foreign exchange risk through limits on its unsecured foreign exchange positions and keeps them at an acceptable level according to its size and business activities. The main currencies in which the Bank holds significant positions are CZK and USD. The amount of foreign exchange risk is shown above through the VaR indicator.

36. Operational risk

Operational risk is the risk of loss, including the damage caused (by its own activities), to the Bank by inappropriate or incorrect procedures, human factor failure, failure of systems used, and by external factors other than credit, market and liquidity risks. A part of the operational risk is legal risk arising from unenforceable contracted receivables, unsuccessful legal cases, verdicts with negative impact on the Bank, and compliance risk. Operational risk arises from all of the Bank's operations and is faced by all business entities.

The Bank continuously aims to improve the implemented process of operational risk identification, usage of key risk indicators, self-evaluation procedures, or planning for unforeseeable events, and aims to secure business continuity and manage operational risk of the Bank on a consolidated basis.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in each division. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for periodic assessment of operational risks faced, and adequacy of controls and procedures to address the risks identified;
- Requirements for reporting of operational losses and proposed remedial actions;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective.

Internal audit performs audits and inspections, in accordance with the Statute of internal control and internal audit, and the plan of audit activities for the year, approved by the Supervisory Board. Results of audits and inspections performed by internal audit are discussed with management of the department to which they relate. Reports from audits and controls are then submitted to the Board of Directors and the Supervisory Board (which also carries out activities of the Audit Committee).

Legal risk

Legal risk represents a risk of loss arising mainly from unenforceable contracts, threats of unsuccessful legal cases, or verdicts with negative impact on the Bank. Legal risk management is the responsibility of the Legal Services department.

Compliance risk

The Bank management of compliance risk is mainly focused on:

- Managing the risk of money laundering and terrorist financing;
- Risk of legal sanctions and penalties from regulators;
- Loss of the Bank's reputation, which may be suffered as a result of a failure to comply with the requirements of generally applicable laws, legal standards, guidelines and standards related to banking activities.

Risks related to outsourcing

Outsourcing activities present a separate group of operational risks. Outsourcing involves long-term performance of activities by a third party, which support the Bank's activities and are carried out on a contractual basis, in order to increase the efficiency of the Bank's activities.

Risk management relating to outsourcing is part of overall bank risk management. It is the responsibility of the Board of Directors and includes:

- Managing strategy for risks associated with outsourcing, which is approved by the Board of Directors, as well as other particular internal directives relating to outsourcing, security crisis plans for individual outsourced activities, or plans for the Bank when ceasing outsourced activities;
- Examination of the quality of service providers before and during outsourcing;
- Regular inspections of performance of outsourcing companies by the Department of Internal Control and Internal Audit;
- Minimalization of the risk related to outsourcing when extraordinary events occur.

37. Capital management

In implementing current capital requirements, the Bank is required to maintain a prescribed ratio of total capital to total risk-weighted assets, and a ratio of Tier I capital to total risk-weighted assets.

The Bank uses the standardised approach to credit risk, the standardised method for credit valuation adjustment, the simplified approach to trading book risks, and the standardised approach to operational risk, in accordance with The Regulation of the European Parliament and the EU Council no. 575/2013, as amended (Capital Requirement Regulation or CRR).

Banking operations are categorised to either a banking book or a trading book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and contingent liabilities.

Adequacy of Tier I capital and own Tier I capital is expressed as the ratio between the forms of capital, to total risk-weighted assets of the bank. Tier I capital is the sum of own Tier I capital (CET1) and additional Tier I capital (AT1). Since the Bank does not own AT1 capital, the entire volume of Tier I capital of the Bank consists of only CET1 capital, and therefore there is no difference between Tier I capital adequacy, and own Tier I capital adequacy, respectively.

The Bank has complied with all externally imposed capital requirements throughout the year.

The Bank's position of own funds according to the CRR is displayed in the following table:

EUR'000	30.9.2021	31.12.2020
Tier I Capital	671 750	630 161
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	63 997	59 561
Selected components of accumulated other comprehensive income	6 665	6 372
Profit or loss of previous years	249 646	209 724
Intangible assets	(31 705)	(35 348)
Additional valuation adjustments	(788)	(840)
Other transitional adjustments to CET1 Capital	16 892	23 649
Tier II Capital	8 000	8 000
Subordinated debt	8 000	8 000
Regulatory capital total	679 750	638 161

The table below summarises requirements on own funds in accordance with CRR:

EUR'000	30.9.2021	31.12.2020
Capital required to cover:		
Credit risk	263 453	261 227
Credit value adjustment risk	217	105
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	24 632	24 632
Total capital requirements	288 302	285 964
Capital ratios		
Total capital level as a percentage of total risk-weighted assets	18.86%	17.85%
Tier I capital as a percentage of total risk-weighted assets	18.64%	17.63%
Common Equity Tier I capital as a percentage of total risk-weighted assets	18.64%	17.63%

Under IFRS 9 transition, the Bank has decided to apply gradual impact reflection to capital adequacy, by layering the initial impact (Article 473a of the CRR with the exception of paragraph 3), the impact of which is presented in the following table:

EUR?000	30.9.2021	31.12.2020
Available capital (amounts)		
Common Equity Tier 1 (CET 1) capital	671 750	630 161
Common Equity Tier 1 (CET 1) capital as if IFRS 9 transitional arrangements were not applied	654 858	606 512
Tier 1 capital	671 750	630 161
Tier 1 capital as if IFRS 9 transitional arrangements were not applied	654 858	606 512
Total capital	679 750	638 161
Total capital as if IFRS 9 transitional arrangements were not applied	662 858	614 512
Risk-weighted assets (amounts)		
Risk-weighted assets	3 603 77€	3 574 545
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 584 99€	3 549 280
Capital ratio		
Common Equity Tier 1 capital (as a percentage of risk exposure amount)	18.64%	17.63%
Common Equity Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.27%	17.09%
Tier 1 capital (as a percentage of risk exposure amount)	18.64%	17.63%
Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.27%	17.09%
Total capital (as a percentage of risk exposure amount)	18.86%	17.85%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.49%	17.31%

38. Post balance-sheet events

After the date of preparation of the financial statements, no events with a material impact which would require an adjustment or a disclosure in these financial statements occurred.