

365.bank, a. s.

Interim consolidated financial statements
prepared in accordance with International accounting
standard IAS 34 Interim Financial Reporting as
adopted by the European Union

for 6 months ending 30 June 2022
(English translation)

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A. Consolidated statement of financial position

EUR'000	Notes	30.6.2022	31.12.2021
Assets			
Cash, cash balances at central banks and other demand deposits	4	277 192	453 523
Financial assets held for trading	5	884	2
Non-trading financial assets mandatorily at fair value through profit or loss	6	347 580	317 729
Financial assets at fair value through other comprehensive income	7	286 177	385 502
Financial assets at amortised cost	8	3 613 907	3 579 240
<i>Debt securities</i>	8	401 978	380 576
<i>Loans and advances</i>	8	3 180 051	3 173 993
thereof: Loans and advances to banks	8	3 070	23 553
thereof: Loans and advances to customers	8	3 176 981	3 150 440
<i>Other financial assets</i>	8	31 878	24 671
Derivatives – Hedge accounting	9	5 164	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9	(1 010)	1 091
Investments in joint ventures and associates	10	805	937
Tangible assets	11	62 510	68 081
Intangible assets	12	56 262	57 481
Current tax assets		251	-
Deferred tax assets	13	27 911	24 223
Other assets	14	21 569	16 086
TOTAL ASSETS		4 699 202	4 903 895
Liabilities			
Financial liabilities held for trading	5	1 027	3 695
Financial liabilities at amortised cost	15	3 928 376	4 136 783
<i>Deposits</i>	15	3 801 446	4 007 447
thereof: Subordinated debt	15	8 013	8 014
Debt securities issued	15	65 902	64 794
<i>Other financial liabilities</i>	15	61 028	64 542
Derivatives – Hedge accounting	9	758	4 977
Provisions	16	434	736
Current tax liabilities		404	4 346
Other liabilities	17	9 759	14 284
Total liabilities		3 940 758	4 164 821
Share capital and share premium	18	367 043	367 043
Retained earnings	18	335 481	297 821
Other equity	18	55 802	74 094
Non-controlling interests	18	118	116
Total equity	18	758 444	739 074
TOTAL EQUITY AND LIABILITIES		4 699 202	4 903 895

These interim consolidated financial statements, which include the notes on pages 7 - 53, were approved by the Board of Directors on 10 August 2022.



 Chairman of the Board of Directors
 Andrej Zatko



 Member of the Board of Directors
 Zuzana Žemlová

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

EUR'000	Notes	1-6/2022	1-6/2021
Statement of profit or loss			
Net interest income	20	67 838	74 905
<i>Interest income</i>	20	71 183	77 937
<i>Interest expenses</i>	20	(3 345)	(3 032)
Net fee and commission income	21	32 056	26 726
<i>Fee and commission income</i>	21	45 163	41 801
<i>Fee and commission expenses</i>	21	(13 107)	(15 075)
Dividend income	22	8 335	7
Net gains/(losses) from financial transactions	23	1 652	7 071
Other operating income and expenses	24	2 506	2 956
<i>Other operating income</i>	24	4 975	5 315
<i>Other operating expenses</i>	24	(2 234)	(2 245)
<i>Gains/(losses) on derecognition of non-financial assets, net</i>	24	(235)	(114)
Staff expenses	25	(29 039)	(26 861)
Other administrative expenses	25	(21 832)	(20 901)
Depreciation	26	(13 656)	(12 106)
Net earned premium	27	-	8 484
Claim costs	28	-	(2 588)
Operating profit before impairment losses and provisions		47 860	57 693
Release/(creation) of provisions	29	305	434
Net impairment of financial assets not valued at fair value through profit and loss	29	5 735	(8 243)
Net impairment on non-financial assets	29	165	197
Share of the profit of investments in joint ventures and associates	10	278	276
Profit before tax		54 343	50 357
Income tax	30	(10 551)	(11 058)
Profit after tax		43 792	39 299
Profit after tax attributable to ordinary shareholders		43 790	38 898
Profit after tax attributable to non-controlling interest		2	401
Statement of other comprehensive income			
Items that may be reclassified to profit or loss		(24 404)	2 448
<i>Revaluation of debt securities at fair value through other comprehensive income</i>		(30 876)	(3 039)
<i>Impairment losses for debt securities at fair value through other comprehensive income</i>		(61)	6 132
<i>Deferred tax related to items that may be reclassified to profit or loss</i>		6 533	(647)
<i>Foreign currency translation</i>		-	2
Total other comprehensive income		(24 404)	2 448
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		19 388	41 747
Total comprehensive income attributable to ordinary shareholders		19 386	41 351
Total comprehensive income attributable to non-controlling interest		2	396
Earnings per share			
Profit after tax attributable to ordinary shareholders		43 790	38 898
Weighted-average number of ordinary shares		330 899	330 899
Basic and diluted earnings per share in EUR		132	118

The notes on pages 7 - 53 are an integral part of these consolidated financial statements.

C. Consolidated statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve and other funds	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	EQUITY ATTRIB. TO OWNERS OF THE PARENT	Non-controlling interests	TOTAL EQUITY
Opening balance as of 1 January 2022	366 305	738	63 426	10 668	-	297 821	738 958	116	739 074
Total comprehensive income	-	-	-	(24 404)	-	43 790	19 386	2	19 388
Profit after tax	-	-	-	-	-	43 790	43 790	2	43 792
Items that may be reclassified to profit or loss	-	-	-	(24 404)	-	-	(24 404)	-	(24 404)
Other transactions	-	-	6 112	-	-	(6 130)	(18)	-	(18)
Transfer to legal reserve fund	-	-	6 112	-	-	(6 112)	-	-	-
Other	-	-	-	-	-	(18)	(18)	-	(18)
Closing balance as of 30 June 2022	366 305	738	69 538	(13 736)	-	335 481	758 326	118	758 444

EUR'000	Share capital	Share premium	Legal reserve and other funds	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	EQUITY ATTRIB. TO OWNERS OF THE PARENT	Non-controlling interests	TOTAL EQUITY
Opening balance as of 1 January 2021	366 305	738	60 737	7 437	(2)	243 560	678 775	3 955	682 730
Total comprehensive income	-	-	-	2 451	2	38 898	41 351	396	41 747
Profit after tax	-	-	-	-	-	38 898	38 898	401	39 299
Items that may be reclassified to profit or loss	-	-	-	2 451	2	-	2 453	(5)	2 448
Other transactions	-	-	4 523	-	-	(4 153)	370	(17)	353
Transfer to legal reserve fund	-	-	4 523	-	-	(4 554)	(31)	31	-
Other	-	-	-	-	-	401	401	(48)	353
Closing balance as of 30 June 2021	366 305	738	65 260	9 886	-	278 305	720 494	4 334	724 828

The notes on pages 7 - 53 are an integral part of these consolidated financial statements.

D. Consolidated statement of cash-flows

EUR'000	Notes	30.6.2022	30.6.2021
Profit before tax		54 343	50 357
<i>Adjustments:</i>			
Net interest income		(67 838)	(74 905)
Dividend income		(8 335)	(7)
Depreciation		13 656	12 106
Release/(creation) of provisions		(305)	(434)
Creation of insurance provisions		-	217
Gains/(losses) on derecognition of non-financial assets, net		235	114
Net impairment of financial assets not valued at fair value through profit and loss		(5 735)	8 243
Net impairment on non-financial assets		(165)	(197)
Share of profit in jointly controlled entities and associates		(278)	(276)
Cash flows from/(used in) operating activities before changes in working capital		(14 422)	(4 782)
<i>(Increase)/decrease in operating assets:</i>			
Cash balances at central banks		182 035	7 973
Financial assets held for trading		(882)	2 546
Non-trading financial assets mandatorily at fair value through profit or loss			
<i>(Increase)/decrease</i>		(29 851)	(5 445)
<i>Dividends received</i>		8 335	-
Financial assets at amortised cost		805	(47 844)
<i>Loans and advances</i>		8 012	(47 033)
<i>Other financial assets</i>		(7 207)	(811)
Derivatives – Hedge accounting		(5 164)	-
Other assets		(5 484)	(1 105)
<i>Increase/(decrease) in operating liabilities:</i>			
Financial liabilities held for trading		(2 668)	1 505
Financial liabilities measured at amortised cost, excl. sub-debt, received loans and lease liabilities		(206 070)	6 017
<i>Deposits</i>		(205 568)	6 489
<i>Other financial liabilities</i>		(502)	(472)
Derivatives – Hedge accounting		(4 219)	(3 520)
Other liabilities		(4 525)	(2 940)
Cash flows from operating activities before interest and income tax		(82 110)	(47 595)
Interest received		59 369	68 045
Interest paid		(3 136)	(8 950)
Income tax paid		(12 010)	(10 560)
Net cash flows from/(used in) operating activities		(37 887)	940
Cash flows from investing activities			
<i>Financial assets at amortised cost - debt securities</i>			
Purchase		(41 548)	(39 652)
Proceeds from sale and maturity		20 000	5 857
Interest received		1 907	2 162
<i>Financial assets at fair value through other comprehensive income - debt securities</i>			
Purchase		(15 676)	(57 827)
Proceeds from sale and maturity		84 125	89 872
Interest received		5 969	7 443
<i>Tangible and intangible assets</i>			
Purchase		(8 066)	(8 873)
Proceeds from sale		618	284
Net cash flows from/(used in) investing activities		47 329	(734)
Cash flows from financing activities			
<i>Debt securities issued</i>			
Interest paid		(86)	-
<i>Financial liabilities at amortised cost - subordinated debt</i>			
Interest paid		(239)	(239)
<i>Financial liabilities at amortised cost - received loans</i>			
Interest paid		(119)	(110)
<i>Financial liabilities at amortised cost - lease liabilities</i>			
Lease payments		(3 061)	(2 988)
Interest expense		(282)	(293)
Net cash flows from/(used in) financing activities		(3 787)	(3 630)
Net increase/(decrease) in cash and cash equivalents	4	5 655	(3 424)
Cash and cash equivalents at the beginning of the period	4	48 723	53 193
Cash and cash equivalents at the end of the period	4	54 378	49 769

The notes on pages 7 - 53 are an integral part of these consolidated financial statements.

E. Notes to the consolidated financial statements

1. General information

Poštová banka, a. s. ('the Bank') was incorporated in the Commercial Register on 31 December 1992 and commenced its activities on 1 January 1993. On 3 July 2021, the Bank changed its business name to 365.bank, a. s. 365.bank has become the main Bank of the Group and provides both digital and branch network services. Poštová banka (365.bank, a. s., organizational unit Poštová banka) continues to provide its services at Slovenská pošta's offices. The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank's identification ('IČO') is 31340890, tax ('DIČ') is 2021294221 and value added tax ('IČ DPH') number is SK7020000680. The Bank is registered as a VAT member of 365.bank Group.

Based on the meeting of the Board of Directors dated 28 April 2021, the Bank decided to terminate the activities of its branch and to dissolve the organizational unit on 30 June 2021. On 3 July 2021, the Bank sold its entire share in the subsidiary Poštová poisťovňa, a. s.

Consolidated financial statements are the financial statements of the Bank and its subsidiaries, joint ventures and associates ('the Group').

The principal activities of the Group 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,
- Provision of investment services,
- Managing pension funds,
- Mediation of life and non-life insurance services,
- Leasing, rental and factoring services.

The shareholder's structure is as:

Name of shareholder	Address	30 June 2022		31 December 2021	
		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 Österreich Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0.03%	87	0.03%
Total		330 899	100.00%	330 899	100.00%

Members of the Board of Directors

Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Zemlová	Board member
Ladislav Korec	Board member (from 2 July 2021)

Members of the Supervisory Board

Jozef Tkáč	Chairman
Vladimír Ohlídal	Board member
Jan Kotek	Board member

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by the Board of Directors on 9 March 2022.

The Group's financial statements are included in the consolidated financial statements of J&T FINANCE GROUP SE, Sokolovská 700/113a, Karlín, 186 00 Prague 8, 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 consolidated financial statements

The 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 consolidated financial statements under Section 22 of the Slovak Act on Accounting 431/2002, as amended.

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 June 2022 the Bank held significant direct or indirect 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	100.00%
PB Servis, 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%
Monilogi, s. r. o.	Cash management	8.00%

In 2022, the Bank made a contribution to the share capital of joint venture Monilogi, a. s. During 2021, the Bank bought shares in ART FOND - Stredoeurópsky fond súčasného umenia, a. s., thus acquiring control in the Company. On 3 July 2021, the Bank sold its entire share in the subsidiary Poštová poisťovňa, a. s.

365.nadácia is not included in the consolidated financial statements.

2.3 Changes in accounting policies

The adoption of new accounting standards from 1 January 2022 had no significant impact on the financial statements of the Group.

2.4 Significant accounting policies

These consolidated financial statements include segment reporting, as the Group fulfils the criteria under *IFRS 8 Operating segments* for reporting of detailed segment reporting.

(a) Basis for consolidation

Consolidated financial statements include the financial statements of the Bank and its subsidiaries and jointly controlled entities.

IFRS 12 requires disclosure of significant judgments and assumptions made in determining the nature of a company's shareholding or arrangement, interests in subsidiaries, joint ventures and associates, and in non-consolidated structured units. Based on this analysis, the Group does not have investments in consolidated structured units or in non-consolidated structured companies.

Joint ventures are those entities in which the Bank has a material impact on financial and operating policies but is not controlled or controlled jointly by them. A joint venture is an agreement in which the bank has joint control, through which it has the right to net assets of the agreement, and not the right to assets and responsibility for the liabilities under this agreement.

i. *Business combinations*

In case of business combinations in which the Group acquires control, the acquisition method is applied. The consideration transferred in the acquisition is generally measured at fair value, similar to the net assets acquired. Reported goodwill is tested for impairment on an annual basis. Profit from a bargain purchase is recognised in the profit or loss statement immediately. Procurement costs (transaction costs) are recognised as an expense in the period in which they arise, excluding costs relating to the issue of debt securities and equity securities.

Part of the consideration given is not the amount that relates to the settlement of relationships existing before the business combination. These amounts are recognised in the income statement.

The contingent consideration is measured at fair value at the acquisition date. If the obligation to pay a contingent consideration exists, which meets the definition of a financial instrument classified as equity, the contingent consideration is not remeasured, and its settlement is recognised in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. *Subsidiaries*

Subsidiaries are entities which are controlled by a group. The Group controls an entity when it is exposed to, or is entitled to, a variable return on its exposure to that entity, and is able to influence that return by its authority over that entity. Subsidiaries' financial statements are included in the consolidated financial statements, from the date of control to the loss of control date.

iii. *Minority interests*

Minority interests are measured at the proportion of the identifiable net assets of the entity procured at the date of acquisition. Changes in the Group's interests in the subsidiary, which do not result in the loss of control, are recognised in equity.

iv. *Loss of control*

If the Group loses control, it derecognises the assets and liabilities of the subsidiary, related non-controlling interests, and other equity. Profit or loss that arises from the loss of control is recognised in profit or loss. If the Group retains non-controlling interest in the former subsidiary, it is measured at fair value at the date when the control is lost.

v. *Transactions eliminated from consolidation*

Account balances and intragroup transactions, as well as any unrealised income, and expenses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains on transactions with equity-settled entities are eliminated against investments in these entities, up to the Group's share in these entities. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment of the investment.

vi. *Method of consolidation*

The Bank assessed its shares and control in subsidiaries, jointly controlled entities and associates, in accordance with IFRS 10, IFRS 11 and IFRS 12. Subsidiaries are consolidated using the full consolidation method. The joint venture is consolidated in accordance with IFRS 11 by the equivalence method.

Company name	Share in %		Method of consolidation
	30.6.2022	31.12.2021	
Subsidiaries			
365.invest, správ. spol., a. s.	100.00%	100.00%	full consolidation
365.life, d. s. s., a. s.	100.00%	100.00%	full consolidation
Ahoj, a. s.	100.00%	100.00%	full consolidation
PB Servis, a. s.	100.00%	100.00%	full consolidation
PB Finančné služby, a. s.	100.00%	100.00%	full consolidation
365.fintech, a. s.	100.00%	100.00%	full consolidation
Cards&Co, a. s.	100.00%	100.00%	full consolidation
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	87.99%	87.99%	full consolidation
Joint ventures			
SKPAY, a. s.	40.00%	40.00%	equity method
Monilogi, s. r. o.	8.00%	x	equity method

(b) Foreign currency

i. *Foreign currency transactions*

Transactions denominated in foreign currencies are translated into euro at the exchange rate valid on the date of the transaction. Financial assets and liabilities in foreign currencies 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 from the translation of foreign operations are recognised in other comprehensive income.

In the “*Foreign exchange rate translation*” in other comprehensive income, the gains and losses arising from financial assets and liabilities of foreign operations are recognised. The settlement of these items is not planned, and no settlement is expected in the foreseeable future. These gains and losses are treated as part of a net investment in foreign operations.

(c) 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 expenses 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*.

(d) Fee and commission income and expenses

Fee and commission income from contracts with customers is measured based on the consideration specified in the customer contract. The Group recognises revenue when it transfers control of a service to a customer. The following paragraphs provide information about the nature and timing of performance obligations in customer contracts and the related revenue recognition policies.

The Group provides services to retail and corporate customers. These include account management, provision of overdraft and loan facilities, loan commitments and financial guarantees, foreign currency transactions, and servicing fees.

Transaction-based fees such as servicing fees, investment management fees, sales commission, placement fees, syndication fees and fees for overdrafts are charged to the customer’s account when the transaction takes place.

Fee and commission income, and any expenses which are an integral part of EIR financial asset or liability, are included in the calculation of EIR. Revenue from account service and servicing fees is recognised over time, as the services are provided. Loan commitment fees are recognised on a straight-line basis over the commitment period.

(e) Net gains or losses from financial transactions

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

- Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss
- Net gains or losses on financial assets and liabilities held for trading
- Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss
- Net gains or losses on financial assets and liabilities designated at fair value through profit or loss
- Net gains or losses from hedge accounting
- Foreign exchange differences

(f) Dividend income

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

(g) 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.

(h) Financial assets

i. Initial recognition

The Group 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 Group 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 Group 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')

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 assets

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group'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 Group 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 Group evaluates the business model for asset management on a portfolio basis. Financial assets are classified into groups of products with the same characteristics in relation to cash flows.

b. Cash flow characteristics of the assets

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group 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 Group 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 Group 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 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

Financial assets that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed to achieve short-term profit or to maintain position. These assets do not meet the criteria for amortised cost or FVOCI based on Group'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 doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different basis. The Group 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 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 rate 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 Group subsequently measures all equity investments at fair value through profit or loss, except where the Group'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 derecognition. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group'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 reported for equity instruments.

The Group concluded that share certificates held in the Group'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 assets, share certificates fail to meet the solely payments of principal and interest 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 Group 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 Group 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 Group 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 36. *Credit risk* provides more detail of how the expected credit loss allowance is measured.

iv. Derecognition

The Group 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 Group, is recognised as a consolidated asset or liability.

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

v. Modifications of financial assets

If there is a change in the contractual terms, the Group 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 a new financial asset is recognised at fair value.

If the modification does not result in the derecognition of the financial asset, the Group recalculates the gross carrying amount as the present value of changed cash flows discounted by the original EIR. Difference between the new and the original values 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.

(i) 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 Group's strategy, hedging derivatives are designed to hedge and manage selected risks. The Group has elected to adopt IFRS 9 for hedge accounting purposes.

The main Group 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 Group 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 hedging relationship is that resulting from the quantity of the hedged item that the entity actually hedges, and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weighted shares of the hedged item and the hedging instrument that could create hedge ineffectiveness (whether recognised or not), that could also result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

i. Fair value hedge

The Group uses financial derivatives to manage the level of risk in relation to interest rate risk. The Group uses hedging derivatives to hedge the fair value of recognised assets. In the case of micro-hedging the Group hedges the fair value of bonds with fixed coupon. In the case of macro-hedging the Group 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 Group, the Group 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 the profit or loss statement line as Net gains/(losses) from financial transactions. For micro-hedging, changes in fair value without interest component of the hedged items attributable to the hedged risk adjust 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 consolidated profit and loss statement under *Net interest income*. The positive value of hedging instruments is recognised in the consolidated 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, no longer meets the criteria for fair value hedge accounting. 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, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued, and the amount previously recognised in other comprehensive income remains there 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 Group 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 individual 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 Group chooses to designate the hybrid contracts at fair value through profit or loss.

Embedded derivatives in insurance contracts meeting the definition of an insurance contract, or the option to withdraw an insurance contract for a fixed amount (or an amount based on a fixed amount and interest rate), are not recognised separately.

(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 separately as main components of 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 Group, 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 part of an 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	2 – 8 years	straight line
Fittings and other equipment	2 – 15 years	straight line
Software	individual	straight line
Other intangible assets	individual	straight line

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

iv. Goodwill

Goodwill arising in a business combination is determined as the excess of the acquisition cost of the subsidiary's share over the Group's share of the fair value of the assets, liabilities and contingent liabilities of the subsidiary. Goodwill is recognised as part of intangible assets in the statement of financial position.

Goodwill is stated at cost less impairment. Write-offs are not recognised, goodwill is tested for impairment each year and, if the goodwill is greater than the recoverable amount, the difference is recognised as a write-down in the profit and loss statement.

i. Value of business acquired – VOBA

Presumed rights and obligations arising from old-age pension savings agreements ('SDSs'), acquired within a business combination, are measured at fair value upon acquisition. The difference between the fair value of the acquired rights and obligations arising from the contracts, and the value of intangible assets measured in line with the accounting principles applicable to the Group (accrued transaction costs), is recognised as intangible assets (present value of the acquired portfolio of active contracts - VOBA). VOBA is amortised on a straight-line basis over the life of the contracts acquired. The present value of the acquired portfolio of active contracts is subject to an impairment assessment test as at the balance sheet date.

The fair value of the rights and obligations arising from acquired SDS contracts is determined as the present value of the net future cash flows during the remaining term of the acquired contracts. Calculation of the present value of the acquired portfolio of active contracts uses an estimate of the best assumptions for cancellation, costs, fees and mortality, adjusted accordingly by the risk premium.

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

The Group 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 Group accounts for each lease component relating to the contract separately from the non-lease components of the contract.

The Group 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 Group 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 Group uses a 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 Group 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 Group'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 Group 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 Group 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 measured 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 book), 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). This is unless such a 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 Group recognises any expense incurred on the financial liability;
- Financial guarantee contracts and loan commitments.

iii. Derecognition

The Group 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 Group 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, if 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 on the basis of the same principles as the ECL for financial assets.

(o) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specific payments to reimburse the holder for a loss it incurs, because a debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument.

Loan commitments are the Bank's commitments to provide credit under pre-specified terms and conditions.

Financial guarantees or commitments to provide a loan are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments are measured at the sum of the loss allowance determined in accordance with IFRS 9 and the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised.

(p) Employee benefits

i. Termination benefits

Termination benefits are recognised as an expense when the Group 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 when 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 Group 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.

(q) Insurance and investment contracts

Contracts where the Group accepts significant insurance risk from another party (the insured), providing compensation for the insured in case of uncertain future events with a negative impact on the insured, are classified as insurance contracts.

i. Revenue (premium)

Gross premium written comprises the amounts of premium arising from insurance contracts due in the accounting period, regardless of whether these amounts relate fully or partially to future periods (unearned premium). Premium

written includes estimates for premium from insurance contracts (with the beginning of insurance coverage in the accounting period, which may not be delivered at the end of the reporting period), and adjustments to estimates of premium written in previous years. Written premium is recognised net of bonuses and similar discounts offered on contract conclusion or renewal.

Premium from co-insurance is the proportional part of total premium from co-insurance contracts due to the Group and is recognised as revenue.

The earned proportion of premium is recognised as revenue. Premium is earned from the date of acceptance of risk, over the coverage period, based on the pattern of risks underwritten.

On 1 January 2019, Act no. 213/2018 Coll. On insurance tax and on amendments to certain acts came into effect. The subject of the law is the introduction of an insurance tax, which is subject to insurance in the non-life insurance sectors. The insurance tax has the character of an indirect tax and it is paid, in principle, by the insurance companies, which collect it from taxpayers (policyholders) along with the premium. Insurance tax is initially recognised as part of gross premiums written, subsequently gross written premiums are reduced by the value of the tax. The insurance tax therefore has no effect on the reported gross written premium, as it is an indirect tax.

This Act replaced the 8% levy on non-life insurance premiums received under the Insurance Act, except for compulsory motor insurance, which is not provided by the Group.

ii. Unearned premium reserve

Unearned premium ('UPR') comprises the portion of gross premium written, which is estimated to be earned in the following or subsequent financial years, calculated separately for each insurance contract using the daily pro rata method temporis (365 method), adjusted, if necessary, to reflect any variation in the incidence of risk during the period covered by the contract.

iii. Claim costs of non-life insurance

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year, together with adjustments to prior and current year claim provisions. Claim costs are decreased by the amount of recourses.

iv. Claim costs of life insurance

Claims include maturities, annuities, surrenders and death claims, policyholder bonuses allocated in anticipation of a bonus declaration, and claim payments from riders. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid together with a release of the claim provision. Death claims and claims from riders are recognised when notified by creation of an RBNS.

v. Provision for insurance benefits

The indemnity provision is an estimate of the final costs on settling all claims arising out of claims incurred and outstanding, as at the balance sheet date, regardless of whether or not they were reported. These represent the claim payments from contracts classified as insurance contracts, investment contracts with discretionary participation feature ('DPF') and claim payments from related riders. It also includes internal and external costs related to liquidation.

Unsettled claims are valued by assessing individual insured events, creating a provision for reported and unsettled claims (RBNS), a provision for incurred but not reported insured events, and taking into account internal and external predictable events, such as changes in the method of settlement of insurance claims, inflation, trends in litigation related to insured events, changes in legislation, and historical experience and trends. In case the indemnity is paid in the form of a retirement pension, the provision shall be determined by relevant actuarial procedures.

Provisions for claims (other than annuity) are not discounted.

vi. Life assurance provision

Life assurance provision represents the actuarial estimate of the Group's liabilities from traditional life insurance contracts. Life assurance provisions are calculated for each individual policy separately, using the prospective Zillmer method, considering all guaranteed future benefits, already allocated profit-sharing, and future Zillmer premium paid by policyholders. The provision is calculated using the same assumptions as used for the calculation of premium. Changes in the life assurance provision are recognised in the period that the change occurs.

vii. Unexpired risk provision

Provision is made for unexpired risks arising from non-life insurance contracts, where the expected value of claims and expenses attributable to the unexpired periods of contracts in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The

provision for unexpired risks is calculated by reference to classes of business which are managed together, after considering the future investment return on investments held to back the unearned premium, and unexpired claims provisions. Unexpired risk provision is the result of a liability adequacy test in non-life insurance.

viii. Provision for premium deficiency

A liability adequacy test is performed at the reporting date. The test is performed by using actual actuarial assumptions (appropriately adjusted to include a risk margin) at the time of the test, and the discounted cash flow methodology. If such a test indicates that the initially determined life assurance provision is deficient as compared to the result of the liability adequacy test, an additional provision for premium deficiency is created as an expense in the current period.

(r) Pension saving funds

Contracts that are concluded in accordance with the Act on pension saving funds are classified as service contracts under IFRS 15. These are pension saving funds ('SDS') that are concluded by the subsidiary 365.life, d.s.s., a.s.

Deferred acquisition costs of acquisition of SDS contracts

Transaction costs related to the acquisition of SDS contracts are deferred. Transaction costs are represented by commissions paid to intermediaries.

Direct transaction costs are deferred up to the amount of their expected returns from future revenues associated with these contracts. Commissions paid are recognised as deferred transaction costs. If this expense does not meet the requirements of capitalisation (the probability that it will bring economic benefit in the future is low, or it is not directly attributable to a particular SDS contract), it is accounted for as a cost in its full amount when it occurs.

Deferred transaction costs recognised in the financial statements and are part of the brokerage commissions for SDS contracts paid that are deferred to future periods. Deferred costs of acquisition of SDS contracts are amortised using the straight-line basis over the expected life of the contract. At the termination of the contract a one-time write-off is made. The subsidiary tests deferred transaction costs for impairment on a regular basis (as at the date of the financial statements).

(s) Offsetting

In general, financial assets and liabilities are not offset. They are presented net in the statement of financial position only when the Group 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 Group's trading activity.

(t) Basic and diluted earnings per share

The Group reports basic and diluted earnings per share for ordinary shares. Earnings per share are calculated by dividing the net profit after tax by the weighted average number of issued shares outstanding during the accounting period.

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 for debt financial assets measured at amortised cost and FVOCI and for financial guarantees and loan commitments, 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 35. *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 32. *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 Group 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	30.6.2022	31.12.2021
Cash on hand	31 440	29 835
Cash balances at central banks	222 814	404 800
Other demand deposits	22 938	18 888
Total	277 192	453 523

The above-mentioned financial assets are not restricted.

Cash and cash equivalents comprise cash on hand and other deposits repayable on demand. The Group 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	30.6.2022	31.12.2021	30.6.2021	31.12.2020
Cash on hand	31 440	29 835	27 051	25 880
Other demand deposits	22 938	18 888	22 718	27 313
Total	54 378	48 723	49 769	53 193

5. Financial assets and liabilities held for trading

EUR'000	30.6.2022	31.12.2021
Financial assets held for trading		
Derivatives	884	2
Foreign exchange	884	2
Total	884	2
Financial liabilities held for trading		
Derivatives	1 027	3 695
Foreign exchange	1 027	3 695
Total	1 027	3 695

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

EUR'000	30 June 2022			31 December 2021		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange and gold	126 259	884	1 027	143 237	2	3 695
Total	126 259	884	1 027	143 237	2	3 695

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

EUR'000	30.6.2022	31.12.2021
Equity instruments	347 580	317 729
Share certificates	347 580	317 729
Total	347 580	317 729

7. Financial assets at fair value through other comprehensive income

EUR'000	30.6.2022	31.12.2021
Equity instruments	65	65
Shares	65	65
Debt securities	286 112	385 437
General governments	204 770	266 897
Credit institutions	27 517	28 346
Other financial corporations	25 657	29 180
Non-financial corporations	28 168	61 014
Total	286 177	385 502
Impairment allowances to debt securities in OCI	(8 554)	(8 615)

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 2022	(355)	(8 260)	-	-	(8 615)
Increases due to origination and acquisition	(3)	-	-	-	(3)
Decreases due to derecognition	80	-	-	-	80
Changes due to change in credit risk (net)	28	(44)	-	-	(16)
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 June 2022	(250)	(8 304)	-	-	(8 554)

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Debt securities	409 516	388 188	(7 538)	(7 612)	401 978	380 576
Central banks	-	-	-	-	-	-
General governments	347 755	307 533	(105)	(96)	347 650	307 437
Credit institutions	12 618	30 990	-	(2)	12 618	30 988
Other financial corporations	1 365	3 038	-	-	1 365	3 038
Non-financial corporations	47 778	46 627	(7 433)	(7 514)	40 345	39 113
Loans and advances	3 382 798	3 401 114	(202 747)	(227 121)	3 180 051	3 173 993
Central banks	-	-	-	-	-	-
General governments	60 203	60 000	(19)	(19)	60 184	59 981
Credit institutions	3 071	23 571	(1)	(18)	3 070	23 553
Other financial corporations	447 086	491 554	(16 487)	(15 454)	430 599	476 100
Non-financial corporations	658 181	865 689	(58 111)	(73 650)	600 070	792 039
Households	2 214 257	1 960 300	(128 129)	(137 980)	2 086 128	1 822 320
Lending for house purchase	1 322 966	1 028 687	(914)	(787)	1 322 052	1 027 900
Credit for consumption	882 069	918 543	(124 858)	(134 571)	757 211	783 972
Other	9 222	13 070	(2 357)	(2 622)	6 865	10 448
Other financial assets	32 185	24 954	(307)	(283)	31 878	24 671
Total	3 824 499	3 814 256	(210 592)	(235 016)	3 613 907	3 579 240

Loans and advances include finance lease receivables:

EUR'000	30.6.2022	31.12.2021
Minimum value of leasing payments		
Receivables from leasing	20 555	19 056
<i>Up to 1 year</i>	6 333	5 733
<i>1-5 years</i>	13 543	12 591
<i>Over 5 years</i>	679	732
Unrealized income on finance leases	(1 552)	(1 977)
Present value of future lease payments	19 003	17 079
Impairment allowances	(239)	(164)
Total	18 764	16 915

EUR'000	30.6.2022	31.12.2021
Present value of future lease payments		
Receivables from leasing	19 003	17 079
<i>Up to 1 year</i>	5 668	4 944
<i>1-5 years</i>	12 662	11 420
<i>Over 5 years</i>	673	715
Present value of future lease payments	19 003	17 079
Impairment allowances	(239)	(164)
Total	18 764	16 915

Other financial assets comprise the following:

EUR'000	30.6.2022	31.12.2021
Other financial assets, gross	32 185	24 954
Clearing and settlement items	6 832	3 227
Cash collateral	7 355	6 750
Tax receivables	55	55
Receivables from disposal of subsidiaries, joint ventures and associates	2	-
Trade receivables	7 988	9 687
Other	9 953	5 235
Impairment allowances	(307)	(283)
Total	31 878	24 671

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

30.6.2022	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	361 738	47 778	-	-	(105)	(7 433)	-	-
Central banks	-	-	-	-	-	-	-	-
General governments	347 755	-	-	-	(105)	-	-	-
Credit institutions	12 618	-	-	-	-	-	-	-
Other financial corporations	1 365	-	-	-	-	-	-	-
Non-financial corporations	-	47 778	-	-	-	(7 433)	-	-
Loans and advances	2 814 440	376 107	179 233	13 018	(18 625)	(30 356)	(144 721)	(9 045)
Central banks	-	-	-	-	-	-	-	-
General governments	60 203	-	-	-	(19)	-	-	-
Credit institutions	3 071	-	-	-	(1)	-	-	-
Other financial corporations	393 449	45 263	12	8 362	(2 434)	(5 670)	(11)	(8 372)
Non-financial corporations	444 651	163 327	45 596	4 607	(10 917)	(13 269)	(33 287)	(638)
Households	1 913 066	167 517	133 625	49	(5 254)	(11 417)	(111 423)	(35)
<i>Lending for house purchase</i>	1 272 189	47 008	3 769	-	(159)	(140)	(615)	-
<i>Credit for consumption</i>	634 521	120 421	127 078	49	(5 016)	(11 259)	(108 548)	(35)
Other	6 356	88	2 778	-	(79)	(18)	(2 260)	-
Other financial assets	-	32 185	-	-	-	(307)	-	-
Total	3 176 178	456 070	179 233	13 018	(18 730)	(38 096)	(144 721)	(9 045)

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

EUR'000	Debt securities				Total
	Stage 1	Stage 2	Stage 3	POCI	
As of 1 January 2022	(98)	(7 514)	-	-	(7 612)
Increases due to origination and acquisition	(6)	-	-	-	(6)
Decreases due to derecognition	-	-	-	-	-
Changes due to change in credit risk (net)	(1)	81	-	-	80
Transfers:	-	-	-	-	-
<i>to/from Stage 1</i>	x	-	-	-	-
<i>to/from Stage 2</i>	-	x	-	-	-
<i>to/from Stage 3</i>	-	-	x	-	-
Other adjustments	-	-	-	-	-
As of 30 June 2022	(105)	(7 433)	-	-	(7 538)

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	(21 360)	(35 099)	(161 716)	(8 946)	(227 121)
Increases due to origination and acquisition	(3 307)	-	-	(13)	(3 320)
Decreases due to derecognition	1 769	3 778	2 643	7	8 197
Changes due to change in credit risk (net)	7 558	(5 245)	(6 295)	(93)	(4 075)
Transfers:	(3 273)	6 210	(2 937)	-	-
to/from Stage 1	x	2 613	660	-	3 273
to/from Stage 2	(2 613)	x	(3 597)	-	(6 210)
to/from Stage 3	(660)	3 597	x	-	2 937
Decrease in allowance account due to write-offs	-	-	23 610	-	23 610
Changes due to movements in FX rates	(12)	-	(26)	-	(38)
As of 30 June 2022	(18 625)	(30 356)	(144 721)	(9 045)	(202 747)

9. Hedging derivatives

The Group has designated 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 Group 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 and fair values 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 relating to the market or credit risks of these transactions. All of the Group's hedging derivatives are in compliance with IFRS 9.

EUR'000	30 June 2022			31 December 2021		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives – Hedge accounting	113 366	4 559	758	134 476	-	3 549
Interest rate	113 366	4 559	758	134 476	-	3 549
Portfolio fair value hedges of interest rate risk	93 400	605	-	93 400	-	1 428
Total	206 766	5 164	758	227 876	-	4 977

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
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	
Fair value hedges					
Interest rate	197 458	200 037	-1 010	1 091	Financial assets at amortised cost
Portfolio hedge of interest rate risk	113 583	145 078	4 979	(2 260)	Financial assets at fair value through OCI

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

EUR'000	1-6/2022	1-6/2021
Fair value changes of the hedging instrument	9 200	2 676
Fair value changes of the hedged item attributable to the hedged risk	(9 341)	(2 697)
Gains/(losses) from hedge accounting, net	(141)	(21)

10. Investments in joint ventures and associates

EUR'000	SKPAY		ART FOND	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Statement on financial position				
Total assets	8 151	4 173	-	-
Total liabilities	6 189	1 830	-	-
Net assets	1 962	2 343	-	-
Group share on net assets	785	937	-	-
Statement of profit or loss				
Profit before tax	840	895	-	(37)
Income tax	(145)	(157)	-	-
Profit after tax	695	738	-	(37)
Total comprehensive income for the year	695	738	-	(37)
Group share of profit/(loss) after tax	278	295	-	(19)

Total share in net assets and net profit of the Group, after tax:

EUR'000	30.6.2022	31.12.2021
Net assets		
Jointly controlled entity SKPAY, a.s.	785	937
Jointly controlled entity MONILOGI, a.s.	20	-
Associate ART FOND, a.s.	-	-
Total	805	937
EUR'000	1-6/2022	1-6/2021
Profit after tax		
Jointly controlled entity SKPAY, a.s.	278	295
Jointly controlled entity MONILOGI, a.s.	-	-
Associate ART FOND, a.s.	-	(19)
Total	278	276

11. Tangible assets

EUR'000	30.6.2022	31.12.2021
Tangible assets owned	25 907	28 357
<i>Property, plant and equipment</i>	25 907	28 357
Right of use assets	36 603	39 724
Total	62 510	68 081

EUR'000	Tangible assets owned					Total
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Assets not yet in use	
Cost						
As of 1 January 2022	24 859	12 400	23 420	1 794	879	63 352
Additions	15	4	54	223	608	904
Transfers	6	230	304	-	(540)	-
Disposals	(1 677)	(1 312)	(208)	(130)	(17)	(3 344)
As of 30 June 2022	23 203	11 322	23 570	1 887	930	60 912
Accumulated depreciation						
As of 1 January 2022	(11 957)	(8 848)	(12 900)	(649)	-	(34 354)
Depreciation for the year	(761)	(831)	(838)	(154)	-	(2 584)
Disposals	854	1 296	178	126	-	2 454
As of 30 June 2022	(11 864)	(8 383)	(13 560)	(677)	-	(34 484)
Accumulated impairment losses						
	(499)	-	(23)	-	-	(522)
Carrying amount as at 30.6.2022	10 840	2 939	9 988	1 210	930	25 907

EUR'000	Righ of use assets			Total
	Land and buildings	Hardware	Operating lease assets	
Cost				
As of 1 January 2022	50 376	211	-	54 645
Additions	476	-	-	476
Remeasurements	(533)	-	-	(533)
Disposals	-	-	-	(7)
As of 30 June 2022	50 319	211	-	54 581
Accumulated depreciation				
As of 1 January 2022	(13 237)	(159)	-	(14 921)
Depreciation for the year	(2 714)	(26)	-	(3 061)
Disposals	-	-	-	3
As of 30 June 2022	(15 950)	(185)	-	(17 978)
Accumulated impairment losses				
As of 1 January 2022	-	-	-	-
Carrying amount as at 30.6.2022	34 369	26	-	36 603

12. Intangible assets

EUR'000	Goodwill	DAC	Software	Other intangible assets	Assets not yet in use	Total
Cost						
As of 1 January 2022	14 024	3 406	101 619	410	7 293	126 752
Additions	-	530	1	-	6 631	7 162
Transfers	-	-	2 261	14	(2 275)	-
Disposals	-	(479)	(707)	-	55	(1 131)
As of 30 June 2022	14 024	3 457	103 174	424	11 704	132 783
Accumulated amortisation						
As of 1 January 2022	-	-	(65 565)	(186)	-	(65 751)
Amortisation for the year	-	-	(7 993)	(18)	-	(8 011)
Disposals	-	-	728	(14)	-	714
As of 30 June 2022	-	-	(72 830)	(218)	-	(73 048)
Accumulated impairment losses						
As of 1 January 2022	(3 221)	-	(181)	-	(71)	(3 473)
Carrying amount as at 30.6.2022	10 803	3 457	30 163	206	11 633	56 262

13. Deferred tax assets and liabilities

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

	30.6.2022	31.12.2021
Companies in SK	21%	21%

EUR'000	30.6.2022	31.12.2021
SK		
Impairment allowances - financial assets at AC	20 272	22 176
Impairment allowances - other	5	2
Provisions for off-balance sheet exposures	91	160
Financial assets at FVOCI	3 698	(2 724)
Tangible assets	591	306
Other	3 254	4 303
Total	27 911	24 223
Total deferred tax assets	27 911	24 223

Due to the termination of the branch in Czech Republic, the Group does not recognise a deferred tax asset as at 31 December 2021.

Movements in deferred tax were as follows:

EUR'000	1.1.2022	Profit or loss	OCI	Other	30.6.2022
Impairment on financial assets at AC	22 176	(1 904)	-	-	20 272
Impairment on other assets	2	3	-	-	5
Provisions for off-balance sheet exposures	160	(69)	-	-	91
Revaluation of financial assets at FVOCI	(2 724)	-	6 533	(111)	3 698
Tangible assets	306	285	-	-	591
Other	4 303	(1 049)	-	-	3 254
Total	24 223	(2 734)	6 533	(111)	27 911

14. Other assets

EUR'000	30.6.2022	31.12.2021
Deferred expenses	11 885	9 085
Accrued income	3 430	3 595
Inventories	800	543
Prepayments	5 454	2 863
Total	21 569	16 086

15. Financial liabilities measured at amortised cost

EUR'000	30.6.2022	31.12.2021
Deposits	3 801 446	4 007 447
Central banks	248 674	249 931
General governments	3 869	3 613
Credit institutions excluding subordinated debt	38 822	84 587
Credit institutions - subordinated debt	8 013	8 014
Other financial corporations	135 538	148 645
Non-financial corporations	137 035	146 302
Households	3 229 495	3 366 355
Debt securities issued	65 902	64 794
Non-convertible debt securities issued	65 902	64 794
<i>Non-convertible</i>	65 902	64 794
Other financial liabilities	61 028	64 542
Clearing and settlement items	7 548	5 930
Liabilities to employees	3 621	3 633
Liabilities from social and health insurance and social fund	2 044	1 955
Tax liabilities	715	1 232
Received prepayments	4 622	5 116
Liabilities from dividends	28	28
Lease liabilities	37 255	40 267
Other creditors	5 195	6 381
Total	3 928 376	4 136 783

In November and December 2021, the Group issued senior unsecured and non-subordinated debt securities. The detail is shown in the table:

EUR'000	Issue date	Maturity	Interest rate	Number of securities	Nominal value	Currency	30.6.2022	31.12.2021
Debt securities issued	22.11.2021	22.11.2024	3.50%	15	1 000	EUR	15 256	14 984
Debt securities issued	22.12.2021	22.12.2024	3.50%	500	100	EUR	50 646	49 810
Total							65 902	64 794

The interest rate is fixed at 3.5% per annum for the first two years. Subsequently, for 2024 the float interest rate of 3-month EURIBOR + the original spread p. a. paid quarterly is agreed (3.82% or 3.85%). The first issue of debt securities in the amount of EUR 15 mil. is private. The second issue comprises debt securities in the amount of EUR 50 mil. deposited on the Luxembourg Stock Exchange.

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

EUR'000	30.6.2022	31.12.2021
Subordinated debt	8 013	8 014
Other received loans	10 100	10 100

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

Creditor	Debtor	Carrying amount	Interest rate	Maturity
J&T BANKA, a.s.	365.bank, a. s.	8 013	3M EURIBOR+6%	31.12.2026

The reconciliation of the movements of liabilities to the cash flows from financing activities is as follows:

EUR'000	Debt securities		Subordinated debt		Other received loans	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Opening balance as at 1 January	64 794	-	8 014	8 014	10 100	10 100
Proceeds from issue of debt securities	-	65 000	-	-	-	-
Interest expenses	1 194	104	238	480	119	222
Interest paid	(86)	(310)	(239)	(480)	(119)	(222)
Closing balance	65 902	64 794	8 013	8 014	10 100	10 100

In December 2021, within the TLTRO programme, the Group received a loan from the European Central Bank (hereinafter the "ECB") in the amount of EUR 250 mil. This loan is recognised as a deposit received from the central bank. As collateral, the Bank provided held Slovak and foreign government bonds measured at fair value through other comprehensive income (EUR 163 000 thousand) and Slovak government bonds measured at amortised cost (EUR 271 644 thousand).

As at 30 June 2022, outstanding borrowing on the balance sheet under the third series of the targeted longer-term refinancing operation (TLTRO-III) program of the ECB amounts to EUR 248,674 thousand.

Based on the terms of this program, in comparison to market pricing for other similarly-collateralised borrowings available to the Bank, it was concluded that TLTRO III does not contain a significant benefit relative to market pricing, and accounts for financial liabilities relating to the TLTRO III program wholly as floating rate instruments under IFRS 9.

The effective interest rate of these instruments includes the special interest period, and reflects the Bank's determination at initial recognition as to the final interest amount receivable on maturity. This calculation at initial recognition also considers the Bank's expectation to meet its lending targets over the operations' life.

If there was a subsequent change in the Bank's estimate regarding its lending targets, it would apply IFRS 9 revision of estimates guidance.

The TLTRO III negative interest amount recorded in the 2021 consolidated statement of profit or loss is EUR 1,257 thousand.

16. Provision

EUR'000	30.6.2022	31.12.2021
Commitments and guarantees given	428	730
<i>Loan commitments</i>	410	541
<i>Guarantees given</i>	18	189
Other provisions	6	6
Total	434	736

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

EUR'000	Commitments and guarantees given				Total
	Stage 1	Stage 2	Stage 3	POCI	
As of 1 January 2022	378	351	1	-	730
Increases due to origination and acquisition	370	-	-	-	370
Decreases due to derecognition	(311)	(490)	-	-	(801)
Changes due to change in credit risk (net)	(220)	346	-	-	126
Transfers:	(77)	77	-	-	-
<i>(to)/from Stage 1</i>	<i>x</i>	<i>77</i>	<i>-</i>	<i>-</i>	<i>77</i>
<i>(to)/from Stage 2</i>	<i>(77)</i>	<i>x</i>	<i>-</i>	<i>-</i>	<i>(77)</i>
<i>(to)/from Stage 3</i>	<i>-</i>	<i>-</i>	<i>x</i>	<i>-</i>	<i>-</i>
Changes due to movements in FX rates	3	-	-	-	3
As of 30 June 2022	143	284	1	-	428

Movements in the insurance provisions were as follows:

EUR'000	Life insurance	Unearned premium	Provision for claims	Total
As of 1 January 2021	24 307	454	1 285	26 046
Additions, including increases in existing provisions	2 714	401	3 872	6 987
(-) Amounts used	-	-	-	-
(-) Unused amounts reversed during the period	(2 690)	(382)	(3 710)	(6 782)
Unwinding and effect of any change in the discount rate	-	-	-	-
Other movements	(24 331)	(473)	(1 447)	(26 251)
As of 31 December 2021	-	-	-	-
Additions, including increases in existing provisions	-	-	-	-
(-) Amounts used	-	-	-	-
(-) Unused amounts reversed during the period	-	-	-	-
Unwinding and effect of any change in the discount rate	-	-	-	-
Other movements	-	-	-	-
As of 30 June 2022	-	-	-	-

Other movements in the table of insurance provisions relate to the sale of subsidiary Poštová poisťovňa.

17. Other liabilities

EUR'000	30.6.2022	31.12.2021
Estimated payables (PEREX, OPEX)	9 839	14 545
Deferred income	42	(545)
Accrued expenses	(122)	284
Total	9 759	14 284

18. Equity

a) Share capital

	30.6.2022	31.12.2021
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. Each entity is obliged to contribute an amount of at least 10% of its annual net profit each year, 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 at FVOCI of financial assets after deferred tax. Since 1 January 2018, under the implementation of IFRS 9, the Group also recognises provisions for debt securities measured at fair value through other comprehensive income within this equity item.

d) Translation reserve

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

19. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

EUR'000	30.6.2022	31.12.2021
Loan commitments given	145 823	264 432
Financial guarantees given	13 656	16 507
Total	159 479	280 939

b) *Assets management and custody*

EUR'000	30.6.2022	31.12.2021
Asset management	2 718 924	2 784 880
Custody assets	132 769	104 068
Total	2 851 693	2 888 948

c) *Securities provided as collateral*

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

EUR'000	30.6.2022	31.12.2021
Financial assets at fair value through other comprehensive income	154 864	185 995
Financial assets at amortised cost	283 147	270 682
Total	438 011	456 677

20. Net interest income

EUR'000	1-6/2022	1-6/2021
Interest income		
Financial assets at fair value through other comprehensive income	2 488	3 007
Financial assets at amortised cost	68 447	76 084
<i>Debt securities</i>	<i>2 755</i>	<i>3 041</i>
<i>Loans and advances</i>	<i>65 692</i>	<i>73 043</i>
Derivatives - Hedge accounting, interest rate risk	(1 029)	(1 178)
Other assets	20	24
<i>Other demand deposits</i>	<i>20</i>	<i>20</i>
<i>Other</i>	<i>-</i>	<i>4</i>
Interest income on liabilities	1 257	-
Total interest income	71 183	77 937
Interest expenses		
Financial liabilities measured at amortised cost	(3 285)	(2 972)
<i>thereof: lease liabilities</i>	<i>(282)</i>	<i>(293)</i>
Other liabilities	(1)	1
Interest expense on assets	(59)	(61)
Total interest expense	(3 345)	(3 032)
Net interest income	67 838	74 905
EUR'000	1-6/2022	1-6/2021
Interest income calculated on an EIR	70 860	77 559
Other interest income	323	378
Total interest income	71 183	77 937

The '*Interest income on liabilities*' line presents negative interest expense from the long-term targeted financial operation (TLTRO) with the ECB. As at 30 June 2022, the Bank considered the original interest rate specified in the contract, and also assumed that the conditions for obtaining a favorable negative interest rate will be met.

21. Net fee and commission income

EUR'000	1-6/2022	1-6/2021
Fee and commission income		
Securities	-	34
Clearing and settlement	7 560	7 260
Asset management	15 485	15 386
Custody	1 848	1 547
Payment services	14 671	14 299
<i>Current accounts</i>	<i>11 848</i>	<i>11 894</i>
<i>Debit cards and other card payments</i>	<i>153</i>	<i>184</i>
<i>Transfers and other payment orders</i>	<i>1 042</i>	<i>868</i>
<i>Other fee and commission income in relation to payment services</i>	<i>1 628</i>	<i>1 353</i>
Loan servicing activities	1 358	1 180
Loan commitments given	102	589
Financial guarantees given	125	148
Other	4 014	1 358
Total fee and commission income	45 163	41 801
Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customers contracts	44 936	41 064
Fee and commission expenses		
Securities		
Clearing and settlement	(9 585)	(9 745)
Custody	(220)	(259)
Loan servicing activities	(691)	(1 655)
Financial guarantees received	-	(61)
Other	(2 580)	(3 355)
Total fee and commission expenses	(13 107)	(15 075)
Net fee and commission income	32 056	26 726

22. Dividend income

EUR'000	1-6/2022	1-6/2021
Non-trading financial assets mandatorily at fair value through profit or loss	8 335	7
Total	8 335	7

23. Net gains/(losses) from financial transactions

EUR'000	1-6/2022	1-6/2021
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	(75)	(2 497)
Financial assets at fair value through other comprehensive income	(75)	-
<i>Equity instruments</i>	<i>18</i>	<i>-</i>
<i>Debt securities</i>	<i>(93)</i>	<i>-</i>
<i>thereof: reclassified from other comprehensive income</i>	<i>(91)</i>	<i>-</i>
Financial assets at amortised cost	-	(2 497)
<i>Loans and advances</i>	<i>-</i>	<i>(2 497)</i>
Gains/(losses) on financial assets and liabilities held for trading, net	(2 905)	(3 871)
Derivatives	(2 905)	(3 871)
Exchange differences, net	1 754	4 080
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	3 019	9 334
Revaluation gains/(losses)	3 019	9 334
Gains/(losses) on financial assets and liabilities designated at FVPL, net	-	46
Gains/(losses) from hedge accounting, net	(141)	(21)
Fair value changes of the hedging instrument	9 200	2 676
Fair value changes of the hedged item attributable to the hedged risk	(9 341)	(2 697)
Total	1 652	7 071

24. Net other operating expenses income/(expenses)

EUR'000	1-6/2022	1-6/2021
Other expenses	(2 234)	(2 245)
Bank and insurance companies specific fees	(1 701)	(1 654)
Resolution fund	(158)	(159)
Deposit protection fund	(1 543)	(1 415)
Special levy for insurance companies	-	(80)
Other	(533)	(591)
Other income	4 975	5 315
Operating leases other than investment property	668	840
Other	4 307	4 475
Gains/(losses) on derecognition of non-financial assets, net	(235)	(114)
Total net other operating expense	2 506	2 956

Other income – other includes income from payment services, contractual penalties and other operating income.

25. Administrative expenses

EUR'000	1-6/2022	1-6/2021
Staff expenses	(29 039)	(26 861)
Wages and salaries (including bonuses)	(20 897)	(19 435)
Social expenses	(8 142)	(7 426)
Other administrative expenses	(21 832)	(20 901)
Rental expenses	(1 472)	(2 125)
Short-term lease contracts	(494)	(427)
Variable lease payments not included in the lease liabilities	(876)	(1 593)
Other	(102)	(105)
Real estate expenses	(634)	(804)
IT expenses	(6 324)	(4 765)
Marketing and advertisement	(4 300)	(2 877)
Legal and consulting services	(846)	(1 440)
Post and telecommunication	(1 881)	(2 746)
Material consumption	(505)	(941)
Repair and maintenance	(1 317)	(1 757)
Other administrative expenses - Rest	(4 553)	(3 446)
Total	(50 871)	(47 762)
	1-6/2022	1-6/2021
Number of employees as of balance sheet date	1 493	1 465
Average number of employees for the period	1 478	1 510
thereof, key management	46	62

26. Depreciation

EUR'000	1-6/2022	1-6/2021
Property, plant and equipment	(2 584)	(2 925)
Buildings	(761)	(828)
Hardware	(831)	(858)
Fittings and other equipment	(838)	(1 052)
Operating lease assets	(154)	(187)
Right of use assets	(3 061)	(2 988)
Buildings	(2 714)	(2 581)
Hardware	(26)	(26)
Fittings and other equipment	(321)	(381)
Intangible assets	(8 011)	(6 193)
Software	(7 993)	(6 165)
Other intangible assets	(18)	(28)
Total	(13 656)	(12 106)

27. Net earned premium

EUR'000	1-6/2022	1-6/2021
Gross written premium	-	8 823
Written premium ceded	-	(312)
Change in unearned premium provision	-	(19)
Change in unearned premium provision	-	(8)
Total	-	8 484

28. Claim costs

EUR'000	1-6/2022	1-6/2021
Claims paid	-	(2 433)
Claims paid ceded	-	54
Change in life insurance provision	-	(24)
Change in claim provisions	-	(162)
Change in claim provisions ceded	-	(23)
Total	-	(2 588)

29. Impairment losses and provisions

EUR'000	1-6/2022	1-6/2021
Net impairment of financial assets not valued at fair value through profit or loss	5 735	(8 243)
Financial assets at fair value through other comprehensive income	61	(6 132)
<i>Debt securities</i>	61	(6 132)
Financial assets at amortised cost	5 674	(2 111)
<i>Debt securities</i>	74	59
<i>Loans and advances</i>	5 756	(2 322)
<i>Other financial assets</i>	(156)	152
Release/(creation) of provisions	305	434
Net impairment on non-financial assets	165	197
Total	6 205	(7 612)

30. Income tax

EUR'000	1-6/2022	1-6/2021
Current income tax	(7 817)	(9 790)
Current year	(7 817)	(10 451)
Correction of prior period	-	667
Withholding tax	-	(6)
Deferred tax	(2 734)	(1 268)
Total	(10 551)	(11 058)

31. 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:

- Entities 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 entities 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 Group that gives them significant influence over the Group, and any other individual who may be expected to influence, or be influenced by that person in their dealings with the Group;
- Key management personnel, i.e. persons having authority and responsibility for planning, managing and controlling the activities of the Group, including directors and managing employees of the Group, and persons 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 Group and companies that have key member of management common with the Group.

30.6.2022	Shareholders	Members of J&T FINANCE GROUP SE	Joint ventures	Associates	Key management and related parties	Others
Assets	-	153 801	582	-	2 518	99 825
Other demand deposits	-	290	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	145 072	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	8 389	-	-	-	-
Financial assets at amortised cost	-	50	582	-	2 518	99 825
<i>Debt securities</i>	-	-	-	-	-	-
<i>Loans and advances</i>	-	-	-	-	2 518	99 825
<i>Other financial assets</i>	-	50	582	-	-	-
Liabilities	1	15 561	4 580	-	1 404	1 427
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1	15 561	4 580	-	1 404	1 427
<i>Deposits</i>	1	15 557	4 580	-	1 404	1 135
<i>Other financial liabilities</i>	-	4	-	-	-	292
Derivatives – Hedge accounting	-	-	-	-	-	-
Income/expenses	-	-	-	-	-	-
Net interest income	320	(49)	-	-	7	570
Net fee and commission income	42	161	3 725	-	-	(1 356)
Net gains/(losses) from financial transactions	-	5 203	-	-	-	-
Net other operating expenses	-	31	46	-	-	-
Administrative expenses	-	(26)	-	-	-	(1 634)

31.12.2021	Shareholders	Members of J&T FINANCE GROUP SE	Joint ventures	Associates	Key management and related parties	Others
Assets	59 990	158 872	561	-	1 887	142 027
Other demand deposits	-	223	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	139 791	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	10 056	-	-	-	-
Financial assets at amortised cost	59 990	8 802	561	-	1 887	142 027
<i>Debt securities</i>	-	-	-	-	-	-
<i>Loans and advances</i>	59 990	8 662	-	-	1 887	142 027
<i>Other financial assets</i>	-	140	561	-	-	-
Liabilities	-	17 154	3 799	-	1 499	1 739
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	17 154	3 799	-	1 499	1 739
<i>Deposits</i>	-	17 147	3 799	-	1 499	1 724
<i>Other financial liabilities</i>	-	7	-	-	-	15
Derivatives – Hedge accounting	-	-	-	-	-	-
1-6/2021	-	-	-	-	-	-
Income/expenses	-	-	-	-	-	-
Net interest income	381	191	-	-	4	1 798
Net fee and commission income	16	158	4 658	-	1	280
Net gains/(losses) from financial transactions	-	671	-	-	-	-
Net other operating expenses	-	31	46	-	-	-
Administrative expenses	-	(32)	-	-	-	-

The total remuneration of the members of the Board of Directors and executive officers directly supervised by the Board of Directors members of 365.bank for 6 months ending 30 June 2022 is in the amount of EUR 3,200 thousand (2021: EUR 2,623 thousand). Remuneration includes basic wages and salaries, remuneration and payments for health and social insurance.

32. 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 Group 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 annually. Prices of funds 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 Group uses widely recognised valuation models for determining the fair value of common and less complicated 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, like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation, and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on 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 Group 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 Group 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, and certain investments in subsidiaries. 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 individual levels can occur only if market activity has changed.

The Group 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	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
ASSETS								
Financial assets held for trading	-	-	884	2	-	-	884	2
Derivatives	-	-	884	2	-	-	884	2
Non-trading financial assets mandatorily at FVPL	6 465	16 753	341 115	300 976	-	-	347 580	317 729
Equity instruments	6 465	16 753	341 115	300 976	-	-	347 580	317 729
Financial assets at FVOCI	244 909	337 413	13 035	-	28 233	48 089	286 177	385 502
Equity instruments	-	-	-	-	65	65	65	65
Debt securities	244 909	337 413	13 035	-	28 168	48 024	286 112	385 437
Derivatives – Hedge accounting	-	-	5 164	-	-	-	5 164	-
Total assets	251 374	354 166	360 198	300 978	28 233	48 089	639 805	703 233

EUR'000	Level 1		Level 2		Level 3		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
LIABILITIES								
Financial liabilities held for trading	-	-	1 027	3 695	-	-	1 027	3 695
Derivatives	-	-	1 027	3 695	-	-	1 027	3 695
Derivatives – Hedge accounting	-	-	758	4 977	-	-	758	4 977
Total liabilities	-	-	1 785	8 672	-	-	1 785	8 672

33. Segment reporting

The Group classifies its business activities into three segments. Within these segments, various products and services are offered and they are also managed independently by the Group'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.
- Other - 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.

Information related to the reported segments is presented in the table:

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	1-6/2022	1-6/2021	1-6/2022	1-6/2021	1-6/2022	1-6/2021	1-6/2022	1-6/2021
Interest income	35 255	40 217	33 261	36 328	2 667	1 392	71 183	77 937
Interest expenses	(1 298)	(2 134)	(261)	(503)	(1 786)	(395)	(3 345)	(3 032)
Net interest income	33 957	38 083	33 000	35 825	881	997	67 838	74 905
Fee and commission income	23 586	33 202	7 053	8 372	14 524	227	45 163	41 801
Fee and commission expenses	(6 654)	(10 815)	(2 949)	(3 806)	(3 504)	(454)	(13 107)	(15 075)
Net fee and commission income	16 932	22 387	4 104	4 566	11 020	(227)	32 056	26 726
Net interest and fee margin	50 889	60 470	37 104	40 391	11 901	770	99 894	101 631
Impairment losses and provisions	(6 263)	(3 588)	12 448	(4 028)	20	4	6 205	(7 612)

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Assets	1 955 997	1 712 652	1 603 245	1 818 926	1 139 960	1 372 317	4 699 202	4 903 895
Liabilities	3 152 896	3 243 579	293 461	316 744	1 252 845	1 343 572	4 699 202	4 903 895

In the table below is presented disaggregated fee and commission income according to the segments (as required by IFRS 15):

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	1-6/2022	1-6/2021	1-6/2022	1-6/2021	1-6/2022	1-6/2021	1-6/2022	1-6/2021
Fee and commission income								
Securities	-	-	-	-	-	34	-	34
Clearing and settlement	3 926	3 574	3 516	3 659	118	27	7 560	7 260
Asset management	1 160	15 386	-	-	14 325	-	15 485	15 386
Custody	-	-	1 842	1 545	6	2	1 848	1 547
Payment services	13 401	12 023	1 254	2 216	16	60	14 671	14 299
Loan servicing activities	1 122	851	193	224	43	105	1 358	1 180
Loan commitments given	-	-	89	587	13	2	102	589
Financial guarantees given	-	28	125	119	-	1	125	148
Other	3 977	1 340	34	22	3	(4)	4 014	1 358
Total fee and commission income	23 586	33 202	7 053	8 372	14 524	227	45 163	41 801

34. 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 Group's risk management framework. Some responsibilities are delegated to permanent working groups and advisory bodies.

The Group's risk management policies are based on the Risk Management Strategy, as a primary document for risk management, which is then 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 Group. For management of the risks faced by the Group, there are defined appropriate limits, and controls for risk monitoring and adherence to those limits.

Evaluation of key performance limits defined in the Group'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 Group, 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.

Rights and responsibilities of the Group'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 Group's compliance with financial accounting standards. The Department of Internal control and audit assists the Audit Committee in these functions.

The Group has exposure to the following main risks:

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

Settlement risk

The Group'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 Group 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.

Limits for settlement represent a part of the process of monitoring the limits. Acceptance of risk resulting from a free settlement trades requires transaction-specific or counterparty-specific approvals of ALCO committee.

The risk to a management company is that the issuer or counterparty fails to meet its obligation. The potential credit risk impact on asset value is moderate.

Mutual funds minimise the risk of trading with securities in particular, by the fact that trading with the mutual fund assets is performed in accordance with the law in such way that the value is transferred in favor of the mutual fund, on the principle of payment versus delivery, within normal timescales of the regulated market. Risk management involves: issuer and counterparty creditworthiness testing, establishment of limits on issuer and counterparty in terms of risk and risk delimitation rules, establishment of limits in the information system, and its subsequent conversion.

35. Credit risk

Credit risk is the risk of financial loss to the Group if a debtor, or counterparty to a financial instrument, fails to meet its contractual obligations, and arises from the Group's financial assets – primarily from loans and advances, debt securities, and off-balance sheet exposures. For risk management reporting purposes, the Group 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 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 Group has various rating models depending on the type of business.

When analysing client deals the Group 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 Group 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 Group's internal guidelines. To mitigate credit risk, the Group uses the following types of limits:

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

Compliance with the limits is continuously monitored, evaluated and applied into the Group's 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				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	347 755	307 533	60 203	60 000	204 770	266 897	-	-	-	-
Credit institutions	12 618	30 990	3 071	23 571	27 517	28 346	-	-	-	-
Other financial corporations	1 365	3 038	447 086	491 554	25 657	29 180	-	-	-	-
Non-financial corporations	47 778	46 627	658 181	865 689	28 168	61 014	8 659	51 842	13 656	16 507
A Agriculture, forestry and fishing	-	-	40 386	35 943	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	41 329	60 442	-	-	525	438	152	76
D Electricity, gas, steam and air conditioning supply	-	-	34 501	67 645	-	-	14	-	-	-
E Water supply	-	-	538	385	-	-	-	-	-	-
F Construction	-	-	21 638	115 440	-	-	1 077	2 108	148	2 972
G Wholesale and retail trade	-	-	21 614	25 106	-	-	264	445	359	487
H Transport and storage	-	-	2 488	2 802	-	-	20	23	3	3
I Accommodation and food service activities	-	-	53 948	75 697	-	-	2 014	64	-	-
J Information and communication	-	-	1 024	2 534	-	-	3 000	3 000	-	-
K Financial and insurance activities	-	-	10 042	53 508	-	-	1 025	45 600	5 255	5 230
L Real estate activities	47 778	46 627	166 820	158 285	-	-	560	44	-	-
M Professional, scientific and technical activities	-	-	89 632	92 841	-	-	68	86	7 739	7 739
N Administrative and support service activities	-	-	82 509	80 360	-	-	72	30	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	3	13	-	-	-	-	-	-
Q Human health services and social work activities	-	-	18 656	19 246	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	65 955	69 415	28 168	61 014	-	-	-	-
S Other services	-	-	7 098	6 027	-	-	20	4	-	-
Households	-	-	2 214 257	1 960 300	-	-	137 164	212 590	-	-
Total	409 516	388 188	3 382 798	3 401 114	286 112	385 437	145 823	264 432	13 656	16 507

EUR'000	Financial assets at amortised cost				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Slovak Republic	362 100	320 481	2 723 014	2 508 947	174 606	247 927	145 264	218 692	722	3 600
Czech Republic	-	-	246 950	348 281	7 040	29 462	473	30 547	259	257
Cyprus	-	-	200 450	298 390	-	-	75	14 977	-	-
Luxemburg	1 365	1 424	133 419	133 395	10 228	11 621	-	-	-	-
Switzerland	-	-	65 590	69 171	-	-	2	2	-	-
France	-	-	770	1 100	51 142	51 375	1	1	5 255	5 230
Netherlands	1 634	21 614	12 042	21 991	-	-	-	-	-	-
Lithuania	2 157	-	-	-	17 329	17 663	-	-	-	-
Latvia	10 049	10 110	-	-	12 496	13 329	-	-	-	-
Poland	-	-	-	-	-	-	-	-	-	-
Germany	-	2 181	1	1	13 271	14 060	1	1	-	-
Other countries	-	-	-	-	-	-	-	-	-	7 420
Other countries	32 211	10 938	384	301	-	-	6	212	-	-
Total	409 516	388 188	3 382 798	3 401 114	286 112	385 437	145 823	264 432	13 656	16 507

Rating system

The Group uses a rating system to evaluate the financial performance of companies. The rating system evaluate 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 Group. The Group categorises clients into rating levels from best to worst, the worst level representing the highest probability of default. The Group has established processes for creation of ratings, their regular update, and control for assigning the ratings, and these are defined in the Group's internal guidelines.

The Group uses internal credit risk ratings that reflect its assessment of the probability of default by individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information, 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 inclusion of expert judgements, to be entered into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of other data inputs into the model.

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.

The following table shows the assignment of external and internal ratings to each credit risk level:

Credit risk	External rating Moody's	Internal rating corporate	Internal rating retail	1YPD
Low credit risk	Aaa – Aa3	1 – 3	A1 – A3	0,2 % – 1 %
Low credit risk	A1 – A3			
Low credit risk	Baa1 – Baa3			
Low credit risk	Ba1 – Ba2			
Moderate credit risk	Ba3	4C – 5C	B1 – C1	2 % – 8 %
Moderate credit risk	B1 – B3			
Moderate credit risk	Caa1			
High credit risk	Caa2 – Caa3	6 – 8	C2 – C3	12 % – 35 %
High credit risk	Ca – C		D – F	
Default	D	9 – 10	Default	100 %

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 impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group. 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, the financial instrument is moved to Stage 2, but is not yet deemed to be credit-impaired,
- **Stage 3:** If the financial instrument is 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 Group 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 basis.

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

The Group sets the level of significance at EUR 300 thousand (31 December 2021: EUR 300 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (31 December 2021: EUR 300 thousand) are assessed individually in the staging process.

The same principles are also applied for 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 Group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

The Group 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 expected residual Lifetime PD at the initial recognition date, and 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 contracted payments for more than 30 days. The Group does not benefit from the exception of low credit risk for any financial instrument.

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 Group 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 Group 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 that financial asset.

i. Hard criteria:

- Any significant credit obligation of the borrower towards the Group, parent company, or any of its subsidiaries is more than 90 days while:
 - the materiality does not apply to real estate 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 Group 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 Group identifies any of hard criteria, the loan is classified as defaulted immediately.

ii. Soft criteria:

- The receivable is overdue (up to 90 days)
- The Group recognises a specific loan 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 and in time, without taking any actions such as realisation of the collateral
- Significant impairment of main loan 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 Group's assessment, will result in the debtor not paying his credit commitments to the Group in full and in time, without the Group taking steps toward loan collateral

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

Forward-looking information

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

i. Individually assessed exposures

Considering the abundance and high diversity of corporate exposures, the Group 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 Group therefore concludes that the use of future-oriented information is not appropriate for individually assessed exposures. Therefore, the Group 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 Group 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 June 2022, the setting of FLI parameters in relation to retail client defaults in 2022 for portfolio assessed exposures is based upon favourable expectations of the Group. In 2021 the Group observed lower retail client default rates than in the previous year.

Calculation of ECL

The Group calculates ECL on an individual or portfolio basis. Individual basis is 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 the exposures follows a business purpose and also considers the risk perspective. Separate portfolios are created for retail secured and unsecured loans, while the Group also creates additional portfolios by 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 on 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 Group expects lower cash flow values

ECL is then calculated as the probability weighted amount of expected cash flows from each scenario of the discounted 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: probability of default is the probability that the borrower will not fulfil its financial liabilities. 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*: use of PD over the lifetime, i.e. probability of default over the entire lifetime of the exposure;
- *Stage 3*: PD is equal to 1 because the exposure is already defaulted;
- EAD: non-secured exposure at default;
- LGD: loss given default means the ratio of credit loss in case of default to EAD.

The Group 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 (gross) by credit risk ratings:

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Financial assets at AC - Debt securities										
Low credit risk	361 738	341 561	-	-	-	-	-	-	361 738	341 561
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	47 778	46 627	-	-	-	-	47 778	46 627
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	361 738	341 561	47 778	46 627	-	-	-	-	409 516	388 188
Impairment allowance	(105)	(98)	(7 433)	(7 514)	-	-	-	-	(7 538)	(7 612)
Carrying amount	361 633	341 463	40 345	39 113	-	-	-	-	401 978	380 576

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Financial assets at AC - Loans and advances										
Low credit risk	988 011	954 222	45 126	55 728	186	130	-	-	1 033 323	1 010 080
Moderate credit risk	1 500 005	1 460 069	75 760	84 277	16 316	14 089	3	-	1 592 084	1 558 435
High credit risk	322 745	319 074	250 500	288 234	3 070	1 671	4 609	4 649	580 924	613 628
Default	-	-	-	-	156 435	173 793	8 406	8 226	164 841	182 019
Not rated	3 679	23 716	4 721	9 466	3 226	3 765	-	5	11 626	36 952
Gross amount	2 814 440	2 757 081	376 107	437 705	179 233	193 448	13 018	12 880	3 382 798	3 401 114
Impairment allowance	(18 625)	(21 360)	(30 356)	(35 099)	(144 721)	(161 716)	(9 045)	(8 946)	(202 747)	(227 121)
Carrying amount	2 795 815	2 735 721	345 751	402 606	34 512	31 732	3 973	3 934	3 180 051	3 173 993

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Financial assets at FVOCI - Debt securities										
Low credit risk	242 515	306 864	-	-	-	-	-	-	242 515	306 864
Moderate credit risk	15 429	40 605	-	-	-	-	-	-	15 429	40 605
High credit risk	-	-	28 168	37 968	-	-	-	-	28 168	37 968
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	257 944	347 469	28 168	37 968	-	-	-	-	286 112	385 437
Impairment allowance in OCI	(250)	(355)	(8 304)	(8 260)	-	-	-	-	(8 554)	(8 615)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Loan and other commitments given										
Low credit risk	98 323	131 589	-	-	-	-	-	-	98 323	131 589
Moderate credit risk	35 786	121 725	66	-	-	-	-	-	35 852	121 725
High credit risk	1 768	1 732	2 809	1 939	-	-	-	-	4 577	3 671
Default	-	-	-	-	3	6	-	-	3	6
Not rated	3 000	3 000	4 068	4 441	-	-	-	-	7 068	7 441
Gross amount	138 877	258 046	6 943	6 380	3	6	-	-	145 823	264 432
Provision	129	267	280	273	1	1	-	-	410	541

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021	30.6.2022	31.12.2021
Financial guarantees given										
Low credit risk	152	76	-	-	-	-	-	-	152	76
Moderate credit risk	5 660	13 184	-	-	-	-	-	-	5 660	13 184
High credit risk	7 739	1 618	105	1 629	-	-	-	-	7 844	3 247
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	13 551	14 878	105	1 629	-	-	-	-	13 656	16 507
Provision	14	111	4	78	-	-	-	-	18	189

Received collaterals

The Group 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	30.6.2022	31.12.2021
Real-estates	1 461 246	1 185 359
Securities	208 011	226 588
Cash	1	3
Other	100 839	164 725
Total	1 770 097	1 576 675

Collateral in default loans and advances at amortised cost:

EUR'000	30.6.2022	31.12.2021
Gross amount	187 639	201 674
Impairment allowances	(153 122)	(170 034)
Carrying amount	34 517	31 640
Collateral	15 185	11 615

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

Recovery of receivables

The Group 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 Group 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 Group also uses outsourced services of collection companies.

36. Liquidity risk

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

The Group 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 Group's approach to managing liquidity is to ensure, where possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

The Group 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 Group 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 Group as a whole.

The liquidity position is monitored daily and the liquidity stress testing is conducted monthly, under a variety of scenarios covering both normal and more severe market conditions. The Group also has a contingency plan and communication crisis plan, which 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"). Reports on the liquidity position, including any exceptions and remedial action taken, is submitted to ALCO at least once a month.

Exposure to liquidity risk

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

- *Primary liquidity ratio and Liquidity coverage ratio* - tracking short-term liquidity under stress scenarios;
- *Net stable funding 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 Group 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 Group expects that they will remain in the Group 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 or prolonged.

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 cash outflows. The ratio must not fall below 1. The value of ratio was as follows:

	1-6/2022	1-6/2021
End of the period	1.49	1.58
Average for the period	1.47	2.04
Maximum for the period	1.62	3.00
Minimum for the period	1.27	1.58

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 is as follows:

	30.6.2022	31.12.2021
End of the period	1.25	1.27

37. 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 Group'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 Group distributes its exposure to market risk between trading and non-trading portfolios. Trading portfolios include proprietary position-taking, together with financial assets and liabilities which 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 Group uses the following limits, indicators and methods for identifying, measuring and monitoring market risk:

- 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 Group'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 specific probability (confidence level). The VaR model used by the Group is based upon a 99% confidence for a one day holding period. The VaR model used is primarily based on historical simulations. Taking account of market data from previous years, and 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 within 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. Even within the model used there is a one percent probability that losses could exceed the VaR. To mitigate this shortage, the Group 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 Group uses the stressed VaR indicator, which considers historical scenarios with the greatest negative impact.

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

Interest rate risk

The main source of the Group's interest rate risk is so-called revaluation risk which arises due to timing differences in maturity dates (fixed rate positions) and in revaluation (variable rate positions) assets, liabilities, and positions in commitments, contingencies and derivative financial instruments of the Group.

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, relating to the active and passive transactions, 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 Group'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 Group, 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 Group manages its interest rate risk by providing a majority of corporate loans with variable rates. The Group continuously uses asset-liability management in its interest risk management. When purchasing debt securities, the current interest position of the Group is considered, which then

serves as a basis for purchase of fixed or variable debt securities. The Group uses interest swaps to hedge interest rate debt securities classified within FVOCI financial assets.

The priorities of the Group 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.

Share price risk

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

When investing in equity instruments, the Group:

- Follows an investment strategy which is updated on a regular basis;
- Prefers for 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 Group is exposed to foreign exchange risk when trading in foreign currency on its own account, as well as on the account of its clients. The Group assumes a foreign exchange risk if the assets and liabilities denominated in foreign currencies are not in the same amount, i.e. the Group has unsecured foreign exchange positions. The Group 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 Group holds significant positions are CZK and USD. The amount of foreign exchange risk is shown above through the VaR indicator.

IBOR reform

Risk Management

IBOR rates ('Interbank Offered Rates') are rates at which banks borrow funds from each other in the interbank money market. At present, these rates are undergoing a major reform, so-called 'iborization'. As part of this iborization, IBOR rates will be gradually replaced by risk-free interest rates.

The Bank currently uses only EONIA and USD LIBOR of the rates terminated as at 1 January 2022 and 1 July 2023.

The yield curve from the USD LIBOR rate is used by the Bank to determine the fair values of interest rate sensitive instruments for accounting and internal risk management purposes. This yield curve is used to determine future float rates and discount to present value.

Non - derivative financial assets and liabilities

Currently, there is only one concluded contract with interest rates linked to the USD LIBOR rate. The reform of this rate will take place in June 2023.

Regarding the financial markets, the bank does not carry out transactions linked to the reformed rates. The changes will only affect the interest on some collateral accounts. The Bank is in the process of concluding amendments to the relevant framework agreements (ISDA, GMRA, GMSLA). These changes are expected to affect a maximum of five more contracts.

The Group does not recognise significant exposures as at 30 June 2022, which were affected by the IBOR reform as amended on 1 January 2022.

Other balance sheet and off-balance sheet positions do not comprise any financial instruments that are the subject of IBOR reform.

Derivatives

The Group only records interest rate swaps with the EURIBOR reference rate, as for derivatives. EURIBOR is compatible with European Parliament Regulation 2016/1011 on indices used as benchmarks in financial instruments and financial contracts, or to measure the performance of investment funds. The final date for the transition to the alternative risk-free rate is not yet known.

Hedge accounting

The bank uses interest rate derivatives for hedge accounting. Float rate interest rate swaps are linked to the EURIBOR reference rate.

38. Operational risk

Operational risk is the risk of loss, including the damage caused to the Group (by the Group's own activities) as a result of inappropriate or incorrect internal 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 Group, and compliance risk. Operational risk arises from all of the Group's operations and is faced by all business entities.

The Group 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 Group 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 Group. Legal risk management is the responsibility of the Legal Services department.

Compliance risk

The Group, in the management of compliance risk, is focused mainly on:

- Managing the risk of money laundering and financing the terrorism;
- Risk of legal sanctions and penalties from regulators;
- Loss of the Group'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 Group's activities and are carried out on a contractual basis, in order to increase the efficiency of the Group's activities.

Risk management relating to outsourcing is a part of overall Group 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 Group 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;
- Minimising the risk related to outsourcing when extraordinary events occur.

39. Regulatory requirements of the asset management company

The asset management company is obliged to comply with regulatory requirements of the National Bank of Slovakia ('NBS'), which are set out under Act No. 203/2011 on collective investment, and according to NBS Provision No. 7/2011 on capital resources of asset management companies. These include limits and restrictions on capital adequacy. These requirements apply to all asset management companies in Slovakia and their compliance is determined on the basis of reports submitted by the asset management company under statutory legal regulations. The Group has met the described regulatory requirements during the reporting period and at the reporting date.

The own funds of the management company are considered appropriate under this Act, unless they are below:

- a) EUR 125 thousand plus 0.02% of the value of the assets in funds managed by the company exceeding EUR 250,000 thousand. This amount is not further increased when it reaches EUR 10,000 thousand;
- b) EUR 125 thousand plus 0.02% of the value of the assets in alternative investment funds managed by the company exceeding EUR 250,000 thousand. This amount is not further increased when it reaches EUR 10,000 thousand;
- c) One quarter of the average general operating costs of the management company for the previous calendar year. If the management company exists for less than one year, a quarter of the amount of general operating costs according to its business plan.

40. Regulatory requirements of the pension funds management company

The pension funds management company, when administering and creating pension funds, is obliged to comply with regulatory requirements of the National Bank of Slovakia, as stated in the Act No. 43/2004 on pension saving funds. These requirements apply to all pension funds management companies in Slovakia. The Group has met the described regulatory requirements during the reporting period and at the reporting date.

Own resources are adequate when:

- a) There are not less than 25% of general operating expenses for the previous year. If the pension funds management company is operating less than one year, 25% of the amount of general operating expenses stated in its commercial and financial plan;
- b) the ratio of the difference between liquid assets and liabilities and receivables to the value of assets in all pension funds under management is not less than 0.005 (according to the Act No. 43/2004 Section 60 as amended).

41. Capital management

In implementing current capital requirements, the Group 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 Group 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 and its amendments ("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 Group. Tier I capital is the sum of own Tier I capital (CET1) and additional Tier I capital (AT1).

Since the Group does not own AT1 capital, the entire volume of Tier I capital of the Group consists of only CET1 capital, and therefore there is no difference between Tier I capital adequacy, and own Tier I capital adequacy, respectively.

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

The Group's position of own funds according to the Capital Requirement Regulation is displayed in the following table:

EUR'000	30.6.2022	31.12.2021
Tier I Capital	691 200	644 274
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	71 187	65 076
Selected components of accumulated other comprehensive income	(13 736)	6 841
Profit or loss of previous years	290 096	237 345
Intangible assets	(30 981)	(47 860)
Additional valuation adjustments	(711)	(780)
Insufficient coverage for problematic exposures	(3)	-
Other transitional adjustments to CET1 Capital	8 305	16 609
Tier II Capital	8 000	8 000
Subordinated debt	8 000	8 000
Regulatory capital total	699 200	652 274

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

EUR'000	30.6.2022	31.12.2021
Capital required to cover:		
Credit risk	248 105	259 161
Credit value adjustment risk	186	202
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	29 598	29 598
Total capital requirements	277 889	288 961
Capital ratios		
Total capital level as a percentage of total risk weighted assets	20.13%	18.06%
Tier I capital as a percentage of total risk weighted assets	19.90%	17.84%
Common Equity Tier I capital as a percentage of total risk weighted assets	19.90%	17.84%

Under IFRS 9 transition, the Group 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	30.6.2022	31.12.2021
Available capital (amounts)		
Common Equity Tier I (CET1) capital	691 200	644 274
Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied	682 895	627 665
Tier I capital	691 200	644 274
Tier I capital as if IFRS 9 transitional arrangements were not applied	682 895	627 665
Total capital	699 200	652 274
Total capital as if IFRS 9 transitional arrangements were not applied	690 895	635 665
Risk-weighted assets (amounts)		
Risk-weighted assets	3 473 620	3 612 010
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 464 737	3 593 371
Capital ratio		
Common Equity Tier I capital (as a percentage of risk exposure amount)	19.90%	17.84%
Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	19.71%	17.47%
Tier I capital (as a percentage of risk exposure amount)	19.90%	17.84%
Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	19.71%	17.47%
Total capital (as a percentage of risk exposure amount)	20.13%	18.06%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	19.94%	17.69%

42. 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.