365.bank, a. s.

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union

for the year ended 31 December 2022
(English translation)

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Translation of the Independent Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of 365.bank, a. s.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of 365.bank, a. s. (the "Bank"), which comprise:

- the separate statement of financial position as at 31 December 2022;

and, for the period then ended:

- the separate statement of profit or loss and other comprehensive income;
- the separate statement of changes in equity;
- the separate statement of cash flows;

and

- notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the period then ended in accordance with IFRS Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Separate Financial Statements section of our report.

We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended (“the Act on Statutory Audit”) including the Code of Ethics for an Auditor that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2022: € 3 107 037 thousand; release of impairment loss recognized for the year then ended: € 13 970 thousand; total impairment loss as at 31 December 2022: € 154 285 thousand.

Refer to Note 2 (Accounting policies), Note 8 (Financial assets at amortised cost: Loans and advances) and Note 28 (Impairment losses and provisions: Financial assets at amortised cost - Loans and advances).

Key audit matter	**Our response**
Impairment allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment and assumptions from the Management Board. Impairment allowances for most performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below € 300 thousand individually (together “collective impairment allowance”) are determined by modelling techniques. Historical experience, forward-looking information, identification of exposures with a significant deterioration in credit quality and management judgment are incorporated into the model assumptions.	Our audit procedures in this area, performed assisted by our own information technology (IT) specialists, included, among others: • Updating our understanding of the Bank’s ECL impairment methods and assessing their compliance with the relevant requirements of the financial reporting standards. As part of the above, we identified the relevant methods, models, assumptions and sources of data, and assessed, whether such methods, models, assumptions, data and their application are appropriate; • Making relevant inquiries of the Bank’s risk management, internal audit and IT personnel, in order to update our understanding of the ECL process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank’s IT control environment for data security and access;

For non-performing exposures equal to or exceeding € 300 thousand individually, the impairment assessment is based on the Bank's knowledge of each individual borrower and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation. For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	• Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and the overall ECL estimate; • Assessing whether the definitions of default and significant increase in credit risk, and the financial instruments standard's staging criteria, were all appropriately and consistently applied; • For collective impairment allowance: — Obtaining the Bank's forward-looking information used in the ECL assessment. Evaluating the information by means of comparison to publicly available information and corroborating inquiries of the Management Board; — Challenging key model parameters of loan given default (LGD) and probability of default (PD), by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances. • For impairment allowances calculated individually: — For a risk-based sample of loans, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 3 as at 31 December 2022; — For the exposures identified as Stage 3, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as collateral values by reference publicly available market data

	search and also performing respective independent estimations, where relevant; • For loans and advances exposures in totality: — Examining whether the Bank's loan impairment and credit risk-related disclosures in the separate financial statements appropriately address the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Measurement of securities held at fair value	
The carrying amount of securities held at fair value as at 31 December 2022: € 412 199 thousand; change in fair value recognized in profit or loss for the year then ended: € 5 122 thousand; negative change in fair value recognized in other comprehensive income for the year ended 31 December 2022: € 29 226 thousand. Refer to Note 2 (Accounting policies), Note 6 (Non-trading financial assets mandatorily at fair value through profit or loss), Note 7 (Financial assets at fair value through other comprehensive income) and Note 24 (Net gains/(losses) from financial transactions).	
Key audit matter	**Our response**
Securities held at fair value include primarily debt and equity securities within the portfolios of non-trading financial assets mandatorily at fair value through profit or loss and financial assets at fair value through other comprehensive income. For both security types, the Bank determines their respective fair values based on, as considered appropriate: — For securities traded in an active market (such as publicly traded corporate bonds and shares) – by reference to current market quotations; — For securities not traded in an active market (such as not actively traded corporate bonds) – based on the discounted cash-flow (DCF) model with observable and unobservable inputs and assumptions, such as, primarily, contractual cash flows, risk free interest rate and credit spread, among other things.	Our audit procedures, performed, where applicable, with the assistance from our own valuation specialists, included, among others: • Updating our understanding of the Bank's fair value measurement methods and assessing their compliance with the requirements of the relevant financial reporting standards. As part of the above, we identified the relevant methods, models, assumptions and sources of data, and assessed, whether such methods, models, assumptions, data and their application are appropriate in the context of said requirements; • For debt and equity securities traded in an active market: — for a sample of securities, challenging the Bank's evaluation of the underlying markets as active, by assessing whether transactions in a given market take place with sufficient frequency and volume for pricing information to be provided on an ongoing basis; and

Significant management judgement is involved in determination of the appropriate valuation method and in the determination of the model assumptions and inputs. In addition, comprehensive models tend to be more susceptible to the risk of management bias, error and inconsistent application. These require more attention during the audit process to assess the objectivity of the sources used in developing the assumptions and their consistent application. Due the above factors, measurement of the fair value of the securities held by the Bank required our increased attention in the audit and was considered by us to be a key audit matter.	— for the entire portfolio held, tracing the recognized fair values of quoted securities in the portfolio to publicly available market quotations; • For a sample of valuations based on inputs other than quoted prices, developing our own independent estimate of the fair value. As part of the procedure, we developed the key DCF model inputs as follows: — contractual cash flows – by reference to our inspection of the underlying contractual provisions; — risk-free interest rate – by reference to government bonds data provided by external financial data platforms; and — credit spread – by reference to the comparable securities approach or market curve approach, as considered relevant. • Assessing the appropriateness of the fair value – related disclosures in the separate financial statements, including the disclosures in respect of the methods and inputs used in the Bank's determination of the fair values, against the requirements of the applicable financial reporting framework.

Responsibilities of the Statutory Body and Those Charged with Governance for the Separate Financial Statements

The statutory body is responsible for the preparation of separate financial statements that give a true and fair view in accordance with IFRS Standards as adopted by the European Union, and for such internal control as the statutory body determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the statutory body is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body;

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Reporting on other information in the Annual Report

The statutory body is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the separate financial statements and our auditors' report thereon. Our opinion on the separate financial statements does not cover the other information in the Annual Report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the separate financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited separate financial statements or our knowledge obtained in the audit of the separate financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

The Annual Report of the Bank was not available to us as of the date of this auditors' report on the audit of the separate financial statements.

When we obtain the Annual Report, based on the work undertaken in the course of the audit of the separate financial statements we will express an opinion as to whether, in all material respects:

- the other information given in the Annual Report for the year ended 31 December 2022 is consistent with the separate financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the other information in the Annual Report in light of the knowledge and understanding of the Bank and its environment that we have acquired during the course of the audit of the separate financial statements.

Additional requirements on the content of the auditors' report according to Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the statutory body of the Bank on 9 September 2020 on the basis of approval by the General Meeting of the Bank held on 18 June 2020. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is 20 years.

Consistency with the additional report to the audit committee

Our audit opinion as expressed in this report is consistent with the additional report to the supervisory board of the Bank, which was issued on the same date as the date of this report.

Non-audit services

No prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities were provided and we remained independent of the Bank in conducting the audit.

In addition to the statutory audit services and services disclosed in the separate financial statements of the Bank, we did not provide any other services to the Bank or accounting entities controlled by the Bank.

Slovenská komora audítorov
SKAU
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Audit firm:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Michal Maxim, FCCA
License UDVA No. 1093

Bratislava, 24 March 2023

A. Separate statement of financial position

EUR'000	Notes	31.12.2022	31.12.2021
Assets			
Cash, cash balances at central banks and other demand deposits	4	592 414	450 029
thereof: Cash and cash equivalents	4	560 069	45 229
Financial assets held for trading	5	16	2
Non-trading financial assets mandatorily at fair value through profit or loss	6	179 784	298 231
Financial assets at fair value through other comprehensive income	7	232 415	385 502
Financial assets at amortised cost	8	3 534 496	3 563 599
Debt securities	*8*	*511 087*	*378 962*
Loans and advances	*8*	*2 988 263*	*3 163 454*
thereof: Loans and advances to financial institutions	8	35 511	23 252
thereof: Loans and advances to customers	8	2 952 752	3 140 202
Other financial assets	*8*	*35 146*	*21 183*
Derivatives – Hedge accounting	9	8 089	1 091
Investments in subsidiaries, joint ventures and associates	10	56 040	68 662
Tangible assets	11	57 095	64 532
Intangible assets	12	35 374	33 446
Deferred tax assets	13	24 761	23 008
Other assets	14	20 945	16 784
TOTAL ASSETS		**4 741 429**	**4 904 886**
Liabilities			
Financial liabilities held for trading	5	2 102	3 695
Financial liabilities at amortised cost	15	3 953 969	4 129 781
Deposits	*15*	*3 774 074*	*4 006 346*
thereof: Subordinated debt	*15*	*8 019*	*8 014*
Debt securities issued	*15*	*124 981*	*64 794*
Other financial liabilities	*15*	*54 914*	*58 641*
Derivatives – Hedge accounting	9	37	4 977
Provisions	16	2 587	769
Current tax liabilities		2 438	2 766
Other liabilities	17	11 267	13 834
Total liabilities		**3 972 400**	**4 155 822**
Share capital and share premium	18	367 043	367 043
Retained earnings	18	345 280	307 948
Other equity	18	56 706	74 073
Total equity	**18**	**769 029**	**749 064**
TOTAL EQUITY AND LIABILITIES		**4 741 429**	**4 904 886**

These separate financial statements, which include the notes on pages 14 – 68, were approved by the Board of Directors on 22 March 2023.

Chairman of the Board of Directors
Andrej Zaťko

Member of the Board of Directors
Ladislav Korec

B. Separate statement of comprehensive income

EUR'000	Notes	2022	2021
Statement of profit or loss			
Net interest income	21	119 372	133 737
Interest income	21	*126 975*	*138 613*
Interest expenses	21	*(7 603)*	*(4 876)*
Net fee and commission income	22	43 605	35 558
Fee and commission income	22	*71 755*	*62 868*
Fee and commission expenses	22	*(28 150)*	*(27 310)*
Dividend income	23	28 375	39 184
Net gains/(losses) from sale of subsidiaries and other financial transactions	24	21 507	(6 850)
Net other operating expenses	25	(4 920)	(1 881)
Staff expenses	26	(47 842)	(44 829)
Other administrative expenses	26	(38 879)	(41 089)
Depreciation	27	(21 938)	(25 102)
Release/(creation) of provisions	28	(1 817)	1 834
Net impairment of financial assets not valued at fair value through profit and loss	28	14 195	(22 125)
Net impairment of investments in subsidiaries, joint ventures and associates	28	-	2 142
Net impairment on non-financial assets	28	712	398
Profit before tax		**112 370**	**70 977**
Income tax	29	(19 204)	(12 679)
Profit after tax		**93 166**	**58 298**

Statement of other comprehensive income			
Items that may be reclassified to profit or loss		(23 197)	3 411
Revaluation of debt securities at fair value through other comprehensive income		*(29 226)*	*(3 775)*
Impairment losses for debt securities at fair value through other comprehensive income		*(183)*	*8 138*
Revaluation of hedging instruments		-	-
Deferred tax related to items that may be reclassified to profit or loss		*6 212*	*(954)*
Foreign currency translation		-	*2*
Items that may not be reclassified to profit or loss		-	-
Revaluation of equity instruments at fair value through other comprehensive income		-	*(2)*
Deferred tax related to items that may not be reclassified to profit or loss		-	*2*
Total other comprehensive income		**(23 197)**	**3 411**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**69 969**	**61 709**

The notes on pages 14 – 68 form an integral part of these separate financial statements.

C. Separate statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2022	**366 305**	**738**	**63 997**	**10 076**	**-**	**307 948**	**749 064**
Total comprehensive income	**-**	**-**	**-**	**(23 197)**	**-**	**93 166**	**69 969**
Profit after tax	-	-	-	-	-	93 166	93 166
Items that may be reclassified to profit or loss	-	-	-	(23 197)	-	-	(23 197)
Other transactions	**-**	**-**	**5 830**	**-**	**-**	**(55 834)**	**(50 004)**
Transfer to legal reserve fund	-	-	5 830	-	-	(5 830)	-
Dividends	-	-	-	-	-	(50 000)	(50 000)
Other	-	-	-	-	-	(4)	(4)
Closing balance as of 31 December 2022	**366 305**	**738**	**69 827**	**(13 121)**	**-**	**345 280**	**769 029**

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2021	**366 305**	**738**	**59 561**	**6 667**	**(2)**	**254 082**	**687 351**
Total comprehensive income	**-**	**-**	**-**	**3 409**	**2**	**58 298**	**61 709**
Profit after tax	-	-	-	-	-	58 298	58 298
Items that may be reclassified to profit or loss	-	-	-	3 409	2	-	3 411
Other transactions	**-**	**-**	**4 436**	**-**	**-**	**(4 432)**	**4**
Transfer to legal reserve fund	-	-	4 436	-	-	(4 436)	-
Other	-	-	-	-	-	4	4
Closing balance as of 31 December 2021	**366 305**	**738**	**63 997**	**10 076**	**-**	**307 948**	**749 064**

The notes on pages 14 – 68 form an integral part of these separate financial statements.

D. Separate statement of cash flows

EUR'000	Notes	2022	2021
Profit before tax		**112 370**	**70 977**
Adjustments:			
Net interest income	21	(119 372)	(133 737)
Dividend income	23	(28 375)	(39 184)
Depreciation	27	21 938	25 102
Release/(creation) of provisions	28	1 817	(1 834)
Gains/(losses) on derecognition of non-financial assets, net	25	407	555
Gain from sale of subsidiaries	10	(18 500)	-
Net impairment of financial assets not valued at fair value through profit and loss	28	(14 195)	22 125
Net impairment of investments in subsidiaries, joint ventures and associates	28	-	(2 142)
Net impairment on non-financial assets		(712)	(398)
Cash flows from/(used in) operating activities before changes in working capital		**(44 622)**	**(58 536)**
(Increase)/decrease in operating assets:			
Cash balances at central banks	4	372 455	(161 795)
Financial assets held for trading	5	(14)	2 646
Non-trading financial assets mandatorily at fair value through profit or loss	6	118 447	11 281
Financial assets at amortised cost		171 794	(386 171)
Loans and advances		*185 756*	*(397 535)*
Other financial assets		*(13 962)*	*11 364*
Derivatives – Hedge accounting	9	(6 998)	-
Other assets	14	(4 162)	1 731
Increase/(decrease) in operating liabilities:			
Financial liabilities held for trading	5	(1 593)	2 949
Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities		(232 254)	341 129
Deposits		*(232 317)*	*342 873*
Other financial liabilities		*63*	*(1 744)*
Derivatives – Hedge accounting		6 875	(5 341)
Other liabilities	17	(2 566)	2 282
Cash flows from operating activities before interest and income tax		**377 362**	**(249 825)**
Interest received		137 483	154 915
Dividends received	23	8 352	24 415
Interest paid		(9 919)	(12 797)
Income tax paid		(15 074)	(10 737)
Net cash flows from/(used in) operating activities		***498 204***	***(94 029)***
Cash flows from investing activities			
Financial assets at amortised cost - debt securities			
Purchase		(155 911)	(39 652)
Proceeds from sale and maturity		22 576	23 951
Financial assets at fair value through other comprehensive income - debt securities			
Purchase		(15 676)	(67 827)
Proceeds from sale and maturity		123 933	107 872
Investments in subsidiaries, joint ventures and associates		-	-
Proceeds from sale	10	33 000	-
Other revenues		18 143	21 956
Tangible and intangible assets			
Purchase	11,12	(14 826)	(16 977)
Proceeds from sale		566	3
Net cash flows from/(used in) investing activities		***11 805***	***29 326***
Cash flows from financing activities			
Dividends paid		*(49 229)*	-
Debt securities issued			
Proceeds from issue of debt securities	15	60 000	65 000
Financial liabilities at amortised cost - lease liabilities			
Lease payments		(5 940)	(5 680)
Net cash flows from/(used in) financing activities		***4 831***	***59 320***
Net increase/(decrease) in cash and cash equivalents	4	**514 840**	**(5 383)**
Cash and cash equivalents at the beginning of the period	4	**45 229**	**50 612**
Cash and cash equivalents at the end of the period	4	**560 069**	**45 229**

The notes on pages 14 – 68 form an integral part of these separate financial statements.

E. Notes to the separate financial statements

1. General information

365.bank, a.s. ('the Bank') was incorporated in the Commercial Register on 31 December 1992. The Bank commenced its activities on 1 January 1993. On 3 July 2021, the Bank changed its business name to 365.bank, a. s. (hereinafter the „Bank"). The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank's identification ('IČO') is 31340890, tax ('DIČ') is 2022294221 and value added tax ('IČ DPH') number is SK7020000680. The Bank is registered as a VAT member of 365.bank Group.

The principal activities of the Bank are as follows:

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

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

On 18 November 2009, Poštová banka, a. s. pobočka Česká republika was registered in the Commercial Register of the Czech Republic. 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.

Shareholder's structure is as follows:

Name of shareholder	Address	31 December 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, Czech Republic	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%**

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

Members of the Board of Directors	
Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	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 separate financial statements of the Bank for the year ended 31 December 2021, were approved by the Board of Directors on 9 March 2022.

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

2. Accounting policies

2.1 Basis of preparation of the separate financial statements

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

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

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

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

2.2 Subsidiaries, joint ventures and associates

As at 31 December 2022 the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in % 31.12.2022	Ownership in % 31.12.2021
Subsidiaries			
365.invest, správ. spol., a. s.	Asset management	100,00%	100,00%
365.life, d. s. s., a. s.	Management of pension funds	x	100,00%
Ahoj, a. s.	Consumer loans	100,00%	100,00%
PB Servis, a. s.	Real estate administration	100,00%	100,00%
PB Finančné služby, a. s.	Financial and operational leasing and factoring	100,00%	100,00%
365.fintech, a. s.	Investment fund	100,00%	100,00%
Cards&Co, a. s.	Information technology services industry	100,00%	87,99%
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	Art and sales	100,00%	100,00%
365.nadácia	Charitable foundation	x	x
Joint ventures			
SKPAY, a. s.	Payment services	40,00%	40,00%
Monilogi, s. r. o.	Cash management	8,00%	x

The Bank also prepares consolidated financial statements for the 365.bank. 365.nadácia is not included in the consolidated financial statements of the Bank.

2.3 Changes in accounting policies

The adoption of the new accounting standards from 1 January 2022 did not have a significant impact on the Bank.

2.4 Significant accounting methods and policies

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

(a) Foreign currency

i. *Foreign currency transactions*

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

ii. *Foreign operations*

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

(b) Interest income and expenses

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

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

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

(c) Fee and commission income

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. Other revenue from fee and commission income and expenses, including account service, investment management fees and servicing fees, sale commissions, placement fees and syndicated product fees are recognised when related services are provided. Loan commitment fees are recognised on a straight-line basis over the commitment period. When deciding on the timing and amount of recognised income, the Bank follows the IFRS 15 standard.

Other fees and commissions relate mainly to transaction costs and service fees that are recognized after delivery of the service.

Fees related to services provided over time are accrued. These include commitment fees, guarantee fees and other fees arising from the provision of loans, income from asset management commissions, custody and other management and advisory fees. Payment services include, in part, service fees that are settled over time such as recurring card fees.

Income from fees for the provision of transaction services, such as collateral of the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as income from commissions for services such as the sale of collective investments and insurance products, are recognised after the completion of the transaction. Payment services include, in part, transaction-based fees, such as withdrawal fees.

(d) Net gains or losses from financial transactions

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

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

(e) Dividend income

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

(f) Income tax

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

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

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

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

(g) Financial assets

i. Initial recognition

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

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

ii. Classification and subsequent measurement

The Bank classifies its financial assets into the following measurement categories:
- Amortised cost ('AC')
- Fair value through profit or loss ('FVPL')
- Fair value through other comprehensive income ('FVOCI')

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depends on:

(a) Business model for managing the assets

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

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

(b) Cash flow characteristics of assets

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

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

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

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

- *Amortised cost*

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

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

(B) Financial assets at amortised cost

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

- *Fair value through profit or loss*

(A) Financial assets held for trading

These are financial assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed to achieve short-term profit or to maintaining position. These assets do not meet the criteria for amortised cost or FVOCI based on Bank's business model, so they are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss, and is not part of a hedging relationship, is recognised in the profit or loss statement within *Net gains/(losses) from financial transactions* in the period in which it arises.

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

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

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

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

- *Fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income

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

Equity instruments

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

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

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

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

No expected credit losses are recognised for equity instruments.

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

iii. Identification and measurement of credit losses

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

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- The time value of money
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 34. *Credit risk* provides more detail of how the expected credit loss allowance is measured.

iv. Derecognition

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

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

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

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

v. Modifications of financial assets

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

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

(h) Derivatives

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

Hedging derivatives

Under the Bank's strategy, hedging derivatives are designed to hedge and manage selected risks. The Bank has elected to adopt IFRS 9 for micro hedge accounting purposes and in the area of macro hedging derivatives, it decided to continue to apply IAS 39 standard.

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

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

The hedged item in the case of macro-hedging is a part of consumer and mortgage loans with a fixed rate denominated in EUR, excluding loans overdue for more than 90 days. The volume of the hedged item and derivative changes continuously based on the development of the loan portfolio.

Individual loans are assigned to time baskets according to their repayment schedule (when fixed to maturity) or according to refixation (currently mainly mortgage loans). For that reason, it is subject to the same risk, namely the risk of changing the swap curve in EUR.
The bank uses 3M time baskets for portfolio hedging purposes. The mapping methodology is identical to the approved methodology for mapping interest time baskets, which take into account early repayment and loans in arrears of more than 90 days.
The purpose of the hedging is to minimize the interest risk resulting from the movement of market interest rates in EUR and to eliminate the "accounting discrepancy" between the accounting of the fair value of the IRS (hedging instrument) through the P&L and the regular accounting of the portfolio of consumer and mortgage loans (hedged item).

i. Fair value hedge

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

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

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

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

ii. Cash flow hedge

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

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

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

Other non-trading derivatives

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

Embedded derivatives

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

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

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

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

(i) Investments in subsidiaries, join ventures and associates

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

If the bank loses control, it derecognizes the subsidiary's assets and liabilities, related non-controlling interests and other equity. The gain or loss arising due to the loss of control is recognized in the income statement. If the bank retains a non-controlling interest in the former subsidiary, it is measured at fair value as at the date when control was lost.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies.

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

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

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

(j) Tangible and intangible assets

i. Recognition and measurement

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

ii. Subsequent costs

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

iii. Depreciation

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

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

Type of asset	Period	Method
Buildings	40 years	straight line
Hardware	2 – 8 years	straight line
Fittings and other equipment	2 – 15 years	straight line
Software	individually	straight line
Other intangible assets	individually	straight line

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

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

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

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

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

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

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

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

(l) Impairment losses on non-financial assets

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

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

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

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

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

(m) Financial liabilities

i. Initial recognition

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

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

ii. Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g., short positions in the trading booking), and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities, designated at fair value through profit or loss, are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk), and partially profit or loss (the remaining amount of change in the fair value of the liability). 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 Bank recognises any expense incurred on the financial liability
- Financial guarantee contracts and loan commitments

iii. Derecognition

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

(n) Financial guarantees and loan commitments

Financial guarantees are contracts based on which the Bank undertakes to make a payment in favour of the creditor in order to compensate the incurred loss, if the debtor fails to pay at the due date under the original terms of the instrument.

Loan commitments are the Bank's commitments to provide loan under predetermined conditions.

Provided financial guarantees and loan commitments are initially measured at fair value. Subsequently, they are measured at the higher of the originally recognised amount less impairment allowance in compliance with IFRS 9 or the initially recognised amount less, if appropriate, cumulative revenue recognised in accordance with IFRS 15. Other loan commitments are measured as the total of impairment allowances in accordance with IFRS 9 and the amounts of all fees received less cumulative income, if it is unlikely that the obligation would result in a specific loan agreement.

(o) Provisions

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

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

(p) Employee benefits

i. Termination benefits

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

ii. Short-term employee benefits

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

(q) Offsetting

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

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

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

(r) Basic and diluted earnings per share

The Bank 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.

(s) New standards and interpretations not yet adopted

As at the date of approval of these financial statements, the IASB has issued and the EU has adopted the following amendments to existing standards which are not yet effective:

- "Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments - The amendments to IAS 1 require companies to disclose their material accounting policies and not their significant accounting policies. The Company does not expect the amendments to have a material impact on its financial statements when initially applied. (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted).

- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors Amendments introduce a definition of accounting estimates and involve other amendments to IAS 8 to help entities to distinguish between accounting policies and accounting estimates. The distinction is important as the changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. (Effective for annual periods beginning on or after 1 January 2023 . Early application is permitted)

- Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction - The amendments narrow the scope of the initial recognition exemption (IRE) to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities.
  For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The Bank has decided not to adopt the new standard and amendments to existing standards before the effective date. According to the Bank's estimates, compliance with these standards and amendments to existing standards in the period when they are initially applied will not have any significant impact on the Group's financial statements

3. Use of estimates and judgements

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

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

Expected credit losses

The measurement of ECL allowance for debt financial assets, measured at amortised cost and FVOCI 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 34. *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 *31. Fair values of financial assets and liabilities.*

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

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

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

EUR'000	31.12.2022	31.12.2021
Cash on hand	30 745	29 827
Cash balances at central banks	520 399	404 800
Other demand deposits	41 270	15 402
Total	**592 414**	**450 029**

The above-mentioned financial assets are not restricted.

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

EUR'000	31.12.2021	31.12.2021	31.12.2020
Cash on hand	30 745	29 827	25 875
Other demand deposits	488 054	-	-
Other demand deposits	41 270	15 402	24 737
Total	**560 069**	**45 229**	**50 612**

5. Financial assets and liabilities held for trading

EUR'000	31.12.2022	31.12.2021
Financial assets held for trading		
Derivatives	**16**	**2**
Foreign exchange	16	2
Total	**16**	**2**
Financial liabilities held for trading		
Derivatives	**2 102**	**3 695**
Foreign exchange	2 102	3 695
Total	**2 102**	**3 695**

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

EUR'000	31 December 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	65 909	16	2 102	143 237	2	3 695
Total	**65 909**	**16**	**2 102**	**143 237**	**2**	**3 695**

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

EUR'000	31.12.2022	31.12.2021
Equity instruments	**179 784**	**298 231**
Share certificates	179 784	298 231
Total	**179 784**	**298 231**

7. Financial assets at fair value through other comprehensive income

EUR'000	31.12.2022	31.12.2021
Equity instruments	**65**	**65**
Shares	65	65
Debt securities	**232 350**	**385 437**
General governments	144 682	266 897
Credit institutions	27 045	28 346
Other financial corporations	25 896	29 180
Non-financial corporations	34 727	61 014
Total	**232 415**	**385 502**
Impairment allowances to debt securities in OCI	(8 432)	(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)	160	(54)	-	-	106
Unwinding of discount	-	-	-	-	-
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to modifications without derecognition (net)	-	-	-	-	-
Changes due to update in the institution's methodology for (	-	-	-	-	-
Decrease in allowance account due to write-offs	-	-	-	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2022	**(118)**	**(8 314)**	**-**	**-**	**(8 432)**

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**(477)**	**-**	**-**	**-**	**(477)**
Increases due to origination and acquisition	(83)	-	-	-	(83)
Decreases due to derecognition	67	-	-	-	67
Changes due to change in credit risk (net)	65	(8 187)	-	-	(8 122)
Unwinding of discount	-	-	-	-	-
Transfers:	73	(73)	-	-	-
to/(from) Stage 1	*x*	*(73)*	-	-	*(73)*
to/(from) Stage 2	*73*	*x*	-	-	*73*
to/(from) Stage 3	-	-	*x*	-	-
Changes due to modifications without derecognition (net)	-	-	-	-	-
Changes due to update in the institution's methodology for (	-	-	-	-	-
Decrease in allowance account due to write-offs	-	-	-	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2021	**(355)**	**(8 260)**	**-**	**-**	**(8 615)**

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Debt securities	**518 680**	**386 574**	**(7 593)**	**(7 612)**	**511 087**	**378 962**
Central banks	-	-	-	-	-	-
General governments	441 974	307 533	(152)	(96)	441 822	307 437
Credit institutions	31 154	30 990	-	(2)	31 154	30 988
Other financial corporations	1 362	1 424	-	-	1 362	1 424
Non-financial corporations	44 190	46 627	(7 441)	(7 514)	36 749	39 113
Loans and advances	**3 142 556**	**3 373 564**	**(154 293)**	**(210 110)**	**2 988 263**	**3 163 454**
Central banks	-	-	-	-	-	-
General governments	60 206	60 000	(20)	(19)	60 186	59 981
Credit institutions	35 519	23 270	(8)	(18)	35 511	23 252
Other financial corporations	305 072	553 697	(8 501)	(15 441)	296 571	538 256
Non-financial corporations	503 021	845 625	(54 915)	(71 550)	448 106	774 075
Households	2 238 738	1 890 972	(90 849)	(123 082)	2 147 889	1 767 890
Lending for house purchase	*1 418 681*	*1 028 687*	*(890)*	*(787)*	*1 417 791*	*1 027 900*
Credit for consumption	*811 736*	*849 215*	*(87 904)*	*(119 673)*	*723 832*	*729 542*
Other	*8 321*	*13 070*	*(2 055)*	*(2 622)*	*6 266*	*10 448*
Other financial assets	**36 622**	**21 301**	**(1 476)**	**(118)**	**35 146**	**21 183**
Total	**3 697 858**	**3 781 439**	**(163 362)**	**(217 840)**	**3 534 496**	**3 563 599**

Loans and advances include finance lease receivables:

EUR'000	31.12.2022	31.12.2021
Minimum value of leasing payments		
Receivables from leasing	17 986	8 083
Up to 1 year	5 751	*2 655*
1-5 years	12 023	*5 313*
Over 5 years	212	*115*
Unrealized income on finance leases	(1 655)	(694)
Present value of future lease payments	**16 331**	**7 389**
Impairment allowances	(203)	(31)
Total	**16 128**	**7 358**

EUR'000	31.12.2022	31.12.2021
Present value of future lease payments		
Receivables from leasing	16 331	7 389
Up to 1 year	4 669	*2 338*
1-5 years	11 453	*4 938*
Over 5 years	209	*113*
Present value of future lease payments	**16 331**	**7 389**
Impairment allowances	(203)	(31)
Total	**16 128**	**7 358**

Other financial assets comprise the following:

EUR'000	31.12.2022	31.12.2021
Other financial assets, gross	**36 622**	**21 301**
Clearing and settlement items	15 277	3 227
Cash collateral	7 164	6 750
Trade receivables	7 172	6 563
Other	7 009	4 761
Impairment allowances	**(1 476)**	**(118)**
Total	**35 146**	**21 183**

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

31.12.2022	Gross value					Impairment allowances				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities	**474 490**	**44 190**	**-**	**-**	**518 680**	**(152)**	**(7 441)**	**-**	**-**	**(7 593)**
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	441 974	-	-	-	441 974	(152)	-	-	-	(152)
Credit institutions	31 154	-	-	-	31 154	-	-	-	-	-
Other financial corporations	1 362	-	-	-	1 362	-	-	-	-	-
Non-financial corporations	-	44 190	-	-	44 190	-	(7 441)	-	-	(7 441)
Loans and advances	**2 779 220**	**205 070**	**146 029**	**12 237**	**3 142 556**	**(15 237)**	**(20 411)**	**(110 086)**	**(8 559)**	**(154 293)**
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	60 202	4	-	-	60 206	(20)	-	-	-	(20)
Credit institutions	35 519	-	-	-	35 519	(8)	-	-	-	(8)
Other financial corporations	297 298	-	1	7 773	305 072	(727)	-	(1)	(7 773)	(8 501)
Non-financial corporations	316 878	132 091	49 588	4 464	503 021	(8 345)	(12 092)	(33 692)	(786)	(54 915)
Households	2 069 323	72 975	96 440	-	2 238 738	(6 137)	(8 319)	(76 393)	-	(90 849)
Lending for house purchase	*1 395 894*	*18 242*	*4 545*	*-*	*1 418 681*	*(34)*	*(99)*	*(757)*	*-*	*(890)*
Credit for consumption	*667 479*	*54 594*	*89 663*	*-*	*811 736*	*(6 045)*	*(8 185)*	*(73 674)*	*-*	*(87 904)*
Other	*5 950*	*139*	*2 232*	*-*	*8 321*	*(58)*	*(35)*	*(1 962)*	*-*	*(2 055)*
Other financial assets	**-**	**36 622**	**-**	**-**	**36 622**	**-**	**(1 476)**	**-**	**-**	**(1 476)**
Total	**3 253 710**	**285 882**	**146 029**	**12 237**	**3 697 858**	**(15 389)**	**(29 328)**	**(110 086)**	**(8 559)**	**(163 362)**

31.12.2021	Gross value					Impairment allowances				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities	**339 947**	**46 627**	**-**	**-**	**386 574**	**(98)**	**(7 514)**	**-**	**-**	**(7 612)**
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	307 533	-	-	-	307 533	(96)	-	-	-	(96)
Credit institutions	30 990	-	-	-	30 990	(2)	-	-	-	(2)
Other financial corporations	1 424	-	-	-	1 424	-	-	-	-	-
Non-financial corporations	-	46 627	-	-	46 627	-	(7 514)	-	-	(7 514)
Loans and advances	**2 758 013**	**431 069**	**171 602**	**12 880**	**3 373 564**	**(21 004)**	**(33 075)**	**(147 085)**	**(8 946)**	**(210 110)**
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	60 000	-	-	-	60 000	(19)	-	-	-	(19)
Credit institutions	23 270	-	-	-	23 270	(18)	-	-	-	(18)
Other financial corporations	499 510	45 976	11	8 200	553 697	(1 491)	(5 730)	(10)	(8 210)	(15 441)
Non-financial corporations	597 464	198 356	45 168	4 637	845 625	(14 778)	(16 231)	(39 830)	(711)	(71 550)
Households	1 577 769	186 737	126 423	43	1 890 972	(4 698)	(11 114)	(107 245)	(25)	(123 082)
Lending for house purchase	*972 781*	*52 988*	*2 918*	*-*	*1 028 687*	*(107)*	*(155)*	*(525)*	*-*	*(787)*
Credit for consumption	*598 730*	*129 628*	*120 814*	*43*	*849 215*	*(4 521)*	*(10 940)*	*(104 187)*	*(25)*	*(119 673)*
Other	*6 258*	*4 121*	*2 691*	*-*	*13 070*	*(70)*	*(19)*	*(2 533)*	*-*	*(2 622)*
Other financial assets	**-**	**21 301**	**-**	**-**	**21 301**	**-**	**(118)**	**-**	**-**	**(118)**
Total	**3 097 960**	**498 997**	**171 602**	**12 880**	**3 781 439**	**(21 102)**	**(40 707)**	**(147 085)**	**(8 946)**	**(217 840)**

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

EUR'000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	**(98)**	**(7 514)**	**-**	**-**	**(7 612)**
Increases due to origination and acquisition	(23)	-	-	-	(23)
Decreases due to derecognition	-	-	-	-	-
Changes due to change in credit risk (net)	(31)	73	-	-	42
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 31 December 2022	**(152)**	**(7 441)**	**-**	**-**	**(7 593)**

EUR'000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**(95)**	**(7 626)**	**-**	**-**	**(7 721)**
Increases due to origination and acquisition	(19)	-	-	-	(19)
Decreases due to derecognition	9	-	-	-	9
Changes due to change in credit risk (net)	7	112	-	-	119
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 31 December 2021	**(98)**	**(7 514)**	**-**	**-**	**(7 612)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	**(21 004)**	**(33 075)**	**(147 085)**	**(8 946)**	**(210 110)**
Increases due to origination and acquisition	(4 957)	-	-	-	(4 957)
Decreases due to derecognition	5 091	7 114	53 107	7	65 319
Changes due to change in credit risk (net)	17 106	(10 305)	(11 600)	380	(4 419)
Transfers:	(11 463)	15 855	(4 392)	-	-
(to)/from Stage 1	*x*	*10 873*	*590*	-	*11 463*
(to)/from Stage 2	*(10 873)*	*x*	*(4 982)*	-	*(15 855)*
(to)/from Stage 3	*(590)*	*4 982*	*x*	-	*4 392*
Changes due to movements in FX rates	(10)	-	(116)	-	(126)
As of 31 December 2022	**(15 237)**	**(20 411)**	**(110 086)**	**(8 559)**	**(154 293)**

EUR'000	Loans and advances - households				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	**(4 698)**	**(11 114)**	**(107 245)**	**(25)**	**(123 082)**
Increases due to origination and acquisition	(3 125)	-	-	-	(3 125)
Decreases due to derecognition	959	1 195	47 155	7	49 316
Changes due to change in credit risk (net)	5 840	(7 032)	(12 784)	18	(13 958)
Transfers:	(5 113)	8 632	(3 519)	-	-
(to)/from Stage 1	*x*	*4 349*	*764*	-	*5 113*
(to)/from Stage 2	*(4 349)*	*x*	*(4 283)*	-	*(8 632)*
(to)/from Stage 3	*(764)*	*4 283*	*x*	-	*3 519*
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2022	**(6 137)**	**(8 319)**	**(76 393)**	**-**	**(90 849)**

In 2022, the Bank sold a portfolio of retail receivables in the gross amount of EUR 39.3 million., for which impairment allowances were created in the amount of EUR 38.4 million.

EUR'000	Loans and advances - corporate				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	**(16 269)**	**(21 961)**	**(39 840)**	**(8 921)**	**(86 991)**
Increases due to origination and acquisition	(1 755)	-	-	-	(1 755)
Decreases due to derecognition	4 057	5 900	5 952	-	15 909
Changes due to change in credit risk (net)	11 255	(3 254)	1 184	362	9 547
Transfers:	(6 350)	7 223	(873)	-	-
(to)/from Stage 1	*x*	*6 524*	*(174)*	-	*6 350*
(to)/from Stage 2	*(6 524)*	*x*	*(699)*	-	*(7 223)*
(to)/from Stage 3	*174*	*699*	*x*	-	*873*
Changes due to movements in FX rates	(10)	-	(116)	-	(126)
As of 31 December 2022	**(9 072)**	**(12 092)**	**(33 693)**	**(8 559)**	**(63 416)**

The positive development of the creation of impairment allowances in the corporate portfolio was caused by significant decrease in corporate exposure and low impacts of pandemic on customers compared to estimates.

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**(22 766)**	**(39 696)**	**(142 971)**	**(10 867)**	**(216 300)**
Increases due to origination and acquisition	(5 098)	-	-	(7)	(5 105)
Decreases due to derecognition	2 705	3 232	31 870	317	17 482
Changes due to change in credit risk (net)	8 746	(8 920)	(28 136)	1 632	(26 678)
Transfers:	(4 555)	12 309	(7 754)	-	-
(to)/from Stage 1	*x*	*3 808*	*747*	-	*4 555*
(to)/from Stage 2	*(3 808)*	*x*	*(8 501)*	-	*(12 309)*
(to)/from Stage 3	*(747)*	*8 501*	*x*	-	*7 754*
Changes due to movements in FX rates	(36)	-	(94)	(21)	(151)
As of 31 December 2021	**(21 004)**	**(33 075)**	**(147 085)**	**(8 946)**	**(210 110)**

9. Hedging derivatives

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

The table below summarises notional amounts and fair value of hedging derivatives. The notional amounts represent the volume of unpaid transactions at a certain point in time. They do not represent potential gain or loss associated with the market risk or credit risk of these transactions. Macro hedging derivatives are in accordance with IAS 39 standards and micro hedging derivatives follow the IFRS 9 standard.

EUR'000	31 December 2022			31 December 2021		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Fair value hedges microhedge	**90 366**	**9 081**	**37**	**134 476**	**-**	**3 549**
Interest rate	90 366	9 081	37	134 476	-	3 549
Portfolio fair value hedges of interest rate risk	**396 400**	**5 148**	**-**	**93 400**	**-**	**1 428**
Total	**486 766**	**14 229**	**37**	**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
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	
Fair value hedges					
Portfolio hedge of interest rate risk	396 400	200 037	(7 232)	1 091	Financial assets at amortised cost
Interest rate microhedge	76 225	145 078	(11 814)	2 260	Revaluation of FVOCI financial assets

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

EUR'000	2022	2021
Fair value changes of the hedging instrument	18 601	4 616
Fair value changes of the hedged item attributable to the hedged risk	(19 046)	(4 663)
Gains/(losses) from hedge accounting, net	**(445)**	**(47)**

Net profit/(loss) from hedge accounting is part of the line Net profit/(loss) from financial operations in the Statement of profit or loss.

10. Investments in subsidiaries, joint ventures and associates

EUR'000	31.12.2022	31.12.2021
Investments in subsidiaries	62 566	75 544
Investments in joint ventures	496	140
Investments in associates	-	-
Impairment allowances	(7 022)	(7 022)
Total	**56 040**	**68 662**

During 2022, the following significant changes occurred in investments:

- PB Partner, a.s. has been liquidated
- The Bank bought other shares in ART FOND – Stredoeurópsky fond súčasného umenia, a.s, thus acquiring control in the company with total ownership of 100%.
- The Bank increased its exposure to 365.fintech, a.s. by increasing other capital funds
- On 28 December 2022, the Bank sold its entire share in the subsidiary 365.life, a.s. (sale price EUR 33 million, profit from the sale in the total value of EUR 18.5 million)

The Bank performs an impairment test at least once per accounting period based on financial and business plans of subsidiaries for a period of 5 years. The model calculates the present value of these cash flows by discounting them using an interest rate that was calculated based on the principles of the Capital Assets Pricing Model. Cash flows after the end of the five-year period are calculated as the present value of perpetuity with a certain expected growth rate. The discount rate used is derived from the long-term risk-free interest rate, adjusted for business risk and country risk. The model is most sensitive to the change in the discount rate and the growth rate of profitability.

In the calculation, the Bank used a risk rate of 2.98% (2021: -0.14%) and an expected permanent growth rate of 2.97% (2.97% in 2021).

11. Tangible assets

EUR'000	31.12.2022	31.12.2021
Tangible assets owned	21 878	25 319
Property, plant and equipment	*21 878*	*25 319*
Right of use assets	35 217	39 213
Total	**57 095**	**64 532**

EUR'000	Tangible assets owned						
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Assets not yet in use	Investment property	Total
Cost							
As of 1 January 2022	19 710	12 102	19 482	-	765	-	**52 059**
Additions	-	-	-	-	2 071	-	**2 071**
Additions from business combinations	-	-	-	-	-	-	**-**
Additions from acquisition of the business	-	-	-	-	-	-	**-**
Transfers	1 054	1 012	724	-	(2 790)	-	**-**
Disposals	(2 628)	(1 342)	(562)	-	(33)	-	**(4 565)**
As of 31 December 2022	**18 136**	**11 772**	**19 644**	**-**	**13**	**-**	**49 565**
Accumulated depreciation							
As of 1 January 2022	(7 001)	(8 624)	(10 473)	-	-	-	**(26 098)**
Depreciation for the year	(1 526)	(1 663)	(1 806)	-	-	-	**(4 995)**
Disposals	1 379	1 338	843	-	-	-	**3 560**
As of 31 December 2022	**(7 148)**	**(8 949)**	**(11 436)**	**-**	**-**	**-**	**(27 533)**
Accumulated impairment losses	**(154)**	**-**	**-**	**-**	**-**	**-**	**(154)**
Carrying amount as at 31.12.2022	**10 834**	**2 823**	**8 208**	**-**	**13**	**-**	**21 878**

EUR'000	Tangible assets owned						
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Assets not yet in use	Investment property	Total
Cost							
As of 1 January 2021	18 618	11 663	19 516	-	1 287	-	**51 084**
Additions from business combinations	-	-	-	-	4 618	-	**4 618**
Additions	-	-	-	-	-	-	**-**
Additions from acquisition of the business	-	-	-	-	-	-	**-**
Transfers	1 628	1 937	1 465	-	(5 030)	-	**-**
Disposals	(536)	(1 498)	(1 499)	-	(110)	-	**(3 643)**
As of 31 December 2021	**19 710**	**12 102**	**19 482**	**-**	**765**	**-**	**52 059**
Accumulated depreciation							
As of 1 January 2021	(5 635)	(8 502)	(9 597)	-	-	-	**(23 734)**
Additions from business combinations	-	-	-	-	-	-	**-**
Depreciation for the year	(1 587)	(1 615)	(2 134)	-	-	-	**(5 336)**
Disposals	221	1 493	1 258	-	-	-	**2 972**
As of 31 December 2021	**(7 001)**	**(8 624)**	**(10 473)**	**-**	**-**	**-**	**(26 098)**
Accumulated impairment losses	**(619)**	**-**	**(23)**	**-**	**-**	**-**	**(642)**
Carrying amount as at 31.12.2021	**12 090**	**3 478**	**8 986**	**-**	**765**	**-**	**25 319**

EUR'000	Right of use assets				
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Total
Cost					
As of 1 January 2022	49 530	211	4 058	-	53 799
Additions	476	-	109	-	585
Loan modifications	1 459	-	-	-	1 459
Transfers	-	-	-	-	0
Disposals	(198)	-	(105)	-	(303)
As of 31 December 2022	**51 267**	**211**	**4 062**	**-**	**55 540**
Accumulated depreciation					
As of 1 January 2022	(12 903)	(158)	(1 526)	-	(14 587)
Depreciation for the year	(5 289)	(53)	(598)	-	(5 940)
Disposals	112	-	92	-	204
As of 31 December 2022	**(18 080)**	**(211)**	**(2 032)**	**-**	**(20 323)**
Accumulated impairment losses	**-**	**-**	**-**	**-**	**0**
Carrying amount as at 31.12.2022	**33 187**	**-**	**2 030**	**-**	**35 217**

EUR'000	Land and buildings	Hardware	Right of use assets Fittings and other equipment	Operating lease assets	Total
Cost					
As of 1 January 2021	38 016	211	4 115	-	42 342
Additions	3 692	-	382	-	4 074
Loan modifications	9 139	-	-	-	9 139
Transfers	-	-	-	-	-
Disposals	(1 317)	-	(439)	-	(1 756)
As of 31 December 2021	**49 530**	**211**	**4 058**	**-**	**53 799**
Accumulated depreciation					
As of 1 January 2021	(9 187)	(105)	(1 324)	-	(10 616)
Depreciation for the year	(4 994)	(53)	(633)	-	(5 680)
Loan modifications	-	-	-	-	-
Disposals	1 278	-	431	-	1 709
As of 31 December 2021	**(12 903)**	**(158)**	**(1 526)**	**-**	**(14 587)**
Accumulated impairment losses	**-**	**-**	**-**	**-**	**-**
Carrying amount as at 31.12.2021	**36 628**	**53**	**2 532**	**-**	**39 213**

Movements in the impairment allowance for tangible assets are as follows:

EUR'000	2022	2021
Opening balance as at 1 January	(642)	(940)
Net creation/(release) of impairment losses	488	298
Closing balance	**(154)**	**(642)**

As at 31 December, the Bank used fully depreciated tangible assets with an acquisition cost in the amount of EUR 13 865 thousand and as at 31 December 2021 in the amount of EUR 12 448 thousand.

The Bank insured its assets against natural disasters, damage caused by intentional acts, burglary and robbery. Motor vehicles are insured by compulsory motor third party liability insurance and CASCO insurance. No lien has been established on the bank's assets.

EUR'000	31.12.2022	31.12.2021
Insurance amount of fixed assets	45 318	51 109

12. Intangible assets

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As of 1 January 2022	84 202	72	5 650	**89 924**
Additions	-	-	12 755	**12 755**
Transfers	9 065	15	(9 080)	**-**
Disposals	(2 236)	(1)	(49)	**(2 286)**
As of 31 December 2022	**91 031**	**86**	**9 276**	**100 393**
Accumulated amortisation				
As of January 2021	(56 180)	(72)	-	(56 252)
Amortisation for the year	(11 000)	(4)	-	(11 004)
Disposals	2 236	-	-	2 236
As of 31 December 2022	**(64 944)**	**(76)**	**-**	**(65 020)**
Accumulated impairment losses	-	-	-	-
Carrying amount as at 31.12.2022	**26 087**	**11**	**9 276**	**35 374**

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As of 1 January 2021	74 737	88	5 082	79 907
Additions	-	-	12 359	12 359
Transfers	11 518	-	(11 518)	-
Disposals	(2 053)	(16)	(273)	(2 342)
As of 31 December 2021	**84 202**	**72**	**5 650**	**89 924**
Accumulated amortisation				
As of 1 January 2021	(44 149)	(87)	-	(44 236)
Amortisation for the year	(14 084)	(2)	-	(14 086)
Disposals	2 053	17	-	2 070
As of 31 December 2021	**(56 180)**	**(72)**	**-**	**(56 252)**
Accumulated impairment losses	(226)	-	-	(226)
Carrying amount as at 31.12.2021	**27 796**	**-**	**5 650**	**33 446**

As at 31 December, the Bank used fully depreciated tangible assets with an acquisition cost in the amount of EUR 25 918 thousand and as at 31 December 2021 in the amount of EUR 24 915 thousand.

13. Deferred tax assets and liabilities

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

	31.12.2022	31.12.2021
Companies in SR	21%	21%

EUR'000	31.12.2022	31.12.2021
Impairment on financial assets at AC	17 878	22 176
Provisions for off-balance sheet exposures	123	160
Revaluation of financial assets at FVOCI - debt securities	5 494	(3 199)
Revaluation of financial assets at FVOCI - derivatives	(2 006)	475
Tangible assets	461	280
Other	2 811	3 116
Total deferred tax assets	**24 761**	**23 008**

Movements in deferred tax were as follows:

EUR'000	1.1.2022	Profit or loss	OCI	31.12.2022
Impairment on financial assets at AC	22 176	(4 298)	-	17 878
Provisions for off-balance sheet exposures	160	(37)	-	123
Revaluation of financial assets at FVOCI	(2 724)	-	6 212	3 488
Tangible assets	280	181	-	461
Other	3 116	(305)	-	2 811
Total	**23 008**	**(4 459)**	**6 212**	**24 761**

EUR'000	1.1.2021	Profit or loss	OCI	31.12.2021
Impairment on financial assets at AC	22 782	(606)	-	22 176
Provisions for off-balance sheet exposures	300	(140)	-	160
Revaluation of financial assets at FVOCI	(1 770)	(2)	(952)	(2 724)
Tangible assets	110	170	-	280
Other	3 266	(150)	-	3 116
Total	**24 688**	**(728)**	**(952)**	**23 008**

14. Other assets

EUR'000	31.12.2022	31.12.2021
Deferred expenses	9 084	8 952
Accrued income	4 675	3 773
Inventories	282	334
Prepayments	6 905	3 725
Total	**20 946**	**16 784**

15. Financial liabilities measured at amortised cost

EUR'000	31.12.2022	31.12.2021
Deposits	**3 774 074**	**4 006 346**
Central banks	249 040	249 931
General governments	3 532	3 613
Credit institutions	25 089	82 501
Credit institutions excluding subordinated debt	17 070	74 487
Credit institutions - subordinated debt	8 019	8 014
Other financial corporations	143 491	157 046
Non-financial corporations	125 875	146 900
Households	3 227 047	3 366 355
Debt securities issued	**124 981**	**64 794**
Non-convertible debt securities issued	124 981	64 794
Non-convertible	*124 981*	*64 794*
Other financial liabilities	**54 914**	**58 641**
Clearing and settlement items	7 616	5 930
Liabilities to employees	3 354	3 190
Liabilities from social and health insurance and social fund	1 674	1 516
Tax liabilities	952	867
Received prepayments	4 502	5 002
Liabilities from dividends	799	28
Lease liabilities	35 973	39 762
Other creditors	44	2 346
Total	**3 953 969**	**4 129 781**

In 2021 and 2022, the Bank issued senior unsecured and non-subordinated debt securities. The detail is shown in the table below:

EUR'000	Issue date	Maturity	Interest rate	Number of securities	Nominal value	Currency	31.12.2022	31.12.2021
Debt securities issued	22.11.2021	22.11.2024	3,50%	15	1 000	EUR	15 009	14 984
Debt securities issued	22.12.2021	22.12.2024	3,50%	500	100	EUR	49 832	49 810
Debt securities issued	19.12.2022	19.12.2026	7,04%	60	1 000	EUR	60 140	-
Total							**124 981**	**64 794**

The interest rate for issue in 2021 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. The interest rate for issue in 2022 is fixed at 7.04% per annum

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

EUR'000	31.12.2022	31.12.2021
Subordinated debt	8 019	8 014
Other received loans	-	-

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

Creditor	Debtor	Carrying amount	Interest rate	Maturity
Subordinated debt				
J&T BANKA, a.s.	365.bank, a.s.	8 019	3M EURIBOR+6%	31.12.2026

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

EUR'000	Debt securities issued		Subordinated debt	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Opening balance as at 1 January	64 794	-	8 014	8 014
Proceeds from issue of debt securities	60 000	65 000	-	-
Repayment of debt securities	-	-	-	-
Interest expenses	2 548	104	506	480
Interest paid	(2 361)	(310)	(501)	(480)
Closing balance	**124 981**	**64 794**	**8 019**	**8 014**

In December 2021, within the TLTRO programme, the Bank received a loan from the European Central Bank (hereinafter 'the ECB') in the amount of EUR 250 million. This loan is recognised as a deposit received from the central bank. As collateral, the Bank provided Slovak government bonds measured at fair value through other comprehensive income (EUR 113 000 thousand) and Slovak government bonds measured at amortised cost (EUR 351,644 thousand).

16. Provisions

EUR'000	31.12.2022	31.12.2021
Pensions and other post employment defined benefit obligations	587	763
Other long term employee benefits	578	573
Restructuring	9	190
Commitments and guarantees given	2 000	6
Total	**2 587**	**769**

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

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2022	**411**	**351**	**1**	**-**	**763**
Increases due to origination and acquisition	599	-	-	-	599
Decreases due to derecognition	(661)	(638)	-	-	(1 299)
Changes due to change in credit risk (net)	(112)	629	4	-	521
Transfers:	(82)	82	-	-	-
(to)/from Stage 1	*x*	*82*	-	-	*82*
(to)/from Stage 2	*(82)*	*x*	-	-	*(82)*
(to)/from Stage 3	-	-	x	-	-
Changes due to movements in FX rates	3	-	-	-	3
As of 31 December 2022	**158**	**424**	**5**	**-**	**587**

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**429**	**439**	**620**	**-**	**1 488**
Increases due to origination and acquisition	796	-	-	-	796
Decreases due to derecognition	(636)	(700)	(425)	-	(1 761)
Changes due to change in credit risk (net)	(238)	671	(194)	-	239
Transfers:	60	(60)	-	-	-
(to)/from Stage 1	*x*	*(60)*	-	-	*(60)*
(to)/from Stage 2	*60*	*x*	-	-	*60*
(to)/from Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	1	-	-	1
As of 31 December 2021	**411**	**351**	**1**	**-**	**763**

17. Other liabilities

EUR'000	31.12.2022	31.12.2021
Estimated payables (PEREX, OPEX)	11 128	13 705
Accrued expenses	-	-
Deferred income	137	129
Other non-financial liabilities	-	-
Total	**11 267**	**13 834**

18. Equity

a) Share capital

	31.12.2022	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. The Bank 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, through the implementation of IFRS 9, the Group also recognises impairment allowances 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.

e) Distribution of profit in the previous period

The General Meeting of shareholders dated 3 May 2022 decided to distribute the profit for the previous period as follows:

EUR'000	
Profit for the year	**58 298**
Transfer to retained earnings	52 468
Transfer to legal reserve fund	5 830

The General meeting dated 27 December 2022 decided on the payment of dividends in the amount of EUR 50 million from retained earnings from 2012.

f) Proposal of distribution of profit for current period

Profit distribution for the current period is subject to the approval of the Shareholders' meeting.

19. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

EUR'000	31.12.2022	31.12.2021
Loan commitments given	164 695	274 617
Financial guarantees given	8 128	16 657
Total	**172 823**	**291 274**

b) Assets in custody

EUR'000	31.12.2022	31.12.2021
Asset management	821 142	960 554
Custody assets	106 811	104 068
Total	**927 953**	**1 064 622**

c) Securities provided as collateral

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

EUR'000	31.12.2022	31.12.2021
Financial assets at fair value through other comprehensive income	97 657	185 995
Financial assets at amortised cost	361 079	270 682
Total	**458 736**	**456 677**

20. Offsetting of financial assets and liabilities

The following table shows the financial assets and financial liabilities that could be offset under 'master netting agreements' or similar agreements (legally enforceable):

31.12.2022	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting: Financial instruments	Cash collateral	Non-cash financial collateral	Net values after possible offsetting
Financial assets							
Derivatives	16	-	16	16	-	-	-
Hedging derivatives	8 089	-	8 089	-	15 514	-	(7 425)
Total assets	**8 105**	**-**	**8 105**	**16**	**15 514**	**-**	**(7 425)**
Financial liabilities							
Derivatives	2 102	-	2 102	16	2 023	-	63
Hedging derivatives	37	-	37	-	-	-	37
Total liabilities	**2 139**	**-**	**2 139**	**16**	**2 023**	**-**	**100**

31.12.2021	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting: Financial instruments	Cash collateral	Non-cash financial collateral	Net values after possible offsetting
Financial assets							
Derivatives	2	-	2	2	-	-	
Total assets	**2**	**-**	**2**	**2**	**-**	**-**	
Financial liabilities							
Derivatives	3 695	-	3 695	2	3 693	-	
Hedging derivatives	4 977	-	4 977	-	4 895	-	82
Total liabilities	**8 672**	**-**	**8 672**	**2**	**8 588**	**-**	**82**

21. Net interest income

EUR?000	2022	2021
Interest income		
Financial assets at fair value through other comprehensive income	4 498	5 712
Financial assets at amortised cost	121 869	135 113
Debt securities	*6 224*	*5 579*
Loans and advances	*115 645*	*129 534*
Derivatives - Hedge accounting, interest rate risk	(1 830)	(2 286)
Other assets	1 547	5
Cash balances at central banks	*1 476*	*-*
Other demand deposits	*71*	*-*
Other	*-*	*5*
Interest income on liabilities	891	69
Total interest income	**126 975**	**138 613**
Interest expenses		
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(7 518)	(4 753)
thereof: lease liabilities	(527)	(546)
Derivatives - Hedge accounting, interest rate risk	-	-
Other liabilities	(2)	-
Interest expense on assets	(83)	(123)
Total interest expense	**(7 603)**	**(4 876)**
Net interest income	**119 372**	**133 737**

EUR?000	2022	2021
Interest income calculated on an EIR	126 627	138 604
Other interest income	348	9
Total interest income	**126 975**	**138 613**

The '*Interest income on liabilities*' line presents negative interest expense from the long-term targeted financial operation (TLTRO) with the ECB. As at 31 December 2021, the Bank considered the original interest rate specified in the contract, and also assumed that the conditions for obtaining a favourable negative interest rate will be met.

22. Net fee and commission income

EUR'000	2022	2021
Fee and commission income		
Securities	-	61
Clearing and settlement	16 160	14 168
Custody	3 617	3 517
Payment services	31 368	29 689
Current accounts	*24 744*	*24 534*
Debit cards and other card payments	*292*	*355*
Transfers and other payment orders	*2 129*	*1 975*
Other fee and commission income in relation to payment services	*4 203*	*2 825*
Loan servicing activities	2 558	2 491
Loan commitments given	148	653
Financial guarantees given	181	304
Commissions for brokerage	8 419	7 450
Other	9 304	4 535
Total fee and commission income	**71 755**	**62 868**
Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customers contracts	71 426	61 911
Fee and commission expenses		
Securities	(165)	(372)
Clearing and settlement	(23 147)	(21 150)
Custody	(461)	(423)
Loan servicing activities	(1 190)	(2 005)
Other	(3 187)	(3 360)
Total fee and commission expenses	**(28 150)**	**(27 310)**
Net fee and commission income	**43 605**	**35 558**

23. Dividend income

EUR'000	2022	2021
Non-trading financial assets mandatorily at fair value through profit or loss	8 352	24 415
Financial assets at fair value through other comprehensive income	3	-
Investments in subsidiaries, joint ventures and associates	20 021	14 769
Total	**28 376**	**39 184**

24. Net gains/(losses) from financial transactions

EUR'000	2022	2021
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**18 409**	**5 450**
Financial assets at fair value through other comprehensive income	18 500	5 450
Financial assets at fair value through other comprehensive income	(91)	-
Gains/(losses) on financial assets and liabilities held for trading, net	**(6 273)**	**(9 257)**
Derivatives	(6 273)	(9 257)
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**5 122**	**(12 846)**
Revaluation gains/(losses)	3 619	(12 846)
Trading gains/(losses)	1 503	-
Gains/(losses) from hedge accounting, net	**(445)**	**(48)**
Fair value changes of the hedging instrument	18 601	4 616
Fair value changes of the hedged item attributable to the hedged risk	(19 046)	(4 663)
Exchange differences, net	**4 694**	**9 851**
Total	**21 507**	**(6 850)**

As at 28 December 2022, the Bank sold the subsidiary 365.life, d. s. s., a. s. for EUR 33 million with a profit of EUR 18.5 million.

25. Other operating income and expenses

EUR'000	2022	2021
Other operating expenses	**(6 230)**	**(5 895)**
Bank and insurance companies specific fees	(3 402)	(3 142)
Resolution fund	*(315)*	*(312)*
Deposit protection fund	*(3 087)*	*(2 830)*
Other	(2 828)	(2 753)
Other operating income	**1 717**	**4 569**
Other	1 717	4 569
Gains/(losses) on derecognition of non-financial assets, net	**(407)**	**(555)**
Total	**(4 920)**	**(1 881)**

26. Administrative expenses

EUR'000	2022	2021
Staff expenses	**(47 842)**	**(44 829)**
Wages and salaries (including bonuses)	(34 060)	(32 542)
Social expenses	(13 782)	(12 287)
Other administrative expenses	**(38 879)**	**(41 089)**
Rental expenses	(1 005)	(1 431)
Short-term lease contracts	*(1 120)*	*(1 006)*
Variable lease payments not included in the lease liabilities	*257*	*(273)*
Other	*(142)*	*(152)*
Real estate expenses	(2 967)	(3 089)
IT expenses	(12 257)	(9 319)
Marketing and advertisement	(8 449)	(7 585)
Legal and consulting services	(1 647)	(3 737)
Post and telecommunication	(3 540)	(3 850)
Material consumption	(898)	(993)
Repair and maintenance	(3 344)	(3 347)
Other admininstrative expenses - Rest	(4 772)	(7 738)
Total	**(86 721)**	**(85 918)**

	2022	2021
Number of employees as of balance sheet date	1 194	1 211
Average number of employees for the period	1 200	1 188
thereof, key management	18	21

Management consists of Board of Directors members and managers directly responsible to the Board of Directors (B-1 positions). The cost of services provided by the statutory auditor were as follows:

EUR'000	2022	2021
Audit of the financial statements	(176)	(231)
Non-audit services required by EU legislation	(31)	(66)
Other assurance services	-	(48)
Other non-assurance services	-	(8)
Total	**(207)**	**(353)**

27. Depreciation and amortisation

EUR'000	2022	2021
Property, plant and equipment	**(4 995)**	**(5 336)**
Buildings	(1 526)	(1 587)
Hardware	(1 663)	(1 615)
Fittings and other equipment	(1 806)	(2 134)
Right of use assets	**(5 940)**	**(5 680)**
Buildings	(5 289)	(4 994)
Hardware	(53)	(53)
Fittings and other equipment	(598)	(633)
Intangible assets	**(11 003)**	**(14 086)**
Software	(10 999)	(14 084)
Other intangible assets	(4)	(2)
Total	**(21 938)**	**(25 102)**

28. Impairment losses and provisions

EUR'000	2022	2021
Net impairment of financial assets not valued at fair value through profit or loss	**14 195**	**(22 125)**
Financial assets at fair value through other comprehensive income	182	(8 137)
Debt securities	*182*	*(8 137)*
Financial assets at amortised cost	14 013	(13 988)
Debt securities	*18*	*109*
Loans and advances	*13 970*	*(14 263)*
Other financial assets	*25*	*166*
Net impairment of investments in subsidiaries, joint ventures and associates	**-**	**2 142**
Subsidiaries	-	2 142
Release/(creation) of provisions	**(1 817)**	**1 834**
Net impairment on non-financial assets	**712**	**398**
Total	**13 090**	**(17 751)**

The positive development of impairment losses and provisions was primarily caused by a significant reduction in corporate exposure, the successful sale of impaired retail loans and the smaller impact of the pandemic crisis on clients compared to expectations. For more details, please see Financial assets valued at amortized cost.

29. Income tax

EUR'000	2022	2021
Current income tax	**(14 746)**	**(11 951)**
Deferred tax	**(4 458)**	**(728)**
Total	**(19 204)**	**(12 679)**

Reconciliated effective tax rate:

EUR'000	2022	2021
Profit before tax	112 370	70 977
Income tax rate	21%	21%
Theoretical income tax	**(23 598)**	**(14 905)**
Non - tax expenses	(825)	(7 034)
Other	*(825)*	*(7 034)*
Non - taxable income	4 534	9 238
Dividends	*4 209*	*3 105*
Impairment allowances	*107*	*1 350*
Other	*218*	*4 783*
Deferred tax	877	(728)
Correction of prior period	(214)	667
Other	22	83
Total	**(19 204)**	**(12 679)**
Effective tax rate	**17,09%**	**17,86%**

Given that many parts of the Slovak tax legislation remain untested, there is uncertainty about how the tax authorities will apply them. The effect of this uncertainty cannot be quantified and will only be resolved once legislative precedents are set, or when official interpretations of the authorities are available.

30. 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:
(a) Companies that directly or indirectly, through one or more intermediaries, control or are controlled, have significant influence, or are under joint control of the reporting company
(b) Affiliated companies in which the parent company has significant influence, and which are not a subsidiary, nor a joint venture
(c) Individuals owning, directly or indirectly, shares in the voting right of the Bank that gives them significant influence over the Bank, and any other individual who may be expected to influence, or be influenced by that person in their dealings with the Bank
(d) Key management personnel, i.e., persons having authority and responsibility for planning, managing and controlling the activities of the Bank, including directors and managing employees of the Bank, and persons related to them
(e) Companies in which a significant share of voting rights is owned, directly or indirectly, by any person described in points (a), (c) or (d) above, or over which such party may have a significant influence. This includes companies owned by directors or major shareholders of the Bank.

31.12.2022	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Assets	**-**	**119 309**	**51 267**	**1 416**	**-**	**2 445**	**17 741**
Other demand deposits	-	10 102	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	100 065	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	8 812	-	-	-	-	-
Financial assets at amortised cost	-	330	51 267	1 416	-	2 445	17 741
Debt securities	-	-	-	-	-	-	-
Loans and advances	-	-	*49 152*	-	-	*2 445*	*17 741*
Other financial assets	-	*330*	*2 115*	*1 416*	-	-	-
Liabilities	**41**	**26 066**	**12 861**	**7 679**	**-**	**1 776**	**5 667**
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	41	26 066	12 861	7 679	-	1 776	5 667
Deposits	*41*	*26 054*	*12 437*	*7 679*	-	*1 776*	*5 655*
Other financial liabilities	-	*12*	*423*	-	-	-	*12*
Derivatives – Hedge accounting	-	-	-	-	-	-	-

2022	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	460	(111)	1 180	-	-	16	760
Net fee and commission income	42	751	4 307	7 022	-	1	146
Net gains/(losses) from financial transactions	-	3 087	-	-	-	-	-
Net other operating expenses	-	61	(626)	90	-	-	-
Administrative expenses	-	(52)	(4 989)	(807)	-	-	(1 662)

31.12.2021	Share-holders	Members of J&T FINANCE GROUP SE	Sub-sidiaries	Joint ventures	Associates	Key manage-ment and related parties	Others
Assets	**59 990**	**158 872**	**66 164**	**561**	**-**	**1 887**	**142 027**
Other demand deposits	-	223	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at	-	139 791	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	10 056	-	-	-	-	-
Financial assets at amortised cost	59 990	8 802	66 164	561	-	1 887	142 027
Debt securities	-	-	-	-	-	-	-
Loans and advances	*59 990*	*8 662*	*64 272*	-	-	*1887*	*142 027*
Other financial assets	-	*140*	*1 892*	*561*	-	-	-
Liabilities	**-**	**17 154**	**9 679**	**3 799**	**-**	**1 499**	**1 739**
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised	-	17 154	9 679	3 799	-	1 499	1 739
Deposits	-	*17 147*	*9 124*	*3 799*	-	*1 499*	*1 724*
Other financial liabilities	-	*7*	*555*	-	-	-	*15*
Derivatives – Hedge accounting	-	-	-	-	-	-	-

2021							
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	1 488	122	1 251	-	-	8	2 692
Net fee and commission income	36	354	5 903	7 663	-	1	690
Net gains/(losses) from financial	-	1 394	-	-	-	-	-
Net other operating expenses	-	61	(177)	93	-	-	-
Administrative expenses	-	(65)	(5 555)	4	-	-	(147)

The total remuneration of the members of the Board of Directors, members of the Supervisory Board and executive officers directly supervised by the Board of Directors members of 365.bank for the year ended 31 December 2022 is in the amount of EUR 3 308 thousand (2021: EUR 2 271 thousand). Remuneration includes basic wages and salaries, remuneration and payments for health and social insurance.

31. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

The Bank estimates future cash flows from financial instruments based on contractual maturities, and in the case of deposit products without a contractual maturity, the maturity is estimated by a qualified estimate.

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

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

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

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

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

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

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
ASSETS								
Financial assets held for trading	**-**	**-**	**16**	**2**	**-**	**-**	**16**	**2**
Derivatives	-	-	16	2	-	-	16	2
Non-trading financial assets mandatorily at FVPL	**-**	**-**	**179 784**	**298 231**	**-**	**-**	**179 784**	**298 231**
Equity instruments	-	-	179 784	298 231	-	-	179 784	298 231
Financial assets at FVOCI	**182 977**	**337 413**	**14 646**	**-**	**34 792**	**48 089**	**232 415**	**385 502**
Equity instruments	-	-	-	-	65	65	65	65
Debt securities	182 977	337 413	14 646	-	34 727	48 024	232 350	385 437
Derivatives – Hedge accounting	**-**	**-**	**8 089**	**1 091**	**-**	**-**	**8 089**	**1 091**
Total assets	**182 977**	**337 413**	**202 535**	**299 324**	**34 792**	**48 089**	**420 304**	**684 826**

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**2 102**	**3 695**	**-**	**-**	**2 102**	**3 695**
Derivatives	-	-	2 102	3 695	-	-	2 102	3 695
Derivatives – Hedge accounting	**-**	**-**	**37**	**4 977**	**-**	**-**	**37**	**4 977**
Total liabilities	**-**	**-**	**2 139**	**8 672**	**-**	**-**	**2 139**	**8 672**

Changes in unobservable inputs (surcharge for liquidity and/or credit risk) by +200 bp would change the real value of financial instruments by EUR -174 thousand and at -200 bp the movements would change the real value of financial instruments by EUR 182 thousand.

The following table shows a reconciliation of the opening balance to the closing balance of fair values in Level 3:

EUR'000	1.1.2022	Gains / losses in PL	Gains / losses in	Purchases	Maturities and sales	Transfers into Level 3	Transfers out Level 3	31.12.2022
Financial assets at fair value through OCI	48 089	95	(3 336)	-	-	-	(10 056)	34 792
Total	**48 089**	**95**	**(3 336)**	**-**	**-**	**-**	**(10 056)**	**34 792**

An unobservable input for the valuation of the portfolio included in L3 is the idiosyncratic credit spread with the following effect on the securities portfolio:

	Fair value	Price	Idiosyncratic CS	Price with 1% growth	Fair value with 1% growth of CS	Sensitivity on 1% growth of CS
Client no. 1	32 759	91%	3%	89%	31 877	(882)
Client no. 2	44 137	100%	3%	98%	42 993	(1 144)

The following table shows information regarding the investment movements between all categories of valuation:

EUR'000	31 December 2022			31 December 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Non-trading financial assets mandatorily at FVPL	-	-	-	-	-	-
Transfers into the category	-	-	-	2 669	1 102	-
Transfers out of the category	-	-	-	(1 102)	(2 669)	-
Financial assets at fair value through OCI	-	-	-	-	-	-
Transfers into the category	-	14 646	-	-	-	18 110
Transfers out of the category	(5 834)	-	(8 812)	-	(18 110)	-
Total assets	**(5 834)**	**14 646**	**(8 812)**	**1 567**	**(19 677)**	**18 110**

The estimated fair values of the Bank's financial assets and liabilities that are not measured at fair value were as follows:

31 December 2022	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**592 414**	**592 414**	**-**	**592 414**	**-**
Financial assets at amortised cost	**3 534 496**	**3 438 747**	**382 551**	**84 579**	**2 971 617**
Debt securities	511 087	454 168	382 551	27 288	44 329
Loans and advances	2 988 263	2 949 433	-	22 145	2 927 288
Other financial assets	35 146	35 146	-	35 146	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3 953 969**	**3 785 844**	**-**	**3 785 844**	**-**
Deposits	3 774 074	3 605 949	-	3 605 949	-
Debt securities issued	124 981	124 981	-	124 981	-
Other financial liabilities	54 914	54 914	-	54 914	-

31 December 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**450 029**	**450 029**	**-**	**450 029**	**-**
Financial assets at amortised cost	**3 563 599**	**3 612 041**	**349 841**	**45 521**	**3 216 679**
Debt securities	378 962	397 345	349 841	-	47 504
Loans and advances	3 163 454	3 193 513	-	24 338	3 169 175
Other financial assets	21 183	21 183	-	21 183	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**4 129 781**	**4 142 831**	**-**	**4 142 831**	**-**
Deposits	4 006 346	4 019 396	-	4 019 396	-
Debt securities issued	64 794	64 794	-	64 794	-
Other financial liabilities	58 641	58 641	-	58 641	-

32. Segment reporting

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

- Retail banking – loans, deposits and other transactions with retail customers.
- Corporate banking – loans, deposits and other transactions with corporate customers and investments in liquid assets, such as short-term investments and corporate or government debt securities.
- 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	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Interest income	58 682	63 820	62 135	71 789	6 158	3 004	126 975	138 613
Interest expenses	(3 687)	(3 511)	(181)	(30)	(3 734)	(1 335)	(7 602)	(4 876)
Net interest income	**54 995**	**60 309**	**61 954**	**71 759**	**2 424**	**1 669**	**119 373**	**133 737**
Fee and commission income	57 070	46 801	14 177	14 975	508	1 092	71 755	62 868
Fee and commission expenses	(21 039)	(20 326)	(5 491)	(5 722)	(1 620)	(1 262)	(28 150)	(27 310)
Net fee and commission income	**36 031**	**26 475**	**8 686**	**9 253**	**(1 112)**	**(170)**	**43 605**	**35 558**
Net interest and fee margin	**91 026**	**86 784**	**70 640**	**81 012**	**1 312**	**1 499**	**162 978**	**169 295**
Impairment losses and provisions	(3 462)	(13 411)	18 995	(4 225)	(2 443)	(115)	13 090	(17 751)

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Assets	2 142 170	1 764 625	1 071 577	1 786 234	1 527 682	1 354 027	4 741 429	4 904 886
Liabilities	3 224 836	3 295 552	246 951	284 052	500 613	576 218	3 972 400	4 155 822

33. Risk management

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

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

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

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

The Bank is exposed to the following main risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Settlement risk

Settlement risk

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

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

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

34. Credit risk

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

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

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

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

When analysing client deals the Bank uses:
- Client rating
- Project assessment tools
- Scoring for retail loans

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

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

To mitigate credit risk, the Bank uses the following types of limits:
- Financial involvement limits of the client or economically connected entities (clients)
- Country limits
- Limits on banks
- Industry limits

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

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

EUR'000	Financial assets at amortised cost				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**441 974**	**307 533**	**60 206**	**60 000**	**144 682**	**266 897**	**-**	**-**	**-**	**-**
Credit institutions	**31 154**	**30 990**	**35 519**	**23 270**	**27 045**	**28 346**	**-**	**-**	**-**	**-**
Other financial corporations	**1 362**	**1 424**	**305 072**	**553 697**	**25 896**	**29 180**	**10 396**	**9 346**	**-**	**-**
Non-financial corporations	**44 190**	**46 627**	**503 021**	**845 625**	**34 727**	**61 014**	**12 641**	**52 822**	**8 128**	**16 657**
A Agriculture, forestry and fishing	-	-	36 445	17 887	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	39 045	59 798	-	-	22	438	76	76
D Electricity, gas, steam and air conditioning supply	-	-	27 208	67 609	-	-	-	-	-	-
E Water supply	-	-	458	305	-	-	-	-	-	-
F Construction	-	-	15 335	113 848	-	-	56	2 108	43	2 972
G Wholesale and retail trade	-	-	23 390	25 397	-	-	185	446	365	487
H Transport and storage	-	-	1 917	1 097	-	-	20	23	3	3
I Accommodation and food service activities	-	-	35 643	75 463	-	-	6 004	64	-	-
J Information and communication	-	-	8 662	10 104	-	-	5 850	3 979	150	150
K Financial and insurance activities	-	-	-	53 508	-	-	394	45 600	-	5 230
L Real estate activities	44 190	46 627	160 331	157 878	-	-	10	44	-	-
M Professional, scientific and technical activities	-	-	77 044	92 511	-	-	70	87	7 491	7 739
N Administrative and support service activities	-	-	70 752	78 890	-	-	26	29	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	3	13	-	-	-	-	-	-
Q Human health services and social work activities	-	-	24	19 246	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	1 304	69 187	34 727	61 014	-	-	-	-
S Other services	-	-	5 460	2 884	-	-	4	4	-	-
Households	**-**	**-**	**2 238 738**	**1 890 972**	**-**	**-**	**141 658**	**212 449**	**-**	**-**
Total	**518 680**	**386 574**	**3 142 556**	**3 373 564**	**232 350**	**385 437**	**164 695**	**274 617**	**8 128**	**16 657**

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	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Slovak Republic	473 073	320 481	2 761 099	2 481 397	173 087	247 927	164 285	228 877	442	3 750
Czech Republic	-	-	185 574	348 281	7 303	29 462	398	30 547	265	257
Cyprus	-	-	72 778	298 390	-	-	1	14 977	-	-
Luxemburg	1 362	1 424	107 074	133 395	9 781	11 621	-	-	-	-
Switzerland	-	-	1 038	69 171	-	-	2	2	-	-
France	-	-	12 644	1 100	-	51 375	1	1	-	-
Netherlands	-	20 000	2 000	21 991	-	-	-	-	-	5 230
Lithuania	10 046	10 110	-	-	12 034	13 329	-	-	-	-
Latvia	2 155	2 181	-	-	17 243	17 663	-	-	-	-
Germany	-	-	2	19 537	-	-	1	1	-	-
Other countries	32 044	32 378	347	302	12 902	14 060	7	212	7 421	7 420
Total	**518 680**	**386 574**	**3 142 556**	**3 373 564**	**232 350**	**385 437**	**164 695**	**274 617**	**8 128**	**16 657**

Rating system

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

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

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

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

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

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

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

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

The Bank sets the level of significance at EUR 300 thousand (31 December 2022: 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 to measurement of provisions for off-balance sheet exposures, arising from loan and other commitments, and guarantees given.

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

Significant increase in credit risk

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

i. Quantitative criteria:

Remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold. These thresholds are determined separately for retail and corporate portfolios, by assessing how the Lifetime PD changes prior to an instrument becoming problematic.

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

The following thresholds apply to retail portfolios:

- deterioration of the internal rating to the non-fundable rating; (rating E, F);
- forbearance indicator.

The following thresholds apply to corporate portfolios:

- deterioration of the internal rating to the rating 7 and higher
- forbearance indicator;
- non-compliance with financial covenants.

ii. Qualitative criteria:

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

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

Definition of default and credit impaired financial assets

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

Retail:
i. A receivable is considered defaulted if it is more than 90 days overdue, while the significance threshold is set at EUR 100 or 1% of the amount of the debtor's balance sheet exposure to the receivable;
ii. The loan has been repaid and at the same time meets point i.
iii. The receivable is acquired or incurred as credit impaired (POCI)
iv. A receivable is an unauthorized debit balance on a personal account with no limit of authorized overdraft in the account

Non-retail:
Assessed by 2 types of criteria:
i. Criteria, if identified by the Bank, that the receivable immediately becomes defaulted
- a receivable that meets the severity threshold, i.e., the amount of all overdue credit obligations of the borrower towards the bank, the parent company or any of its subsidiaries is greater than EUR 500 or is greater than 1% of the total obligation of the borrower, for a period of 90 consecutive days
- The Borrower has declared bankruptcy or other form of reorganisation;
- The Borrower has asked the Bank for concession due to economic or contractual reasons, related to the borrower's financial difficulties and a significant reduction in the quality of the loan;
- The loan was forfeited;
- Fraud.

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

Forward-looking information

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

i. Individually assessed exposures

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

In 2022, measures for the forward looking element for rating, which determines the amount of OP in connection with the current economic situation and the strong impact of several external factors such as:

• global instability
• war in Ukraine
• rising energy prices
• growing inflation and uncertain macroeconomic development

To consider the forward-looking element in the current uncertain environment applied in client monitoring, the measures are aimed at a general update of the internal ratings of corporate clients based on the industry in which the clients operate (NACE codes of transactions).

The Bank regularly carries out detailed monitoring of each corporate client at least once a year. As part of this revision, all aspects of the credit relationship are re-evaluated, from assessing the business model, financial situation, re-assessing collateral, evaluating the fulfilment of contractual conditions. In 2022, the Bank implemented the so-called ESG questionnaire, the completion of which is part of the Bank's information request for the client. By evaluating the ESG questionnaire, the Bank assesses the client's compliance with requirements in this area, while the information serves the Bank to assess the sustainability of the client's business model and the possible impact on its PD. Currently, we do not have a client in our portfolio whose ability to fulfil its obligations to the Bank would be threatened as a result of the new requirements placed on companies due to the implementation of ESG legislation.

The Bank also regularly assesses the impact of the economic and political situation on its clients. Currently, the Bank has one client in its portfolio that is economically linked to Ukraine and no client with economic relationships with Russia. The Bank and the client took transactional measures to completely mitigate the effects of the conflict.

Last but not least, due to the current situation, the Bank implemented a forward-looking element in its rating policy. Individual branches of financing face different opportunities and importance, therefore we assess clients on an individual basis in combination with their industry in which the clients operate and adjust PD accordingly.

ii. Portfolio-based exposures

In assessing the amount of expected loss of portfolio exposures, the Bank considers estimated future economic conditions. This is achieved by appropriate PD value modifications via a multiplier. The FLI setting consists of determining the values of two parameters:
- The coefficient of increase of 12-month marginal PD values
- The number of months during which the PD will revert to the original values

As at 31 December 2022, the setting of FLI parameters for retail portfolio-assessed exposures is based on the assumption of a worsening of the macroeconomic situation in Slovakia. The starting point is the weighted value of three scenarios of macroeconomic development, the baseline, positive and negative scenario in the ratio of 80%, 10%, 10%.

The resulting impact on the probability of failure of retail clients is a relative increase of 15% for all retail rating categories.

For modelling the impact of macro variables on the probability of default, the Bank uses available time series published by the Statistical Office of the Slovak Republic, the ECB and the ARDAL agency. Specifically analysed variables and their lagging equivalents: unemployment, inflation, GDP, base interest rate, average coupons of Slovak government bonds for individual years, EURIBOR rates, dummy variables. Based on the results of statistical methods, the final model contains exactly one variable unemployment. Models with multiple variables and their interactions are either insignificant or the result of the variable coefficients is uninterpretable or counterintuitive.

For the weighted average across individual scenarios, the Bank used the predictions of the base scenario from the NBS published in December 2022 and internal estimates of the variables for the negative and optimistic scenario. The starting point for the negative scenario is primarily risk factors, namely the escalation of the war in Ukraine, the intensification of the energy crisis accompanied by a lack of energy commodities (mainly gas) with further price growth and a decline in economic growth.

The Bank used a reference unemployment rate of 6.6%. An optimistic scenario of an improvement in unemployment by 1% would mean the reversal of impairment allowances by 2.4%, on the contrary, a pessimistic scenario of a worsening of unemployment by 1% would mean the creation of impairment allowances by 2.4%.

Calculation of ECL

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

i. Individual calculation:

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

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

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

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

ii. Portfolio calculation

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

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

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

ECL sensitivity analysis

The Bank prepares ECL scenarios when changing parameters for retail loan portfolios. One of the recalculation scenarios is the assessment of ECL in case of deteriorated or improved credit quality of clients, which the Bank implements through the adjustment of client ratings. The second scenario is the ECL assessment when changing PD and the third scenario represents a change in LGD parameter.

Changes in the credit quality of clients

Scenario of deterioration of the client's rating by 1 rating for retail loans under the following assumptions:

- PD values are allocated according to PD values ratings calculated as at the end of the period;
- for defaulted exposures and exposures where the rating level could not be assessed, the ECL conversion remains the same as calculated as at the end of the period;
- the deterioration of the client's rating is realised by 1 rating level lower, while clients from the worst rating level remain at the same rating level;
- for clients who reach the lowest rating level after the rating level deteriorates, the ECL is calculated in Stage 2, while the EAD is calculated on a straight-line basis.

Scenario of improving the client's rating by 1 level for retail loans under the following assumptions:

- PD values are allocated according to ratings from PD values calculated as at the end of the period;
- for defaulted exposures and exposures where the rating level could not be assessed, the ECL conversion remains the same as calculated as at the end of the period;
- the improvement of the client's rating is realised by 1 rating level higher, while clients from the worst rating level remain at the same rating level;
- Stage remains unchanged

ECL scenarios impact compared to the actual ECL value:

31.12.2022	Value of ECL	Rating downgrade		Rating improvement	
		EUR'000	in %	EUR'000	in %
Consumer credit	86 377	5 651	6,54%	(3 165)	-3,66%
Mortgage loans	840	52	6,18%	(22)	-2,57%
Corporate exposures	77 101	22 225	28,83%	(5 511)	-7,15%
Total	**164 318**	**27 928**	**17,00%**	**(8 698)**	**-5,29%**

31.12.2021	Value of ECL	Rating downgrade		Rating improvement	
		EUR'000	in %	EUR'000	in %
Consumer credit	121 238	5 724	4,72%	(3 248)	-2,68%
Mortgage loans	790	249	31,50%	(129)	-16,31%
Corporate exposures	99 764	39 503	39,60%	(17 914)	-17,96%
Total	**221 792**	**45 476**	**20,50%**	**(21 291)**	**-9,60%**

The corporate portfolio is regularly monitored and assessed on a regular basis. Classification into the relevant rating is also performed on an individual basis according to the specific situation of the clients. The Bank's corporate portfolio does not show signs of a homogeneous portfolio. Therefore, a sensitivity analysis through the change would not provide additional relevant information. In corporate portfolios, the Bank assesses the sensitivity to changes in PD which can be seen below.

PD changes

When changing the PD, the Bank tests the ECL sensitivity to PD changes in 10% movements upwards and downwards. This analysis does not change the Stage assignment. The effects of stressing PD parameters are as follows:

PD change	31 December 2022					31 December 2021				
	ECL	10% increase		10% decrease		ECL	10% increase		10% decrease	
		EUR'000	in %	EUR'000	in %		EUR'000	in %	EUR'000	in %
Consumer credit	86 377	1 272	1,47%	(1 272)	-1,47%	121 238	1 413	1,17%	(1 413)	-1,17%
Mortgage loans	840	7	0,78%	(7)	-0,78%	790	31	3,95%	(31)	-3,95%
Corporate loans	77 101	1 079	1,40%	(1 660)	-2,15%	99 764	2 345	2,35%	(2 349)	-2,35%
Other	3 048	25	0,82%	(25)	-0,82%	3 692	46	1,24%	(46)	-1,24%
Total	**167 365**	**2 383**	**1,42%**	**(2 963)**	**-1,77%**	**225 484**	**3 834**	**1,70%**	**(3 838)**	**-1,70%**

Changes of the LGD parameter

A change of the LGD parameter would result in a change in the impairment allowances as follows:

31.12.2022	ECL	LGD +5%		LGD -5%		LGD +10%		LGD -10%	
		EUR'000	in %	EUR'000	in %	EUR'000	in %	EUR'000	in %
Consumer credit	86 377	5 331	6,17%	(5 331)	-6,17%	10 647	12,33%	(10 662)	-12,34%
Mortgage loans	840	63	7,53%	(63)	-7,53%	127	15,07%	(127)	-15,07%
Corporate exposures	77 101	3 523	4,57%	(3 523)	-4,57%	7 046	9,14%	(7 046)	-9,14%
Other	3 048	10	0,32%	(10)	-0,32%	19	0,64%	(19)	-0,64%
Total	167 365	8 927	5,33%	(8 927)	-5,33%	17 840	10,66%	(17 855)	-10,67%

31.12.2021	ECL	LGD +5%		LGD -5%		LGD +10%		LGD -10%	
		EUR'000	in %	EUR'000	in %	EUR'000	in %	EUR'000	in %
Consumer credit	121 238	7 063	5,83%	(7 063)	-5,83%	13 647	11,26%	(14 126)	-11,65%
Mortgage loans	790	42	5,33%	(42)	-5,33%	84	10,67%	(84)	-10,67%
Corporate exposures	99 764	5 093	5,10%	(5 093)	-5,10%	10 186	10,21%	(10 186)	-10,21%
Other	3 692	10	0,27%	(10)	-0,27%	20	0,53%	(20)	-0,53%
Total	225 484	12 208	5,41%	(12 208)	-5,41%	23 937	10,62%	(24 416)	-10,83%

PD and LGD values are estimated by statistical models. PD values are recalculated and recalibrated on a monthly basis, reflecting the changes to ECL in individual portfolios. LGD values are recalculated and recalibrated at least once a year. Back testing of PD and LGD is performed on an annual basis.

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

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial assets at AC - Debt securities										
Low credit risk	474 490	339 947	-	-	-	-	-	-	474 490	339 947
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	44 190	46 627	-	-	-	-	44 190	46 627
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**474 490**	**339 947**	**44 190**	**46 627**	**-**	**-**	**-**	**-**	**518 680**	**386 574**
Impairment allowance	(152)	(98)	(7 441)	(7 514)	-	-	-	-	(7 593)	(7 612)
Carrying amount	**474 338**	**339 849**	**36 749**	**39 113**	**-**	**-**	**-**	**-**	**511 087**	**378 962**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial assets at AC - Loans and advances										
Low credit risk	1 165 062	933 024	12 090	61 128	-	-	-	-	1 177 152	994 152
Moderate credit risk	1 290 716	1 493 070	26 924	74 907	-	-	-	-	1 317 640	1 567 977
High credit risk	287 666	308 649	160 666	285 596	-	-	4 464	4 649	452 796	598 894
Default	-	-	-	-	144 078	167 865	7 773	8 226	151 851	176 091
Not rated	35 776	23 270	5 390	9 438	1 951	3 737	-	5	43 117	36 450
Gross amount	**2 779 220**	**2 758 013**	**205 070**	**431 069**	**146 029**	**171 602**	**12 237**	**12 880**	**3 142 556**	**3 373 564**
Impairment allowance	(15 237)	(21 004)	(20 411)	(33 075)	(110 086)	(147 085)	(8 559)	(8 946)	(154 293)	(210 110)
Carrying amount	**2 763 983**	**2 737 009**	**184 659**	**397 994**	**35 943**	**24 517**	**3 678**	**3 934**	**2 988 263**	**3 163 454**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial assets at FVOCI - Debt securities										
Low credit risk	181 508	306 864	-	-	-	-	-	-	181 508	306 864
Moderate credit risk	16 115	40 605	-	-	-	-	-	-	16 115	40 605
High credit risk	-	-	34 727	37 968	-	-	-	-	34 727	37 968
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**197 623**	**347 469**	**34 727**	**37 968**	**-**	**-**	**-**	**-**	**232 350**	**385 437**
Impairment allowance in OCI	(118)	(355)	(8 314)	(8 260)	-	-	-	-	(8 432)	(8 615)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Loan and other commitments given										
Low credit risk	80 391	131 448	-	-	-	-	-	-	80 391	131 448
Moderate credit risk	73 928	132 050	-	-	-	-	-	-	73 928	132 050
High credit risk	396	1 733	4 464	1 939	-	-	-	-	4 860	3 672
Default	-	-	-	-	18	6	-	-	18	6
Not rated	3 000	3 000	2 498	4 441	-	-	-	-	5 498	7 441
Gross amount	**157 715**	**268 231**	**6 962**	**6 380**	**18**	**6**	**-**	**-**	**164 695**	**274 617**
Provision	**148**	**299**	**424**	**273**	**6**	**1**	**-**	**-**	**578**	**573**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Loan and other commitments given										
Low credit risk	76	76	-	-	-	-	-	-	76	76
Moderate credit risk	518	13 334	-	-	-	-	-	-	518	13 334
High credit risk	7 534	1 618	-	1 629	-	-	-	-	7 534	3 247
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**8 128**	**15 028**	**-**	**1 629**	**-**	**-**	**-**	**-**	**8 128**	**16 657**
Provision	**9**	**112**	**-**	**78**	**-**	**-**	**-**	**-**	**9**	**190**

Collateral

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

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

Estimates of fair value are based on the value of collateral, which is assessed before executing the deal, and 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 claimable value):

EUR'000	31.12.2022	31.12.2021
Guarantees received	-	-
Real-estates	1 522 139	1 182 368
Securities	199 665	226 588
Cash	-	3
Other	35 548	139 218
Total	**1 757 352**	**1 548 177**

Collateral in default loans and advances at amortised cost:

EUR'000	31.12.2022	31.12.2021
Gross amount	153 802	179 828
Impairment allowance	(119 194)	(155 316)
Carrying amount	**34 608**	**24 512**
Collateral	**18 671**	**7 122**

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

Mortgage classification by LTV categories:

EUR'000	31.12.2022	31.12.2021
LTV < 50%	320 376	215 093
LTV 50 - 60%	234 401	148 962
LTV 60 - 70%	407 853	257 755
LTV 70 - 80%	350 051	266 908
LTV 80 - 90%	85 474	117 133
LTV 90 - 100%	12 354	21 407
LTV > 100%	8 172	1 429
Total	**1 418 681**	**1 028 687**

Net value of assets acquired by ownership of the collateral as at the end of 2022 and 2021 is nil.

EUR'000	31.12.2022	31.12.2021
Net value of assets obtained by taking possession of collateral	-	-

Recovery of receivables

The Bank takes the necessary steps in judicial and non-judicial processes to obtain the maximum recovery from defaulted receivables. In the case of defaulted receivables, the activities of taking possession of collateral, representing the Bank in bankruptcy, and restructuring proceedings are realised separately.
In the retail segment, the recovery process for overdue receivables is defined and centrally operated by a workflow system. The system provides complex evidence of problematic receivables, uses a segmented strategy of recovery, and it also processes numerous task flows, automated collection tasks, etc. The Bank also uses outsourced services of collection companies.

Forbearance

The following tables show the gross amount and the amount of the impairment allowance for the financial assets to which the concession was applied:

31.12.2022	Grace period	Interest rate reduction	Extension of maturity	Rescheduled payments	Debt forgiveness	Other measures
Gross amount						
Households	22 409	6 401	31 472	1	-	2 573
Non-financial corporations	9 515	-	14 194	6 421	-	-
Total	**31 924**	**6 401**	**45 666**	**6 422**	**-**	**2 573**
Impairment allowances						
Households	(10 976)	(3 287)	(5 733)	-	-	(931)
Non-financial corporations	(1 260)	-	(7 713)	(6 421)	-	-
Total	**(12 236)**	**(3 287)**	**(13 446)**	**(6 421)**	**-**	**(931)**

35. Liquidity risk

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

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

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

Management of liquidity risk

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

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

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

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

Exposure to liquidity risk

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

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

Cash flows expected by the Bank for certain assets and liabilities may differ significantly from their contractual flows. For example, for deposits from clients (current accounts, term deposits without notice period) the Bank expects that they will remain in the Bank over a longer period, or more precisely, their value will increase over time as a result of receiving new funds. Receivables from clients may also be prematurely repaid 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 negative cash outflows. The ratio must not fall below 1. The ratio was as follows:

	31.12.2022	31.12.2021
End of the period	3,00	1,58
Average for the period	1,90	2,04
Maximum for the period	3,00	3,00
Minimum for the period	1,27	1,58

The Net Stable Funding Ratio requirement set out 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:

	31.12.2022	31.12.2021
End of the period	1,32	1,27

The following table provides an overview of the distribution of assets and liabilities, according to their contractual maturity as current (with a maturity up to 1 year) and non-current (with a maturity over one year).

EUR'000	31 December 2022			31 December 2021		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash, cash balances at central banks and other demand deposits	592 414	-	592 414	450 029	-	450 029
Financial assets held for trading	16	-	16	2	-	2
Non-trading financial assets mandatorily at fair value through profit or loss	-	179 784	179 784	-	298 231	298 231
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	49 266	183 149	232 415	96 380	289 122	385 502
Financial assets at amortised cost	464 995	3 069 501	3 534 496	560 654	3 002 945	3 563 599
Debt securities	*24 764*	*486 323*	*511 087*	*19 999*	*358 963*	*378 962*
Loans and advances	*405 085*	*2 583 178*	*2 988 263*	*519 472*	*2 643 982*	*3 163 454*
Other financial assets	*35 146*	*-*	*35 146*	*21 183*	*-*	*21 183*
Derivatives – Hedge accounting	8 089	-	8 089	1 091	-	1 091
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	56 040	56 040	-	68 662	68 662
Tangible assets	-	57 095	57 095	-	64 532	64 532
Intangible assets	-	35 374	35 374	-	33 446	33 446
Deferred tax assets	-	24 761	24 761	-	23 008	23 008
Other assets	20 945	-	20 945	16 784	-	16 784
Total assets	**1 135 725**	**3 605 704**	**4 741 429**	**1 124 940**	**3 779 946**	**4 904 886**
Liabilities						
Financial liabilities held for trading	2 102	-	2 102	3 695	-	3 695
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Financial liabilities measured at amortised cost	3 201 035	752 934	3 953 969	3 505 132	624 649	4 129 781
Deposits	*3 178 610*	*595 464*	*3 774 074*	*3 479 928*	*526 418*	*4 006 346*
Debt securities issued	*-*	*124 981*	*124 981*	*-*	*64 794*	*64 794*
Other financial liabilities	*22 425*	*32 489*	*54 914*	*25 204*	*33 437*	*58 641*
thereof: lease liabilities	*3 484*	*32 489*	*35 973*	*6 325*	*33 437*	*39 762*
Derivatives – Hedge accounting	37	-	37	981	3 996	4 977
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Provisions	2 587	-	2 587	769	-	769
Current tax liabilities	2 438	-	2 438	2 766	-	2 766
Other liabilities	11 267	-	11 267	13 834	-	13 834
Total liabilities	**3 219 466**	**752 934**	**3 972 400**	**3 527 177**	**628 645**	**4 155 822**

The Bank monitors residual maturity based on expected recovery or expected maturity of the individual assets and liabilities. Historical experience shows that short-term liabilities are usually prolonged, or their volume grows over time. The maturity of these liabilities is determined in the range of 1-10 years, based on their volatility and the use of statistical models.

The following tables show the residual maturity of non-derivative and off-balance sheet financial liabilities and hedging derivatives. Undiscounted cash flows in the table are presented based on their earliest contractual maturities. Actual cash flows may be different from the analysis below.

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2022	-	-	-	-	-	-
Financial liabilities measured at amortised cost	3 037 093	164 203	717 421	49 077	3 967 794	3 953 969
Deposits	*3 017 457*	*161 384*	*574 341*	*34 222*	*3 787 404*	*3 774 074*
Debt securities issued	-	-	*124 981*	-	*124 981*	*124 981*
Other financial liabilities	*19 636*	*2 819*	*18 099*	*14 855*	*55 409*	*54 914*
thereof: lease liabilities	*695*	*2 819*	*18 099*	*14 855*	*36 468*	*35 973*
Derivatives – Hedge accounting	*37*	-	-	-	*37*	*37*
Total	**3 037 130**	**164 203**	**717 421**	**49 077**	**3 967 831**	**3 954 006**
31 December 2021						
Financial liabilities measured at AC	3 294 523	219 213	565 778	74 835	4 154 349	4 129 781
Deposits	*3 274 033*	*214 449*	*480 606*	*59 357*	*4 028 445*	*4 006 346*
Debt securities issued	-	-	*64 794*	-	*64 794*	*64 794*
Other financial liabilities	*20 490*	*4 764*	*20 378*	*15 478*	*61 110*	*58 641*
thereof: lease liabilities	*1 611*	*4 764*	*20 378*	*15 478*	*42 231*	*39 762*
Derivatives – Hedge accounting	*129*	*2 053*	*4 110*	*506*	*6 798*	*4 977*
Total	**3 294 652**	**221 266**	**569 888**	**75 341**	**4 161 147**	**4 134 758**

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2022						
Loan and other commitments given	164 695	-	-	-	164 695	164 695
Financial guarantees given	-	458	7 667	3	8 128	8 128
Total	**164 695**	**458**	**7 667**	**3**	**172 823**	**172 823**
31 December 2021						
Loan and other commitments given	274 617	-	-	-	274 617	274 617
Financial guarantees given	16 657	-	-	-	16 657	16 657
Total	**291 274**	**-**	**-**	**-**	**291 274**	**291 274**

The following table presents the maturity analysis of highly liquid assets that the Bank uses for liquidity management:

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total
31 December 2022	-	-	-	-	-
Cash on hand	30 745	-	-	-	30 745
Cash balances at central banks	*488 072*	-	-	-	*488 072*
Assets in level 1	-	*68 123*	*205 754*	*293 144*	*567 020*
Assets in level 2A	-	*9 925*	*14 401*	-	*24 326*
Assets in level 2B	-	-	-	-	-
Total	**518 817**	**78 048**	**220 155**	**293 144**	**1 110 164**

The following tables show an analysis of the expected remaining maturity of non-derivative and off-balance sheet financial liabilities and hedging derivatives.

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2022	-	-	-	-	-	-
Financial liabilities measured at amortised cost	339 248	651 971	1 918 556	1 058 020	3 967 794	3 953 969
Deposits	*319 612*	*584 312*	*1 840 316*	*1 043 165*	*3 787 404*	*3 774 074*
Debt securities issued	-	*64 840*	*60 141*	-	*124 981*	*124 981*
Other financial liabilities	*19 636*	*2 819*	*18 099*	*14 855*	*55 409*	*54 914*
thereof: lease liabilities	*695*	*2 819*	*18 099*	*14 855*	*36 468*	*35 973*
Derivatives – Hedge accounting	*37*	-	-	-	*37*	*37*
Total	**339 285**	**651 971**	**1 918 556**	**1 058 020**	**3 967 831**	**3 954 006**

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2022						
Loan and other commitments given	164 695	-	-	-	164 695	164 695
Financial guarantees given	-	458	7 667	3	8 128	8 128
Total	**164 695**	**458**	**7 667**	**3**	**172 823**	**172 823**

36. Market risk

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

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

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

Management of market risks

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

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

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

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

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

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

A summary of the VaR position:

EUR'000	31.12.2022	Average	Maximum	Minimum
VaR trading book	1	2	43	0
VaR banking book	3 768	4 098	4 965	2 210
VaR total	3 768	4 098	4 965	2 210
Out of which interest rate risk	*3 169*	*3 745*	*4 942*	*1 446*
Out of which credit spread risk	*1 730*	*1 588*	*4 060*	*1 232*
Out of which foreign exchange risk	*1*	*2*	*43*	*0*

EUR'000	31.12.2021	Average	Maximum	Minimum
VaR trading book	6	15	102	-
VaR banking book	2 269	2 535	2 994	2 241
VaR total	2 264	2 596	3 921	2 240
Out of which interest rate risk	*1 321*	*1 310*	*2 126*	*882*
Out of which credit spread risk	*1 549*	*2 248*	*3 782*	*1 549*
Out of which foreign exchange risk	*6*	*15*	*102*	*-*

Interest rate risk

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

Other sources of interest rate risk are:

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

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

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

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

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

Sensitivity of economic value of capital and net interest income due to movements in interest rates:

The economic value of the equity would decrease by EUR 207 thousand resulting from decrease of 1 basis point in interest rates as at 31 December 2022 or a drop of EUR 234 thousand as at 31 December 2021.

Net interest income would decrease by EUR 174 thousand resulting from decrease of 1 basis point in interest rates as at 31 December 2022 or a decrease of EUR 122 thousand as at 31 December 2021.

Change in the economic value of capital (ΔEVE) as a reaction to different scenarios of the development of interest rates:

BIS IRRBB Scenario	2022	2021
short up	(42 310)	(33 868)
short dow n	21 601	7 324
long up	(8 754)	(9 636)
long dow n	4 170	4 291
paralell up	(48 709)	(45 523)
paralell dow n	24 734	7 585
steepening	9 669	5 060
flattering	(27 484)	(21 368)

The economic value of capital represents the difference discounted cash flows of interest rate sensitive assets recorded in the banking book, and the cash flows of interest sensitive liabilities recorded in the banking book. Interest rate sensitive assets and liabilities are assets and liabilities for which fair value is variable, depending on changes in market interest rates. Particular assets and liabilities are divided into re-pricing gaps, based on their contractual re-pricing period, volatility of interest margins (for selected liability products), or roll forward (for assets and liabilities where it is not possible to use statistical models). In case the asset or the liability does not bear any interest risk, it is assigned a one-day maturity.

Changes in the Bank's economic value reflect the impact of a parallel interest shock on the value of interest sensitive assets and liabilities of the Bank. The scenario of parallel decrease in rates does not consider the decrease of interest rates below 0%, which results in minimal change in economic value of the Bank's capital. It should be emphasised that this measure highlights the effect of a shift in interest curves on the present structure of assets and liabilities and excludes assumptions of future changes in the structure of the balance sheet.

Share price risk

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

When investing in equity instruments, the Bank:

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

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

Foreign exchange risk

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

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 so-called 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 ending float 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 Bank does not recognise significant exposures as at 31 December 2022, which will be 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 Bank 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 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.

37. Operational risk

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

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

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

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

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

Legal risk

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

Compliance risk

The Bank, in the management of compliance risk, is focused mainly on:
- Managing the risk of money laundering and terrorist financing
- Risk of legal sanctions and penalties from regulators
- Loss of the Bank's reputation, which may be suffered as a result of a failure to comply with the requirements of generally applicable laws, legal standards, guidelines and standards related to banking activities

Risks related to outsourcing

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

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

38. Capital management

The Bank's objective of the capital management is to ensure healthy capital equipment in order to fulfil all regulatory requirements for capital, maintain and build investor confidence as well as support own business.

The amount of regulatory capital and the capital adequacy is calculated in accordance with Regulation of the EU Parliament and Council No. 575/2013 (hereinafter referred to as "CRR").

According to the CRR, the Bank's own resources are created by Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital (T2). As the Bank does not own AT1 capital instruments, the entire volume of Tier 1 capital consists of CET1 capital.

As at 31 December 2022, the minimum capital adequacy requirements, including buffers and the Pillar II requirements stipulated by the regulator were as follows:
• CET1: 9.85% (4.5% Pillar I, Pillar II 1.63%, capital preservation buffer 2.5%, locally systemically important bank buffer 0.25%, countercyclical buffer 0.97%)
• Tier 1: 11.90% (6% Pillar I, 2.18% Pillar II, same buffers as for CET1)
• Total capital: 14.62% (8% Pillar I, 2.9% Pillar II, same buffers as for CET1)

In addition, based on the SREP (Supervisory Review and Evaluation Process) assessment, the Bank maintains the Pillar II Guidance capital reserve at 0.75%.

From 2022, when the MREL requirement is effective, this requirement for the bank increases linearly during the transition period (17.90% for 2022, 19.31% for 2023) and from 1.1.2024 the final MREL requirement will be in force at the level of 20.73%.
In addition to the MREL requirement, the bank also maintains a requirement for a combined capital buffer according to the Banking Act, and other internal reserves for the prudent management of the bank's business strategy. As of December 31, 2022, the bank fulfills all the specified limits with a reserve.
In December 2021, the bank successfully issued unsecured bonds in the amount of EUR 65 million for a period of 3 years, and in December 2022 in the amount of EUR 60 million for a period of 4 years, which are eligible for MREL. In the coming years, the bank plans a linear increase in the issuance of instruments eligible for MREL.
The dividend policy is planned so that all regulatory capital limits, including the MREL requirement, are met.

Throughout 2022, the Bank met and exceeded all regulatory capital adequacy requirements, including the requirements of Pillar I, Pillar II and the requirement for a combined capital buffer.

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

EUR'000	31.12.2022	31.12.2021
Tier I Capital	**663 569**	**670 036**
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	69 827	63 997
Selected components of accumulated other comprehensive income	(13 121)	6 665
Profit or loss of previous years	252 114	249 646
Intangible assets	(20 182)	(33 446)
Additional valuation adjustments	(485)	(761)
Other transitional adjustments to CET1 Capital	8 446	16 892
Insufficient coverage for non-performing exposures	(73)	
Tier II Capital	**8 000**	**8 000**
Subordinated debt	8 000	8 000
Regulatory capital total	**671 569**	**678 036**

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

EUR'000	31.12.2022	31.12.2021
Capital required to cover:		
Credit risk	201 219	259 620
Credit value adjustment risk	578	202
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	22 314	23 535
Total capital requirements	**224 111**	**283 357**

Capital ratios		
Total capital level as a percentage of total risk weighted assets	23,97%	19,14%
Tier I capital as a percentage of total risk weighted assets	23,69%	18,92%
Common Equity Tier I capital as a percentage of total risk weighted assets	23,69%	18,92%

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

EUR'000	31.12.2022	31.12.2021
Available capital (amounts)		
Common Equity Tier I (CET1) capital	663 569	670 036
Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied	655 123	653 144
Tier I capital	663 569	670 036
Tier I capital as if IFRS 9 transitional arrangements were not applied	655 123	653 144
Total capital	671 569	678 036
Total capital as if IFRS 9 transitional arrangements were not applied	663 123	661 144
Risk-weighted assets (amounts)		
Risk-weighted assets	2 801 388	3 541 963
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	2 792 301	3 524 522
Capital ratio		
Common Equity Tier I capital (as a percentage of risk exposure amount)	23,69%	18,92%
Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	23,46%	18,53%
Tier I capital (as a percentage of risk exposure amount)	23,69%	18,92%
Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	23,46%	18,53%
Total capital (as a percentage of risk exposure amount)	23,97%	19,14%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	23,75%	18,76%

The expected impact of the upcoming legislative changes related to the implementation of CRRIII (effective from 1 January 2025) is an increase in the total capital requirement by 2.5%. The result is an expected slight decrease in capital adequacy by 0.44% and Tier I adequacy by 0.43%.

39. Post balance-sheet events

After the date of preparation of the financial statements, no significant events have occurred that would require modification or disclosure in these financial statements.