365.bank, a. s.

Interim Condensed
Separate Financial Statements
prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union

for 9 months ending 30 September 2023
(English translation)

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A. Separate statement of financial position

EUR'000	Notes	30.9.2023	31.12.2022
Assets			
Cash, cash balances at central banks and other demand deposits	4	249,263	592,414
thereof: Cash and cash equivalents	4	217,315	560,069
Financial assets held for trading	5	386	16
Non-trading financial assets mandatorily at fair value through profit or loss	6	183,780	179,784
Financial assets at fair value through other comprehensive income	7	202,732	232,415
Financial assets at amortised cost	8	3,732,752	3,534,496
Debt securities	*8*	*750,850*	*511,087*
Loans and advances	*8*	*2,950,212*	*2,988,263*
thereof: Loans and advances to financial institutions	8	61,760	35,511
thereof: Loans and advances to customers	8	2,888,452	2,952,752
Other financial assets	*8*	*31,690*	*35,146*
Derivatives – Hedge accounting	9	9,462	8,089
Investments in subsidiaries, joint ventures and associates	10	50,314	56,040
Tangible assets	11	52,193	57,095
Intangible assets	12	34,201	35,374
Deferred tax assets	13	25,670	24,761
Other assets	14	16,334	20,945
TOTAL ASSETS		**4,557,087**	**4,741,429**
Liabilities			
Financial liabilities held for trading	5	21	2,102
Financial liabilities at amortised cost	15	3,852,850	3,942,687
Deposits	*15*	*3,678,216*	*3,774,074*
thereof: Subordinated debt	*15*	*8,022*	*8,019*
Debt securities issued	*15*	*131,081*	*124,981*
Other financial liabilities	*15*	*43,553*	*43,632*
Derivatives – Hedge accounting	9	-	37
Provisions	16	360	2,587
Current tax liabilities		2,031	2,438
Other liabilities	17	18,914	22,549
Total liabilities		**3,874,176**	**3,972,400**
Share capital and share premium	18	367,043	367,043
Retained earnings	18	256,961	345,280
Other equity	18	58,907	56,706
Total equity	**18**	**682,911**	**769,029**
TOTAL EQUITY AND LIABILITIES		**4,557,087**	**4,741,429**

These interim condensed separate financial statements, which include the notes on pages 7 – 44, were approved by the Board of Directors on 25 October 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	1-9/2023	1-9/2022
Statement of profit or loss			
Net interest income	20	96,847	89,250
Interest income calculated on an effective interest rate	*20*	*117,015*	*94,300*
Interest income not calculated on an effective interest rate	*20*	*546*	*123*
Interest expenses	*20*	*(20,714)*	*(5,173)*
Net fee and commission income	21	39,195	33,734
Fee and commission income	*21*	*59,868*	*53,748*
Fee and commission expenses	*21*	*(20,673)*	*(20,014)*
Dividend income	22	14,698	24,831
Net gains/(losses) from financial transactions	23	2,729	233
Net other operating expenses	24	(2,398)	(2,287)
Staff expenses	25	(37,592)	(35,400)
Other administrative expenses	25	(25,236)	(28,215)
Depreciation	26	(13,444)	(16,532)
Release/(creation) of provisions	27	231	252
Net impairment of financial assets not valued at fair value through profit and loss	27	(8,501)	17,284
Net impairment on non-financial assets	27	116	395
Profit before tax		**66,645**	**83,545**
Income tax	28	(11,530)	(13,523)
Profit after tax		**55,115**	**70,022**
Statement of other comprehensive income			
Items that may be reclassified to profit or loss		(1,233)	(28,013)
Revaluation of debt securities at fair value through other comprehensive income		*3,105*	*(35,737)*
Impairment losses for debt securities at fair value through other comprehensive income		*(4,408)*	*(128)*
Deferred tax related to items that may be reclassified to profit or loss		*70*	*7,852*
Total other comprehensive income		**(1,233)**	**(28,013)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**53,882**	**42,009**

The notes on pages 7 – 44 form an integral part of these interim condensed separate financial statements.

C. Separate statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2023	**366,305**	**738**	**69,827**	**(13,121)**	**345,280**	**769,029**
Total comprehensive income	**-**	**-**	**-**	**(1,233)**	**55,115**	**53,882**
Profit after tax	-	-	-	-	55,115	55,115
Other comprehensive income	-	-	-	(1,233)	-	(1,233)
Other transactions	**-**	**-**	**3,434**	**-**	**(143,434)**	**(140,000)**
Transfer to legal reserve fund	-	-	3,434	-	(3,434)	-
Dividends	-	-	-	-	(140,000)	(140,000)
Closing balance as of 30 September 2023	**366,305**	**738**	**73,261**	**(14,354)**	**256,961**	**682,911**

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	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	**-**	**-**	**-**	**(28,013)**	**70,022**	**42,009**
Profit after tax	-	-	-	-	70,022	70,022
Other comprehensive income	-	-	-	(28,013)	-	(28,013)
Other transactions	**-**	**-**	**5,830**	**-**	**(5,833)**	**(3)**
Transfer to legal reserve fund	-	-	5,830	-	(5,830)	-
Other	-	-	-	-	(3)	(3)
Closing balance as of 30 September 2022	**366,305**	**738**	**69,827**	**(17,937)**	**372,137**	**791,070**

The notes on pages 7 – 44 form an integral part of these interim condensed separate financial statements.

D. Separate statement of cash flows

EUR'000	Notes	1-9/2023	1-9/2022
Profit before tax		**66,645**	**83,545**
Adjustments:			
Net interest income	20	(96,847)	(89,250)
Dividend income	22	(14,698)	(24,831)
Depreciation	26	13,444	16,532
Release/(creation) of provisions	27	(231)	(252)
Gains/(losses) on derecognition of non-financial assets, net	24	396	317
Net impairment of financial assets not valued at fair value through profit and loss	27	8,501	(17,284)
Net impairment on non-financial assets		(116)	(395)
Cash flows from/(used in) operating activities before changes in working capital		**(22,906)**	**(31,618)**
(Increase)/decrease in operating assets:			
Cash balances at central banks	4	397	373,868
Financial assets held for trading	5	(370)	(104)
Non-trading financial assets mandatorily at fair value through profit or loss	6	(3,996)	51,204
Financial assets at amortised cost		25,997	(239,597)
Loans and advances		*22,541*	*(230,931)*
Other financial assets		*3,456*	*(8,666)*
Derivatives – Hedge accounting	9	*(1,372)*	*(10,422)*
Other assets	14	4,612	(4,484)
Increase/(decrease) in operating liabilities:			
Financial liabilities held for trading	5	(2,081)	(2,361)
Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities		(106,098)	(235,230)
Deposits		*(108,369)*	*(215,413)*
Other financial liabilities		*2,271*	*(19,817)*
Derivatives – Hedge accounting	9	(174)	6,928
Other liabilities	17	(2,471)	(4,867)
Cash flows from operating activities before interest and income tax		**(108,462)**	**(96,683)**
Interest received		112,339	93,300
Dividends received	22	*14,698*	*8,335*
Interest paid		(3,267)	(5,140)
Income tax paid		(12,776)	(12,396)
Net cash flows from/(used in) operating activities		***2,532***	***(12,584)***
Cash flows from investing activities			
Financial assets at amortised cost - debt securities			
Purchase		(234,123)	(70,248)
Proceeds from sale and maturity		-	22,576
Financial assets at fair value through other comprehensive income - debt securities			
Purchase		-	(15,676)
Proceeds from sale and maturity		30,981	73,933
Investments in subsidiaries, joint ventures and associates			
Purchase		(278)	-
Other revenues		6,004	14,876
Tangible and intangible assets			
Purchase	11,12	(3,975)	(9,470)
Proceeds from sale		73	555
Net cash flows (used in)/from investing activities		***(201,318)***	***16,546***
Cash flows from financing activities			
Dividends paid		*(140,000)*	-
Financial liabilities at amortised cost - lease liabilities			
Lease payments		(3,968)	(4,503)
Net cash flows from financing activities		***(143,968)***	***(4,503)***
Net (decrease)/increase in cash and cash equivalents	4	**(342,754)**	**(541)**
Cash and cash equivalents at the beginning of the period	4	**560,069**	**45,229**
Cash and cash equivalents at the end of the period	4	**217,315**	**44,688**

The notes on pages 7 – 44 form an integral part of these interim condensed separate financial statements.

E. Notes to the interim 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 2020294221 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.

Shareholder's structure is as follows:

		30 September 2023		31 December 2022	
Name of shareholder	Address	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 Slovenskej republiky	Námestie slobody 6, 810 05 Bratislava, Slovak republic	100	0.03%	100	0.03%
UNIQA Österreich Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0.03%	87	0.03%
Total		**330,899**	**100.00%**	**330,899**	**100.00%**

Members of the Board of Directors	
Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	Board member
Ladislav Korec	Board member

Members of the Supervisory Board	
Jozef Tkáč	Chairman
Vladimír Ohlídal	Board member
Patrik Tkáč	Board member since 1 August 2023
Jan Kotek	Board member till 4 May 2023

The separate financial statements of the Bank for the year ended 31 December 2022, were approved by the Board of Directors on 22 March 2023.

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 interim separate financial statements for the 9 months ending 30 September 2023 have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim separate financial statements do not contain all the information and disclosures required in the annual financial statements, and should be read in conjunction with the separate financial statements for the year ended 31 December 2022.

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

2.2 Subsidiaries, joint ventures and associates

As at 30 September 2023 the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in %	
		30.9.2023	31.12.2022
Subsidiaries			
365.invest, správ. spol., a. s.	Asset management	100.00%	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%	100.00%
DanubePay, a. s. *	Payment services	100.00%	100.00%
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%	8.00%

* DanubePay, a. s. is owned by the Bank indirectly through the company Cards&Co, a. s. which owns 100.00% of the respective company.

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 2023 did not have a significant impact on the Bank.

2.4 Significant accounting methods and policies

These interim condensed separate financial statements do not contain full information and disclosures as required in the complete set of financial statements as at year end and should be read in combination with separate financial statements for the previous accounting period.

The comparative amounts presented in these interim condensed separate financial statements are those presented in the separate statement of financial positions as at 31 December 2022 and the separate statement of profit or loss and the separate statement of other comprehensive income and separate statement of cash flows for the 9 months ending 30 September 2022.

(a) Income tax

Income tax is calculated in accordance with the tax legislation valid in the Slovak republic.

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

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.

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 *30. 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	30.9.2023	31.12.2022
Cash on hand	26,567	30,745
Cash balances at central banks	176,976	520,399
Other demand deposits	45,720	41,270
Total	**249,263**	**592,414**

The above-mentioned financial assets are not restricted.

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

EUR'000	30.9.2023	31.12.2022
Cash on hand	26,567	30,745
Other demand deposits	145,028	488,054
Other demand deposits	45,720	41,270
Total	**217,315**	**560,069**

5. Financial assets and liabilities held for trading

EUR'000	30.9.2023	31.12.2022
Financial assets held for trading		
Derivatives	**386**	**16**
Foreign exchange	386	16
Total	**386**	**16**
Financial liabilities held for trading		
Derivatives	**21**	**2,102**
Foreign exchange	21	2,102
Total	**21**	**2,102**

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

EUR'000	30 September 2023			31 December 2022		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange	81,814	386	21	65,909	16	2,102
Total	**81,814**	**386**	**21**	**65,909**	**16**	**2,102**

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

EUR'000	30.9.2023	31.12.2022
Equity instruments	**183,780**	**179,784**
Share certificates	183,780	179,784
Total	**183,780**	**179,784**

7. Financial assets at fair value through other comprehensive income

EUR'000	30.9.2023	31.12.2022
Equity instruments	**-**	**65**
Shares	-	65
Debt securities	**202,732**	**232,350**
General governments	131,092	144,682
Credit institutions	17,428	27,045
Other financial corporations	18,953	25,896
Non-financial corporations	35,259	34,727
Total	**202,732**	**232,415**
Out of which: Impairment allowances to debt securities in OCI	(4,024)	(8,432)

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 2023	**(118)**	**(8,314)**	**-**	**-**	**(8,432)**
Increases due to origination and acquisition	-	-	-	-	-
Decreases due to derecognition	15	-	-	-	15
Changes due to change in credit risk (net)	16	4,377	-	-	4,393
Transfers:	-	-	-	-	-
(to)/from Stage 1	*x*	-	-	-	-
(to)/from Stage 2	-	*x*	-	-	-
(to)/from Stage 3	-	-	*x*	-	-
As of 30 September 2023	**(87)**	**(3,937)**	**-**	**-**	**(4,024)**

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Debt securities	**758,537**	**518,680**	**(7,687)**	**(7,593)**	**750,850**	**511,087**
General governments	667,595	441,974	(216)	(152)	667,379	441,822
Credit institutions	42,879	31,154	-	-	42,879	31,154
Other financial corporations	1,302	1,362	-	-	1,302	1,362
Non-financial corporations	46,761	44,190	(7,471)	(7,441)	39,290	36,749
Loans and advances	**3,098,218**	**3,142,556**	**(148,006)**	**(154,293)**	**2,950,212**	**2,988,263**
General governments	60,981	60,206	(20)	(20)	60,961	60,186
Credit institutions	61,770	35,519	(10)	(8)	61,760	35,511
Other financial corporations	226,145	305,072	(8,490)	(8,501)	217,655	296,571
Non-financial corporations	434,072	503,021	(47,270)	(54,915)	386,802	448,106
Households	2,315,250	2,238,738	(92,216)	(90,849)	2,223,034	2,147,889
Lending for house purchase	*1,459,563*	*1,418,681*	*(368)*	*(890)*	*1,459,195*	*1,417,791*
Credit for consumption	*846,823*	*811,736*	*(89,631)*	*(87,904)*	*757,192*	*723,832*
Other	*8,864*	*8,321*	*(2,217)*	*(2,055)*	*6,647*	*6,266*
Other financial assets	**33,174**	**36,622**	**(1,484)**	**(1,476)**	**31,690**	**35,146**
Total	**3,889,929**	**3,697,858**	**(157,177)**	**(163,362)**	**3,732,752**	**3,534,496**

Loans and advances include finance lease receivables:

EUR'000	30.9.2023	31.12.2022
Minimum value of leasing payments		
Receivables from leasing	14,237	17,986
Up to 1 year	5,000	*5,751*
1-5 years	9,232	*12,023*
Over 5 years	5	*212*
Unrealized income on finance leases	(1,574)	(1,655)
Present value of future lease payments	**12,663**	**16,331**
Impairment allowances	(141)	(203)
Total	**12,522**	**16,128**

EUR'000	30.9.2023	31.12.2022
Present value of future lease payments		
Receivables from leasing	12,663	16,331
Up to 1 year	4,239	*4,669*
1-5 years	8,419	*11,453*
Over 5 years	5	*209*
Present value of future lease payments	**12,663**	**16,331**
Impairment allowances	(141)	(203)
Total	**12,522**	**16,128**

Other financial assets comprise the following:

EUR'000	30.9.2023	31.12.2022
Other financial assets, gross	**33,174**	**36,622**
Clearing and settlement items	13,339	15,277
Cash collateral	7,212	7,164
Trade receivables	6,613	7,172
Other	6,010	7,009
Impairment allowances	**(1,484)**	**(1,476)**
Total	**31,690**	**35,146**

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

30.9.2023	Gross value					Impairment allowances				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities	**711,776**	**46,761**	**-**	**-**	**758,537**	**(216)**	**(7,471)**	**-**	**-**	**(7,687)**
General governments	667,595	-	-	-	667,595	(216)	-	-	-	(216)
Credit institutions	42,879	-	-	-	42,879	-	-	-	-	-
Other financial corporations	1,302	-	-	-	1,302	-	-	-	-	-
Non-financial corporations	-	46,761	-	-	46,761	-	(7,471)	-	-	(7,471)
Loans and advances	**2,673,439**	**245,599**	**165,358**	**13,822**	**3,098,218**	**(9,278)**	**(21,129)**	**(108,564)**	**(9,035)**	**(148,006)**
General governments	60,979	2	-	-	60,981	(20)	-	-	-	(20)
Credit institutions	61,770	-	-	-	61,770	(10)	-	-	-	(10)
Other financial corporations	218,012	-	-	8,133	226,145	(357)	-	-	(8,133)	(8,490)
Non-financial corporations	193,054	171,655	64,918	4,445	434,072	(1,002)	(13,156)	(32,521)	(591)	(47,270)
Households	2,139,624	73,942	100,440	1,244	2,315,250	(7,889)	(7,973)	(76,043)	(311)	(92,216)
Lending for house purchase	*1,430,697*	*22,809*	*6,057*	*-*	*1,459,563*	*(34)*	*(55)*	*(279)*	*-*	*(368)*
Credit for consumption	*703,495*	*50,088*	*91,996*	*1,244*	*846,823*	*(7,809)*	*(7,891)*	*(73,620)*	*(311)*	*(89,631)*
Other	*5,432*	*1,045*	*2,387*	*-*	*8,864*	*(46)*	*(27)*	*(2,144)*	*-*	*(2,217)*
Other financial assets	**-**	**33,174**	**-**	**-**	**33,174**	**-**	**(1,484)**	**-**	**-**	**(1,484)**
Total	**3,385,215**	**325,534**	**165,358**	**13,822**	**3,889,929**	**(9,494)**	**(30,084)**	**(108,564)**	**(9,035)**	**(157,177)**

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)**
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)**
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)**

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 2023	**(152)**	**(7,441)**	**-**	**-**	**(7,593)**
Increases due to origination and acquisition	(10)	-	-	-	(10)
Decreases due to derecognition	-	-	-	-	-
Changes due to change in credit risk (net)	(54)	(30)	-	-	(84)
Transfers:	-	-	-	-	-
(to)/from Stage 1	*x*	-	-	-	-
(to)/from Stage 2	-	*x*	-	-	-
(to)/from Stage 3	-	-	*x*	-	-
As of 30 September 2023	**(216)**	**(7,471)**	**-**	**-**	**(7,687)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2023	**(15,237)**	**(20,411)**	**(110,086)**	**(8,559)**	**(154,293)**
Increases due to origination and acquisition	(3,476)	-	-	(318)	(3,794)
Decreases due to derecognition	1,151	294	19,311	-	20,756
Changes due to change in credit risk (net)	9,100	(4,491)	(15,197)	(158)	(10,746)
Transfers:	(811)	3,436	(2,625)	-	-
(to)/from Stage 1	*x*	*348*	*463*	-	*811*
(to)/from Stage 2	*(348)*	*x*	*(3,088)*	-	*(3,436)*
(to)/from Stage 3	*(463)*	*3,088*	*x*	-	*2,625*
Changes due to movements in FX rates	(5)	43	33	-	71
As of 30 September 2023	**(9,278)**	**(21,129)**	**(108,564)**	**(9,035)**	**(148,006)**

EUR'000	Loans and advances - households				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2023	**(6,137)**	**(8,319)**	**(76,393)**	**-**	**(90,849)**
Increases due to origination and acquisition	(2,930)	-	-	(318)	(3,248)
Decreases due to derecognition	727	282	12,865	-	13,874
Changes due to change in credit risk (net)	4,251	(4,958)	(11,293)	7	(11,993)
Transfers:	(3,800)	5,022	(1,222)	-	-
(to)/from Stage 1	*x*	*3,331*	*469*	-	*3,800*
(to)/from Stage 2	*(3,331)*	*x*	*(1,691)*	-	*(5,022)*
(to)/from Stage 3	*(469)*	*1,691*	*x*	-	*1,222*
As of 30 September 2023	**(7,889)**	**(7,973)**	**(76,043)**	**(311)**	**(92,216)**

During 9 months ending 30 September 2023, the Bank sold a portfolio of retail receivables in the gross amount of EUR 8.8 million (9 months ending 30 September 2022: EUR 18.7 million), for which impairment allowances were created in the amount of EUR 8.7 million (9 months ending 30 September 2022: 18.2 million).

EUR'000	Loans and advances - corporate				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2023	**(9,072)**	**(12,092)**	**(33,693)**	**(8,559)**	**(63,416)**
Increases due to origination and acquisition	(449)	-	-	-	(449)
Decreases due to derecognition	319	12	6,446	-	6,777
Changes due to change in credit risk (net)	4,860	468	(3,906)	(165)	1,257
Transfers:	2,988	(1,587)	(1,401)	-	-
(to)/from Stage 1	*x*	*(2,983)*	*(5)*	-	*(2,988)*
(to)/from Stage 2	*2,983*	*x*	*(1,396)*	-	*1,587*
(to)/from Stage 3	*5*	*1,396*	*x*	-	*1,401*
Changes due to movements in FX rates	(5)	43	33	-	71
As of 30 September 2023	**(1,359)**	**(13,156)**	**(32,521)**	**(8,724)**	**(55,760)**

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.

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 and the portfolio of Financial assets at amortized costs. 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	30 September 2023			31 December 2022		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate swaps - portfolio fair value hedges	**395,600**	**6,696**	**-**	**396,400**	**5,148**	**-**
Interest rate swaps - micro fair value hedges	**161,366**	**10,443**	**-**	**90,366**	**9,081**	**37**
Total	**556,966**	**17,139**	**-**	**486,766**	**14,229**	**37**

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

EUR'000	Carrying amount		Amount of fair value hedge adjustments		Line item in the statement of financial position in which the hedged item is included
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	
Fair value hedges					
Portfolio fair value hedge	411,700	396,400	(7,678)	(6,140)	Financial assets at amortised cost
Micro fair value hedge (FVOCI debt sec.)	73,840	76,225	(9,417)	(9,554)	Financial assets at FV through OCI
Micro fair value hedge (AC debt sec.)	72,590	-	(971)	-	Financial assets at amortised cost

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

EUR'000	1-9/2023	1-9/2022
Fair value changes of the hedging instrument	2,362	14,586
Fair value changes of the hedged item attributable to the hedged risk	(2,372)	(15,143)
Gains/(losses) from hedge accounting, net	**(10)**	**(557)**

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	30.9.2023	31.12.2022
Investments in subsidiaries	56,604	62,566
Investments in joint ventures	732	496
Impairment allowances	(7,022)	(7,022)
Total	**50,314**	**56,040**

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 100.00%.
- 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, d. s. s., a. s. (sale price EUR 33 million, profit from the sale in the total value of EUR 18.5 million)

11. Tangible assets

EUR'000	30.9.2023	31.12.2022
Tangible assets owned	19,440	21,878
Property, plant and equipment	*19,440*	*21,878*
Right of use assets	32,753	35,217
Total	**52,193**	**57,095**

EUR'000	Tangible assets owned				
	Land and buildings	Hardware	Fittings and other equipment	Assets not yet in use	Total
Cost					
As of 1 January 2023	18,136	11,772	19,644	13	49,565
Additions	-	-	-	615	615
Transfers	1	2,314	(1,712)	(603)	-
Disposals	(274)	(821)	(778)	-	(1,873)
As of 30 September 2023	**17,863**	**13,265**	**17,154**	**25**	**48,307**
Accumulated depreciation					
As of 1 January 2023	(7,148)	(8,949)	(11,436)	-	(27,533)
Transfers	-	(1,604)	1,604	-	-
Depreciation for the year	(1,111)	(980)	(920)	-	(3,011)
Disposals	146	794	775	-	1,715
As of 30 September 2023	**(8,113)**	**(10,739)**	**(9,977)**	**-**	**(28,829)**
Accumulated impairment losses	**(38)**	**-**	**-**	**-**	**(38)**
Carrying amount as at 30.9.2023	**9,712**	**2,526**	**7,177**	**25**	**19,440**

EUR'000	Right of use assets Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Total
Cost					
As of 1 January 2023	51,267	211	4,062	-	55,540
Additions	-	-	123	-	123
Loan modifications	1,254	-	130	-	1,384
Contract terminations	(856)	-	(248)	-	(1,104)
As of 30 September 2023	**51,665**	**211**	**4,067**	**-**	**55,943**
Accumulated depreciation					
As of 1 January 2023	(18,080)	(211)	(2,032)	-	(20,323)
Depreciation for the year	(3,726)	-	(244)	-	(3,970)
Contract terminations	856	-	247	-	1,103
As of 30 September 2023	**(20,950)**	**(211)**	**(2,029)**	**-**	**(23,190)**
Accumulated impairment losses	**-**	**-**	**-**	**-**	**-**
Carrying amount as at 30.9.2023	**30,715**	**-**	**2,038**	**-**	**32,753**

12. Intangible assets

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As of 1 January 2023	91,031	86	9,276	100,393
Additions	-	-	5,647	5,647
Transfers	1,548	-	(1,548)	-
Disposals	(2,303)	-	(37)	(2,340)
As of 30 September 2023	**90,276**	**86**	**13,338**	**103,700**
Accumulated amortisation				
As of 1 January 2023	(64,944)	(76)	-	(65,020)
Amortisation for the year	(6,461)	(2)	-	(6,463)
Disposals	1,984	-	-	1,984
As of 30 September 2023	**(69,421)**	**(78)**	**-**	**(69,499)**
Accumulated impairment losses	-	-	-	-
Carrying amount as at 30.9.2023	**20,855**	**8**	**13,338**	**34,201**

13. Deferred tax assets and liabilities

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

	30.9.2023	31.12.2022
Companies in SR	21.00%	21.00%

EUR'000	30.9.2023	31.12.2022
Impairment on financial assets at AC	19,428	17,878
Provisions for off-balance sheet exposures	74	123
Revaluation of financial assets at FVOCI - debt securities	5,494	5,494
Revaluation of financial assets at FVOCI - derivatives	(2,006)	(2,006)
Tangible assets	561	461
Other	2,049	2,811
Total deferred tax assets	**25,670**	**24,761**

Movements in deferred tax were as follows:

EUR'000	1.1.2023	Profit or loss	OCI	30.9.2023
Impairment on financial assets at AC	17,878	1,550	-	19,428
Provisions for off-balance sheet exposures	123	(49)	-	74
Revaluation of financial assets at FVOCI	3,488	-	70	3,558
Tangible assets	461	100	-	561
Other	2,811	(762)	-	2,049
Total	**24,761**	**839**	**70**	**25,670**

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**

14. Other assets

EUR'000	30.9.2023	31.12.2022
Deferred expenses and accrued income	12,684	13,759
Inventories	190	282
Prepayments	3,460	6,905
Total	**16,334**	**20,946**

15. Financial liabilities measured at amortised cost

EUR'000	30.9.2023	31.12.2022
Deposits	**3,678,216**	**3,774,074**
Central banks	254,868	249,040
General governments	3,793	3,532
Credit institutions	31,509	25,089
Credit institutions excluding subordinated debt	23,487	17,070
Credit institutions - subordinated debt	8,022	8,019
Other financial corporations	74,373	143,491
Non-financial corporations	113,606	125,875
Households	3,200,067	3,227,047
Debt securities issued	**131,081**	**124,981**
Non-convertible debt securities issued	131,081	124,981
Non-convertible	*131,081*	*124,981*
Other financial liabilities	**43,553**	**43,632**
Clearing and settlement items	9,319	7,616
Lease liabilities	33,621	35,972
Other creditors	613	44
Total	**3,852,850**	**3,942,687**

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	30.9.2023	31.12.2022
Debt securities issued	22.11.2021	22.11.2024	3.50%	15	1,000	EUR	15,420	15,009
Debt securities issued	22.12.2021	22.12.2024	3.50%	500	100	EUR	51,221	49,832
Debt securities issued	19.12.2022	19.12.2026	7.04%	60	1,000	EUR	63,276	60,140
Total							**129,917**	**124,981**

The interest rate for issue in 2021 is fixed at 3.50% 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 Bank issued Investment certificates as a part of deferred variable component of remuneration in the amount of EUR 1,164 thousands.

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

EUR'000	30.9.2023	31.12.2022
Subordinated debt	8,022	8,019

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.	8,022	3M EURIBOR + 6.00%	31.12.2026

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 amortised cost in the amount of EUR 256,644 thousand. The bank issued a cover bond in the amount of EUR 250,000 thousand which was not marketed and was pledged within the TLTRO programme.

16. Provisions

EUR'000	30.9.2023	31.12.2022
Commitments and guarantees given	351	587
Loan commitments	*160*	*578*
Guarantees given	*191*	*9*
Other provisions	9	2,000
Total	**360**	**2,587**

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 2023	**157**	**424**	**6**	**-**	**587**
Increases due to origination and acquisition	379	-	-	-	379
Decreases due to derecognition	(165)	(85)	(1)	-	(251)
Changes due to change in credit risk (net)	(438)	(116)	188	-	(366)
Transfers:	108	(108)	-	-	-
to/(from) Stage 1	*x*	*(108)*	-	-	*(108)*
to/(from) Stage 2	*108*	*x*	-	-	*108*
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	2	-	-	-	2
As of 30 September 2023	**43**	**115**	**193**	**-**	**351**

17. Other liabilities

EUR'000	30.9.2023	31.12.2022
Estimated payables (PEREX, OPEX)	9,448	11,130
Deferred income	-	137
Liabilities to employees	2,909	3,354
Liabilities from social and health insurance and social fund	1,707	1,674
Tax liabilities	527	952
Received prepayments	3,502	4,503
Liabilities from dividends	821	799
Total	**18,914**	**22,549**

18. Equity

Distribution of profit in the previous period

The General Meeting of shareholders dated 28 April 2023 decided to distribute the profit for the previous period as follows:

EUR'000	
Profit for the year	**93,166**
Dividends	80,000
Transfer to retained earnings	9,732
Transfer to legal reserve fund	3,434

The General meeting dated 28 April 2023 decided on the payment of dividends in the amount of EUR 8 million from retained earnings from 2012 and EUR 52 million from retained earnings from 2013.

19. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

EUR'000	30.9.2023	31.12.2022
Loan commitments given	112,452	164,695
Financial guarantees given	8,964	8,128
Total	**121,416**	**172,823**

b) Assets in custody

EUR'000	30.9.2023	31.12.2022
Asset management	833,190	821,142
Custody assets	114,971	106,811
Total	**948,161**	**927,953**

c) Securities provided as collateral

EUR'000	30.9.2023	31.12.2022
Financial assets at fair value through other comprehensive income	-	97,657
Financial assets at amortised cost	569,656	361,079
Total	**569,656**	**458,736**

The Bank has pledged debt securities at carrying amount as summarised in the table above. 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.

20. Net interest income

EUR'000	1-9/2023	1-9/2022
Interest income		
Financial assets at fair value through other comprehensive income	2,744	3,511
Financial assets at amortised cost	103,867	90,577
Debt securities	*10,889*	*4,197*
Loans and advances	*92,978*	*86,380*
Derivatives - Hedge accounting, interest rate risk	2,889	(1,315)
Other assets	8,061	98
Cash balances at central banks	*7,129*	*77*
Other demand deposits	*932*	*21*
Interest income on liabilities	-	1,552
Total interest income	**117,561**	**94,423**
Interest expenses		
Financial liabilities measured at amortised cost	(20,633)	(5,101)
thereof: lease liabilities	(321)	(405)
Other liabilities	-	(1)
Interest expense on assets	(81)	(71)
Total interest expense	**(20,714)**	**(5,173)**
Net interest income	**96,847**	**89,250**

The '*Interest income on liabilities*' line presents negative interest expense from the long-term targeted financial operation (TLTRO) with the ECB. 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.

21. Net fee and commission income

EUR'000	1-9/2023	1-9/2022
Fee and commission income		
Securities	14	-
Clearing and settlement	12,331	11,800
Custody	2,465	2,696
Payment services	25,228	23,027
Current accounts	*19,098*	*18,353*
Debit cards and other card payments	*285*	*226*
Transfers and other payment orders	*1,854*	*1,564*
Other fee and commission income in relation to payment services	*3,991*	*2,884*
Loan servicing activities	1,086	1,939
Loan commitments given	269	122
Financial guarantees given	95	156
Other	18,380	14,008
Total fee and commission income	**59,868**	**53,748**
Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customers contracts	59,504	53,470
Fee and commission expenses		
Securities	(30)	(128)
Clearing and settlement	(17,305)	(16,890)
Custody	(245)	(286)
Loan servicing activities	(586)	(947)
Other	(2,507)	(1,763)
Total fee and commission expenses	**(20,673)**	**(20,014)**
Net fee and commission income	**39,195**	**33,734**

22. Dividend income

EUR'000	1-9/2023	1-9/2022
Non-trading financial assets mandatorily at fair value through profit or loss	11	8,335
Investments in subsidiaries, joint ventures and associates	14,687	16,493
Total	**14,698**	**24,831**

23. Net gains/(losses) from financial transactions

EUR'000	1-9/2023	1-9/2022
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**24**	**(91)**
Financial assets at fair value through other comprehensive income	24	(91)
Equity instruments	*24*	-
Debt securities	-	*(91)*
thereof: reclassified from other comprehensive income	-	*(91)*
Gains/(losses) on financial assets and liabilities held for trading, net	**(1,236)**	**(5,563)**
Derivatives	(1,236)	(5,563)
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**4,028**	**3,174**
Revaluation gains/(losses)	5,531	3,174
Trading gains/(losses)	(1,503)	-
Gains/(losses) from hedge accounting, net	**(10)**	**(557)**
Fair value changes of the hedging instrument	2,362	14,586
Fair value changes of the hedged item attributable to the hedged risk	(2,372)	(15,143)
Exchange differences, net	**(77)**	**3,270**
Total	**2,729**	**233**

24. Other operating income and expenses

EUR'000	1-9/2023	1-9/2022
Other operating expenses	**(3,711)**	**(3,947)**
Bank and insurance companies specific fees	(843)	(2,552)
Resolution fund	*(289)*	*(237)*
Deposit protection fund	*(554)*	*(2,315)*
Other	(2,868)	(1,395)
Other operating income	**1,709**	**1,977**
Other	1,709	1,977
Gains/(losses) on derecognition of non-financial assets, net	**(396)**	**(317)**
Total	**(2,398)**	**(2,287)**

25. Administrative expenses

EUR'000	1-9/2023	1-9/2022
Staff expenses	**(37,592)**	**(35,400)**
Wages and salaries (including bonuses)	(26,251)	(25,431)
Social expenses	(11,341)	(9,969)
Other administrative expenses	**(25,236)**	**(28,215)**
Rental expenses	(1,581)	(1,057)
Short-term lease contracts	*(1,331)*	*(931)*
Variable lease payments not included in the lease liabilities	*(166)*	*(31)*
Other	*(84)*	*(95)*
Real estate expenses	(2,191)	(2,019)
IT expenses	(8,900)	(8,416)
Marketing and advertisement	(4,127)	(5,229)
Legal and consulting services	(1,087)	(905)
Post and telecommunication	(2,180)	(2,537)
Material consumption	(628)	(558)
Repair and maintenance	(1,843)	(2,234)
Other admininstrative expenses - Rest	(2,699)	(5,260)
Total	**(62,828)**	**(63,615)**

	1-9/2023	1-9/2022
Number of employees as of balance sheet date	1,175	1,174
Average number of employees for the period	1,169	1,206
thereof, key management	17	20

Management consists of Board of Directors members and managers directly responsible to the Board of Directors (B-1 positions).

26. Depreciation and amortisation

EUR'000	1-9/2023	1-9/2022
Property, plant and equipment	**(3,011)**	**(3,832)**
Buildings	(1,111)	(1,146)
Hardw are	(980)	(1,275)
Fittings and other equipment	(920)	(1,411)
Right of use assets	**(3,970)**	**(4,503)**
Buildings	(3,726)	(3,992)
Hardw are	-	(39)
Fittings and other equipment	(244)	(472)
Intangible assets	**(6,463)**	**(8,197)**
Softw are	(6,461)	(8,194)
Other intangible assets	(2)	(3)
Total	**(13,444)**	**(16,532)**

27. Impairment losses and provisions

EUR'000	1-9/2023	1-9/2022
Net impairment of financial assets not valued at fair value through profit or loss	**(8,501)**	**17,284**
Financial assets at fair value through other comprehensive income	4,408	128
Debt securities	*4,408*	*128*
Financial assets at amortised cost	(12,909)	17,156
Debt securities	*(94)*	*98*
Loans and advances	*(12,845)*	*16,971*
Other financial assets	*30*	*87*
Release/(creation) of provisions	**231**	**252**
Net impairment on non-financial assets	**116**	**395**
Total	**(8,154)**	**17,931**

The positive development of impairment losses and provisions in 2022 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 Note 8 Financial assets valued at amortized cost.

28. Income tax

EUR'000	1-9/2023	1-9/2022
Current income tax	**(12,369)**	**(8,480)**
Deferred tax	**839**	**(5,043)**
Total	**(11,530)**	**(13,523)**

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.

29. Related party transactions

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

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

(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.

30.9.2023	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Key management and related parties
Assets	**25**	**117,364**	**54,560**	**1,270**	**2,965**
Other demand deposits	-	219	-	-	-
Non-trading financial assets mandatorily at FVPL	-	107,435	-	-	-
Financial assets at FVOCI	-	9,546	-	-	-
Financial assets at amortised cost	25	164	54,560	1,270	2,965
Loans and advances	*-*	*-*	*53,459*	*-*	*2,965*
Other financial assets	*25*	*164*	*1,101*	*1,270*	*-*
Liabilities	**-**	**22,734**	**3,003**	**9,960**	**1,236**
Financial liabilities measured at amortised cost	-	22,734	3,003	9,960	1,236
Deposits	*-*	*22,734*	*3,003*	*9,960*	*1,236*

1-9/2023					
Income/expenses	**-**	**-**	**-**	**-**	**-**
Net interest income	1,543	587	818	-	20
Net fee and commission income	111	265	(6,431)	6,762	1
Net gains/(losses) from financial transactions	-	7,370	-	-	-
Net other operating expenses	-	46	1,059	126	-
Administrative expenses	-	-	2,904	-	-

31.12.2022	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Key management and related parties
Assets	**-**	**119,309**	**51,267**	**1,416**	**2,445**
Other demand deposits	-	10,102	-	-	-
Non-trading financial assets mandatorily at FVPL	-	100,065	-	-	-
Financial assets at FVOCI	-	8,812	-	-	-
Financial assets at amortised cost	-	330	51,267	1,416	2,445
Loans and advances	*-*	*-*	*49,152*	*-*	*2445*
Other financial assets	*-*	*330*	*2,115*	*1,416*	*-*
Liabilities	**41**	**26,066**	**12,861**	**7,679**	**1,776**
Financial liabilities measured at amortised cost	41	26,066	12,861	7,679	1,776
Deposits	*41*	*26,054*	*12,437*	*7,679*	*1,776*
Other financial liabilities	*-*	*12*	*423*	*-*	*-*
1-9/2022					
Income/expenses	**-**	**-**	**-**	**-**	**-**
Net interest income	320	(16)	235	-	2
Net fee and commission income	42	87	979	1,760	-
Net gains/(losses) from financial transactions	-	4,339	-	-	-
Net other operating expenses	-	15	(109)	20	-
Administrative expenses	-	(12)	(951)	-	-

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 9 months ending 30 September 2023 is in the amount of EUR 2,428 thousand (9 months ending 30 September 2022: EUR 3,258 thousand). Remuneration includes basic wages and salaries, remuneration and payments for health and social insurance.

30. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
ASSETS								
Financial assets held for trading	**-**	**-**	**386**	**16**	**-**	**-**	**386**	**16**
Derivatives	-	-	386	16	-	-	386	16
Non-trading financial assets mandatorily at FVPL	**-**	**-**	**183,780**	**179,784**	**-**	**-**	**183,780**	**179,784**
Equity instruments	-	-	183,780	179,784	-	-	183,780	179,784
Financial assets at FVOCI	**157,928**	**182,977**	**-**	**14,646**	**44,804**	**34,792**	**202,732**	**232,415**
Equity instruments	-	-	-	-	-	65	-	65
Debt securities	157,928	182,977	-	14,646	44,804	34,727	202,732	232,350
Derivatives – Hedge accounting	**-**	**-**	**9,503**	**8,089**	**-**	**-**	**9,503**	**8,089**
Total assets	**157,928**	**182,977**	**193,669**	**202,535**	**44,804**	**34,792**	**396,401**	**420,304**

EUR'000	Level 1		Level 2		Level 3		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**21**	**2,102**	**-**	**-**	**21**	**2,102**
Derivatives	-	-	21	2,102	-	-	21	2,102
Derivatives – Hedge accounting	**-**	**-**	**-**	**37**	**-**	**-**	**-**	**37**
Total liabilities	**-**	**-**	**21**	**2,139**	**-**	**-**	**21**	**2,139**

31. 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	
	1-9/2023	1-9/2022	1-9/2023	1-9/2022	1-9/2023	1-9/2022	1-9/2023	1-9/2022
Interest income	51,272	43,313	45,727	46,967	20,562	4,143	117,561	94,423
Interest expenses	(7,476)	(2,467)	(1,384)	(50)	(11,854)	(2,656)	(20,714)	(5,173)
Net interest income	**43,796**	**40,846**	**44,343**	**46,917**	**8,708**	**1,487**	**96,847**	**89,250**
Fee and commission income	49,052	42,897	10,279	10,541	537	310	59,868	53,748
Fee and commission expenses	(15,453)	(14,949)	(4,117)	(4,408)	(1,103)	(657)	(20,673)	(20,014)
Net fee and commission income	**33,599**	**27,948**	**6,162**	**6,133**	**(566)**	**(347)**	**39,195**	**33,734**
Net interest and fee margin	**77,395**	**68,794**	**50,505**	**53,050**	**8,142**	**1,140**	**136,042**	**122,984**
Impairment losses and provisions	(13,741)	(6,495)	5,670	24,420	(83)	6	(8,154)	17,931

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Assets	2,212,728	2,142,170	933,398	1,071,577	1,410,961	1,527,682	4,557,087	4,741,429
Liabilities	3,198,128	3,224,836	166,587	246,951	509,461	500,613	3,874,176	3,972,400

The following table shows the distribution of income from fees and commissions by segment (based on the requirements of IFRS 15):

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	1-9/2023	1-9/2022	1-9/2023	1-9/2022	1-9/2023	1-9/2022	1-9/2023	1-9/2022
Fee and commission income								
Securities	-	-	-	-	14	-	14	-
Clearing and settlement	6,522	6,175	5,542	5,408	267	217	12,331	11,800
Custody	-	-	2,463	2,689	2	7	2,465	2,696
Payment services	23,337	21,121	1,652	1,859	239	47	25,228	23,027
Loan servicing activities	829	1,630	251	288	6	21	1,086	1,939
Loan commitments given	-	-	269	109	-	13	269	122
Financial guarantees given	-	-	95	156	-	-	95	156
Other	18,364	13,971	7	32	9	5	18,380	14,008
Total fee and commission income	**49,052**	**42897**	**10,279**	**10,541**	**537**	**310**	**59,868**	**53,748**
Of which: Revenue recognised under IFRS 1	49,052	42897	9,915	10,276	537	297	59,504	53,470

32. Risk management

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

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

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

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

The Bank 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.

33. Credit risk

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

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

Credit risk management includes:

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

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

When analysing client deals the Bank uses:

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

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

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

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

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

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

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

EUR'000	Financial assets at amortised cost				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**667,595**	**441,974**	**60,981**	**60,206**	**131,092**	**144,682**	**-**	**-**	**-**	**-**
Credit institutions	**42,879**	**31,154**	**61,770**	**35,519**	**17,428**	**27,045**	**-**	**-**	**-**	**-**
Other financial corporations	**1,302**	**1,362**	**226,145**	**305,072**	**18,953**	**25,896**	**2,565**	**10,396**	**-**	**-**
Non-financial corporations	**46,761**	**44,190**	**434,072**	**503,021**	**35,259**	**34,727**	**15,796**	**12,641**	**8,964**	**8,128**
A Agriculture, forestry and fishing	-	-	30,307	36,445	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	30,793	39,045	-	-	5,595	22	-	76
D Electricity, gas, steam and air conditioning supply	-	-	17,846	27,208	-	-	-	-	-	-
E Water supply	-	-	530	458	-	-	-	-	55	-
F Construction	-	-	16,196	15,335	-	-	64	56	851	43
G Wholesale and retail trade	-	-	21,281	23,390	-	-	-	185	263	365
H Transport and storage	-	-	1,394	1,917	-	-	-	20	3	3
I Accommodation and food service activities	-	-	13,527	35,643	-	-	16	6,004	-	-
J Information and communication	-	-	37	8,662	-	-	3,000	5,850	-	150
K Financial and insurance activities	-	-	-	-	-	-	460	394	-	-
L Real estate activities	46,761	44,190	142,022	160,331	-	-	4,570	10	-	-
M Professional, scientific and technical activities	-	-	74,320	77,044	-	-	67	70	7,792	7,491
N Administrative and support service activities	-	-	63,603	70,752	-	-	24	26	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	2	3	-	-	-	-	-	-
Q Human health services and social w ork activities	-	-	9	24	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	17,858	1,304	35,259	34,727	2,000	-	-	-
S Other services	-	-	4,347	5,460	-	-	-	4	-	-
Households	**-**	**-**	**2,315,250**	**2,238,738**	**-**	**-**	**94,091**	**141,658**	**-**	**-**
Total	**758,537**	**518,680**	**3,098,218**	**3,142,556**	**202,732**	**232,350**	**112,452**	**164,695**	**8,964**	**8,128**

EUR'000	Financial assets at amortised cost				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Slovak Republic	713,233	473,073	2,833,748	2,761,099	161,397	173,087	112,413	164,285	909	442
Czech Republic	-	-	125,982	185,574	-	7,303	26	398	263	265
Cyprus	-	-	28,164	72,778	-	-	-	1	-	-
Luxemburg	1,302	1,362	99,808	107,074	9,407	9,781	-	-	-	-
Switzerland	-	-	-	1,038	-	-	2	2	-	-
France	-	-	7,959	12,644	-	-	1	1	-	-
Netherlands	-	-	2,000	2,000	-	-	-	-	-	-
Lithuania	9,979	10,046	-	-	8,768	12,034	-	-	-	-
Latvia	2,130	2,155	-	-	10,514	17,243	-	-	-	-
Belgium	10,737	10,854	384	-	-	-	-	-	-	-
Ireland	10,703	10,819	10	-	-	-	-	-	-	-
Romania	10,453	10,371	5	-	-	-	-	-	-	-
Poland	-	-	1	-	12,646	12,902	1	-	-	-
Sweden	-	-	-	-	-	-	-	-	7,792	7,421
Other countries	-	-	157	349	-	-	9	8	-	-
Total	**758,537**	**518,680**	**3,098,218**	**3,142,556**	**202,732**	**232,350**	**112,452**	**164,695**	**8,964**	**8,128**

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	0.20% – 1.00%
Low credit risk	A1 – A3			
Low credit risk	Baa1 – Baa3			
Low credit risk	Ba1 – Ba2			
Moderate credit risk	Ba3	4C – 5C	B1 – C1	2.00% – 8.00%
Moderate credit risk	B1 – B3			
Moderate credit risk	Caa1			
High credit risk	Caa2 – Caa3	6 – 8	C2 – C3	12.00% – 35.00%
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 1.00% 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 1.00% 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 2023, 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.

Finally yet importantly, 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 30 September 2023, 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 bank implemented Merton-Vasicek model to assessed relevant macroeconomic component.

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.

Weighted value of unemployment rate 6.50% was used, based of three scenarios of macroeconomic development with following input values and weights:

- baseline, 80.00%, 6.60%
- positive 10.00%, 6.30%
- negative 10.00%, 7.50%

The resulting impact on the probability of failure of retail clients is a relative increase of 15.00% for all retail rating categories.

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 6.60%. An optimistic scenario of an improvement in unemployment by 1.00% would mean the reversal of impairment allowances by EUR 1.9 million, on the contrary, a pessimistic scenario of a worsening of unemployment by 1.00% would mean the creation of impairment allowances by EUR 1.9 million.

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.

During the 9 months ending 30 September 2023 there were no significant changes in methods compared to the separate financial statements of the Group for the year ended 31 December 2022.

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

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Financial assets at AC - Debt securities										
Low credit risk	711,776	474,490	-	-	-	-	-	-	711,776	474,490
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	46,761	44,190	-	-	-	-	46,761	44,190
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**711,776**	**474,490**	**46,761**	**44,190**	**-**	**-**	**-**	**-**	**758,537**	**518,680**
Impairment allowance	(216)	(152)	(7,471)	(7,441)	-	-	-	-	(7,687)	(7,593)
Carrying amount	**711,560**	**474,338**	**39,290**	**36,749**	**-**	**-**	**-**	**-**	**750,850**	**511,087**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Financial assets at AC - Loans and advances										
Low credit risk	1,300,146	1,165,062	12,001	12,090	-	-	-	-	1,312,147	1,177,152
Moderate credit risk	1,165,966	1,290,716	25,230	26,924	-	-	-	-	1,191,196	1,317,640
High credit risk	205,176	287,666	204,073	160,666	-	-	4,445	4,464	413,694	452,796
Default	-	-	-	-	163,403	144,078	9,377	7,773	172,780	151,851
Not rated	2,151	35,776	4,295	5,390	1,955	1,951	-	-	8,401	43,117
Gross amount	**2,673,439**	**2,779,220**	**245,599**	**205,070**	**165,358**	**146,029**	**13,822**	**12,237**	**3,098,218**	**3,142,556**
Impairment allowance	(9,278)	(15,237)	(21,129)	(20,411)	(108,564)	(110,086)	(9,035)	(8,559)	(148,006)	(154,293)
Carrying amount	**2,664,161**	**2,763,983**	**224,470**	**184,659**	**56,794**	**35,943**	**4,787**	**3,678**	**2,950,212**	**2,988,263**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Financial assets at FVOCI - Debt securities										
Low credit risk	157,927	181,508	-	-	-	-	-	-	157,927	181,508
Moderate credit risk	9,546	16,115	-	-	-	-	-	-	9,546	16,115
High credit risk	-	-	35,259	34,727	-	-	-	-	35,259	34,727
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**167,473**	**197,623**	**35,259**	**34,727**	**-**	**-**	**-**	**-**	**202,732**	**232,350**
Impairment allowance in OCI	(87)	(118)	(3,937)	(8,314)	-	-	-	-	(4,024)	(8,432)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Loan and other commitments given										
Low credit risk	77,878	80,391	-	-	-	-	-	-	77,878	80,391
Moderate credit risk	16,046	73,928	-	-	-	-	-	-	16,046	73,928
High credit risk	2,487	396	2,131	4,464	-	-	-	-	4,618	4,860
Default	-	-	-	-	15	18	-	-	15	18
Not rated	12,850	3,000	1,045	2,498	-	-	-	-	13,895	5,498
Gross amount	**109,261**	**157,715**	**3,176**	**6,962**	**15**	**18**	**-**	**-**	**112,452**	**164,695**
Provision	**41**	**148**	**115**	**424**	**4**	**6**	**-**	**-**	**160**	**578**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Financial guarantees given										
Low credit risk	-	76	-	-	-	-	-	-	-	76
Moderate credit risk	7,850	518	-	-	-	-	-	-	7,850	518
High credit risk	263	7,534	-	-	-	-	-	-	263	7,534
Default	-	-	-	-	851	-	-	-	851	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**8,113**	**8,128**	**-**	**-**	**851**	**-**	**-**	**-**	**8,964**	**8,128**
Provision	**2**	**9**	**-**	**-**	**189**	**-**	**-**	**-**	**191**	**9**

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	30.9.2023	31.12.2022
Real-estates	1,552,556	1,522,139
Securities	203,379	199,665
Other	22,760	35,548
Total	**1,778,695**	**1,757,352**

Collateral in default loans and advances at amortised cost:

EUR'000	30.9.2023	31.12.2022
Gross amount	174,735	153,802
Impairment allowance	(118,352)	(119,194)
Carrying amount	**56,383**	**34,608**
Collateral	**30,383**	**18,671**

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.

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.

34. 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.

During the 9 months ending 30 September 2023 there were no significant changes in methods compared to the separate financial statements of the Group for the year ended 31 December 2022.

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:

	30.9.2023	**31.12.2022**
End of the period	4.96	3.00
Average for the period	3.78	1.90
Maximum for the period	4.96	3.00
Minimum for the period	3.02	1.27

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:

	30.9.2023	**31.12.2022**
End of the period	1.43	1.32

35. Market risk

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

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

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

Management of market risks

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

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

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

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

- A holding period assumes that it is possible to acquire or dispose of positions during that period. This is considered to be a realistic assumption in almost all cases, but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- A 99.00% confidence level does not reflect losses that may occur beyond this level. Within the model used there is a one percent probability that losses could exceed the VaR. To mitigate this shortage, the Bank uses the ratio expected shortfall, which monitors potential loss beyond the set confidence interval
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature. To mitigate this shortage, the Bank uses the Stressed VaR indicator, which considers historical scenarios with the greatest negative impact

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

Interest rate risk

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

Other sources of interest rate risk are:

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

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

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

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

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

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 0.00%, 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 USD LIBOR of the rates terminated as at 1 July 2023.

Non - derivative financial assets and liabilities

Currently, there was only one contract terminated in June 2023 with interest rates linked to the USD LIBOR rate. The Bank will only offer loan contracts in USD with fixed interest rate.

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 concluded amendments to the relevant framework agreements (ISDA, GMRA, GMSLA).

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.

36. Operational risk

During the 9 months ending 30 September 2023 there were no significant changes in operational risk compared to the separate financial statements of the Group for the year ended 31 December 2022.

37. 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 30 September 2023, the minimum capital adequacy requirements, including buffers and the Pillar II requirements stipulated by the regulator were as follows:

- CET1: 10.35% (4.50% Pillar I, Pillar II 1.63%, capital preservation buffer 2.50%, locally systemically important bank buffer 0.25%, countercyclical buffer 1.47%)
- Tier 1: 12.40% (6.00% Pillar I, 2.18% Pillar II, same buffers as for CET1)
- Total capital: 15.12% (8.00% Pillar I, 2.90% 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% (pending reassessment by the regulator).

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 at 30 September 2023, 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 9 months ending 30 September 2023, 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	30.9.2023	31.12.2022
Tier I Capital	**602,563**	**663,569**
Share capital and share premium	367,043	367,043
Reserve funds and other funds created from profit	73,261	69,827
Selected components of accumulated other comprehensive income	(14,354)	(13,121)
Profit or loss of previous years	201,846	252,114
Intangible assets	(24,613)	(20,182)
Additional valuation adjustments	(454)	(485)
Other transitional adjustments to CET1 Capital	-	8,446
Insufficient coverage for non-performing exposures	(166)	(73)
Tier II Capital	**6,804**	**8,000**
Subordinated debt	6,804	8,000
Regulatory capital total	**609,367**	**671,569**

EUR'000	30.9.2023	31.12.2022
Capital required to cover:		
Credit risk	192,261	201,219
Credit value adjustment risk	635	578
Operational risk	22,313	22,314
Total capital requirements	**215,209**	**224,111**
Capital ratios		
Total capital level as a percentage of total risk w eighted assets	22.65%	23.97%
Tier I capital as a percentage of total risk w eighted assets	22.40%	23.69%
Common Equity Tier I capital as a percentage of total risk w eighted assets	22.40%	23.69%

EUR'000	30.9.2023	31.12.2022
Available capital (amounts)		
Common Equity Tier I (CET1) capital	602,563	663,569
Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied	602,563	655,123
Tier I capital	602,563	663,569
Tier I capital as if IFRS 9 transitional arrangements were not applied	602,563	655,123
Total capital	609,367	671,569
Total capital as if IFRS 9 transitional arrangements were not applied	609,367	663,123
Risk-weighted assets (amounts)		
Risk-weighted assets	2,687,871	2,801,388
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	2,687,871	2,792,301

Capital ratio		
Common Equity Tier I capital (as a percentage of risk exposure amount)	22.42%	23.69%
Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.42%	23.46%
Tier I capital (as a percentage of risk exposure amount)	22.42%	23.69%
Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.42%	23.46%
Total capital (as a percentage of risk exposure amount)	22.67%	23.97%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.67%	23.75%

38. Post balance-sheet events

On 2 October 2023, the Bank issued bond eligible for MREL in the amount of EUR 65 million.