

## **365.bank, a. s.**

### **Interim separate financial statements**

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

**for 9 months ending 30 September 2022**  
**(English translation)**

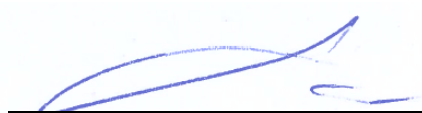
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## A. Separate statement of financial position

EUR'000	Notes	30.9.2022	31.12.2021
<b>Assets</b>			
Cash, cash balances at central banks and other demand deposits	4	75 721	450 029
Financial assets held for trading	5	107	2
Non-trading financial assets mandatorily at fair value through profit or loss	6	247 028	298 231
Financial assets at fair value through other comprehensive income	7	277 504	385 502
Financial assets at amortised cost	8	3 877 946	3 563 599
<i>Debt securities</i>	8	427 914	378 962
<i>Loans and advances</i>	8	3 420 183	3 163 454
thereof: Loans and advances to financial institutions	8	319 233	23 252
thereof: Loans and advances to customers	8	3 100 950	3 140 202
<i>Other financial assets</i>	8	29 849	21 183
Derivatives – Hedge accounting	9	10 422	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(2 937)	1 091
Investments in subsidiaries, joint ventures and associates	10	70 279	68 662
Tangible assets	11	57 154	64 532
Intangible assets	12	33 451	33 446
Current tax assets		1 150	-
Deferred tax assets	13	25 817	23 008
Other assets	14	21 268	16 784
<b>TOTAL ASSETS</b>		<b>4 694 910</b>	<b>4 904 886</b>
<b>Liabilities</b>			
Financial liabilities held for trading	5	1 335	3 695
Financial liabilities at amortised cost	15	3 892 226	4 129 781
<i>Deposits</i>	15	3 791 052	4 006 346
thereof: Subordinated debt	15	8 013	8 014
<i>Debt securities issued</i>	15	66 509	64 794
<i>Other financial liabilities</i>	15	34 665	58 641
Derivatives – Hedge accounting	9	791	4 977
Provisions	16	521	769
Current tax liabilities		-	2 766
Other liabilities	17	8 967	13 834
<b>Total liabilities</b>		<b>3 903 840</b>	<b>4 155 822</b>
Share capital and share premium	18	367 043	367 043
Retained earnings	18	372 137	307 948
Other equity	18	51 890	74 073
<b>Total equity</b>	<b>18</b>	<b>791 070</b>	<b>749 064</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4 694 910</b>	<b>4 904 886</b>

These separate financial statements, which include the notes on pages 7 – 48, were approved by the Board of Directors on 26 October 2022.



Chairman of the Board of Directors  
Andrej Zatko



Member of the Board of Directors  
Ladislav Korec

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

EUR'000	Notes	1-9/2022	1-9/2021
<b>Statement of profit or loss</b>			
Net interest income	20	89 250	99 754
<i>Interest income</i>		94 423	103 625
<i>Interest expenses</i>		(5 173)	(3 871)
Net fee and commission income	21	33 734	25 653
<i>Fee and commission income</i>		53 748	47 195
<i>Fee and commission expenses</i>		(20 014)	(21 542)
Dividend income	22	24 831	14 781
Net gains/(losses) from financial transactions	23	233	15 285
Net other operating expenses	24	(2 287)	(1 258)
<i>Other operating income</i>	24	1 978	3 727
<i>Other operating expenses</i>	24	(3 948)	(4 663)
<i>Gains/(losses) on derecognition of non-financial assets, net</i>	24	(317)	(322)
Staff expenses	25	(35 400)	(30 894)
Other administrative expenses	25	(28 215)	(25 758)
Depreciation	26	(16 532)	(18 686)
<b>Operating profit before impairment losses and provisions</b>		<b>65 614</b>	<b>78 877</b>
Release/(creation) of provisions	27	252	1 844
Net impairment of financial assets not valued at fair value through profit and loss	27	17 284	(21 903)
Net impairment of investments in subsidiaries, joint ventures and associates	27	-	2 142
Net impairment on non-financial assets	27	395	318
<b>Profit before tax</b>		<b>83 545</b>	<b>61 278</b>
Income tax	28	(13 523)	(11 184)
<b>Profit after tax</b>		<b>70 022</b>	<b>50 094</b>
<b>Statement of other comprehensive income</b>			
Items that may be reclassified to profit or loss		(28 013)	3 720
<i>Revaluation of debt securities at fair value through other comprehensive income</i>		(35 737)	(3 399)
<i>Impairment losses for debt securities at fair value through other comprehensive income</i>		(128)	8 124
<i>Deferred tax related to items that may be reclassified to profit or loss</i>		7 852	(1 007)
<i>Foreign currency translation</i>		-	2
<b>Total other comprehensive income</b>		<b>(28 013)</b>	<b>3 720</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>42 009</b>	<b>53 814</b>
<b>Earnings per share</b>			
Profit after tax		70 022	50 094
Weighted-average number of ordinary shares		330 899	330 899
<b>Basic and diluted earnings per share in EUR</b>		<b>212</b>	<b>151</b>

The notes on pages 7 – 48 are an integral part of these separate financial statements.

## C. Separate statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
<b>Opening balance as of 1 January 2022</b>	<b>366 305</b>	<b>738</b>	<b>63 997</b>	<b>10 076</b>	<b>-</b>	<b>307 948</b>	<b>749 064</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28 013)</b>	<b>-</b>	<b>70 022</b>	<b>42 009</b>
Profit after tax	-	-	-	-	-	70 022	70 022
Items that may be reclassified to profit or loss	-	-	-	(28 013)	-	-	(28 013)
Items that may not be reclassified to profit or loss	-	-	-	-	-	-	-
<b>Other transactions</b>	<b>-</b>	<b>-</b>	<b>5 830</b>	<b>-</b>	<b>-</b>	<b>(5 833)</b>	<b>(3)</b>
Transfer to legal reserve fund	-	-	5 830	-	-	(5 830)	-
Other	-	-	-	-	-	(3)	(3)
<b>Closing balance as of 30 September 2022</b>	<b>366 305</b>	<b>738</b>	<b>69 827</b>	<b>(17 937)</b>	<b>-</b>	<b>372 137</b>	<b>791 070</b>

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

The notes on pages 7 – 48 are an integral part of these separate financial statements.

## D. Separate statement of cash flows

EUR'000	Notes	1-9/2022	1-9/2021
<b>Profit before tax</b>		<b>83 545</b>	<b>61 278</b>
<i>Adjustments:</i>			
Net interest income		(89 250)	(99 754)
Dividend income		(24 831)	(14 781)
Depreciation		16 532	18 686
Release/(creation) of provisions		(252)	(1 844)
Gains/(losses) on derecognition of non-financial assets, net		317	322
Gains on derecognition of subsidiaries		-	(10 092)
Net impairment of financial assets not valued at fair value through profit and loss		(17 284)	21 903
Net impairment of investments in subsidiaries, joint ventures and associates		-	(2 142)
Net impairment on non-financial assets		(395)	(318)
<b>Cash flows from/(used in) operating activities before changes in working capital</b>		<b>(31 618)</b>	<b>(26 742)</b>
<i>(Increase)/decrease in operating assets:</i>			
Cash balances at central banks		373 868	202 608
Financial assets held for trading		(104)	2 515
Non-trading financial assets mandatorily at fair value through profit or loss			
<i>(Increase)/decrease</i>		<i>51 204</i>	<i>(10 555)</i>
<i>Dividends received</i>		<i>8 335</i>	<i>11</i>
Financial assets at amortised cost		(239 597)	(248 466)
<i>Loans and advances</i>		<i>(230 931)</i>	<i>(251 952)</i>
<i>Other financial assets</i>		<i>(8 666)</i>	<i>3 486</i>
Derivatives – Hedge accounting		(10 422)	-
Other assets		(4 484)	(1 452)
<i>Increase/(decrease) in operating liabilities:</i>			
Financial liabilities held for trading		(2 361)	1 433
Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities		(235 230)	(25 452)
<i>Deposits</i>		<i>(215 413)</i>	<i>(31 148)</i>
<i>Other financial liabilities</i>		<i>(19 817)</i>	<i>5 696</i>
Derivatives – Hedge accounting		6 928	(3 878)
Other liabilities		(4 867)	(2 816)
<b>Cash flows from operating activities before interest and income tax</b>		<b>(88 348)</b>	<b>(112 794)</b>
Interest received		85 339	95 322
Interest paid		(4 289)	(9 366)
Income tax paid		(12 396)	(8 869)
<b>Net cash flows from/(used in) operating activities</b>		<b>(19 694)</b>	<b>(35 707)</b>
<b>Cash flows from investing activities</b>			
<i>Financial assets at amortised cost - debt securities</i>			
Purchase		(70 248)	(39 652)
Proceeds from sale and maturity		22 576	8 951
Interest received		1 557	1 611
<i>Financial assets at fair value through other comprehensive income - debt securities</i>			
Purchase		(15 676)	(67 827)
Proceeds from sale and maturity		73 933	104 872
Interest received		6 404	8 117
<i>Investments in subsidiaries, joint ventures and associates</i>		<i>14 876</i>	<i>32 049</i>
<i>Tangible and intangible assets</i>			
Purchase		(9 470)	(10 003)
Proceeds from sale		555	2
<b>Net cash flows from/(used in) investing activities</b>		<b>24 507</b>	<b>38 120</b>
<b>Cash flows from financing activities</b>			
<i>Debt securities issued</i>			
Interest paid		(86)	-
<i>Financial liabilities at amortised cost - subordinated debt</i>			
Interest paid		(360)	(360)
<i>Financial liabilities at amortised cost - lease liabilities</i>			
Lease payments		(4 503)	(4 205)
Interest expense		(405)	(408)
<b>Net cash flows from/(used in) financing activities</b>		<b>(5 354)</b>	<b>(4 973)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4</b>	<b>(541)</b>	<b>(2 560)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4</b>	<b>45 229</b>	<b>50 612</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>44 688</b>	<b>48 052</b>

The notes on pages 7 – 48 are an integral part of these separate financial statements.

## E. Notes to the separate financial statements

### 1. General information

Poštová banka, 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 2021294221 and value added tax ('IČ DPH') number is SK7020000680. The Bank is registered as a VAT member of 365.bank Group.

The principal activities of the Bank are as follows:

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

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

On 18 November 2009, Poštová banka, a. s. pobočka Česká republika was registered in the Commercial Register of the Czech Republic. In meeting of the Board of Directors dated 28 April 2021, the Bank decided on termination of the activities of its branch and to dissolve the organizational unit on 30 June 2021.

Shareholder's structure is as follows:

Name of shareholder	Address	30 September 2022		31 December 2021	
		Number of shares	Ownership in %	Number of shares	Ownership in %
J&T FINANCE GROUP SE	Sokolovská 700/113 a, 186 00 Praha 8, Česká republika	325 794	98.45%	325 794	98.45%
Slovenská pošta, a. s.	Partizánska cesta 9, 975 99 Banská Bystrica, Slovak republic	4 918	1.49%	4 918	1.49%
Ministerstvo dopravy a výstavby Slovenskej republiky	Námestie slobody 6, 810 05 Bratislava, Slovak republic	100	0.03%	100	0.03%
UNIQA Österreich Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0.03%	87	0.03%
<b>Total</b>		<b>330 899</b>	<b>100.00%</b>	<b>330 899</b>	<b>100.00%</b>

On 1 January 2021, the Bank's shareholder structure changed due to merging of PBI, a.s. with its 100% parent company J&T FINANCE GROUP SE. Through this merger, J&T FINANCE GROUP SE acquired another 34% of the shares and voting rights in 365.bank, a. s., increasing its direct share in the Bank's share capital to 98.457%.

#### Members of the Board of Directors

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

#### Members of the Supervisory Board

Jozef Tkáč	Chairman
Vladimír Ohlídál	Board member
Jan Kotek	Board member

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

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

## 2. Accounting policies

### 2.1 Basis of preparation of the separate financial statements

The interim separate financial statements for the 9 months ending 30 September 2022 have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union. These interim financial statements do not contain all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's separate financial statements as at 31 December 2021.

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

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

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

### 2.2 Subsidiaries, joint ventures and associates

As at 30 September 2022 the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in %
<b>Subsidiaries</b>		
365.invest, správ. spol., a. s.	Asset management	100.00%
365.life, d. s. s., a. s.	Management of pension funds	100.00%
Ahoj, a. s.	Consumer loans	100.00%
PB Servis, a. s.	Real estate administration	100.00%
PB Finančné služby, a. s.	Financial and operational leasing and factoring	100.00%
365.fintech, a. s.	Investment fund	100.00%
Cards&Co, a. s.	Information technology services industry	100.00%
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	Art and sales	87.99%
365.nadácia	Charitable foundation	x
<b>Joint ventures</b>		
SKPAY, a. s.	Payment services	40.00%
Monilog, s. r. o.	Cash management	8.00%

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

### 2.3 Changes in accounting policies

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

### 2.4 Significant accounting methods and policies

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



**(a) Foreign currency**

i. *Foreign currency transactions*

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

ii. *Foreign operations*

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

**(b) Interest income and expenses**

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

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

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

**(c) Fee and commission income and expenses**

Fee and commission income from contracts with customers is measured based on the consideration specified in the customer contract. The Bank recognises revenue when it transfers control of a service to a customer.

The following paragraphs provide information about the nature and timing of performance obligations in customer contracts and the related revenue recognition policies.

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

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

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

**(d) Net gains or losses from financial transactions**

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

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

**(e) Dividend income**

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

**(f) Income tax**

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

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

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

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

#### **(g) Financial assets**

##### **i. Initial recognition**

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

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

##### **ii. Classification and subsequent measurement**

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

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

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

#### ***Debt instruments***

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

Classification and subsequent measurement of debt instruments depends on:

##### **a. Business model for managing the assets**

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

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

##### **b. Cash flow characteristics of assets**

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

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

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

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

- Amortised cost

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

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

**(B) Financial assets at amortised cost**

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

- Fair value through profit or loss

**(A) Financial assets held for trading**

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

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

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

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

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

- Fair value through other comprehensive income

**Financial assets at fair value through other comprehensive income**

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

**Equity instruments**

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

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

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

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

No expected credit losses are recognised for equity instruments.

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

iii. Identification and measurement of credit losses

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

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

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

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

iv. Derecognition

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

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

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

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

v. Modifications of financial assets

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

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

## (h) Derivatives

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

### *Hedging derivatives*

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

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

- The relationship between hedging instrument and hedged item, in meaning of risk characteristics, function, target and strategy of hedging is formally documented at origination of the hedging transaction, together with the method that is used for assessment of effectiveness of the hedging relationship
- The relationship between hedging instrument and hedged item is formally documented at the origination of the hedging transaction, and the Bank expects that it will decrease the risk of the hedged item
- Hedging meets all effectiveness criteria:

- There is an economic relationship between the hedging instrument and hedged item
- The impact of credit risk does not take into account changes in value resulting from this economic relationship
- The hedge ratio of the hedge is the same as the hedge ratio resulting from the amount of the hedging instrument used by the entity for hedging of the hedged item. However, this indication should not reflect the imbalance between the weighted shares of the hedged item and the hedging instrument that could create hedge ineffectiveness (whether or not recognised), that could also result in a business result inconsistent with the purpose of hedge accounting

*i. Fair value hedge*

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

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

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

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

*ii. Cash flow hedge*

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

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

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

*Other non-trading derivatives*

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

*Embedded derivatives*

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

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

- Their economic characteristics and risks are not closely related to those of the host contract

- A separate instrument with the same terms would meet the definition of a derivative
- The hybrid contract is not measured at fair value through profit or loss

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

#### **(i) Investments in subsidiaries, joint ventures and associates**

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

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

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

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

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

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

#### **(j) Tangible and intangible assets**

##### *i. Recognition and measurement*

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

##### *ii. Subsequent costs*

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

##### *iii. Depreciation*

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

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

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

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

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

The Bank assesses whether the contract is a lease or contains a lease, according to IFRS 16, at the inception of the contract. The contract is a lease, or contains a lease, when it conveys a right to use the underlying asset for a period

of time in exchange for consideration. In cases where the contract is a lease, or contains a lease, the Bank accounts for each lease component relating to the contract separately from the non-lease components of the contract.

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

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

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

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

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

#### **(l) Impairment losses on non-financial assets**

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

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

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

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

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

#### **(m) Financial liabilities**

##### **i. Initial recognition**

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

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

##### **ii. Classification and subsequent measurement**

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

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

amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability
- Financial guarantee contracts and loan commitments

*iii. Derecognition*

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

**(n) Provisions**

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

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

**(o) Financial guarantees and loan commitments**

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

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

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

**(p) Employee benefits**

*i. Termination benefits*

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

*ii. Short-term employee benefits*

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

**(q) Offsetting**

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

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

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

**(r) Basic and diluted earnings per share**

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



### 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 33. Credit risk.

#### *Determining fair values*

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

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

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

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

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

EUR'000	30.9.2022	31.12.2021
Cash on hand	17 968	29 827
Cash balances at central banks	31 033	404 800
Other demand deposits	26 720	15 402
<b>Total</b>	<b>75 721</b>	<b>450 029</b>

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	30.9.2022	31.12.2021	30.9.2021	31.12.2020
Cash on hand	17 968	29 827	28 706	25 875
Other demand deposits	26 720	15 402	19 346	24 737
<b>Total</b>	<b>44 688</b>	<b>45 229</b>	<b>48 052</b>	<b>50 612</b>

#### 5. Financial assets and liabilities held for trading

EUR'000	30.9.2022	31.12.2021
<b>Financial assets held for trading</b>		
<b>Derivatives</b>	<b>107</b>	<b>2</b>
Foreign exchange	107	2
<b>Total</b>	<b>107</b>	<b>2</b>
<b>Financial liabilities held for trading</b>		
<b>Derivatives</b>	<b>1 335</b>	<b>3 695</b>
Foreign exchange	1 335	3 695
<b>Total</b>	<b>1 335</b>	<b>3 695</b>

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

EUR'000	30 September 2022			31 December 2021		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
<b>Derivatives held for trading</b>						
Foreign exchange	91 975	107	1 335	143 237	2	3 695
<b>Total</b>	<b>91 975</b>	<b>107</b>	<b>1 335</b>	<b>143 237</b>	<b>2</b>	<b>3 695</b>

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

EUR'000	30.9.2022	31.12.2021
<b>Equity instruments</b>	<b>247 028</b>	<b>298 231</b>
Share certificates	247 028	298 231
<b>Total</b>	<b>247 028</b>	<b>298 231</b>

## 7. Financial assets at fair value through other comprehensive income

EUR'000	30.9.2022	31.12.2021
<b>Equity instruments</b>	<b>65</b>	<b>65</b>
Shares	65	65
<b>Debt securities</b>	<b>277 439</b>	<b>385 437</b>
General governments	197 951	266 897
Credit institutions	27 054	28 346
Other financial corporations	25 438	29 180
Non-financial corporations	26 996	61 014
<b>Total</b>	<b>277 504</b>	<b>385 502</b>
Impairment allowances to debt securities in OCI	(8 486)	(8 615)

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

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As of 1 January 2022</b>	<b>(355)</b>	<b>(8 260)</b>	<b>-</b>	<b>-</b>	<b>(8 615)</b>
Increases due to origination and acquisition	(3)	-	-	-	(3)
Decreases due to derecognition	80	-	-	-	80
Changes due to change in credit risk (net)	123	(71)	-	-	52
Transfers:	-	-	-	-	-
to/(from) Stage 1	x	-	-	-	-
to/(from) Stage 2	-	x	-	-	-
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
<b>As of 30 September 2022</b>	<b>(155)</b>	<b>(8 331)</b>	<b>-</b>	<b>-</b>	<b>(8 486)</b>

## 8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Debt securities</b>	<b>435 428</b>	<b>386 574</b>	<b>(7 514)</b>	<b>(7 612)</b>	<b>427 914</b>	<b>378 962</b>
General governments	377 311	307 533	(113)	(96)	377 198	307 437
Credit institutions	10 989	30 990	-	(2)	10 989	30 988
Other financial corporations	1 363	1 424	-	-	1 363	1 424
Non-financial corporations	45 765	46 627	(7 401)	(7 514)	38 364	39 113
<b>Loans and advances</b>	<b>3 592 481</b>	<b>3 373 564</b>	<b>(172 298)</b>	<b>(210 110)</b>	<b>3 420 183</b>	<b>3 163 454</b>
Central banks	270 006	-	(6)	-	270 000	-
General governments	60 245	60 000	(19)	(19)	60 226	59 981
Credit institutions	49 241	23 270	(8)	(18)	49 233	23 252
Other financial corporations	446 853	553 697	(11 281)	(15 441)	435 572	538 256
Non-financial corporations	569 536	845 625	(48 893)	(71 550)	520 643	774 075
Households	2 196 600	1 890 972	(112 091)	(123 082)	2 084 509	1 767 890
Lending for house purchase	1 377 863	1 028 687	(1 077)	(787)	1 376 786	1 027 900
Credit for consumption	809 566	849 215	(108 541)	(119 673)	701 025	729 542
Other	9 171	13 070	(2 473)	(2 622)	6 698	10 448
<b>Other financial assets</b>	<b>30 792</b>	<b>21 301</b>	<b>(943)</b>	<b>(118)</b>	<b>29 849</b>	<b>21 183</b>
<b>Total</b>	<b>4 058 701</b>	<b>3 781 439</b>	<b>(180 755)</b>	<b>(217 840)</b>	<b>3 877 946</b>	<b>3 563 599</b>

Loans and advances include finance lease receivables:

EUR'000	30.9.2022	31.12.2021
<b>Minimum value of leasing payments</b>		
Receivables from leasing	19 195	8 083
<i>Up to 1 year</i>	5 816	2 655
1-5 years	12 896	5 313
<i>Over 5 years</i>	483	115
Unrealized income on finance leases	(1 837)	(694)
<b>Present value of future lease payments</b>	<b>17 358</b>	<b>7 389</b>
Impairment allowances	(161)	(31)
<b>Total</b>	<b>17 197</b>	<b>7 358</b>

EUR'000	30.9.2022	31.12.2021
<b>Present value of future lease payments</b>		
Receivables from leasing	17 358	7 389
<i>Up to 1 year</i>	5 038	2 338
1-5 years	11 845	4 938
<i>Over 5 years</i>	475	113
<b>Present value of future lease payments</b>	<b>17 358</b>	<b>7 389</b>
Impairment allowances	(161)	(31)
<b>Total</b>	<b>17 197</b>	<b>7 358</b>

Other financial assets comprise the following:

EUR'000	30.9.2022	31.12.2021
<b>Other financial assets, gross</b>	<b>30 792</b>	<b>21 301</b>
Clearing and settlement items	10 963	3 227
Cash collateral	7 833	6 750
Tax receivables	13	-
Trade receivables	5 159	6 563
Other	6 824	4 761
<b>Impairment allowances</b>	<b>(943)</b>	<b>(118)</b>
<b>Total</b>	<b>29 849</b>	<b>21 183</b>

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

30.9.2022	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
<b>Debt securities</b>	<b>389 663</b>	<b>45 765</b>	-	-	<b>(113)</b>	<b>(7 401)</b>	-	-
General governments	377 311	-	-	-	(113)	-	-	-
Credit institutions	10 989	-	-	-	-	-	-	-
Other financial corporations	1 363	-	-	-	-	-	-	-
Non-financial corporations	-	45 765	-	-	-	(7 401)	-	-
<b>Loans and advances</b>	<b>3 155 977</b>	<b>269 789</b>	<b>153 738</b>	<b>12 977</b>	<b>(18 496)</b>	<b>(20 157)</b>	<b>(124 566)</b>	<b>(9 079)</b>
Central banks	270 006	-	-	-	(6)	-	-	-
General governments	60 245	-	-	-	(19)	-	-	-
Credit institutions	49 241	-	-	-	(8)	-	-	-
Other financial corporations	438 389	-	13	8 451	(2 808)	-	(12)	(8 461)
Non-financial corporations	406 935	120 304	37 818	4 479	(10 510)	(10 220)	(27 570)	(593)
Households	1 931 161	149 485	115 907	47	(5 145)	(9 937)	(96 984)	(25)
<i>Lending for house purchase</i>	<i>1 327 442</i>	<i>45 973</i>	<i>4 448</i>	-	<i>(170)</i>	<i>(143)</i>	<i>(764)</i>	-
<i>Credit for consumption</i>	<i>597 544</i>	<i>103 427</i>	<i>108 548</i>	<i>47</i>	<i>(4 906)</i>	<i>(9 777)</i>	<i>(93 833)</i>	<i>(25)</i>
Other	6 175	85	2 911	-	(69)	(17)	(2 387)	-
Other financial assets	-	30 792	-	-	-	(943)	-	-
<b>Total</b>	<b>3 545 640</b>	<b>346 346</b>	<b>153 738</b>	<b>12 977</b>	<b>(18 609)</b>	<b>(28 501)</b>	<b>(124 566)</b>	<b>(9 079)</b>

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

EUR'000	Debt securities				Total
	Stage 1	Stage 2	Stage 3	POCI	
<b>As of 1 January 2022</b>	<b>(98)</b>	<b>(7 514)</b>	-	-	<b>(7 612)</b>
Increases due to origination and acquisition	(12)	-	-	-	(12)
Decreases due to derecognition	-	-	-	-	-
Changes due to change in credit risk (net)	(3)	113	-	-	110
Transfers:	-	-	-	-	-
<i>to/from Stage 1</i>	<i>x</i>	-	-	-	-
<i>to/from Stage 2</i>	-	<i>x</i>	-	-	-
<i>to/from Stage 3</i>	-	-	<i>x</i>	-	-
Changes due to movements in FX rates	-	-	-	-	-
<b>As of 30 September 2022</b>	<b>(113)</b>	<b>(7 401)</b>	-	-	<b>(7 514)</b>

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As of 1 January 2022</b>	<b>(21 004)</b>	<b>(33 075)</b>	<b>(147 085)</b>	<b>(8 946)</b>	<b>(210 110)</b>
Increases due to origination and acquisition	(3 642)	-	-	(13)	(3 655)
Decreases due to derecognition	1 535	6 827	4 043	7	12 412
Changes due to change in credit risk (net)	14 080	(6 543)	(4 246)	(127)	3 164
Unwinding of discount	-	-	-	-	-
Transfers:	(9 446)	12 634	(3 188)	-	-
to/from Stage 1	x	8 990	456	-	9 446
to/from Stage 2	(8 990)	x	(3 644)	-	(12 634)
to/from Stage 3	(456)	3 644	x	-	3 188
Decrease in allowance account due to write-offs	-	-	25 964	-	25 964
Changes due to movements in FX rates	(19)	-	(54)	-	(73)
<b>As of 30 September 2022</b>	<b>(18 496)</b>	<b>(20 157)</b>	<b>(124 566)</b>	<b>(9 079)</b>	<b>(172 298)</b>

## 9. Hedging derivatives

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

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

EUR'000	30 September 2022			31 December 2021		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Fair value hedges microhedge	140 366	8 236	791	134 476	-	3 549
Portfolio fair value hedges of interest rate risk	294 400	2 186	-	93 400	-	1 428
<b>Total</b>	<b>434 766</b>	<b>10 422</b>	<b>791</b>	<b>227 876</b>	<b>-</b>	<b>4 977</b>

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
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	
<b>Fair value hedges</b>					
Portfolio hedge of interest rate risk	411 682	200 037	-2 937	1 091	Financial assets at amortised cost
Interest rate microhedge	127 585	145 078	-8 854	2 260	Revaluation of FVOCI financial assets

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

EUR'000	1-9/2022	1-9/2021
Fair value changes of the hedging instrument	14 586	3 457
Fair value changes of the hedged item attributable to the hedged risk	(15 143)	(3 479)
<b>Gains/(losses) from hedge accounting, net</b>	<b>(557)</b>	<b>(22)</b>

## 10. Investments in subsidiaries, joint ventures and associates

EUR'000	30.9.2022	31.12.2021
<b>Cost</b>	<b>77 301</b>	<b>75 684</b>
Subsidiaries	76 901	75 544
Joint ventures	400	140
<b>Impairment</b>	<b>(7 022)</b>	<b>(7 022)</b>
<b>Total</b>	<b>70 279</b>	<b>68 662</b>

In 2022, the Bank made a contribution to the share capital of Monilogi, a. s., which is under joint control. The Bank increased its exposure to 365.fintech, a.s. and ART FOND – Stredoeurópsky fond súčasného umenia, a. s. by increasing other capital funds.

During 2021, the following significant changes occurred in investments:

- PB Partner, a.s. has been liquidated

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

- The Bank bought other shares in ART FOND - Stredoeurópsky fond súčasného umenia, a.s, thus acquiring control in the company with total ownership of 87,99%.
- The Bank increased its exposure to 365.fintech, a.s. by increasing other capital funds
- On 3 July 2021, the Bank sold its entire share in the subsidiary Poštová poisťovňa, a. s.
- The Bank purchased a 5% non-controlling interest in Ahoj, a. s., thus becoming 100% shareholder of the company.

## 11. Tangible assets

EUR'000	30.9.2022	31.12.2021
Tangible assets owned	22 218	25 319
Property, plant and equipment	22 218	25 319
Right of use assets	34 936	39 213
<b>Total</b>	<b>57 154</b>	<b>64 532</b>

EUR'000	Tangible assets owned				Total
	Land and buildings	Hardware	Fittings and other equipment	Assets not yet in use	
<b>Cost</b>					
As of 1 January 2022	19 710	12 102	19 482	765	52 059
Additions	-	-	-	1 284	1 284
Transfers	757	833	373	(1 963)	-
Disposals	(2 357)	(1 312)	(346)	(31)	(4 046)
<b>As of 30 September 2022</b>	<b>18 110</b>	<b>11 623</b>	<b>19 509</b>	<b>55</b>	<b>49 297</b>
<b>Accumulated depreciation</b>					
As of 1 January 2022	(7 001)	(8 624)	(10 473)	-	(26 098)
Depreciation for the year	(1 146)	(1 275)	(1 411)	-	(3 832)
Disposals	1 236	1 308	598	-	3 142
<b>As of 30 September 2022</b>	<b>(6 911)</b>	<b>(8 591)</b>	<b>(11 286)</b>	<b>-</b>	<b>(26 788)</b>
<b>Accumulated impairment losses</b>	<b>(269)</b>	<b>-</b>	<b>(23)</b>	<b>-</b>	<b>(292)</b>
<b>Carrying amount as at 30.9.2022</b>	<b>10 930</b>	<b>3 032</b>	<b>8 201</b>	<b>55</b>	<b>22 218</b>

EUR'000	Right of use assets			Total
	Land and buildings	Hardware	Fittings and other equipment	
<b>Cost</b>				
As of 1 January 2022	49 530	211	4 058	53 799
Additions	476	-	-	476
Remeasurements	(153)	-	-	(153)
Disposals	(198)	-	(105)	(303)
<b>As of 30 September 2022</b>	<b>49 655</b>	<b>211</b>	<b>3 953</b>	<b>53 819</b>
<b>Accumulated depreciation</b>				
As of 1 January 2022	(12 903)	(158)	(1 526)	(14 587)
Depreciation for the year	(3 992)	(39)	(472)	(4 503)
Disposals	115	-	92	207
<b>As of 30 September 2022</b>	<b>(16 780)</b>	<b>(197)</b>	<b>(1 906)</b>	<b>(18 883)</b>
<b>Accumulated impairment losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount as at 30.9.2022</b>	<b>32 875</b>	<b>14</b>	<b>2 047</b>	<b>34 936</b>

## 12. Intangible assets

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
<b>Cost</b>				
As of 1 January 2022	84 202	72	5 650	89 924
Additions	-	-	8 186	8 186
Transfers	7 011	14	(7 025)	-
Disposals	(707)	-	(29)	(736)
<b>As of 30 September 2022</b>	<b>90 506</b>	<b>86</b>	<b>6 782</b>	<b>97 374</b>
<b>Accumulated amortisation</b>				
As of 1 January 2022	(56 180)	(72)	-	(56 252)
Amortisation for the year	(8 194)	(3)	-	(8 197)
Disposals	706	-	-	706
<b>As of 30 September 2022</b>	<b>(63 668)</b>	<b>(75)</b>	<b>-</b>	<b>(63 743)</b>
<b>Accumulated impairment losses</b>	<b>(181)</b>	<b>-</b>	<b>-</b>	<b>(181)</b>
<b>Carrying amount as at 30.9.2022</b>	<b>26 657</b>	<b>12</b>	<b>6 782</b>	<b>33 451</b>

## 13. Deferred tax assets and liabilities

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

	30.9.2022	31.12.2021
Companies in SR	21%	21%

EUR'000	30.9.2022	31.12.2021
Impairment on financial assets at AC	17 943	22 176
Provisions for off-balance sheet exposures	109	160
Revaluation of financial assets at FVOCI	5 128	(2 724)
Tangible assets	640	280
Other	1 997	3 116
<b>Total deferred tax assets</b>	<b>25 817</b>	<b>23 008</b>

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

Movements in deferred tax were as follows:

EUR'000	1.1.2022	Profit or loss	OCI	30.9.2022
Impairment on financial assets at AC	22 176	(4 233)	-	17 943
Provisions for off-balance sheet exposures	160	(51)	-	109
Revaluation of financial assets at FVOCI	(2 724)	-	7 852	5 128
Tangible assets	280	360	-	640
Other	3 116	(1 119)	-	1 997
<b>Total</b>	<b>23 008</b>	<b>(5 043)</b>	<b>7 852</b>	<b>25 817</b>

## 14. Other assets

EUR'000	30.9.2022	31.12.2021
Deferred expenses	11 410	8 952
Accrued income	3 536	3 773
Inventories	308	334
Prepayments	6 014	3 725
<b>Total</b>	<b>21 268</b>	<b>16 784</b>

## 15. Financial liabilities measured at amortised cost

EUR'000	30.9.2022	31.12.2021
<b>Deposits</b>	<b>3 791 052</b>	<b>4 006 346</b>
Central banks	248 378	249 931
General governments	3 838	3 613
Credit institutions excluding subordinated debt	12 203	74 487
Credit institutions - subordinated debt	8 013	8 014
Other financial corporations	124 470	157 046
Non-financial corporations	156 623	146 900
Households	3 237 527	3 366 355
<b>Debt securities issued</b>	<b>66 509</b>	<b>64 794</b>
Non-convertible debt securities issued	66 509	64 794
<b>Other financial liabilities</b>	<b>34 665</b>	<b>58 641</b>
Clearing and settlement items	2 290	5 930
Liabilities to employees	3 377	3 190
Liabilities from social and health insurance and social fund	1 734	1 516
Tax liabilities	509	867
Received prepayments	4 502	5 002
Liabilities from dividends	28	28
Lease liabilities	35 604	39 762
Other creditors	(13 379)	2 346
<b>Total</b>	<b>3 892 226</b>	<b>4 129 781</b>

In November and December 2021, 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	30.9.2022	31.12.2021
Debt securities issued	22.11.2021	22.11.2024	3.50%	15	1 000	EUR	15 395	14 984
Debt securities issued	22.12.2021	22.12.2024	3.50%	500	100	EUR	51 114	49 810
<b>Total</b>							<b>66 509</b>	<b>64 794</b>

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

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

EUR'000	30.9.2022	31.12.2021
Subordinated debt	8 013	8 014

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

Creditor	Debtor	Carrying amount	Interest rate	Maturity
<b>Subordinated debt</b>				
J&T BANKA, a.s.	365.bank, a.s.	8 013	3M EURIBOR+6%	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 and foreign government bonds measured at fair value through other comprehensive income (EUR 163 million) and Slovak government bonds measured at amortised cost (EUR 271,644 thousand).

As at 30 September 2022, outstanding borrowing on the balance sheet under the third series of the targeted longer-term refinancing operation (TLTRO-III) program of the ECB amounts to EUR 248,378 thousand.

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

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



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

The TLTRO III negative interest amount recorded in the 2022 profit or loss is EUR 1,552 thousand.

## 16. Provisions

EUR'000	30.9.2022	31.12.2021
Commitments and guarantees given	521	763
<i>Loan commitments</i>	504	573
<i>Guarantees given</i>	17	190
Other provisions	-	6
<b>Total</b>	<b>521</b>	<b>769</b>

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

EUR'000	Commitments and guarantees given				Total
	Stage 1	Stage 2	Stage 3	POCI	
<b>As of 1 January 2022</b>	<b>411</b>	<b>351</b>	<b>1</b>	<b>-</b>	<b>763</b>
Increases due to origination and acquisition	501	-	-	-	501
Decreases due to derecognition	(448)	(570)	-	-	(1 018)
Changes due to change in credit risk (net)	(143)	388	27	-	272
Transfers:	(82)	82	-	-	-
<i>(to)/from Stage 1</i>	x	82	-	-	82
<i>(to)/from Stage 2</i>	(82)	x	-	-	(82)
<i>(to)/from Stage 3</i>	-	-	x	-	-
Changes due to movements in FX rates	3	-	-	-	3
<b>As of 30 September 2022</b>	<b>242</b>	<b>251</b>	<b>28</b>	<b>-</b>	<b>521</b>

## 17. Other liabilities

EUR'000	30.9.2022	31.12.2021
Estimated payables (PEREX, OPEX)	9 198	13 705
Deferred income	(231)	129
<b>Total</b>	<b>8 967</b>	<b>13 834</b>

## 18. Equity

### a) Share capital

	30.9.2022	31.12.2021
Nominal value per share in EUR	1 107	1 107
Number of shares	330 899	330 899
<b>Total share capital in EUR'000</b>	<b>366 305</b>	<b>366 305</b>

All shares of the Bank are ordinary registered shares.

### b) Legal reserve fund

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

### c) Revaluation of financial instruments measured through other comprehensive income

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

### d) Translation reserve

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

e) *Distribution of profit in the previous period*

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

<b>EUR'000</b>	
<b>Profit for the year</b>	<b>58 298</b>
Dividends	-
Transfer to retained earnings	52 468
Transfer to legal reserve fund	5 830

## 19. Off-balance sheet items

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

<b>EUR'000</b>	<b>30.9.2022</b>	<b>31.12.2021</b>
Loan commitments given	144 862	274 617
Financial guarantees given	13 474	16 657
<b>Total</b>	<b>158 336</b>	<b>291 274</b>

b) *Assets involved in the services provided*

<b>EUR'000</b>	<b>30.9.2022</b>	<b>31.12.2021</b>
Asset management	808 705	960 554
Custody assets	136 909	104 068
<b>Total</b>	<b>945 614</b>	<b>1 064 622</b>

c) *Securities provided as collateral*

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

<b>EUR'000</b>	<b>30.9.2022</b>	<b>31.12.2021</b>
Financial assets at fair value through other comprehensive income	150 366	185 995
Financial assets at amortised cost	283 917	270 682
<b>Total</b>	<b>434 283</b>	<b>456 677</b>

## 20. Net interest income

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

EUR'000	1-9/2022	1-9/2021
<b>Interest income</b>		
Financial assets at fair value through other comprehensive income	3 511	4 335
Financial assets at amortised cost	90 577	101 016
<i>Debt securities</i>	4 197	4 208
<i>Loans and advances</i>	86 380	96 808
Derivatives - Hedge accounting, interest rate risk	(1 315)	(1 731)
Other assets	98	5
<i>Cash balances at central banks</i>	77	-
<i>Other demand deposits</i>	21	-
<i>Other</i>	-	5
Interest income on liabilities	1 552	-
<b>Total interest income</b>	<b>94 423</b>	<b>103 625</b>
<b>Interest expenses</b>		
Financial liabilities measured at amortised cost	(5 101)	(3 779)
<i>thereof: lease liabilities</i>	(405)	(408)
Other liabilities	(1)	-
Interest expense on assets	(71)	(92)
<b>Total interest expense</b>	<b>(5 173)</b>	<b>(3 871)</b>
<b>Net interest income</b>	<b>89 250</b>	<b>99 754</b>
<b>EUR'000</b>	<b>1-9/2022</b>	<b>1-9/2021</b>
Interest income calculated on an EIR	94 300	103 625
Other interest income	123	-
<b>Total interest income</b>	<b>94 423</b>	<b>103 625</b>

## 21. Net fee and commission income

EUR'000	1-9/2022	1-9/2021
<b>Fee and commission income</b>		
Securities	-	50
Clearing and settlement	11 800	10 977
Custody	2 696	2 460
Payment services	23 027	22 060
<i>Current accounts</i>	18 353	18 309
<i>Debit cards and other card payments</i>	226	273
<i>Transfers and other payment orders</i>	1 564	1 409
<i>Other fee and commission income in relation to payment services</i>	2 884	2 069
Loan servicing activities	1 939	1 768
Loan commitments given	122	617
Financial guarantees given	156	226
Other	14 008	9 037
<b>Total fee and commission income</b>	<b>53 748</b>	<b>47 195</b>
Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customers contracts	53 470	46 352
<b>Fee and commission expenses</b>		
Securities	(128)	-
Clearing and settlement	(16 890)	(16 337)
Custody	(286)	(301)
Loan servicing activities	(947)	(2 090)
Other	(1 763)	(2 814)
<b>Total fee and commission expenses</b>	<b>(20 014)</b>	<b>(21 542)</b>
<b>Net fee and commission income</b>	<b>33 734</b>	<b>25 653</b>

## 22. Dividend income

EUR'000	1-9/2022	1-9/2021
Non-trading financial assets mandatorily at fair value through profit or loss	8 335	11
Financial assets at fair value through other comprehensive income	3	-
Investments in subsidiaries, joint ventures and associates	16 493	14 770
<b>Total</b>	<b>24 831</b>	<b>14 781</b>

## 23. Net gains/(losses) from financial transactions

EUR'000	1-9/2022	1-9/2021
<b>Gains/(losses) on derecognition of financial assets and liabilities not at FVPL</b>	<b>(91)</b>	<b>5 490</b>
Financial assets at fair value through other comprehensive income	(91)	-
<i>Debt securities</i>	(91)	-
<i>thereof: reclassified from other comprehensive income</i>	(91)	-
Other	-	5 490
<b>Gains/(losses) on financial assets and liabilities held for trading, net</b>	<b>(5 563)</b>	<b>(6 062)</b>
Derivatives	(5 563)	(6 062)
<b>Gains/(losses) on non-trading financial assets mandatorily at FVPL, net</b>	<b>3 174</b>	<b>9 442</b>
Revaluation gains/(losses)	3 174	9 442
<b>Gains/(losses) from hedge accounting, net</b>	<b>(557)</b>	<b>(22)</b>
Fair value changes of the hedging instrument	14 586	3 457
Fair value changes of the hedged item attributable to the hedged risk	(15 143)	(3 479)
<b>Exchange differences, net</b>	<b>3 270</b>	<b>6 437</b>
<b>Total</b>	<b>233</b>	<b>15 285</b>

## 24. Other operating income and expenses

EUR'000	1-9/2022	1-9/2021
<b>Other operating expenses</b>	<b>(3 947)</b>	<b>(4 663)</b>
Bank and insurance companies specific fees	(2 552)	(2 358)
<i>Resolution fund</i>	(237)	(235)
<i>Deposit protection fund</i>	(2 315)	(2 123)
Other	(1 395)	(2 305)
<b>Other operating income</b>	<b>1 977</b>	<b>3 727</b>
Other	1 977	3 727
<b>Gains/(losses) on derecognition of non-financial assets, net</b>	<b>(317)</b>	<b>(322)</b>
<b>Total</b>	<b>(2 287)</b>	<b>(1 258)</b>

## 25. Administrative expenses

EUR'000	1-9/2022	1-9/2021
<b>Staff expenses</b>	<b>(35 400)</b>	<b>(30 894)</b>
Wages and salaries (including bonuses)	(25 431)	(22 174)
Social expenses	(9 969)	(8 720)
<b>Other administrative expenses</b>	<b>(28 215)</b>	<b>(25 758)</b>
Rental expenses	(1 057)	(1 158)
<i>Short-term lease contracts</i>	(931)	(776)
<i>Variable lease payments not included in the lease liabilities</i>	(31)	(213)
<i>Other</i>	(95)	(169)
Real estate expenses	(2 019)	(1 999)
IT expenses	(8 416)	(6 141)
Marketing and advertisement	(5 229)	(3 547)
Legal and consulting services	(905)	(1 818)
Post and telecommunication	(2 537)	(2 994)
Material consumption	(558)	(740)
Repair and maintenance	(2 234)	(2 495)
Other administrative expenses - Rest	(5 260)	(4 866)
<b>Total</b>	<b>(63 615)</b>	<b>(56 652)</b>
	<b>1-9/2022</b>	<b>1-9/2021</b>
Number of employees as of balance sheet date	1 174	1 186
Average number of employees for the period	1 206	1 184
thereof, key management	20	22

## 26. Depreciation

EUR'000	1-9/2022	1-9/2021
<b>Property, plant and equipment</b>	<b>(3 832)</b>	<b>(3 816)</b>
Buildings	(1 146)	(1 218)
Hardware	(1 275)	(1 240)
Fittings and other equipment	(1 411)	(1 358)
<b>Right of use assets</b>	<b>(4 503)</b>	<b>(4 205)</b>
Buildings	(3 992)	(3 687)
Hardware	(39)	(39)
Fittings and other equipment	(472)	(479)
<b>Intangible assets</b>	<b>(8 197)</b>	<b>(10 665)</b>
Software	(8 194)	(10 663)
Other intangible assets	(3)	(2)
<b>Total</b>	<b>(16 532)</b>	<b>(18 686)</b>

## 27. Impairment losses and provisions

EUR'000	1-9/2022	1-9/2021
<b>Net impairment of financial assets not valued at fair value through profit or loss</b>	<b>17 284</b>	<b>(21 903)</b>
Financial assets at fair value through other comprehensive income	128	(8 125)
<i>Debt securities</i>	128	(8 125)
Financial assets at amortised cost	17 156	(13 778)
<i>Debt securities</i>	98	107
<i>Loans and advances</i>	16 971	(14 155)
<i>Other financial assets</i>	87	270
<b>Net impairment of investments in subsidiaries, joint ventures and associates</b>	<b>-</b>	<b>2 142</b>
Subsidiaries	-	2 142
<b>Release/(creation) of provisions</b>	<b>252</b>	<b>1 844</b>
<b>Net impairment on non-financial assets</b>	<b>395</b>	<b>318</b>
<b>Total</b>	<b>17 931</b>	<b>(17 599)</b>

## 28. Income tax

EUR'000	1-9/2022	1-9/2021
<b>Current income tax</b>	<b>(8 480)</b>	<b>(10 816)</b>
<b>Deferred tax</b>	<b>(5 043)</b>	<b>(368)</b>
<b>Total</b>	<b>(13 523)</b>	<b>(11 184)</b>

## 29. Related party transactions

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

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

- Companies that directly or indirectly, through one or more intermediaries, control or are controlled, have significant influence, or are under joint control of the reporting company
- Affiliated companies in which the parent company has significant influence, and which are not a subsidiary, nor a joint venture
- Individuals owning, directly or indirectly, shares in the voting right of the Bank that gives them significant influence over the Bank, and any other individual who may be expected to influence, or be influenced by that person in their dealings with the Bank
- Key management personnel, i.e. 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
- 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

30.9.2022	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
<b>Assets</b>	-	<b>154 008</b>	<b>57 762</b>	<b>1 147</b>	-	<b>2 482</b>	<b>24 444</b>
Other demand deposits	-	196	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	145 119	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	8 622	-	-	-	-	-
Financial assets at amortised cost	-	71	57 762	1 147	-	2 482	24 444
<i>Debt securities</i>	-	-	-	-	-	-	-
<i>Loans and advances</i>	-	-	55 903	-	-	2 482	24 444
<i>Other financial assets</i>	-	71	1 859	1 147	-	-	-
<b>Liabilities</b>	<b>1</b>	<b>21 344</b>	<b>9 113</b>	<b>4 496</b>	-	<b>2 027</b>	<b>1 043</b>
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1	21 344	9 113	4 496	-	2 027	1 043
<i>Deposits</i>	1	21 344	8 755	4 496	-	2 027	782
<i>Other financial liabilities</i>	-	-	359	-	-	-	261
Derivatives – Hedge accounting	-	-	-	-	-	-	-
<b>1-9/2022</b>							
<b>Income/expenses</b>	-	-	-	-	-	-	-
Net interest income	320	(64)	811	-	-	12	755
Net fee and commission income	42	270	2 979	5 686	-	1	(1 887)
Net gains/(losses) from financial transactions	-	5 130	-	-	-	-	-
Net other operating expenses	-	46	(353)	69	-	-	-
Administrative expenses	-	(26)	(3 489)	-	-	-	(1 783)
<b>31.12.2021</b>							
<b>Assets</b>	<b>59 990</b>	<b>158 872</b>	<b>66 164</b>	<b>561</b>	-	<b>1 887</b>	<b>142 027</b>
Other demand deposits	-	223	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	139 791	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	10 056	-	-	-	-	-
Financial assets at amortised cost	59 990	8 802	66 164	561	-	1 887	142 027
<i>Debt securities</i>	-	-	-	-	-	-	-
<i>Loans and advances</i>	59 990	8 662	64 272	-	-	1 887	142 027
<i>Other financial assets</i>	-	140	1 892	561	-	-	-
<b>Liabilities</b>	-	<b>17 154</b>	<b>9 679</b>	<b>3 799</b>	-	<b>1 499</b>	<b>1 739</b>
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	17 154	9 679	3 799	-	1 499	1 739
<i>Deposits</i>	-	17 147	9 124	3 799	-	1 499	1 724
<i>Other financial liabilities</i>	-	7	555	-	-	-	15
Derivatives – Hedge accounting	-	-	-	-	-	-	-
<b>1-9/2021</b>							
<b>Income/expenses</b>	-	-	-	-	-	-	-
Net interest income	771	253	966	-	-	6	2 280
Net fee and commission income	16	235	4 954	5 892	-	1	291
Net gains/(losses) from financial transactions	-	255	-	-	-	-	-
Net other operating expenses	-	-	(148)	90	-	-	-
Administrative expenses	-	(43)	(3 580)	-	-	-	(86)

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 2022 is in the amount of EUR 3,258 thousand (2021: EUR 2,397 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.

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	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>ASSETS</b>								
<b>Financial assets held for trading</b>	-	-	107	2	-	-	107	2
Derivatives	-	-	107	2	-	-	107	2
<b>Non-trading financial assets mandatorily at FVPL</b>	-	-	247 028	298 231	-	-	247 028	298 231
Equity instruments	-	-	247 028	298 231	-	-	247 028	298 231
<b>Financial assets at FVOCI</b>	247 012	337 413	3 431	-	27 061	48 089	277 504	385 502
Equity instruments	-	-	-	-	65	65	65	65
Debt securities	247 012	337 413	3 431	-	26 996	48 024	277 439	385 437
<b>Derivatives – Hedge accounting</b>	-	-	10 422	-	-	-	10 422	-
<b>Total assets</b>	247 012	337 413	260 988	298 233	27 061	48 089	535 061	683 735

EUR'000	Level 1		Level 2		Level 3		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>LIABILITIES</b>								
<b>Financial liabilities held for trading</b>	-	-	1 335	3 695	-	-	1 335	3 695
Derivatives	-	-	1 335	3 695	-	-	1 335	3 695
<b>Derivatives – Hedge accounting</b>	-	-	791	4 977	-	-	791	4 977
<b>Total liabilities</b>	-	-	2 126	8 672	-	-	2 126	8 672

## 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	
	1-9/2022	1-9/2021	1-9/2022	1-9/2021	1-9/2022	1-9/2021	1-9/2022	1-9/2021
Interest income	43 313	48 564	46 967	52 918	4 143	2 143	94 423	103 625
Interest expenses	(2 467)	(2 840)	(50)	(24)	(2 656)	(1 007)	(5 173)	(3 871)
<b>Net interest income</b>	<b>40 846</b>	<b>45 724</b>	<b>46 917</b>	<b>52 894</b>	<b>1 487</b>	<b>1 136</b>	<b>89 250</b>	<b>99 754</b>
Fee and commission income	42 897	35 697	10 541	11 231	310	267	53 748	47 195
Fee and commission expenses	(14 949)	(16 373)	(4 408)	(4 567)	(657)	(602)	(20 014)	(21 542)
<b>Net fee and commission income</b>	<b>27 948</b>	<b>19 324</b>	<b>6 133</b>	<b>6 664</b>	<b>(347)</b>	<b>(335)</b>	<b>33 734</b>	<b>25 653</b>
<b>Net interest and fee margin</b>	<b>68 794</b>	<b>65 048</b>	<b>53 050</b>	<b>59 558</b>	<b>1 140</b>	<b>801</b>	<b>122 984</b>	<b>125 407</b>
Impairment losses and provisions	(6 495)	(10 904)	24 420	(6 787)	6	92	17 931	(17 599)

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
Assets	2 079 855	1 764 625	1 345 133	1 786 234	1 269 922	1 354 027	4 694 910	4 904 886
Liabilities	3 229 074	3 295 552	249 615	284 052	1 216 221	1 325 282	4 694 910	4 904 886

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

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	1-9/2022	1-9/2021	1-9/2022	1-9/2021	1-9/2022	1-9/2021	1-9/2022	1-9/2021
<b>Fee and commission income</b>								
Securities	-	-	-	-	-	50	-	50
Clearing and settlement	6 175	5 506	5 408	5 379	217	92	11 800	10 977
Custody	-	-	2 689	2 458	7	2	2 696	2 460
Payment services	21 121	19 874	1 859	2 179	47	7	23 027	22 060
Loan servicing activities	1 630	1 264	288	404	21	100	1 939	1 768
Loan commitments given	-	-	109	615	13	2	122	617
Financial guarantees given	-	45	156	180	-	1	156	226
Other	13 971	9 008	32	16	5	13	14 008	9 037
<b>Total fee and commission income</b>	<b>42 897</b>	<b>35 697</b>	<b>10 541</b>	<b>11 231</b>	<b>310</b>	<b>267</b>	<b>53 748</b>	<b>47 195</b>

## 32. Risk management

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

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

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

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



The Bank has exposure to the following main risks:

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

#### **Settlement risk**

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

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

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

### **33. Credit risk**

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

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

Credit risk management includes:

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

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

When analysing client deals the Bank uses:

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

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

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

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

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

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

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

EUR'000	Financial assets at amortised cost				Financial assets at FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Central banks</b>	-	-	<b>270 006</b>	-	-	-	-	-	-	-
<b>General governments</b>	<b>377 311</b>	<b>307 533</b>	<b>60 245</b>	<b>60 000</b>	<b>197 951</b>	<b>266 897</b>	-	-	-	-
<b>Credit institutions</b>	<b>10 989</b>	<b>30 990</b>	<b>49 241</b>	<b>23 270</b>	<b>27 054</b>	<b>28 346</b>	-	-	-	-
<b>Other financial corporations</b>	<b>1 363</b>	<b>1 424</b>	<b>446 853</b>	<b>553 697</b>	<b>25 438</b>	<b>29 180</b>	<b>2 558</b>	<b>9 346</b>	-	-
<b>Non-financial corporations</b>	<b>45 765</b>	<b>46 627</b>	<b>569 536</b>	<b>845 625</b>	<b>26 996</b>	<b>61 014</b>	<b>12 497</b>	<b>52 822</b>	<b>13 474</b>	<b>16 657</b>
A Agriculture, forestry and fishing	-	-	35 763	17 887	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	41 291	59 798	-	-	287	438	76	76
D Electricity, gas, steam and air conditioning supply	-	-	31 847	67 609	-	-	349	-	-	-
E Water supply	-	-	494	305	-	-	-	-	-	-
F Construction	-	-	16 403	113 848	-	-	4 768	2 108	98	2 972
G Wholesale and retail trade	-	-	24 220	25 397	-	-	521	446	361	487
H Transport and storage	-	-	2 236	1 097	-	-	20	23	3	3
I Accommodation and food service activities	-	-	14 812	75 463	-	-	2 101	64	-	-
J Information and communication	-	-	9 843	10 104	-	-	3 500	3 979	150	150
K Financial and insurance activities	-	-	-	53 508	-	-	242	45 600	5 296	5 230
L Real estate activities	45 765	46 627	162 788	157 878	-	-	560	44	-	-
M Professional, scientific and technical activities	-	-	89 145	92 511	-	-	74	87	7 490	7 739
N Administrative and support service activities	-	-	73 167	78 890	-	-	75	29	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	3	13	-	-	-	-	-	-
Q Human health services and social work activities	-	-	29	19 246	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	61 436	69 187	26 996	61 014	-	-	-	-
S Other services	-	-	6 059	2 884	-	-	-	4	-	-
<b>Households</b>	-	-	<b>2 196 600</b>	<b>1 890 972</b>	-	-	<b>129 807</b>	<b>212 449</b>	-	-
<b>Total</b>	<b>435 428</b>	<b>386 574</b>	<b>3 592 481</b>	<b>3 373 564</b>	<b>277 439</b>	<b>385 437</b>	<b>144 862</b>	<b>274 617</b>	<b>13 474</b>	<b>16 657</b>

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	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
Slovak Republic	389 639	320 481	2 974 126	2 481 397	167 294	247 927	144 612	228 877	497	3 750
Czech Republic	-	-	247 016	348 281	7 128	29 462	238	30 547	261	257
Cyprus	-	-	178 109	298 390	-	-	1	14 977	-	-
Luxemburg	1 363	1 424	122 055	133 395	9 689	11 621	-	-	-	-
Switzerland	-	-	61 151	69 171	-	-	2	2	-	-
France	-	-	7 468	1 100	51 077	51 375	1	1	-	-
Netherlands	-	20 000	2 000	21 991	-	-	-	-	5 296	5 230
Lithuania	10 043	10 110	-	-	12 257	13 329	-	-	-	-
Latvia	2 156	2 181	-	-	17 252	17 663	-	-	-	-
Germany	-	-	178	19 537	-	-	1	1	-	-
Other countries	32 227	32 378	378	302	12 742	14 060	7	212	7 420	7 420
<b>Total</b>	<b>435 428</b>	<b>386 574</b>	<b>3 592 481</b>	<b>3 373 564</b>	<b>277 439</b>	<b>385 437</b>	<b>144 862</b>	<b>274 617</b>	<b>13 474</b>	<b>16 657</b>

### 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	External rating Moody's	Internal rating corporate	Internal rating retail	1YPD
Low credit risk	Aaa-Aa3	1-3	A1-A3	0.2%-1%
Low credit risk	A1-A3			
Low credit risk	Baa1-Baa3			
Low credit risk	Ba1-Ba2			
Moderate credit risk	Ba3	4C-5C	B1-C1	2%-8%
Moderate credit risk	B1-B3			
Moderate credit risk	Caa1			
High credit risk	Caa2-Caa3	6-8	C2-C3	12%-35%
High credit risk	Ca-C		D-F	
Default	D	9-10	Default	100%

### Measurement of expected credit losses

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

- **Stage 1:** A financial instrument that is not 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 2021: EUR 300 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (31 December 2021: EUR 300 thousand) are assessed individually in the staging process.

The same principles are also applied 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 worst degree;
- forbearance indicator.

The following thresholds apply to corporate portfolios:

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

*ii. Qualitative criteria:*

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

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

*i. Hard criteria:*

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

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

*ii. Soft criteria:*

- The receivable is overdue (up to 90 days);
- The Bank recognises a specific concession to the loan agreement, resulting from a significant reduction in the quality of the loan;
- Signs of impairment, leading to the assumption that the borrower will not pay its credit obligations to the Bank in full amount and in time, without the Bank taking any actions such as realisation of the collateral;
- Significant impairment of main collateral;

- Failure of the debtor in another financial institution, or failure of another client's loans and advances in the Bank;
- Any other warning signs identified in the client monitoring and engagement process that, according to the Bank's assessment, will result in the debtor not paying his credit commitments to the Bank in full and in time, without the bank taking steps toward loan collateral.

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

### **Forward-looking information**

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

#### *i. Individually assessed exposures*

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

#### *ii. Portfolio-based exposures*

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

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

As at 30 September 2022, the setting of FLI parameters in relation to retail client defaults in 2022 for portfolio assessed exposures is based upon favourable expectations of the Bank. In 2021, the Bank observed lower retail client default rates than in the previous year.

### **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  $ECL = PD \times EAD \times LGD$ , where:

- PD: The probability of default is the likelihood that the borrower does not meet its financial obligations. PD depends on the rating and the following rules apply:
  - Stage 1: Use of 12-month PD, i.e. probability of default over the next 12 months;
  - Stage 2: PD is used over the lifetime, i.e. probability of default over the entire maturity of the exposure;
  - Stage 3: The PD is equal to 1 because the exposure is already defaulted;

- EAD: Unsecured Exposure at default;
- LGD: Loss given default means the ratio of credit loss in case of default to EAD.

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

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

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total		
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	
<b>Financial assets at AC - Debt securities</b>											
Low credit risk	389 663	339 947	-	-	-	-	-	-	-	389 663	339 947
Moderate credit risk	-	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	45 765	46 627	-	-	-	-	-	45 765	46 627
Default	-	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>389 663</b>	<b>339 947</b>	<b>45 765</b>	<b>46 627</b>	-	-	-	-	-	<b>435 428</b>	<b>386 574</b>
Impairment allowance	(113)	(98)	(7 401)	(7 514)	-	-	-	-	-	(7 514)	(7 612)
<b>Carrying amount</b>	<b>389 550</b>	<b>339 849</b>	<b>38 364</b>	<b>39 113</b>	-	-	-	-	-	<b>427 914</b>	<b>378 962</b>

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Financial assets at AC - Loans and advances</b>										
Low credit risk	1 037 283	933 024	47 906	61 128	-	-	-	-	1 085 189	994 152
Moderate credit risk	1 489 315	1 493 070	68 031	74 907	-	-	9	-	1 557 355	1 567 977
High credit risk	309 929	308 649	148 691	285 596	-	-	4 489	4 649	463 109	598 894
Default	-	-	-	-	150 530	167 865	8 479	8 226	159 009	176 091
Not rated	319 450	23 270	5 161	9 438	3 208	3 737	-	5	327 819	36 450
<b>Gross amount</b>	<b>3 155 977</b>	<b>2 758 013</b>	<b>269 789</b>	<b>431 069</b>	<b>153 738</b>	<b>171 602</b>	<b>12 977</b>	<b>12 880</b>	<b>3 592 481</b>	<b>3 373 564</b>
Impairment allowance	(18 496)	(21 004)	(20 157)	(33 075)	(124 566)	(147 085)	(9 079)	(8 946)	(172 298)	(210 110)
<b>Carrying amount</b>	<b>3 137 481</b>	<b>2 737 009</b>	<b>249 632</b>	<b>397 994</b>	<b>29 172</b>	<b>24 517</b>	<b>3 898</b>	<b>3 934</b>	<b>3 420 183</b>	<b>3 163 454</b>

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Financial assets at FVOCI - Debt securities</b>										
Low credit risk	234 693	306 864	-	-	-	-	-	-	234 693	306 864
Moderate credit risk	15 750	40 605	-	-	-	-	-	-	15 750	40 605
High credit risk	-	-	26 996	37 968	-	-	-	-	26 996	37 968
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>250 443</b>	<b>347 469</b>	<b>26 996</b>	<b>37 968</b>	-	-	-	-	<b>277 439</b>	<b>385 437</b>
Impairment allowance in OCI	(155)	(355)	(8 331)	(8 260)	-	-	-	-	(8 486)	(8 615)



EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Loan and other commitments given</b>										
Low credit risk	90 996	131 448	-	-	-	-	-	-	90 996	131 448
Moderate credit risk	41 883	132 050	-	-	-	-	-	-	41 883	132 050
High credit risk	2 029	1 733	3 269	1 939	-	-	-	-	5 298	3 672
Default	-	-	-	-	90	6	-	-	90	6
Not rated	3 000	3 000	3 595	4 441	-	-	-	-	6 595	7 441
<b>Gross amount</b>	<b>137 908</b>	<b>268 231</b>	<b>6 864</b>	<b>6 380</b>	<b>90</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>144 862</b>	<b>274 617</b>
<b>Provision</b>	<b>226</b>	<b>299</b>	<b>250</b>	<b>273</b>	<b>28</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>504</b>	<b>573</b>

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021	30.9.2022	31.12.2021
<b>Financial guarantees given</b>										
Low credit risk	76	76	-	-	-	-	-	-	76	76
Moderate credit risk	5 853	13 334	-	-	-	-	-	-	5 853	13 334
High credit risk	7 490	1 618	55	1 629	-	-	-	-	7 545	3 247
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>13 419</b>	<b>15 028</b>	<b>55</b>	<b>1 629</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13 474</b>	<b>16 657</b>
<b>Provision</b>	<b>16</b>	<b>112</b>	<b>1</b>	<b>78</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>190</b>

### **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:

<b>EUR'000</b>	<b>30.9.2022</b>	<b>31.12.2021</b>
Real-estates	1 491 386	1 182 368
Securities	216 892	226 588
Cash	-	3
Other	18 633	139 218
<b>Total</b>	<b>1 726 911</b>	<b>1 548 177</b>

Collateral in default loans and advances at amortised cost:

<b>EUR'000</b>	<b>30.9.2022</b>	<b>31.12.2021</b>
Gross amount	162 217	179 828
Impairment allowance	(133 860)	(155 316)
<b>Carrying amount</b>	<b>28 357</b>	<b>24 512</b>
<b>Collateral</b>	<b>11 433</b>	<b>7 122</b>

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.

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:

	30.9.2022	31.12.2021
End of the period	2.04	1.58
Average for the period	1.66	2.04
Maximum for the period	2.13	3.00
Minimum for the period	1.27	1.58

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

	30.9.2022	31.12.2021
End of the period	1.31	1.27

## **35. Market risk**

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

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

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

## Management of market risks

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

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

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

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

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

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

## Interest rate risk

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

Other sources of interest rate risk are:

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

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

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

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

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

### **Share price risk**

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

When investing in equity instruments, the Bank:

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

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

### **Foreign exchange risk**

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

### **IBOR reform**

#### *Risk Management*

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

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

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

#### *Non - derivative financial assets and liabilities*

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

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

The Bank does not recognise significant exposures as at 30 September 2022, which will be affected by the IBOR reform as amended on 1 January 2022.

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

### *Derivatives*

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

### *Hedge accounting*

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

## **36. Operational risk**

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

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

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

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

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

### ***Legal risk***

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

### ***Compliance risk***

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

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

### ***Risks related to outsourcing***

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

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

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

### 37. Capital management

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

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

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

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

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

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

EUR'000	30.9.2022	31.12.2021
<b>Tier I Capital</b>	<b>711 168</b>	<b>670 036</b>
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	69 827	63 997
Selected components of accumulated other comprehensive income	(17 937)	6 665
Profit or loss of previous years	302 115	249 646
Intangible assets	(17 719)	(33 446)
Additional valuation adjustments	(607)	(761)
Other transitional adjustments to CET1 Capital	8 446	16 892
<b>Tier II Capital</b>	<b>8 000</b>	<b>8 000</b>
Subordinated debt	8 000	8 000
<b>Regulatory capital total</b>	<b>719 168</b>	<b>678 036</b>

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

EUR'000	30.9.2022	31.12.2021
<b>Capital required to cover:</b>		
Credit risk	228 207	259 620
Credit value adjustment risk	443	202
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	23 535	23 535
<b>Total capital requirements</b>	<b>252 185</b>	<b>283 357</b>
<b>Capital ratios</b>		
Total capital level as a percentage of total risk weighted assets	22.81%	19.14%
Tier I capital as a percentage of total risk weighted assets	22.56%	18.92%
Common Equity Tier I capital as a percentage of total risk weighted assets	22.56%	18.92%

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

EUR'000	30.9.2022	31.12.2021
<b>Available capital (amounts)</b>		
Common Equity Tier I (CET1) capital	711 168	670 036
Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied	702 722	653 144
Tier I capital	711 168	670 036
Tier I capital as if IFRS 9 transitional arrangements were not applied	702 722	653 144
Total capital	719 168	678 036
Total capital as if IFRS 9 transitional arrangements were not applied	710 722	661 144
<b>Risk-weighted assets (amounts)</b>		
Risk-weighted assets	3 152 316	3 541 963
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 143 378	3 524 522
<b>Capital ratio</b>		
Common Equity Tier I capital (as a percentage of risk exposure amount)	22.56%	18.92%
Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.36%	18.53%
Tier I capital (as a percentage of risk exposure amount)	22.56%	18.92%
Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.36%	18.53%
Total capital (as a percentage of risk exposure amount)	22.81%	19.14%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	22.61%	18.76%

### 38. Post balance-sheet events

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