365.bank, a. s.

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

for the year ended 31 December 2021
(English translation)

Contents

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

Independent Auditors' Report

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

Report on the Audit of the Separate Financial Statements

Opinion

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

- the separate statement of financial position as at 31 December 2021;

and, for the period then ended:

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

and

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

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have determined the following key audit matters:

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2021: € 3 290 294 thousand; impairment loss recognized in 2021: € 14 263 thousand; total impairment loss as at 31 December 2021: € 210 073 thousand.

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

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

management judgment are incorporated into the model assumptions.

For non-performing exposures equal to or exceeding € 300 thousand individually, the impairment assessment is based on the Bank's knowledge of each individual borrower and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation.

For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.

in the ECL model. Also, assessing and testing the Bank's IT control environment for data security and access;

- Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and the overall ECL estimate;

- Assessing whether the definition of default and the financial instruments standard's staging criteria were appropriately and consistently applied;

- For collective impairment allowance:

- Obtaining the Bank's forward-looking information used in the ECL assessment. Assessing the information by means of comparison to publicly available information and corroborating inquiries of the Management Board;

- Challenging key model parameters of loan given default (LGD) and probability of default (PD), by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances.

- For impairment allowances calculated individually:
- For a risk-based sample of loans, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 3 as at 31 December 2021;
- For the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as collateral values by reference publicly available market data search and also

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

Measurement of securities held at fair value

The carrying amount of securities held at fair value as at 31 December 2021: € 683 733 thousand; negative change in fair value recognized in profit or loss for the year ended 31 December 2021: € 12 846 thousand; negative change in fair value recognized in other comprehensive income for the year ended 31 December 2021: € 3 777 thousand.

Refer to Note 2 (Accounting policies), Note 6 (Non-trading financial assets mandatorily at fair value through profit or loss), Note 7 (Financial assets at fair value through other comprehensive income) and Note 24 (Net gains/(losses) from financial transactions) to the separate financial statements.

Key audit matter	*Our response*
Securities held at fair value include primarily debt and equity securities within the portfolios of non-trading financial assets mandatorily at fair value through profit or loss and financial assets at fair value through other comprehensive income. For both security types, the Bank determines their respective fair values based on either quoted prices of identical or similar instruments, or valuation techniques, such as discounted cash flows, using market observable and unobservable inputs, such as credit spread or liquidity premium. Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring the fair value of certain of these instruments, their valuation was a key area of focus during our audit.	Our audit procedures, performed, where applicable, with the assistance from our own valuation specialists, included, among others: • Updating our understanding of the Bank's fair value measurement methods and assessing their compliance with the requirements of relevant financial reporting standards. As part of the above, we identified the relevant methods, models, assumptions and sources of data, and assessed, whether such methods, models, assumptions, data and their application are appropriate in the context of said requirements; • Independently assessing the Bank's assignment of financial instruments into fair value hierarchy levels, considering underlying market activity, including volume traded and number of executable quotes, and assessment of bid-ask spread of those quotes; • Testing the Bank's market-based (level 1 in the fair value hierarchy of the financial reporting standards) valuations of financial instruments by tracing those

amounts to independently sourced publicly available quoted prices;

- On a sample of valuations based on inputs other than quoted prices (level 2 and level 3 valuations), performing an independent estimate of the fair value of the said financial instruments, using market observable inputs (risk-free rates and risk premium) derived from external market providers, and comparing our estimate to the carrying amount in the Bank's financial statements; and
- Evaluating the overall reasonableness of the Bank's valuations by examining gains and losses on disposals and other events and transactions which could provide corroborating evidence about the accuracy of the past valuations;
- Assessing the appropriateness of the fair value – related disclosures in the separate financial statements, including the disclosures in respect of the methods and inputs used in the Bank's determination of the fair values, in light of the requirements of applicable financial reporting framework.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body;
— Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on other information in the Annual Report

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

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

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

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

- the other information given in the Annual Report for the year ended 31 December 2021 is consistent with the separate financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

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

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

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the Board of Directors of the Bank on 9 September 2020 on the basis of approval by the General Meeting of the Bank held on 18 June 2020. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is 19 years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

Audit firm:
KPMG Slovensko spol. s r.o.
License SKAU č. 96

Responsible auditor:
Ing. Martin Kršjak
License UDVA No. 990

Slovenská komora audítorov
SKAU
Č.licencie 96
KPMG
Slovensko spol. s r.o.

Bratislava, 11 March 2022

A. Separate statement of financial position

EUR'000	Notes	31.12.2021	31.12.2020
Assets			
Cash, cash balances at central banks and other demand deposits	4	450 029	293 661
Financial assets held for trading	5	2	2 648
Non-trading financial assets mandatorily at fair value through profit or loss	6	298 231	309 513
Financial assets at fair value through other comprehensive income	7	385 502	437 064
Financial assets at amortised cost	8	3 563 599	3 177 481
Debt securities	*8*	*378 962*	*364 764*
Loans and advances	*8*	*3 163 454*	*2 780 170*
thereof: Loans and advances to financial institutions	8	23 252	13 107
thereof: Loans and advances to customers	8	3 140 202	2 767 063
Other financial assets	*8*	*21 183*	*32 547*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1 091	2 276
Investments in subsidiaries, joint ventures and associates	10	68 662	78 579
Tangible assets	11	64 532	58 134
Intangible assets	12	33 446	35 348
Deferred tax assets	13	23 008	24 688
Other assets	14	16 784	18 514
TOTAL ASSETS		**4 904 886**	**4 437 906**
Liabilities			
Financial liabilities held for trading	5	3 695	746
Financial liabilities at amortised cost	15	4 129 781	3 723 793
Deposits	*15*	*4 006 346*	*3 671 084*
thereof: Subordinated debt	*15*	*8 014*	*8 014*
Debt securities issued	*15*	*64 794*	-
Other financial liabilities	*15*	*58 641*	*52 709*
Derivatives – Hedge accounting	9	4 977	10 318
Provisions	16	769	2 594
Current tax liabilities		2 766	1 552
Other liabilities	17	13 834	11 552
Total liabilities		**4 155 822**	**3 750 555**
Share capital and share premium	18	367 043	367 043
Retained earnings	18	307 948	254 082
Other equity	18	74 073	66 226
Total equity	**18**	**749 064**	**687 351**
TOTAL EQUITY AND LIABILITIES		**4 904 886**	**4 437 906**

These separate financial statements, which include the notes on pages 15 – 65, were approved by the Board of Directors on 9 March 2022.

Chairman of the Board of Directors
Andrej Zaťko

Member of the Board of Directors
Ladislav Korec

B. Separate statement of comprehensive income

EUR'000	**Notes**	**2021**	**2020**
Statement of profit or loss			
Net interest income	21	133 737	143 708
Interest income	21	*138 613*	*151 781*
Interest expenses	21	*(4 876)*	*(8 073)*
Net fee and commission income	22	35 558	35 286
Fee and commission income	22	*62 868*	*61 564*
Fee and commission expenses	22	*(27 310)*	*(26 278)*
Dividend income	23	39 184	15 758
Net gains/(losses) from financial transactions	24	(6 850)	434
Net other operating expenses	25	(1 881)	(7 257)
Other operating income	*25*	*4 569*	*2 474*
Other operating expenses	*25*	*(5 895)*	*(9 507)*
Gains/(losses) on derecognition of non-financial assets, net	*25*	*(555)*	*(224)*
Staff expenses	26	(44 829)	(41 238)
Other administrative expenses	26	(41 089)	(36 099)
Depreciation	27	(25 102)	(20 039)
Operating profit before impairment losses and provisions		**88 728**	**90 553**
Release/(creation) of provisions	28	1 834	707
Net impairment of financial assets not valued at fair value through profit and loss	28	(22 125)	(38 705)
Net impairment of investments in subsidiaries, joint ventures and associates	28	2 142	(4 013)
Net impairment on non-financial assets	28	398	(619)
Profit before tax		**70 977**	**47 923**
Income tax	29	(12 679)	(3 565)
Profit after tax		**58 298**	**44 358**
Statement of other comprehensive income			
Items that may be reclassified to profit or loss		3 411	1 669
Revaluation of debt securities at fair value through other comprehensive income		*(3 775)*	*2 871*
Impairment losses for debt securities at fair value through other comprehensive income		*8 138*	*(741)*
Deferred tax related to items that may be reclassified to profit or loss		*(954)*	*(452)*
Foreign currency translation		*2*	*(9)*
Items that may not be reclassified to profit or loss		-	(1 375)
Revaluation of equity instruments at fair value through other comprehensive income		*(2)*	*(1 745)*
Deferred tax related to items that may not be reclassified to profit or loss		*2*	*370*
Total other comprehensive income		**3 411**	**294**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**61 709**	**44 652**
Earnings per share			
Profit after tax		58 298	44 358
Weighted-average number of ordinary shares		330 899	330 899
Basic and diluted earnings per share in EUR		**176**	**134**

The notes on pages 15 – 65 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
Opening balance as of 1 January 2021	**366 305**	**738**	**59 561**	**6 667**	**(2)**	**254 082**	**687 351**
Total comprehensive income	**-**	**-**	**-**	**3 409**	**2**	**58 298**	**61 709**
Profit after tax	-	-	-	-	-	58 298	58 298
Items that may be reclassified to profit or loss	-	-	-	3 409	2	-	3 411
Other transactions	**-**	**-**	**4 436**	**-**	**-**	**(4 432)**	**4**
Transfer to legal reserve fund	-	-	4 436	-	-	(4 436)	-
Other movements	-	-	-	-	-	4	4
Closing balance as of 31 December 2021	**366 305**	**738**	**63 997**	**10 076**	**-**	**307 948**	**749 064**

EUR'000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2020	**366 305**	**738**	**54 988**	**6 364**	**7**	**214 297**	**642 699**
Total comprehensive income	**-**	**-**	**-**	**303**	**(9)**	**44 358**	**44 652**
Profit after tax	-	-	-	-	-	44 358	44 358
Items that may be reclassified to profit or loss	-	-	-	1 678	(9)	-	1 669
Items that may not be reclassified to profit or loss	-	-	-	(1 375)	-	-	(1 375)
Other transactions	**-**	**-**	**4 573**	**-**	**-**	**(4 573)**	**-**
Transfer to legal reserve fund	-	-	4 573	-	-	(4 573)	-
Closing balance as of 31 December 2020	**366 305**	**738**	**59 561**	**6 667**	**(2)**	**254 082**	**687 351**

The notes on pages 15 – 65 are an integral part of these separate financial statements.

D. Separate statement of cash flows

EUR'000	Notes	31.12.2021	31.12.2020
Profit before tax		**70 977**	**47 923**
Adjustments:			
Net interest income		(133 737)	(143 708)
Dividend income		(39 184)	(15 758)
Depreciation		25 102	20 039
Release/(creation) of provisions		(1 834)	(707)
Gains/(losses) on derecognition of non-financial assets, net		555	224
Gains on derecognition of subsidiaries			
Net impairment of financial assets not valued at fair value through profit and loss		22 125	38 705
Net impairment of investments in subsidiaries, joint ventures and associates		(2 142)	4 013
Net impairment on non-financial assets		(398)	619
Cash flows from/(used in) operating activities before changes in working capital		**(68 628)**	**(48 650)**
(Increase)/decrease in operating assets:			
Cash balances at central banks		(161 795)	40 661
Financial assets held for trading		2 646	(1 627)
Non-trading financial assets mandatorily at fair value through profit or loss			
(Increase)/decrease		*11 281*	*(40 517)*
Dividends received		*24 415*	*-*
Financial assets at amortised cost		(386 171)	(352 171)
Loans and advances		*(397 535)*	*(367 655)*
Other financial assets		*11 364*	*15 484*
Other assets		1 731	3 674
Increase/(decrease) in operating liabilities:			
Financial liabilities held for trading		2 949	(3 222)
Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities		341 129	18 428
Deposits		*342 873*	*16 614*
Other financial liabilities		*(1 744)*	*1 814*
Derivatives – Hedge accounting		(5 341)	898
Other liabilities		2 282	(3 767)
Cash flows from operating activities before interest and income tax		**(235 502)**	**(386 293)**
Interest received		138 987	132 395
Interest paid		(11 461)	(4 898)
Income tax paid		(10 737)	(6 899)
Net cash flows from/(used in) operating activities		***(118 713)***	***(265 695)***
Cash flows from investing activities			
Financial assets at amortised cost - debt securities			
Purchase		(39 652)	(27 483)
Proceeds from sale and maturity		23 951	175 472
Interest received		5 739	14 348
Financial assets at fair value through other comprehensive income - debt securities			
Purchase		(67 827)	(30 835)
Proceeds from sale and maturity		107 872	130 343
Interest received		10 189	13 150
Investments in subsidiaries, joint ventures and associates		*32 048*	*1 773*
Tangible and intangible assets			
Purchase		(16 977)	(24 361)
Proceeds from sale		3	6
Net cash flows from/(used in) investing activities		***55 346***	***252 413***
Cash flows from financing activities			
Debt securities issued			
Proceeds from issue of debt securities		65 000	-
Interest paid		(310)	-
Financial liabilities at amortised cost - subordinated debt		-	-
Interest paid		(480)	(481)
Financial liabilities at amortised cost - lease liabilities			
Lease payments		(5 680)	(5 494)
Interest expense		(546)	(448)
Net cash flows from/(used in) financing activities		***57 984***	***(6 423)***
Net increase/(decrease) in cash and cash equivalents	**4**	**(5 383)**	**(19 705)**
Cash and cash equivalents at the beginning of the period	**4**	**50 612**	**70 317**
Cash and cash equivalents at the end of the period	**4**	**45 229**	**50 612**

The notes on pages 15 – 65 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. Based on the meeting of the Board of Directors dated 28 April 2021, the Bank decided to terminate the activities of its branch and to dissolve the organizational unit on 30 June 2021.

Shareholder's structure is as follows:

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

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 Ohlídal	Board member
Jan Kotek	Board member

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

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

2. Accounting policies

2.1 Basis of preparation of the separate financial statements

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

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

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

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

2.2 Subsidiaries, joint ventures and associates

As at 31 December 2021 the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in %
Subsidiaries		
365.invest, správ. spol., a. s. (Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s. till 2. 7. 2021)	Asset management	100.00%
365.life, d. s. s., a. s. (Dôchodková správcovská spoločnosť Poštovej banky, d. s. s. till 2. 7. 2021)	Management of pension funds	100.00%
Ahoj, a. s. (Amico Finance a. s. till 31. 5. 2021)	Consumer loans	100.00%
PB Servis, a. s.	Real estate administration	100.00%
PB Finančné služby, a. s.	Financial and operational leasing and factoring	100.00%
365.fintech, a. s.	Investment fund	100.00%
Cards&Co, a. s.	Information technology services industry	100.00%
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	Art and sales	87.99%
365.nadácia	Charitable foundation	x
Joint ventures		
SKPAY, a. s. (SPPS, a. s. till 30. 6. 2021)	Payment services	40.00%

Company name	Share in % 31.12.2021	Share in % 31.12.2020	Method of consolidation
Subsidiaries			
365.invest, správ. spol., a. s.	100.00%	100.00%	full consolidation
Poštová poisťovňa, a. s.	x	80.00%	full consolidation
365.life, d. s. s., a. s.	100.00%	100.00%	full consolidation
Ahoj, a. s.	100.00%	95.00%	full consolidation
PB Servis, a. s.	100.00%	100.00%	full consolidation
PB Finančné služby, a. s.	100.00%	100.00%	full consolidation
PB PARTNER, a. s. v likvidácii	x	100.00%	full consolidation
365.fintech, a. s.	100.00%	100.00%	full consolidation
365.world, o.p.f.	x	100.00%	full consolidation
Cards&Co, a. s.	100.00%	100.00%	full consolidation
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	87.99%	37.13%	full consolidation
Joint ventures			
SKPAY, a. s.	40.00%	40.00%	equity method

The Bank also prepares consolidated financial statements for the 365.bank Group. 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 2021 did not have a significant impact on the Bank.

2.4 Significant accounting methods and policies

These separate financial statements include segment reporting as the Bank 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 34. Credit risk provides more detail of how the expected credit loss allowance is measured.

iv. Derecognition

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

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

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

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

v. Modifications of financial assets

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

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

(h) Derivatives

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

Hedging derivatives

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

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

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.

(s) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments were not effective for the reporting period ending 31 December 2021 and were not applied in these financial statements:

- Annual improvements to IFRS Standards 2018-2020– Amendments to IFRS 9 Financial Instruments- The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. (Effective for annual periods beginning on or after 1 January 2022 Early application is permitted).
- Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)
- Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current
  The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Company's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance.
  The classification is not affected by management's intentions or expectations about whether and when the Company will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. (Effective for annual periods beginning on or after 1 January 2023 . Early application is permitted).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments
  The amendments to IAS 1 require companies to disclose their material accounting policies and not their significant accounting policies. (Effective for annual periods beginning on or after 1 January 2023 . Early application is permitted).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
  Amendments introduce a definition of accounting estimates and involve other amendments to IAS 8 to help entities to distinguish between accounting policies and accounting estimates. The distinction is important as the changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. (Effective for annual periods beginning on or after 1 January 2023 . Early application is permitted)

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied.

3. Use of estimates and judgements

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

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

Expected credit losses

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

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

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

Further information about determining ECL is included in Note 34. Credit risk.

Determining fair values

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

Further information about the amounts of financial instruments at fair value, analysed according to the valuation methodology (broken down into individual valuation levels), are included in Note *31. Fair values of financial assets and liabilities.*

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

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

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

EUR'000	31.12.2021	31.12.2020
Cash on hand	29 827	25 875
Cash balances at central banks	404 800	243 049
Other demand deposits	15 402	24 737
Total	**450 029**	**293 661**

The above-mentioned financial assets are not restricted.

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

EUR'000	31.12.2020	31.12.2020	31.12.2019
Cash on hand	29 827	25 875	27 791
Other demand deposits	15 402	24 737	42 526
Total	**45 229**	50 612	**70 317**

5. Financial assets and liabilities held for trading

EUR'000	31.12.2021	31.12.2020
Financial assets held for trading		
Derivatives	**2**	**2 648**
Foreign exchange	2	2 648
Total	**2**	**2 648**

EUR'000	31.12.2021	31.12.2020
Financial liabilities held for trading		
Derivatives	**3 695**	**746**
Foreign exchange	3 695	746
Total	**3 695**	**746**

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

EUR'000	31 December 2021			31 December 2020		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange	143 237	2	3 695	214 006	2 648	746
Total	**143 237**	**2**	**3 695**	**214 006**	**2 648**	**746**

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

EUR'000	31.12.2021	31.12.2020
Equity instruments	**298 231**	**309 513**
Shares	-	2 980
Share certificates	298 231	306 533
Total	**298 231**	**309 513**

7. Financial assets at fair value through other comprehensive income

EUR'000	31.12.2021	31.12.2020
Equity instruments	**65**	**65**
Shares	65	65
Debt securities	**385 437**	**436 999**
General governments	266 897	295 664
Credit institutions	28 346	48 816
Other financial corporations	29 180	19 784
Non-financial corporations	61 014	72 735
Total	**385 502**	**437 064**
Impairment allowances to debt securities in OCI	(8 615)	(477)

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

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**(477)**	**-**	**-**	**-**	**(477)**
Increases due to origination and acquisition	(83)	-	-	-	(83)
Decreases due to derecognition	67	-	-	-	67
Changes due to change in credit risk (net)	65	(8 187)	-	-	(8 122)
Transfers:	73	(73)	-	-	-
to/(from) Stage 1	*x*	*(73)*	-	-	*(73)*
to/(from) Stage 2	*73*	*x*	-	-	*73*
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2021	**(355)**	**(8 260)**	**-**	**-**	**(8 615)**

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2020	**(1 218)**	**-**	**-**	**-**	**(477)**
Increases due to origination and acquisition	(51)	-	-	-	(51)
Decreases due to derecognition	301	-	-	-	301
Changes due to change in credit risk (net)	490	-	-	-	490
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	1	-	-	-	1
As of 31 December 2020	**(477)**	**-**	**-**	**-**	**(477)**

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Carrying amount	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debt securities	**386 574**	**372 485**	**(7 612)**	**(7 721)**	**378 962**	**364 764**
Central banks	-	-	-	-	-	-
General governments	307 533	284 612	(96)	(90)	307 437	284 522
Credit institutions	30 990	30 986	(2)	(5)	30 988	30 981
Other financial corporations	1 424	1 486	-	-	1 424	1 486
Non-financial corporations	46 627	55 401	(7 514)	(7 626)	39 113	47 775
Loans and advances	**3 373 564**	**2 996 470**	**(210 110)**	**(216 300)**	**3 163 454**	**2 780 170**
Central banks	-	-	-	-	-	-
General governments	60 000	-	(19)	-	59 981	-
Credit institutions	23 270	13 123	(18)	(16)	23 252	13 107
Other financial corporations	553 697	632 621	(15 441)	(16 183)	538 256	616 438
Non-financial corporations	845 625	895 062	(71 550)	(81 693)	774 075	813 369
Households	1 890 972	1 455 664	(123 082)	(118 408)	1 767 890	1 337 256
Lending for house purchase	*1 028 687*	*547 615*	*(787)*	*(881)*	*1 027 900*	*546 734*
Credit for consumption	*849 215*	*898 235*	*(119 673)*	*(114 855)*	*729 542*	*783 380*
Other	*13 070*	*9 814*	*(2 622)*	*(2 672)*	*10 448*	*7 142*
Other financial assets	**21 301**	**32 698**	**(118)**	**(151)**	**21 183**	**32 547**
Total	**3 781 439**	**3 401 653**	**(217 840)**	**(224 172)**	**3 563 599**	**3 177 481**

*Loans and advances to other financial corporations and non-financial corporations recognised as at 31 December 2020 were adjusted due to a sector change for selected clients.

Loans and advances include finance lease receivables:

EUR'000	31.12.2021	31.12.2020
Minimum value of leasing payments		
Receivables from leasing	8 083	-
Up to 1 year	2 655	-
1-5 years	5 313	-
Over 5 years	115	-
Unrealized income on finance leases	(694)	-
Present value of future lease payments	**7 389**	**-**
Impairment allowances	(31)	-
Total	**7 358**	**-**

EUR'000	31.12.2021	31.12.2020
Present value of future lease payments		
Receivables from leasing	7 389	-
Up to 1 year	2 338	-
1-5 years	4 938	-
Over 5 years	113	-
Present value of future lease payments	**7 389**	**-**
Impairment allowances	(31)	-
Total	**7 358**	**-**

Other financial assets comprise the following:

EUR'000	31.12.2021	31.12.2020
Other financial assets, gross	**21 301**	**32 698**
Clearing and settlement items	3 227	3 478
Cash collateral	6 750	6 235
Tax receivables	-	16
Trade receivables	6 563	5 775
Other	4 761	17 194
Impairment allowances	**(118)**	**(151)**
Total	**21 183**	**32 547**

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

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

31.12.2020	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**317 084**	**55 401**	**-**	**-**	**(95)**	**(7 626)**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-
General governments	284 612	-	-	-	(90)	-	-	-
Credit institutions	30 986	-	-	-	(5)	-	-	-
Other financial corporations	1 486	-	-	-	-	-	-	-
Non-financial corporations	-	55 401	-	-	-	(7 626)	-	-
Loans and advances	**2 355 189**	**441 163**	**169 417**	**30 701**	**(22 766)**	**(39 696)**	**(142 971)**	**(10 867)**
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	13 123	-	-	-	(16)	-	-	-
Other financial corporations	574 306	49 702	7	8 606	(1 775)	(6 253)	(7)	(8 148)
Non-financial corporations	680 250	136 982	55 787	22 043	(15 077)	(11 772)	(52 148)	(2 696)
Households	1 087 510	254 479	113 623	52	(5 898)	(21 671)	(90 816)	(23)
Lending for house purchase	*480 820*	*64 545*	*2 250*	-	*(89)*	*(391)*	*(401)*	-
Credit for consumption	*599 709*	*189 796*	*108 678*	*52*	*(5 698)*	*(21 250)*	*(87 884)*	*(23)*
Other	*6 981*	*138*	*2 695*	-	*(111)*	*(30)*	*(2 531)*	-
Other financial assets	**-**	**32 698**	**-**	**-**	**-**	**(151)**	**-**	**-**
Total	**2 672 273**	**529 262**	**169 417**	**30 701**	**(22 861)**	**(47 473)**	**(142 971)**	**(10 867)**

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

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

EUR'000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2020	**(145)**	**(7 385)**	**-**	**-**	**(7 530)**
Increases due to origination and acquisition	(15)	-	-	-	(15)
Decreases due to derecognition	22	-	-	-	22
Changes due to change in credit risk (net)	43	(241)	-	-	(198)
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2020	**(95)**	**(7 626)**	**-**	**-**	**(7 721)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2021	**(22 766)**	**(39 696)**	**(142 971)**	**(10 867)**	**(216 300)**
Increases due to origination and acquisition	(5 098)	-	-	(7)	(5 105)
Decreases due to derecognition	2 705	3 232	11 228	317	17 482
Changes due to change in credit risk (net)	8 746	(8 920)	(28 136)	1 632	(26 678)
Transfers:	(4 555)	12 309	(7 754)	-	-
to/(from) Stage 1	*x*	*3 808*	*747*	-	*4 555*
to/(from) Stage 2	*(3 808)*	*x*	*(8 501)*	-	*(12 309)*
to/(from) Stage 3	*(747)*	*8 501*	*x*	-	*7 754*
Decrease in allowance account due to write-offs	-	-	20 642	-	20 642
Changes due to movements in FX rates	(36)	-	(94)	(21)	(151)
As of 31 December 2021	**(21 004)**	**(33 075)**	**(147 085)**	**(8 946)**	**(210 110)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2020	**(26 507)**	**(21 456)**	**(134 853)**	**(17 586)**	**(200 402)**
Increases due to origination and acquisition	(6 836)	-	-	-	(6 836)
Decreases due to derecognition	2 463	1 158	27 682	4	31 307
Changes due to change in credit risk (net)	12 268	(38 564)	(20 835)	6 214	(40 917)
Transfers:	(4 208)	19 166	(14 958)	-	-
to/(from) Stage 1	*x*	*3 758*	*450*	-	*4 208*
to/(from) Stage 2	*(3 758)*	*x*	*(15 408)*	-	*(19 166)*
to/(from) Stage 3	*(450)*	*15 408*	*x*	-	*14 958*
Changes due to movements in FX rates	54	-	(7)	501	548
As of 31 December 2020	**(22 766)**	**(39 696)**	**(142 971)**	**(10 867)**	**(216 300)**

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	31 December 2021			31 December 2020		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Fair value hedges	**134 476**	**-**	**3 549**	**174 476**	**-**	**7 792**
Interest rate	134 476	-	3 549	174 476	-	7 792
Portfolio fair value hedges of interest rate risk	**93 400**	**-**	**1 428**	**93 400**	**-**	**2 526**
Total	**227 876**	**-**	**4 977**	**267 876**	**-**	**10 318**

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

EUR'000	Carrying amount		Amount of fair value hedge adjustments		Line item in the statement of financial position in which the hedged item is included
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	
Fair value hedges					
Portfolio hedge of interest rate risk	200 037	197 635	1 091	2 276	Financial assets at amortised cost
Interest rate	145 078	191 489	(2 260)	(5 739)	Revaluation of FVOCI financial assets

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

EUR'000	2021	2020
Fair value changes of the hedging instrument	4 616	(1 625)
Fair value changes of the hedged item attributable to the hedged risk	(4 663)	1 662
Gains/(losses) from hedge accounting, net	**(47)**	**37**

10. Investments in subsidiaries, joint ventures and associates

EUR'000	31.12.2021	31.12.2020
Investments in subsidiaries	75 544	87 129
Investments in joint ventures	140	614
Investments in associates	-	-
Impairment allowances	(7 022)	(9 164)
Total	**68 662**	**78 579**

During 2021, the following significant changes occurred in investments:

- PB Partner, a.s. has been liquidated
- The Bank bought 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.

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

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

11. Tangible assets

EUR'000	31.12.2021	31.12.2020
Tangible assets owned	25 319	26 409
Property, plant and equipment	*25 319*	*26 409*
Right-of-use assets	39 213	31 725
Total	**64 532**	**58 134**

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

EUR'000	Tangible assets owned				
	Land and buildings	**Hardware**	**Fittings and other equipment**	**Assets not yet in use**	**Total**
Cost					
As of 1 January 2020	17 667	10 511	14 985	207	43 370
Additions from business combinations	-	-	-	10 246	10 246
Additions	-	-	-	-	-
Additions from acquisition of the business	-	-	-	-	-
Transfers	1 420	1 707	5 957	(9 084)	-
Disposals	(469)	(555)	(1 426)	(82)	(2 532)
As of 31 December 2020	**18 618**	**11 663**	**19 516**	**1 287**	**51 084**
Accumulated depreciation					
As of 1 January 2020	(4 389)	(7 406)	(8 917)	-	(20 712)
Additions from business combinations	-	-	-	-	-
Depreciation for the year	(1 573)	(1 654)	(2 046)	-	(5 273)
Disposals	327	558	1 366	-	2 251
As of 31 December 2020	**(5 635)**	**(8 502)**	**(9 597)**	**-**	**(23 734)**
Accumulated impairment losses	**(413)**	**-**	**(527)**	**-**	**(940)**
Carrying amount as at 31.12.2020	**12 570**	**3 161**	**9 391**	**1 287**	**26 409**

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

EUR'000	Right-of-use assets Land and buildings	Hardware	Fittings and other equipment	Total
Cost				
As of 1 January 2020	25 291	211	4 044	29 546
Additions	2 316	-	71	2 387
Remeasurements	10 868	-	-	10 868
Disposals	(459)	-	-	(459)
As of 31 December 2020	**38 016**	**211**	**4 115**	**42 342**
Accumulated depreciation				
As of 1 January 2020	(4 688)	(53)	(644)	(5 385)
Depreciation for the year	(4 761)	(53)	(680)	(5 494)
Disposals	262	1	-	263
As of 31 December 2020	**(9 187)**	**(105)**	**(1 324)**	**(10 616)**
Accumulated impairment losses	**-**	**-**	**-**	**-**
Carrying amount as at 31.12.2020	**28 829**	**105**	**2 791**	**31 725**

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

EUR'000	2021	2020
Opening balance as at 1 January	(940)	(646)
Net creation/(release) of impairment losses	298	(294)
Closing balance	**(642)**	**(940)**

The Bank used fully depreciated tangible assets with an acquisition cost as follows:

EUR'000	31.12.2021	31.12.2020
Costs of fully depreciated tangible assets in use	12 448	9 780

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

EUR'000	31.12.2021	31.12.2020
Insurance amount of fixed assets	51 109	49 500

12. Intangible assets

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

EUR'000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As of 1 January 2020	67 981	88	2 041	70 110
Additions	-	-	14 115	14 115
Transfers	10 947	-	(10 947)	-
Disposals	(4 191)	-	(127)	(4 318)
As of 31 December 2020	**74 737**	**88**	**5 082**	**79 907**
Accumulated amortisation				
As of 1 January 2020	(38 968)	(75)	-	(39 043)
Amortisation for the year	(9 260)	(12)	-	(9 272)
Disposals	4 079	-	-	4 079
As of 31 December 2020	**(44 149)**	**(87)**	**-**	**(44 236)**
Accumulated impairment losses	(325)	-	-	(325)
Carrying amount as at 31.12.2020	**30 264**	**2**	**5 082**	**35 348**

The Bank used fully depreciated intangible assets with an acquisition cost as follows:

EUR'000	31.12.2021	31.12.2020
Costs of fully amortized intangible assets in use	24 915	8 842

13. Deferred tax assets and liabilities

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

	31.12.2021	31.12.2020
Companies in SR	21%	21%
Companies in CR	-	19%

EUR'000	31.12.2021	31.12.2020
SR		
Impairment on financial assets at AC	22 176	22 782
Provisions for off-balance sheet exposures	160	183
Revaluation of financial assets at FVOCI	(2 724)	(1 770)
Tangible assets	280	111
Other	3 116	3 251
Total	**23 008**	**24 557**
CR		
Provisions for off-balance sheet exposures	-	117
Tangible assets	-	(1)
Other	-	15
Total	**-**	**131**
Total deferred tax assets	**23 008**	**24 688**

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

EUR'000	1.1.2020	Profit or loss	OCI	31.12.2020
Impairment on financial assets at AC	16 015	6 767	-	22 782
Provisions for off-balance sheet exposures	574	(274)	-	300
Revaluation of financial assets at FVOCI	(1 688)	-	(82)	(1 770)
Tangible assets	(104)	214	-	110
Other	3 660	(394)	-	3 266
Total	**18 457**	**6 313**	**(82)**	**24 688**

14. Other assets

EUR'000	31.12.2021	31.12.2020
Deferred expenses	8 952	9 878
Accrued income	3 773	2 394
Inventories	334	333
Prepayments	3 725	5 909
Total	**16 784**	**18 514**

15. Financial liabilities measured at amortised cost

EUR'000	31.12.2021	31.12.2020
Deposits	**4 006 346**	**3 671 084**
Central banks	249 931	-
General governments	3 613	3 390
Credit institutions excluding subordinated debt	74 487	18 010
Credit institutions - subordinated debt	8 014	8 014
Other financial corporations	157 046	202 578
Non-financial corporations	146 900	163 629
Households	3 366 355	3 275 463
Debt securities issued	**64 794**	**-**
Non-convertible debt securities issued	64 794	-
Other financial liabilities	**58 641**	**52 709**
Clearing and settlement items	5 930	11 796
Liabilities to employees	3 190	4 044
Liabilities from social and health insurance and social fund	1 516	1 423
Tax liabilities	867	847
Received prepayments	5 002	2
Liabilities from dividends	28	28
Lease liabilities	39 762	32 086
Other creditors	2 346	2 483
Total	**4 129 781**	**3 723 793**

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	31.12.2021	31.12.2020
Debt securities issued	22.11.2021	22.11.2024	3.50%	15	1 000	EUR	14 984	-
Debt securities issued	22.12.2021	22.12.2024	3.50%	500	100	EUR	49 810	-
Total							**64 794**	**-**

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

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

EUR'000	31.12.2021	31.12.2020
Subordinated debt	8 014	8 014
Other received loans	-	-

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

Creditor	Debtor	Carrying amount	Interest rate	Maturity
Subordinated debt				
J&T BANKA, a.s.	365.bank, a.s.	8 014	3M EURIBOR+6%	31.12.2026

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

EUR'000	Debt securities issued		Subordinated debt	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Opening balance as at 1 January	-	-	8 014	8 014
Proceeds from issue of debt securities	65 000	-	-	-
Repayment of debt securities	-	-	-	-
Interest expenses	104	-	480	481
Interest paid	(310)	-	(480)	(481)
Closing balance	**64 794**	**-**	**8 014**	**8 014**

In December 2021, within the TLTRO programme, the Bank received a loan from the European Central Bank (hereinafter 'the ECB') in the amount of EUR 250 million. This loan is recognised as a deposit received from the central bank. As collateral, the Bank provided Slovak government bonds measured at fair value through other comprehensive income (EUR 135 million) and Slovak government bonds measured at amortised cost (EUR 251,644 thousand).

As at 31 December 2021, 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 249,931 thousand.

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

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

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

The TLTRO III negative interest amount recorded in the 2021 profit or loss is EUR 69 thousand.

16. Provisions

EUR'000	31.12.2021	31.12.2020
Commitments and guarantees given	763	1 488
Loan commitments	*573*	*799*
Guarantees given	*190*	*689*
Other provisions	6	1 106
Total	**769**	**2 594**

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

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

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2020	**1 598**	**695**	**494**	**-**	**2 787**
Increases due to origination and acquisition	2 716	-	-	-	2 716
Decreases due to derecognition	(2 695)	(789)	(511)	-	(3 995)
Changes due to change in credit risk (net)	(1 165)	511	637	-	(17)
Transfers:	(22)	22	-	-	-
(to)/from Stage 1	*x*	*22*	-	-	*22*
(to)/from Stage 2	*(22)*	*x*	-	-	*(22)*
(to)/from Stage 3	-	-	x	-	-
Changes due to movements in FX rates	(3)	-	-	-	(3)
As of 31 December 2020	**429**	**439**	**620**	**-**	**1 488**

17. Other liabilities

EUR'000	31.12.2021	31.12.2020
Estimated payables (PEREX, OPEX)	13 705	11 406
Deferred income	129	146
Total	**13 834**	**11 552**

18. Equity

a) Share capital

	31.12.2021	31.12.2020
Nominal value per share in EUR	1 107	1 107
Number of shares	330 899	330 899
Total share capital in EUR'000	**366 305**	**366 305**

All shares of the Bank are ordinary registered shares.

b) Legal reserve fund

Under the Slovak Commercial Code, all companies are required to create a legal reserve fund to cover losses. The Bank is obliged to contribute an amount of at least 10% of 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:

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

f) Proposal of distribution of profit for current period

Profit distribution for the current period is subject to the approval of the Shareholders' meeting. As of the date of approval of the financial statements on 9 March 2022, the Bank's Board of Directors proposes the following profit distribution for 2021:

EUR'000	
Profit for the year	**58 298**
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

EUR'000	31.12.2021	31.12.2020
Loan commitments given	274 617	243 612
Financial guarantees given	16 657	18 236
Total	**291 274**	**261 848**

b) Assets involved in the services provided

EUR'000	31.12.2021	31.12.2020
Asset management	960 554	976 727
Custody assets	104 068	100 592
Total	**1 064 622**	**1 077 319**

c) Securities provided as collateral

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

EUR'000	31.12.2021	31.12.2020
Financial assets at fair value through other comprehensive income	185 995	42 291
Financial assets at amortised cost	270 682	298 644
Total	**456 677**	**340 935**

d) Transferred financial assets

The following table summarises the carrying amount of transferred financial assets which has not been derecognised in the statement of financial position, as well as related liabilities (repo deals and TLTRO, see also note 15).

EUR'000	Carrying amount of transferred assets		Carrying amount of associated liabilities	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debt securities	456 677	-	319 930	-
Collateral given in repurchase agreements	**456 677**	**-**	**319 930**	**-**

20. Offsetting of financial assets and liabilities

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

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

31.12.2020	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting: Financial instruments	Cash collateral	Non-cash financial collateral	Net values after possible offsetting
Financial assets							
Derivatives	2 648	-	2 648	746	1 881	-	21
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**2 648**	**-**	**2 648**	**746**	**1 881**	**-**	**21**
Financial liabilities							
Derivatives	746	-	746	746	-	-	-
Hedging derivatives	10 318	-	10 318	-	6 472	-	3 846
Total liabilities	**11 064**	**-**	**11 064**	**746**	**6 472**	**-**	**3 846**

21. 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 31 December 2021, 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	2021	2020
Interest income		
Financial assets at fair value through other comprehensive income	5 712	6 679
Financial assets at amortised cost	135 113	147 317
Debt securities	*5 579*	*8 227*
Loans and advances	*129 534*	*139 090*
Derivatives - Hedge accounting, interest rate risk	(2 286)	(2 324)
Other assets	5	109
Other	*5*	*107*
Interest income on liabilities	69	-
Total interest income	**138 613**	**151 781**
Interest expenses		
Financial liabilities measured at amortised cost	(4 753)	(8 064)
thereof: lease liabilities	(546)	(448)
Other liabilities	-	(9)
Interest expense on assets	(123)	-
Total interest expense	**(4 876)**	**(8 073)**
Net interest income	**133 737**	**143 708**

EUR'000	2021	2020
Interest income calculated on an EIR	138 604	151 781
Other interest income	9	-
Total interest income	**138 613**	**151 781**

22. Net fee and commission income

EUR'000	2021	2020
Fee and commission income		
Securities	61	84
Clearing and settlement	14 168	15 567
Custody	3 517	2 903
Payment services	29 689	31 584
Current accounts	*24 534*	*26 632*
Debit cards and other card payments	*355*	*385*
Transfers and other payment orders	*1 975*	*1 885*
Other fee and commission income in relation to payment services	*2 825*	*2 682*
Loan servicing activities	2 491	2 769
Loan commitments given	653	901
Financial guarantees given	304	353
Other	11 985	7 403
Total fee and commission income	**62 868**	**61 564**
Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customer contracts	61 911	60 310
Fee and commission expenses		
Securities	(372)	-
Clearing and settlement	(21 150)	(20 929)
Custody	(423)	(418)
Loan servicing activities	(2 005)	(2 264)
Other	(3 360)	(2 667)
Total fee and commission expenses	**(27 310)**	**(26 278)**
Net fee and commission income	**35 558**	**35 286**

23. Dividend income

EUR'000	2021	2020
Non-trading financial assets mandatorily at fair value through profit or loss	24 415	-
Financial assets at fair value through other comprehensive income	-	15
Investments in subsidiaries, joint ventures and associates	14 769	15 743
Total	**39 184**	**15 758**

24. Net gains/(losses) from financial transactions

EUR'000	2021	2020
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**5 450**	**551**
Financial assets at fair value through other comprehensive income	-	551
Equity instruments	-	*9*
Debt securities	-	*542*
thereof: reclassified from other comprehensive income	-	*1 086*
Other	5 450	-
Gains/(losses) on financial assets and liabilities held for trading, net	**(9 257)**	**12 763**
Derivatives	(9 257)	12 763
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**(12 846)**	**2 711**
Revaluation gains/(losses)	(12 846)	2 711
Gains/(losses) from hedge accounting, net	**(48)**	**37**
Fair value changes of the hedging instrument	4 616	(1 625)
Fair value changes of the hedged item attributable to the hedged risk	(4 663)	1 662
Exchange differences, net	**9 851**	**(15 628)**
Total	**(6 850)**	**434**

25. Other operating income and expenses

EUR'000	2021	2020
Other operating expenses	**(5 895)**	**(9 507)**
Bank and insurance companies specific fees	(3 142)	(8 131)
Special levy for banking institutions	-	*(7 453)*
Resolution fund	*(312)*	*(341)*
Deposit protection fund	*(2 830)*	*(337)*
Other	(2 753)	(1 376)
Other operating income	**4 569**	**2 474**
Other	4 569	2 474
Gains/(losses) on derecognition of non-financial assets, net	**(555)**	**(224)**
Total	**(1 881)**	**(7 257)**

26. Administrative expenses

EUR'000	2021	2020
Staff expenses	**(44 829)**	**(41 238)**
Wages and salaries (including bonuses)	(32 542)	(29 588)
Social expenses	(12 287)	(11 650)
Other administrative expenses	**(41 089)**	**(36 099)**
Rental expenses	(1 431)	(1 391)
Short-term lease contracts	*(1 006)*	*(971)*
Variable lease payments not included in the lease liabilities	*(273)*	*(258)*
Other	*(152)*	*(162)*
Real estate expenses	(3 089)	(2 592)
IT expenses	(9 319)	(6 829)
Marketing and advertisement	(7 585)	(7 893)
Legal and consulting services	(3 737)	(2 142)
Post and telecommunication	(3 850)	(3 878)
Material consumption	(993)	(987)
Repair and maintenance	(3 347)	(3 359)
Other admininstrative expenses - Rest	(7 738)	(7 028)
Total	**(85 918)**	**(77 337)**

	2021	2020
Number of employees as of balance sheet date	1 211	1 178
Average number of employees for the period	1 188	1 170
thereof, key management	21	20

The cost of services provided by the statutory auditor were as follows:

EUR'000	2021	2020
Audit of the financial statements	(231)	(183)
Non-audit services required by EU legislation	(66)	(57)
Other assurance services	(48)	-
Other non-assurance services	(8)	-
Total	**(353)**	**(240)**

27. Depreciation

EUR'000	2021	2020
Property, plant and equipment	**(5 336)**	**(5 273)**
Buildings	(1 587)	(1 573)
Hardware	(1 615)	(1 654)
Fittings and other equipment	(2 134)	(2 046)
Right-of-use assets	**(5 680)**	**(5 494)**
Buildings	(4 994)	(4 761)
Hardware	(53)	(53)
Fittings and other equipment	(633)	(680)
Intangible assets	**(14 086)**	**(9 272)**
Software	(14 084)	(9 260)
Other intangible assets	(2)	(12)
Total	**(25 102)**	**(20 039)**

28. Impairment losses and provisions

EUR'000	2021	2020
Net impairment of financial assets not valued at fair value through profit or loss	**(22 125)**	**(38 705)**
Financial assets at fair value through other comprehensive income	(8 137)	741
Debt securities	*(8 137)*	*741*
Financial assets at amortised cost	(13 988)	(39 446)
Debt securities	*109*	*(191)*
Loans and advances	*(14 263)*	*(39 010)*
Other financial assets	*166*	*(245)*
Net impairment of investments in subsidiaries, joint ventures and associates	**2 142**	**(4 013)**
Subsidiaries	2 142	(4 013)
Release/(creation) of provisions	**1 834**	**707**
Net impairment on non-financial assets	**398**	**(619)**
Total	**(17 751)**	**(42 630)**

29. Income tax

EUR'000	2021	2020
Current income tax	**(11 951)**	**(9 878)**
Deferred tax	**(728)**	**6 313**
Total	**(12 679)**	**(3 565)**

Reconciliated effective tax rate:

EUR'000	2021	2020
Profit before tax	70 977	47 923
Income tax rate	21%	21%
Theoretical income tax	**(14 905)**	**(10 064)**
Non - tax expenses	(5 684)	(2 995)
Impairment allowances	*1 350*	*(539)*
Other	*(7 034)*	*(2 456)*
Non - taxable income	7 888	4 663
Dividends	*3 105*	*3 309*
Other	*4 783*	*1 354*
Deferred tax	(728)	5 114
Correction of prior period	667	(336)
Other	83	53
Total	**(12 679)**	**(3 565)**
Effective tax rate	**17,86%**	**7,44%**

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

30. Related party transactions

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

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

31.12.2021	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Assets	**59 990**	**158 872**	**66 164**	**561**	**-**	**1 887**	**142 027**
Other demand deposits	-	223	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at 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
Debt securities	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Loans and advances	*59 990*	*8 662*	*64 272*	*-*	*-*	*1 887*	*142 027*
Other financial assets	*-*	*140*	*1 892*	*561*	*-*	*-*	*-*
Liabilities	**-**	**17 154**	**9 679**	**3 799**	**-**	**1 499**	**1 739**
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	17 154	9 679	3 799	-	1 499	1 739
Deposits	*-*	*17 147*	*9 124*	*3 799*	*-*	*1 499*	*1 724*
Other financial liabilities	*-*	*7*	*555*	*-*	*-*	*-*	*15*
Derivatives – Hedge accounting	-	-	-	-	-	-	-
2021							
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	1 488	122	1 251	-	-	8	2 692
Net fee and commission income	36	354	5 903	7 663	-	1	690
Net gains/(losses) from financial transactions	-	1 394	-	-	-	-	-
Net other operating expenses	-	61	(177)	93	-	-	-
Administrative expenses	-	(65)	(5 555)	4	-	-	(147)

31.12.2020	Shareholders	Members of J&T FINANCE GROUP SE	Subsidiaries	Joint ventures	Associates	Key management and related parties	Others
Assets	**14 980**	**176 359**	**89 547**	**705**	**-**	**1 071**	**34 081**
Other demand deposits	-	186	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	137 567	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-	-
Financial assets at amortised cost	14 980	38 606	89 547	705	-	1 071	34 081
Debt securities	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Loans and advances	*14 980*	*38 481*	*86 679*	*-*	*-*	*1071*	*34 081*
Other financial assets	*-*	*125*	*2 868*	*705*	*-*	*-*	*-*
Liabilities	**-**	**18 754**	**13 333**	**4 392**	**-**	**1 452**	**1 608**
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	18 754	13 333	4 392	-	1 452	1 608
Deposits	*-*	*18 733*	*12 885*	*4 392*	*-*	*1 452*	*1 589*
Other financial liabilities	*-*	*21*	*449*	*-*	*-*	*-*	*19*
Derivatives – Hedge accounting	-	-	-	-	-	-	-
2020							
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	500	(478)	948	-	-	10	888
Net fee and commission income	(12)	344	6 291	7 898	-	1	68
Net gains/(losses) from financial transactions	-	(1 815)	-	-	-	-	-
Net other operating expenses	-	-	189	78	-	-	-
Administrative expenses	-	(83)	(6 450)	-	10	-	(123)

The total remuneration of the members of the Board of Directors, members of the Supervisory Board and executive officers directly supervised by the Board of Directors members of 365.bank for the year ended 31 December 2021 is in the amount of EUR 3 357 thousand (2020: EUR 2 970 thousand). Remuneration includes basic wages and salaries, remuneration and payments for health and social insurance.

31. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
ASSETS								
Financial assets held for trading	**-**	**-**	**2**	**2 648**	**-**	**-**	**2**	**2 648**
Derivatives	-	-	2	2 648	-	-	2	2 648
Non-trading financial assets mandatorily at FVPL	**-**	**-**	**298 231**	**309 513**	**-**	**-**	**298 231**	**309 513**
Equity instruments	-	-	298 231	309 513	-	-	298 231	309 513
Financial assets at FVOCI	**337 413**	**349 425**	**-**	**78 973**	**48 089**	**8 666**	**385 502**	**437 064**
Equity instruments	-	-	-	-	65	65	65	65
Debt securities	337 413	349 425	-	78 973	48 024	8 601	385 437	436 999
Total assets	**337 413**	**349 425**	**298 233**	**391 134**	**48 089**	**8 666**	**683 735**	**749 225**

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**3 695**	**746**	**-**	**-**	**3 695**	**746**
Derivatives	-	-	3 695	746	-	-	3 695	746
Derivatives – Hedge accounting	**-**	**-**	**4 977**	**10 318**	**-**	**-**	**4 977**	**10 318**
Total liabilities	**-**	**-**	**8 672**	**11 064**	**-**	**-**	**8 672**	**11 064**

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

EUR'000	1.1.2021	Gains / losses in PL	Gains / losses in OCI	Purchases	Maturities and sales	Transfers into Level 3	Transfers out Level 3	31.12.2021
Financial assets at fair value through OCI	8 666	2 220	97	46 018	(26 912)	18 110	-	48 089
Total	**8 666**	**2 220**	**97**	**46 018**	**(26 912)**	**18 110**	**-**	**48 089**

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

EUR'000	31 December 2021			31 December 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Non-trading financial assets mandatorily at FVPL	-	-	-	-	-	-
Transfers into the category	2 669	1 102	-	-	-	-
Transfers out of the category	(1 102)	(2 669)	-	-	-	-
Financial assets at fair value through OCI	-	-	-	-	-	-
Transfers into the category	-	-	18 110	23 000	76 942	-
Transfers out of the category	-	(18 110)	-	(37 825)	-	(62 117)
Total assets	**1 567**	**(19 677)**	**18 110**	**(14 825)**	**76 942**	**(62 117)**

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

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

31 December 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**293 661**	**293 661**	**-**	**293 661**	**-**
Financial assets at amortised cost	**3 177 481**	**3 287 915**	**339 652**	**66 085**	**2 882 178**
Debt securities	364 764	387 594	339 652	-	47 942
Loans and advances	2 780 170	2 867 774	-	33 538	2 834 236
Other financial assets	32 547	32 547	-	32 547	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3 723 793**	**3 739 644**	**-**	**3 739 644**	**-**
Deposits	3 671 084	3 686 935	-	3 686 935	-
Debt securities issued	-	-	-	-	-
Other financial liabilities	52 709	52 709	-	52 709	-

32. Segment reporting

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

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

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

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

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Interest income	63 820	71 013	71 789	74 993	3 004	5 775	138 613	151 781
Interest expenses	(3 511)	(7 081)	(30)	(93)	(1 335)	(899)	(4 876)	(8 073)
Net interest income	**60 309**	**63 932**	**71 759**	**74 900**	**1 669**	**4 876**	**133 737**	**143 708**
Fee and commission income	46 801	43 834	14 975	17 197	1 092	533	62 868	61 564
Fee and commission expenses	(20 326)	(18 609)	(5 722)	(7 219)	(1 262)	(450)	(27 310)	(26 278)
Net fee and commission income	**26 475**	**25 225**	**9 253**	**9 978**	**(170)**	**83**	**35 558**	**35 286**
Net interest and fee margin	**86 784**	**89 157**	**81 012**	**84 878**	**1 499**	**4 959**	**169 295**	**178 994**
Impairment losses and provisions	(13 411)	(27 054)	(4 225)	(15 518)	(115)	(58)	(17 751)	(42 630)

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Assets	1 764 625	1 332 067	1 786 234	1 864 226	1 354 027	1 241 613	4 904 886	4 437 906
Liabilities	3 295 552	3 296 533	284 052	319 263	1 325 282	822 110	4 904 886	4 437 906

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

EUR'000	Retail banking		Corporate banking		Other banking		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Fee and commission income								
Securities	-	-	-	-	61	84	61	84
Clearing and settlement	6 637	7 415	7 032	8 103	499	49	14 168	15 567
Custody	-	-	3 458	2 843	59	60	3 517	2 903
Payment services	26 781	27 608	2 876	3 953	32	23	29 689	31 584
Loan servicing activities	1 709	1 508	689	1 007	93	254	2 491	2 769
Loan commitments given	-	-	650	887	3	14	653	901
Financial guarantees given	49	23	253	284	2	46	304	353
Other	11 625	7 280	17	120	343	3	11 985	7 403
Total fee and commission income	**46 801**	**43834**	**14 975**	**17 197**	**1 092**	**533**	**62 868**	**61 564**

33. Risk management

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

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

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

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

The Bank 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.

34. Credit risk

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

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

Credit risk management includes:

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

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

When analysing client deals the Bank uses:

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

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

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

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

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

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

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

EUR'000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**307 533**	**284 612**	**60 000**	**-**	**266 897**	**295 664**	**-**	**-**	**-**	**-**
Credit institutions	**30 990**	**30 986**	**23 270**	**13 123**	**28 346**	**48 816**	**-**	**-**	**-**	**-**
Other financial corporations	**1 424**	**1 486**	**553 697**	**632 621**	**29 180**	**19 784**	**9 346**	**15 061**	**-**	**4 953**
Non-financial corporations	**46 627**	**55 401**	**845 625**	**895 062**	**61 014**	**72 735**	**52 822**	**98 801**	**16 657**	**13 283**
A Agriculture, forestry and fishing	-	-	17 887	-	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	-	-	59 798	57 070	-	3 138	438	1 561	76	79
D Electricity, gas, steam and air conditioning supply	-	-	67 609	148 854	-	-	-	74 531	-	-
E Water supply	-	-	305	-	-	-	-	-	-	-
F Construction	-	-	113 848	106 141	-	-	2 108	2 413	2 972	3 458
G Wholesale and retail trade	-	-	25 397	31 518	-	-	446	592	487	2 079
H Transport and storage	-	-	1 097	288	-	-	23	21	3	247
I Accommodation and food service activities	-	-	75 463	54 954	-	37 950	64	197	-	-
J Information and communication	-	-	10 104	16 899	-	-	3 979	4 227	150	-
K Financial and insurance activities	-	-	53 508	28 412	-	8 601	45 600	8 678	5 230	-
L Real estate activities	46 627	55 401	157 878	167 384	-	-	44	5 898	-	-
M Professional, scientific and technical activities	-	-	92 511	99 795	-	-	87	77	7 739	7 420
N Administrative and support service activities	-	-	78 890	87 742	-	-	29	605	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	13	25	-	-	-	-	-	-
Q Human health services and social work activities	-	-	19 246	19 508	-	-	-	-	-	-
R Arts, entertainment and recreation	-	-	69 187	76 315	61 014	23 046	-	-	-	-
S Other services	-	-	2 884	157	-	-	4	1	-	-
Households	**-**	**-**	**1 890 972**	**1 455 664**	**-**	**-**	**212 449**	**129 750**	**-**	**-**
Total	**386 574**	**372 485**	**3 373 564**	**2 996 470**	**385 437**	**436 999**	**274 617**	**243 612**	**16 657**	**18 236**

EUR'000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Slovak Republic	320 481	290 779	2 481 397	2 173 211	247 927	245 587	228 877	166 756	3 750	4 408
Czech Republic	-	-	348 281	319 087	29 462	80 288	30 547	76 807	257	1 454
Cyprus	-	-	298 390	274 392	-	-	14 977	37	-	-
Luxemburg	1 424	1 486	133 395	115 421	11 621	12 374	-	-	-	-
Switzerland	-	-	69 171	76 295	-	-	2	2	-	-
France	-	-	1 100	1 845	51 375	52 914	1	1	-	-
Netherlands	20 000	20 001	21 991	30 437	-	-	-	1	5 230	-
Poland	-	15 127	1	1	14 060	14 654	1	-	-	4 954
Lithuania	10 110	10 174	-	-	13 329	13 475	-	-	-	-
Latvia	2 181	2 208	-	-	17 663	17 707	-	-	-	-
Austria	-	-	19 537	221	-	-	1	1	-	-
Other countries	32 378	32 710	301	5 560	-	-	211	7	7 420	7 420
Total	**386 574**	**372 485**	**3 373 564**	**2 996 470**	**385 437**	**436 999**	**274 617**	**243 612**	**16 657**	**18 236**

Rating system

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

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

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

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

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

Measurement of expected credit losses

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

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

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

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

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

The Bank sets the level of significance at EUR 300 thousand (31 December 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 31 December 2021, 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 $\mathrm{ECL} = \mathrm{PD} \times \mathrm{EAD} \times \mathrm{LGD}$, where:

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

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

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

ECL sensitivity analysis

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

Changes in the credit quality of clients

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

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

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

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

ECL scenarios impact compared to the actual ECL value:

31.12.2021	Value of ECL	Rating downgrade EUR'000	in %	Rating improvement EUR'000	in %
Consumer credit	118 309	5 724	4.84%	(3 248)	-2.75%
Mortgage loans	790	249	31.50%	(129)	-16.31%
Total	**119 099**	**5 973**	**5.02%**	**(3 377)**	**-2.84%**

31.12.2020	Value of ECL	Rating downgrade EUR'000	in %	Rating improvement EUR'000	in %
Consumer credit	114 498	8 992	7.85%	(5 334)	-4.66%
Mortgage loans	959	198	20.65%	(118)	-12.30%
Total	**115 457**	**9 190**	**7.96%**	**(5 452)**	**-4.72%**

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

PD changes

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

PD change	31 December 2021				31 December 2020			
	10% increase		10% decrease		10% increase		10% decrease	
	EUR'000	in %	EUR'000	in %	EUR'000	in %	EUR'000	in %
Consumer credit	1 404	1.19%	(1 404)	-1.19%	2 457	2.15%	(2 457)	-2.15%
Mortgage loans	31	3.95%	(31)	-3.95%	43	4.45%	(43)	-4.45%
Corporate loans	2 364	2.29%	(2 368)	-2.29%	2 572	2.41%	(2 572)	-2.41%
Other	35	1.09%	(35)	-1.09%	38	1.22%	(38)	-1.22%
Total	**3 834**	**1.70%**	**(3 838)**	**-1.70%**	**5 110**	**2.27%**	**(5 110)**	**-2.27%**

Changes of the LGD parameter

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

LGD change	31 December 2021		31 December 2020	
	in %	EUR'000	in %	EUR'000
+5%	3.16%	7 096	3.19%	7 153
-5%	-3.16%	(7 096)	-3.19%	(7 153)
+10%	6.10%	13 714	6.32%	14 160
-10%	-6.32%	(14 193)	-6.39%	(14 305)

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

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

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets at AC - Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Low credit risk	339 947	317 084	-	-	-	-	-	-	339 947	317 084
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	46 627	55 401	-	-	-	-	46 627	55 401
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**339 947**	**317 084**	**46 627**	**55 401**	**-**	**-**	**-**	**-**	**386 574**	**372 485**
Impairment allowance	(98)	(95)	(7 514)	(7 626)	-	-	-	-	(7 612)	(7 721)
Carrying amount	**339 849**	**316 989**	**39 113**	**47 775**	**-**	**-**	**-**	**-**	**378 962**	**364 764**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets at AC - Loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Low credit risk	933 024	855 189	61 128	19 804	-	-	-	-	994 152	874 993
Moderate credit risk	1 493 070	1 304 850	74 907	124 811	-	-	-	4	1 567 977	1 429 665
High credit risk	308 649	183 569	285 596	277 326	-	-	4 649	22 066	598 894	482 961
Default	-	-	-	-	167 865	168 867	8 226	8 630	176 091	177 497
Not rated	23 270	11 581	9 438	19 223	3 737	550	5	-	36 450	31 354
Gross amount	**2 758 013**	**2 355 189**	**431 069**	**441 164**	**171 602**	**169 417**	**12 880**	**30 700**	**3 373 564**	**2 996 470**
Impairment allowance	(21 004)	(22 766)	(33 075)	(39 696)	(147 085)	(142 971)	(8 946)	(10 867)	(210 110)	(216 300)
Carrying amount	**2 737 009**	**2 332 423**	**397 994**	**401 468**	**24 517**	**26 446**	**3 934**	**19 833**	**3 163 454**	**2 780 170**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets at FVOCI - Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Low credit risk	306 864	356 854	-	-	-	-	-	-	306 864	356 854
Moderate credit risk	40 605	77 007	-	-	-	-	-	-	40 605	77 007
High credit risk	-	3 138	37 968	-	-	-	-	-	37 968	3 138
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**347 469**	**436 999**	**37 968**	**-**	**-**	**-**	**-**	**-**	**385 437**	**436 999**
Impairment allowance in OCI	(355)	(477)	(8 260)	-	-	-	-	-	(8 615)	(477)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Loan and other commitments given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Low credit risk	131 448	121 567	-	5	-	-	-	-	131 448	121 572
Moderate credit risk	132 050	103 662	-	1	-	-	-	-	132 050	103 663
High credit risk	1 733	2 133	1 939	974	-	-	-	-	3 672	3 107
Default	-	-	-	-	6	44	-	-	6	44
Not rated	3 000	3 000	4 441	12 226	-	-	-	-	7 441	15 226
Gross amount	**268 231**	**230 362**	**6 380**	**13 206**	**6**	**44**	**-**	**-**	**274 617**	**243 612**
Provision	**299**	**349**	**273**	**439**	**1**	**11**	**-**	**-**	**573**	**799**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Low credit risk	76	2 121	-	-	-	-	-	-	76	2 121
Moderate credit risk	13 334	12 973	-	-	-	-	-	-	13 334	12 973
High credit risk	1 618	1 932	1 629	-	-	-	-	-	3 247	1 932
Default	-	-	-	-	-	1 210	-	-	-	1 210
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**15 028**	**17 026**	**1 629**	**-**	**-**	**1 210**	**-**	**-**	**16 657**	**18 236**
Provision	**112**	**80**	**78**	**-**	**-**	**609**	**-**	**-**	**190**	**689**

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:

EUR'000	31.12.2021	31.12.2020
Real-estates	1 182 368	712 835
Securities	226 588	230 593
Cash	3	6
Other	139 218	167 795
Total	**1 548 177**	**1 111 229**

Collateral in default loans and advances at amortised cost:

EUR'000	31.12.2021	31.12.2020
Gross amount	179 828	178 047
Impairment allowance	(155 316)	(151 136)
Carrying amount	**24 512**	**26 911**
Collateral	**7 122**	**5 663**

The Bank's assessment of the net realisable value of the collateral is based on independent expert appraisals, which are reviewed by the Bank 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.

Net value of assets acquired by ownership of the collateral as at the end of 2021 and 2020 is nil.

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.

Impact of COVID-19 pandemic

Retail portfolios

- From the credit risk point of view, the Bank distinguishes between the provision of deferred payments to deferred payments for retired clients and for non-retired clients, whereas, according to the amount of outstanding exposure as at 31 December 2021, deferred payments to non-retired clients represent 95.5% of provided deferred payments;
- Loans to non-retired clients with deferral of payments during the pandemic are included in Level 2, as the Bank is exposed to increased credit risk due to possible loss of income in the future, the Bank does not expect loss of income in retired clients;
- By the end of 2021, the FLI multiplier for retail portfolios was set uniformly at 10%, in compliance with the Bank’s expectations for the following year;
- As a result of the calibration of the FLI parameter, there was a one-off decrease in impairment allowances by approx. EUR 1.9 mil.

Corporate portfolios

- Corporate clients are monitored and assessed individually on a regular basis during the pandemic;
- Categorisation to the relevant Level also takes place on an individual basis according to the specific situation of the clients;
- due to individual assessment, the Bank did not adjust the PD values of individual rating classes and the setting of the LGD parameter;
- Impacts on ECL due to the pandemic alone cannot be clearly defined.

The following table shows the gross value and impairment allowances of financial assets with deferred payments as a result of COVID-19 measures.

31.12.2021 EUR'000	Gross amount			Impairment allowance		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost	**18 729**	**53 602**	**871**	**(147)**	**(4 189)**	**(225)**
Loans and advances	18 729	53 602	871	(147)	(4 189)	(225)
of which: Non-financial corporations	*18 699*	*40 671*	*769*	*(147)*	*(3 496)*	*(188)*
of which: Households	*31*	*12 930*	*102*	-	*(693)*	*(38)*

Remaining period of deferred payments is as follows:

31.12.2021 EUR'000	Gross amount	Residual maturity of moratoria				
		≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 12 months
Financial assets at amortised cost	**73 202**	**47 732**	**5 538**	**589**	**829**	**18 514**
Loans and advances	73 202	47 732	5 538	589	829	18 514
of which: Non-financial corporations	*60 139*	*40 682*	*759*	-	*709*	*17 989*
of which: Households	*13 063*	*7 049*	*4 780*	*589*	*120*	*525*

The deferral of repayments under COVID-19 measures was provided for 12 675 loans active as at 31 December 2021, of which the deferral continues for 616 loans. According to our records 1 399 remaining loans were regranted a deferred payment during the reporting period. We record more than 30 days of delay in repayment of instalments for 2 011 loans and 8 370 loans are due after the end of the deferral of instalments.

35. Liquidity risk

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

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

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

Management of liquidity risk

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

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

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

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

Exposure to liquidity risk

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

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

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

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

	31.12.2021	31.12.2020
End of the period	1.58	2.15
Average for the period	2.04	1.95
Maximum for the period	3.00	2.15
Minimum for the period	1.58	1.81

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

	31.12.2021	31.12.2020
End of the period	1.27	1.22

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

EUR'000	31 December 2021			31 December 2020		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash, cash balances at central banks and other demand deposits	450 029	-	450 029	293 661	-	293 661
Financial assets held for trading	2	-	2	2 648	-	2 648
Non-trading financial assets mandatorily at fair value through profit or loss	-	298 231	298 231	-	309 513	309 513
Financial assets at fair value through other comprehensive income	96 380	289 122	385 502	102 694	334 370	437 064
Financial assets at amortised cost	560 654	3 002 945	3 563 599	704 050	2 473 431	3 177 481
Debt securities	*19 999*	*358 963*	*378 962*	*15 123*	*349 641*	*364 764*
Loans and advances	*519 472*	*2 643 982*	*3 163 454*	*656 380*	*2 123 790*	*2 780 170*
Other financial assets	*21 183*	*-*	*21 183*	*32 547*	*-*	*32 547*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 091	-	1 091	2 276	-	2 276
Investments in subsidiaries, joint ventures and associates	-	68 662	68 662	-	78 579	78 579
Tangible assets	-	64 532	64 532	-	58 134	58 134
Intangible assets	-	33 446	33 446	-	35 348	35 348
Deferred tax assets	-	23 008	23 008	-	24 688	24 688
Other assets	16 784	-	16 784	18 514	-	18 514
Total assets	**1 124 940**	**3 779 946**	**4 904 886**	**1 123 843**	**3 314 063**	**4 437 906**
Financial liabilities held for trading	3 695	-	3 695	746	-	746
Financial liabilities measured at amortised cost	3 505 132	624 649	4 129 781	3 523 062	200 731	3 723 793
Deposits	*3 479 928*	*526 418*	*4 006 346*	*3 496 928*	*174 156*	*3 671 084*
Debt securities issued	*-*	*64 794*	*64 794*	*-*	*-*	*-*
Other financial liabilities	*25 204*	*33 437*	*58 641*	*26 134*	*26 575*	*52 709*
thereof: lease liabilities	*6 325*	*33 437*	*39 762*	*5 511*	*26 575*	*32 086*
Derivatives – Hedge accounting	981	3 996	4 977	916	9 402	10 318
Provisions	769	-	769	2 594	-	2 594
Current tax liabilities	2 766	-	2 766	1 552	-	1 552
Other liabilities	13 834	-	13 834	11 552	-	11 552
Total liabilities	**3 527 177**	**628 645**	**4 155 822**	**3 540 422**	**210 133**	**3 750 555**

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

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

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities measured at amortised cost	3 294 523	219 213	565 778	74 835	4 154 349	4 129 781
Deposits	*3 274 033*	*214 449*	*480 606*	*59 357*	*4 028 445*	*4 006 346*
Debt securities issued	*-*	*-*	*64 794*	*-*	*64 794*	*64 794*
Other financial liabilities	*20 490*	*4 764*	*20 378*	*15 478*	*61 110*	*58 641*
thereof: lease liabilities	*1 611*	*4 764*	*20 378*	*15 478*	*42 231*	*39 762*
Derivatives – Hedge accounting	*129*	*2 053*	*4 110*	*506*	*6 798*	*4 977*
Total	**3 294 523**	**219 213**	**565 778**	**74 835**	**4 154 349**	**4 129 781**
31 December 2020						
Financial liabilities measured at AC	3 266 766	257 389	150 862	63 438	3 738 455	3 723 793
Deposits	*3 244 701*	*253 278*	*133 317*	*52 141*	*3 683 437*	*3 671 084*
Debt securities issued	*-*	*-*	*-*	*-*	*-*	*-*
Other financial liabilities	*22 065*	*4 111*	*17 545*	*11 297*	*55 018*	*52 709*
thereof: lease liabilities	*1 442*	*4 111*	*17 545*	*11 297*	*34 395*	*32 086*
Derivatives – Hedge accounting	*706*	*9 612*	*-*	*-*	*10 318*	*10 318*
Total	**3 266 766**	**257 389**	**150 862**	**63 438**	**3 738 455**	**3 723 793**

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2021						
Loan and other commitments given	274 617	-	-	-	274 617	274 617
Financial guarantees given	16 657	-	-	-	16 657	16 657
Total	**291 274**	**-**	**-**	**-**	**291 274**	**291 274**
31 December 2020						
Loan and other commitments given	243 612	-	-	-	243 612	243 612
Financial guarantees given	18 236	-	-	-	18 236	18 236
Total	**261 848**	**-**	**-**	**-**	**261 848**	**261 848**

36. Market risk

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

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

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

Management of market risks

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

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

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

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

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

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

A summary of the VaR position:

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

EUR'000	**31.12.2020**	**Average**	**Maximum**	**Minimum**
VaR trading book	12	6	36	0
VaR banking book	2 516	2 127	2 749	868
VaR total	2 515	2 127	2 731	870
Out of which interest rate risk	*1 144*	*904*	*2 362*	*516*
Out of which credit spread risk	*2 386*	*2 087*	*5 273*	*1 046*
Out of which foreign exchange risk	*12*	*6*	*36*	*0*

Interest rate risk

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

Other sources of interest rate risk are:

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

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

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

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

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

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

	2021	2020
End of the period	(45 523)	(46 642)
Average for the period	(45 808)	(41 975)
Maximum for the period	(52 885)	(46 642)
Minimum for the period	(34 284)	(35 626)

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

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

Share price risk

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

When investing in equity instruments, the Bank:

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

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

Foreign exchange risk

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

IBOR reform

Risk Management

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

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

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

Non - derivative financial assets and liabilities

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

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

The Bank does not recognise significant exposures as at 31 December 2021, which will be affected by the IBOR reform as amended on 1 January 2022.

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

Derivatives

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

Hedge accounting

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

37. Operational risk

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

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

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

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

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

Legal risk

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

Compliance risk

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

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

Risks related to outsourcing

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

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

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

38. Capital management

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	31.12.2021	31.12.2020
Tier I Capital	**670 036**	**630 161**
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	63 997	59 561
Selected components of accumulated other comprehensive income	6 665	6 372
Profit or loss of previous years	249 646	209 724
Intangible assets	(33 446)	(35 348)
Additional valuation adjustments	(761)	(840)
Other transitional adjustments to CET1 Capital	16 892	23 649
Tier II Capital	**8 000**	**8 000**
Subordinated debt	8 000	8 000
Regulatory capital total	**678 036**	**638 161**

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

EUR'000	31.12.2021	31.12.2020
Capital required to cover:		
Credit risk	259 620	261 227
Credit value adjustment risk	202	105
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	23 535	24 632
Total capital requirements	**283 357**	**285 964**
Capital ratios		
Total capital level as a percentage of total risk weighted assets	19.14%	17.85%
Tier I capital as a percentage of total risk weighted assets	18.92%	17.63%
Common Equity Tier I capital as a percentage of total risk weighted assets	18.92%	17.63%

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

EUR'000	31.12.2021	31.12.2020
Available capital (amounts)		
Common Equity Tier I (CET1) capital	670 036	630 161
Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied	653 144	606 512
Tier I capital	670 036	630 161
Tier I capital as if IFRS 9 transitional arrangements were not applied	653 144	606 512
Total capital	678 036	638 161
Total capital as if IFRS 9 transitional arrangements were not applied	661 144	614 512
Risk-weighted assets (amounts)		
Risk-weighted assets	3 541 963	3 574 545
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 524 522	3 549 280
Capital ratio		
Common Equity Tier I capital (as a percentage of risk exposure amount)	18.92%	17.63%
Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.53%	17.09%
Tier I capital (as a percentage of risk exposure amount)	18.92%	17.63%
Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.53%	17.09%
Total capital (as a percentage of risk exposure amount)	19.14%	17.85%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	18.76%	17.31%

39. Post balance-sheet events

After the date of preparation of the financial statements, a war conflict emerged between Russia and Ukraine. Based on the currently available information and our analysis performed we do not anticipate a direct significant adverse impact of the conflict on the Bank, its operations, financial position and operating result. The longer-term effects of the conflict are difficult to determine, and the Bank monitors the situation closely and will respond to mitigate the potential impact, if any.