# 365.bank, a. s.

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

**for 6 months ending 30 June 2022**
**(English translation)**

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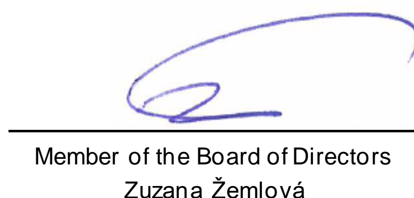
# A. Separate statement of financial position

| EUR'000 | Notes | 30.6.2022 | 31.12.2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash, cash balances at central banks and other demand deposits | 4 | 273 785 | 450 029 |
| Financial assets held for trading | 5 | 884 | 2 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 6 | 331 669 | 298 231 |
| Financial assets at fair value through other comprehensive income | 7 | 286 177 | 385 502 |
| Financial assets at amortised cost | 8 | 3 599 358 | 3 563 599 |
| *Debt securities* | *8* | *400 344* | *378 962* |
| *Loans and advances* | *8* | *3 171 328* | *3 163 454* |
| thereof: Loans and advances to financial institutions | 8 | 2 769 | 23 252 |
| thereof: Loans and advances to customers | 8 | 3 168 559 | 3 140 202 |
| *Other financial assets* | *8* | *27 686* | *21 183* |
| Derivatives – Hedge accounting | 9 | 5 164 | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | (1 010) | 1 091 |
| Investments in subsidiaries, joint ventures and associates | 10 | 70 039 | 68 662 |
| Tangible assets | 11 | 58 915 | 64 532 |
| Intangible assets | 12 | 32 082 | 33 446 |
| Deferred tax assets | 13 | 26 571 | 23 008 |
| Other assets | 14 | 21 434 | 16 784 |
| **TOTAL ASSETS** | | **4 705 068** | **4 904 886** |
| | | | |
| **Liabilities** | | | |
| Financial liabilities held for trading | 5 | 1 027 | 3 695 |
| Financial liabilities at amortised cost | 15 | 3 919 156 | 4 129 781 |
| *Deposits* | *15* | *3 796 616* | *4 006 346* |
| thereof: Subordinated debt | *15* | *8 013* | *8 014* |
| *Debt securities issued* | *15* | *65 902* | *64 794* |
| *Other financial liabilities* | *15* | *56 638* | *58 641* |
| Derivatives – Hedge accounting | 9 | 758 | 4 977 |
| Provisions | 16 | 441 | 769 |
| Current tax liabilities | | 19 | 2 766 |
| Other liabilities | 17 | 8 220 | 13 834 |
| **Total liabilities** | | **3 929 621** | **4 155 822** |
| Share capital and share premium | 18 | 367 043 | 367 043 |
| Retained earnings | 18 | 352 490 | 307 948 |
| Other equity | 18 | 55 914 | 74 073 |
| **Total equity** | **18** | **775 447** | **749 064** |
| **TOTAL EQUITY AND LIABILITIES** | | **4 705 068** | **4 904 886** |

These separate financial statements, which include the notes on pages 7 - 48, were approved by the Board of Directors on 27 July 2022.

Chairman of the Board of Directors
Andrej Zaťko



Member of the Board of Directors
Zuzana Žemlová

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

| EUR'000 | Notes | 1-6/2022 | 1-6/2021 |
|---|---|---|---|
| **Statement of profit or loss** | | | |
| Net interest income | 20 | 60 521 | 66 506 |
| *Interest income* | | *63 740* | *69 406* |
| *Interest expenses* | | *(3 219)* | *(2 900)* |
| Net fee and commission income | 21 | 18 551 | 16 471 |
| *Fee and commission income* | | *31 610* | *30 138* |
| *Fee and commission expenses* | | *(13 059)* | *(13 667)* |
| Dividend income | 22 | 24 135 | 14 777 |
| Net gains/(losses) from financial transactions | 23 | 1 884 | 7 293 |
| Net other operating expenses | 24 | (2 013) | (719) |
| *Other operating income* | *24* | *739* | *1 699* |
| *Other operating expenses* | *24* | *(2 437)* | *(2 196)* |
| *Gains/(losses) on derecognition of non-financial assets, net* | *24* | *(315)* | *(222)* |
| Staff expenses | 25 | (23 485) | (20 857) |
| Other administrative expenses | 25 | (18 100) | (17 647) |
| Depreciation | 26 | (12 233) | (10 401) |
| **Operating profit before impairment losses and provisions** | | **49 260** | **55 423** |
| Release/(creation) of provisions | 27 | 332 | 388 |
| Net impairment of financial assets not valued at fair value through profit and loss | 27 | 9 226 | (8 797) |
| Net impairment of investments in subsidiaries, joint ventures and associates | 27 | - | 2 142 |
| Net impairment on non-financial assets | 27 | 165 | 203 |
| **Profit before tax** | | **58 983** | **49 359** |
| Income tax | 28 | (8 608) | (8 179) |
| **Profit after tax** | | **50 375** | **41 180** |
| | | | |
| **Statement of other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | (23 989) | 2 487 |
| *Revaluation of debt securities at fair value through other comprehensive income* | | *(30 350)* | *(5 109)* |
| *Impairment losses for debt securities at fair value through other comprehensive income* | | *(61)* | *6 132* |
| *Revaluation of hedging instruments* | | *-* | *2 123* |
| *Deferred tax related to items that may be reclassified to profit or loss* | | *6 422* | *(661)* |
| *Foreign currency translation* | | *-* | *2* |
| Items that may not be reclassified to profit or loss | | - | - |
| *Revaluation of equity instruments at fair value through other comprehensive income* | | *-* | *(2)* |
| *Deferred tax related to items that may not be reclassified to profit or loss* | | *-* | *2* |
| **Total other comprehensive income** | | **(23 989)** | **2 487** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **26 386** | **43 667** |
| | | | |
| **Earnings per share** | | | |
| Profit after tax | | 50 375 | 41 180 |
| Weighted-average number of ordinary shares | | 330 899 | 330 899 |
| **Basic and diluted earnings per share in EUR** | | **152** | **124** |

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

# C. Separate statement of changes in equity

| EUR'000 | Share capital | Share premium | Legal reserve fund | Revaluation of FVOCI financial assets | Foreign currency translation | Retained earnings | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|
| **Opening balance as of 1 January 2022** | **366 305** | **738** | **63 997** | **10 076** | **-** | **307 948** | **749 064** |
| **Total comprehensive income** | **-** | **-** | **-** | **(23 989)** | **-** | **50 375** | **26 386** |
| Profit after tax | - | - | - | - | - | 50 375 | 50 375 |
| Items that may be reclassified to profit or loss | - | - | - | (23 989) | - | - | (23 989) |
| **Other transactions** | **-** | **-** | **5 830** | **-** | **-** | **(5 833)** | **(3)** |
| Transfer to legal reserve fund | - | - | 5 830 | - | - | (5 830) | - |
| Other | - | - | - | - | - | (3) | (3) |
| **Closing balance as of 30 June 2022** | **366 305** | **738** | **69 827** | **(13 913)** | **-** | **352 490** | **775 447** |

| 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** | **-** | **-** | **-** | **2 485** | **2** | **41 180** | **43 667** |
| Profit after tax | - | - | - | - | - | 41 180 | 41 180 |
| Items that may be reclassified to profit or loss | - | - | - | 2 485 | 2 | - | 2 487 |
| **Other transactions** | **-** | **-** | **4 436** | **-** | **-** | **(4 431)** | **5** |
| Transfer to legal reserve fund | - | - | 4 436 | - | - | (4 436) | - |
| Other | - | - | - | - | - | 5 | 5 |
| **Closing balance as of 30 June 2021** | **366 305** | **738** | **63 997** | **9 152** | **-** | **290 831** | **731 023** |

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

# D. Separate statement of cash flows

| EUR'000 | Notes | 1-6/2022 | 1-6/2021 |
|---|---|---|---|
| **Profit before tax** | | **58 983** | **49 359** |
| *Adjustments:* | | | |
| Net interest income | | (60 521) | (66 506) |
| Dividend income | | (24 135) | (14 777) |
| Depreciation | | 12 233 | 10 401 |
| Release/(creation) of provisions | | (332) | (388) |
| Gains/(losses) on derecognition of non-financial assets, net | | 315 | 222 |
| Gains on derecognition of subsidiaries | | | |
| Net impairment of financial assets not valued at fair value through profit and loss | | (9 226) | 8 797 |
| Net impairment of investments in subsidiaries, joint ventures and associates | | - | (2 142) |
| Net impairment on non-financial assets | | (165) | (203) |
| **Cash flows from/(used in) operating activities before changes in working capital** | | **(22 848)** | **(17 713)** |
| *(Increase)/decrease in operating assets:* | | | |
| Cash balances at central banks | | 182 035 | 7 973 |
| Financial assets held for trading | | (882) | 2 546 |
| Non-trading financial assets mandatorily at fair value through profit or loss | | | |
| *(Increase)/decrease* | | *(33 438)* | *(10 305)* |
| *Dividends received* | | *8 335* | *7* |
| Financial assets at amortised cost | | 1 820 | (47 043) |
| *Loans and advances* | | *8 322* | *(46 634)* |
| *Other financial assets* | | *(6 502)* | *(409)* |
| Derivatives – Hedge accounting | | | |
| Other assets | | (4 650) | (262) |
| *Increase/(decrease) in operating liabilities:* | | | |
| Financial liabilities held for trading | | (2 668) | 1 505 |
| Financial liabilities measured at amortised cost, excluding subordinated debt and lease liabilities | | (208 310) | 3 426 |
| *Deposits* | | *(209 298)* | *5 128* |
| *Other financial liabilities* | | *988* | *(1 702)* |
| Derivatives – Hedge accounting | | 3 020 | (3 520) |
| Other liabilities | | (5 614) | (1 349) |
| **Cash flows from operating activities before interest and income tax** | | **(88 364)** | **(64 735)** |
| Interest received | | 55 838 | 63 621 |
| Interest paid | | (3 136) | (8 951) |
| Income tax paid | | (8 497) | (7 990) |
| ***Net cash flows from/(used in) operating activities*** | | ***(44 159)*** | ***(18 055)*** |
| | | | |
| **Cash flows from investing activities** | | | |
| *Financial assets at amortised cost - debt securities* | | | |
| Purchase | | (41 548) | (39 652) |
| Proceeds from sale and maturity | | 20 000 | 5 857 |
| Interest received | | 1 907 | 1 882 |
| *Financial assets at fair value through other comprehensive income - debt securities* | | | |
| Purchase | | (15 676) | (57 827) |
| Proceeds from sale and maturity | | 73 933 | 89 872 |
| Interest received | | 5 969 | 7 377 |
| *Investments in subsidiaries, joint ventures and associates* | | *14 423* | *15 721* |
| *Tangible and intangible assets* | | | |
| Purchase | | (6 060) | (6 007) |
| Proceeds from sale | | 554 | 1 |
| ***Net cash flows from/(used in) investing activities*** | | ***53 502*** | ***17 224*** |
| | | | |
| **Cash flows from financing activities** | | | |
| *Debt securities issued* | | | |
| Interest paid | | (86) | - |
| *Financial liabilities at amortised cost - subordinated debt* | | - | - |
| Interest paid | | (239) | (239) |
| *Financial liabilities at amortised cost - lease liabilities* | | | |
| Lease payments | | (3 001) | (2 797) |
| Interest expense | | (275) | (271) |
| ***Net cash flows from/(used in) financing activities*** | | ***(3 601)*** | ***(3 307)*** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | 4 | **5 742** | **(4 138)** |
| **Cash and cash equivalents at the beginning of the period** | 4 | **45 229** | **50 612** |
| **Cash and cash equivalents at the end of the period** | 4 | **50 971** | **46 474** |

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

# E. Notes to the separate financial statements

## 1. General information

Poštová banka, a. s. ('the Bank') was incorporated in the Commercial Register on 31 December 1992. The Bank commenced its activities on 1 January 1993. On 3 July 2021, the Bank changed its business name to 365.bank, a. s. (hereinafter the „Bank" The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank's identification ('IČO') is 31340890, tax ('DIČ') is 2021294221 and value added tax ('IČ DPH') number is SK7020000680. The Bank is registered as a VAT member of 365.bank Group.

The principal activities of the Bank are as follows:

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

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

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

Shareholder's structure is as follows:

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

| Members of the Board of Directors | |
|---|---|
| Andrej Zaťko | Chairman |
| Peter Hajko | Board member |
| Zuzana Žemlová | Board member |
| Ladislav Korec | Board member (from 2 July 2021) |

| Members of the Supervisory Board | |
|---|---|
| Jozef Tkáč | Chairman |
| Vladimír Ohlídal | Board member |
| Jan Kotek | Board member |

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

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

# 2. Accounting policies

## 2.1 Basis of preparation of the separate financial statements

The interim separate financial statements for the 6 months ending 30 June 2022 have been prepared in accordance with International Financial Reporting Standards('IFRS'), as adopted by the European Union. These interim financial statements do not contain all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's separate financial statements as at 31 December 2021.

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

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

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

## 2.2 Subsidiaries, joint ventures and associates

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

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

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 2022 did not have a significant impact on the Bank.

## 2.4 Significant accounting methods and policies

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

**(a) Foreign currency**

i. *Foreign currency transactions*

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

ii. *Foreign operations*

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

**(b) Interest income and expenses**

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

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

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

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

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

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

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

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

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

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

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

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

**(e) Dividend income**

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

**(f) Income tax**

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

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

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

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

### (g) Financial assets

i. Initial recognition

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

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

ii. Classification and subsequent measurement

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

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

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

***Debt instruments***

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

Classification and subsequent measurement of debt instruments depends on:

a. Business model for managing the assets

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

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

b. Cash flow characteristics of assets

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

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

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

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

- Amortised cost

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

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

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

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

- Fair value through profit or loss

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

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

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

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

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

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

- Fair value through other comprehensive income

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

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

**Equity instruments**

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

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

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

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

No expected credit losses are recognised for equity instruments.

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

iii. Identification and measurement of credit losses

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

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

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

Note 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 amoun t 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.

## 3. Use of estimates and judgements

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

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

*Expected credit losses*

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

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

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

Further information about determining ECL is included in Note 33. Credit risk.

*Determining fair values*

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

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

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

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

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Cash on hand | 31 433 | 29 827 |
| Cash balances at central banks | 222 814 | 404 800 |
| Other demand deposits | 19 538 | 15 402 |
| **Total** | **273 785** | **450 029** |

The above-mentioned financial assets are not restricted.

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

| EUR'000 | 30.6.2022 | 31.12.2021 | 30.6.2021 | 31.12.2020 |
|---|---|---|---|---|
| Cash on hand | 31 433 | 29 827 | 27 045 | 25 875 |
| Other demand deposits | 19 538 | 15 402 | 19 429 | 24 737 |
| **Total** | **50 971** | **45 229** | **46 474** | **50 612** |

## 5. Financial assets and liabilities held for trading

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

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

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

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Equity instruments** | **331 669** | **298 231** |
| Share certificates | 331 669 | 298 231 |
| **Total** | **331 669** | **298 231** |

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

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

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

| EUR'000 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **As of 1 January 2022** | **(355)** | **(8 260)** | **-** | **-** | **(8 615)** |
| Increases due to origination and acquisition | (3) | - | - | - | (3) |
| Decreases due to derecognition | 80 | - | - | - | 80 |
| Changes due to change in credit risk (net) | 28 | (44) | - | - | (16) |
| Transfers: | - | - | - | - | - |
| *to/(from) Stage 1* | *x* | - | - | - | - |
| *to/(from) Stage 2* | - | *x* | - | - | - |
| *to/(from) Stage 3* | - | - | *x* | - | - |
| Changes due to movements in FX rates | - | - | - | - | - |
| **As of 30 June 2022** | **(250)** | **(8 304)** | **-** | **-** | **(8 554)** |

## 8. Financial assets at amortised cost

| EUR'000 | Gross value | | Impairment allowances | | Carrying amount | |
|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Debt securities** | **407 882** | **386 574** | **(7 538)** | **(7 612)** | **400 344** | **378 962** |
| General governments | 347 754 | 307 533 | (105) | (96) | 347 649 | 307 437 |
| Credit institutions | 10 985 | 30 990 | - | (2) | 10 985 | 30 988 |
| Other financial corporations | 1 365 | 1 424 | - | - | 1 365 | 1 424 |
| Non-financial corporations | 47 778 | 46 627 | (7 433) | (7 514) | 40 345 | 39 113 |
| **Loans and advances** | **3 353 881** | **3 373 564** | **(182 553)** | **(210 110)** | **3 171 328** | **3 163 454** |
| General governments | 60 203 | 60 000 | (19) | (19) | 60 184 | 59 981 |
| Credit institutions | 2 770 | 23 270 | (1) | (18) | 2 769 | 23 252 |
| Other financial corporations | 527 606 | 553 697 | (16 474) | (15 441) | 511 132 | 538 256 |
| Non-financial corporations | 631 344 | 845 625 | (56 346) | (71 550) | 574 998 | 774 075 |
| Households | 2 131 958 | 1 890 972 | (109 713) | (123 082) | 2 022 245 | 1 767 890 |
| *Lending for house purchase* | *1 322 966* | *1 028 687* | *(914)* | *(787)* | *1 322 052* | *1 027 900* |
| *Credit for consumption* | *799 770* | *849 215* | *(106 442)* | *(119 673)* | *693 328* | *729 542* |
| *Other* | *9 222* | *13 070* | *(2 357)* | *(2 622)* | *6 865* | *10 448* |
| **Other financial assets** | **27 814** | **21 301** | **(128)** | **(118)** | **27 686** | **21 183** |
| **Total** | **3 789 577** | **3 781 439** | **(190 219)** | **(217 840)** | **3 599 358** | **3 563 599** |

Loans and advances include finance lease receivables:

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Minimum value of leasing payments** | | |
| Receivables from leasing | 6 704 | 8 083 |
| *Up to 1 year* | 2 449 | *2 655* |
| *1-5 years* | 4 234 | *5 313* |
| *Over 5 years* | 21 | *115* |
| Unrealized income on finance leases | (522) | (694) |
| **Present value of future lease payments** | **6 182** | **7 389** |
| Impairment allowances | (30) | (31) |
| **Total** | **6 152** | **7 358** |

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Present value of future lease payments** | | |
| Receivables from leasing | 6 182 | 7 389 |
| *Up to 1 year* | 2 189 | *2 338* |
| *1-5 years* | 3 972 | *4 938* |
| *Over 5 years* | 21 | *113* |
| **Present value of future lease payments** | **6 182** | **7 389** |
| Impairment allowances | (30) | (31) |
| **Total** | **6 152** | **7 358** |

Other financial assets comprise the following:

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Other financial assets, gross** | **27 814** | **21 301** |
| Clearing and settlement items | 6 832 | 3 227 |
| Cash collateral | 7 355 | 6 750 |
| Tax receivables | 20 | - |
| Trade receivables | 4 797 | 6 563 |
| Other | 8 810 | 4 761 |
| **Impairment allowances** | **(128)** | **(118)** |
| **Total** | **27 686** | **21 183** |

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

| 30.6.2022 | Gross value | | | | Impairment allowances | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **360 104** | **47 778** | **-** | **-** | **(105)** | **(7 433)** | **-** | **-** |
| General governments | 347 754 | - | - | - | (105) | - | - | - |
| Credit institutions | 10 985 | - | - | - | - | - | - | - |
| Other financial corporations | 1 365 | - | - | - | - | - | - | - |
| Non-financial corporations | - | 47 778 | - | - | - | (7 433) | - | - |
| **Loans and advances** | **2 812 847** | **373 461** | **154 555** | **13 018** | **(18 009)** | **(28 634)** | **(126 865)** | **(9 045)** |
| General governments | 60 203 | - | - | - | (19) | - | - | - |
| Credit institutions | 2 770 | - | - | - | (1) | - | - | - |
| Other financial corporations | 473 969 | 45 263 | 12 | 8 362 | (2 422) | (5 669) | (11) | (8 372) |
| Non-financial corporations | 421 616 | 164 631 | 40 490 | 4 607 | (10 821) | (12 959) | (31 928) | (638) |
| Households | 1 854 289 | 163 567 | 114 053 | 49 | (4 746) | (10 006) | (94 926) | (35) |
| *Lending for house purchase* | *1 272 189* | *47 008* | *3 769* | - | *(159)* | *(141)* | *(614)* | - |
| *Credit for consumption* | *575 744* | *116 471* | *107 506* | *49* | *(4 509)* | *(9 847)* | *(92 051)* | *(35)* |
| *Other* | *6 356* | *88* | *2 778* | - | *(78)* | *(18)* | *(2 261)* | - |
| **Other financial assets** | **-** | **27 814** | **-** | **-** | **-** | **(128)** | **-** | **-** |
| **Total** | **3 172 951** | **449 053** | **154 555** | **13 018** | **(18 114)** | **(36 195)** | **(126 865)** | **(9 045)** |

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

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

| EUR'000 | Loans and advances | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **As of 1 January 2022** | **(21 004)** | **(33 075)** | **(147 085)** | **(8 946)** | **(210 110)** |
| Increases due to origination and acquisition | (2 608) | - | - | (13) | (2 621) |
| Decreases due to derecognition | 1 181 | 3 741 | 2 421 | 7 | 7 350 |
| Changes due to change in credit risk (net) | 7 408 | (4 702) | (3 357) | (93) | (744) |
| Transfers: | (2 974) | 5 402 | (2 428) | - | - |
| *to/(from) Stage 1* | *x* | *2 534* | *440* | - | *2 974* |
| *to/(from) Stage 2* | *(2 534)* | *x* | *(2 868)* | - | *(5 402)* |
| *to/(from) Stage 3* | *(440)* | *2 868* | *x* | - | *2 428* |
| Decrease in allowance account due to write-offs | - | - | 23 610 | - | 23 610 |
| Changes due to movements in FX rates | (12) | - | (26) | - | (38) |
| **As of 30 June 2022** | **(18 009)** | **(28 634)** | **(126 865)** | **(9 045)** | **(182 553)** |

## 9. Hedging derivatives

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

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

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

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

| EUR'000 | Carrying amount | | Amount of fair value hedge adjustments | | Line item in the statement of financial position in which the hedged item is included |
|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | |
| **Fair value hedges** | | | | | |
| Portfolio hedge of interest rate risk | 197 458 | 200 037 | -1 010 | 1 091 | Financial assets at amortised cost |
| Interest rate | 113 583 | 145 078 | 4 979 | -2 260 | Revaluation of FVOCI financial assets |

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

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

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Investments in subsidiaries | 76 901 | 75 544 |
| Investments in joint ventures | 160 | 140 |
| Impairment allowances | (7 022) | (7 022) |
| **Total** | **70 039** | **68 662** |

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

During 2021, the following significant changes occurred in investments:

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

## 11. Tangible assets

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Tangible assets owned | 22 786 | 25 319 |
| *Property, plant and equipment* | *22 786* | *25 319* |
| Right of use assets | 36 129 | 39 213 |
| **Total** | **58 915** | **64 532** |

| EUR'000 | Tangible assets owned | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Hardware | Fittings and other equipment | Assets not yet in use | Total |
| **Cost** | | | | | |
| As of 1 January 2022 | 19 710 | 12 102 | 19 482 | 765 | 52 059 |
| Additions | - | - | - | 556 | 556 |
| Transfers | 6 | 230 | 266 | (502) | - |
| Disposals | (1 677) | (1 311) | (184) | (6) | (3 178) |
| **As of 30 June 2022** | **18 039** | **11 021** | **19 564** | **813** | **49 437** |
| **Accumulated depreciation** | | | | | |
| As of 1 January 2022 | (7 001) | (8 624) | (10 473) | - | (26 098) |
| Depreciation for the year | (763) | (828) | (743) | - | (2 334) |
| Disposals | 862 | 1 308 | 133 | - | 2 303 |
| **As of 30 June 2022** | **(6 902)** | **(8 144)** | **(11 083)** | **-** | **(26 129)** |
| **Accumulated impairment losses** | **(499)** | **-** | **(23)** | **-** | **(522)** |
| **Carrying amount as at 30.6.2022** | **10 638** | **2 877** | **8 458** | **813** | **22 786** |

| EUR'000 | Right of use assets | | | |
|---|---|---|---|---|
| | Land and buildings | Hardware | Fittings and other equipment | Total |
| **Cost** | | | | |
| As of 1 January 2022 | 49 530 | 211 | 4 058 | 53 799 |
| Additions | 476 | - | - | 476 |
| Remeasurements | (555) | - | - | (555) |
| Disposals | - | - | (7) | (7) |
| **As of 30 June 2022** | **49 451** | **211** | **4 051** | **53 713** |
| **Accumulated depreciation** | | | | |
| As of 1 January 2022 | (12 903) | (158) | (1 526) | (14 587) |
| Depreciation for the year | (2 654) | (26) | (321) | (3 001) |
| Disposals | - | - | 4 | 4 |
| **As of 30 June 2022** | **(15 557)** | **(184)** | **(1 843)** | **(17 584)** |
| **Accumulated impairment losses** | **-** | **-** | **-** | **-** |
| **Carrying amount as at 30.6.2022** | **33 894** | **27** | **2 208** | **36 129** |

## 12. Intangible assets

| EUR'000 | Software | Other intangible assets | Assets not yet in use | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As of 1 January 2022 | 84 202 | 72 | 5 650 | 89 924 |
| Additions | - | - | 5 504 | 5 504 |
| Transfers | 2 102 | 14 | (2 116) | - |
| Disposals | (707) | - | (15) | (722) |
| **As of 30 June 2022** | **85 597** | **86** | **9 023** | **94 706** |
| **Accumulated amortisation** | | | | |
| As of 1 January 2022 | (56 180) | (72) | - | (56 252) |
| Amortisation for the year | (6 896) | (2) | - | (6 898) |
| Disposals | 707 | - | - | 707 |
| **As of 30 June 2022** | **(62 369)** | **(74)** | **-** | **(62 443)** |
| **Accumulated impairment losses** | (181) | - | - | (181) |
| **Carrying amount as at 30.6.2022** | **23 047** | **12** | **9 023** | **32 082** |

## 13. Deferred tax assets and liabilities

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

| | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Companies in SR | 21% | 21% |

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Impairment on financial assets at AC | 20 272 | 22 176 |
| Provisions for off-balance sheet exposures | 91 | 160 |
| Revaluation of financial assets at FVOCI | 3 698 | (2 724) |
| Tangible assets | 571 | 280 |
| Other | 1 939 | 3 116 |
| **Total deferred tax assets** | **26 571** | **23 008** |

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

Movements in deferred tax were as follows:

| EUR'000 | 1.1.2022 | Profit or loss | OCI | 30.6.2022 |
|---|---|---|---|---|
| Impairment on financial assets at AC | 22 176 | (1 904) | - | 20 272 |
| Provisions for off-balance sheet exposures | 160 | (69) | - | 91 |
| Revaluation of financial assets at FVOCI | (2 724) | - | 6 422 | 3 698 |
| Tangible assets | 280 | 291 | - | 571 |
| Other | 3 116 | (1 177) | - | 1 939 |
| **Total** | **23 008** | **(2 859)** | **6 422** | **26 571** |

## 14. Other assets

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Deferred expenses | 11 273 | 8 952 |
| Accrued income | 3 607 | 3 773 |
| Inventories | 312 | 334 |
| Prepayments | 6 242 | 3 725 |
| **Total** | **21 434** | **16 784** |

## 15. Financial liabilities measured at amortised cost

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Deposits** | **3 796 616** | **4 006 346** |
| Central banks | 248 674 | 249 931 |
| General governments | 3 869 | 3 613 |
| Credit institutions excluding subordinated debt | 28 722 | 74 487 |
| Credit institutions - subordinated debt | 8 013 | 8 014 |
| Other financial corporations | 143 654 | 157 046 |
| Non-financial corporations | 137 529 | 146 900 |
| Households | 3 226 155 | 3 366 355 |
| **Debt securities issued** | **65 902** | **64 794** |
| Non-convertible debt securities issued | 65 902 | 64 794 |
| *Non-convertible* | *65 902* | *64 794* |
| **Other financial liabilities** | **56 638** | **58 641** |
| Clearing and settlement items | 7 548 | 5 930 |
| Liabilities to employees | 3 178 | 3 190 |
| Liabilities from social and health insurance and social fund | 1 560 | 1 516 |
| Tax liabilities | 467 | 867 |
| Received prepayments | 4 502 | 5 002 |
| Liabilities from dividends | 28 | 28 |
| Lease liabilities | 36 772 | 39 762 |
| Other creditors | 2 583 | 2 346 |
| **Total** | **3 919 156** | **4 129 781** |

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

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

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

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Subordinated debt | 8 013 | 8 014 |

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. | 8 013 | 3M EURIBOR+6% | 31.12.2026 |

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

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

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

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

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

The TLTRO III negative interest amount recorded in the 2022 profit or loss is EUR 1,257 thousand.

## 16. Provisions

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Commitments and guarantees given | 435 | 763 |
| *Loan commitments* | *416* | *573* |
| *Guarantees given* | *19* | *190* |
| Other provisions | 6 | 6 |
| **Total** | **441** | **769** |

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

| EUR'000 | Commitments and guarantees given | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **As of 1 January 2022** | **411** | **351** | **1** | **-** | **763** |
| Increases due to origination and acquisition | 370 | - | - | - | 370 |
| Decreases due to derecognition | (311) | (490) | - | - | (801) |
| Changes due to change in credit risk (net) | (246) | 346 | - | - | 100 |
| Transfers: | (77) | 77 | - | - | - |
| *(to)/from Stage 1* | *x* | *77* | - | - | *77* |
| *(to)/from Stage 2* | *(77)* | *x* | - | - | *(77)* |
| *(to)/from Stage 3* | - | - | x | - | - |
| Changes due to movements in FX rates | 3 | - | - | - | 3 |
| **As of 30 June 2022** | **150** | **284** | **1** | **-** | **435** |

## 17. Other liabilities

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Estimated payables (PEREX, OPEX) | 8 492 | 13 705 |
| Deferred income | (272) | 129 |
| **Total** | **8 220** | **13 834** |

## 18. Equity

*a) Share capital*

| | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Nominal value per share in EUR | 1 107 | 1 107 |
| Number of shares | 330 899 | 330 899 |
| **Total share capital in EUR'000** | **366 305** | **366 305** |

All shares of the Bank are ordinary registered shares.

*b) Legal reserve fund*

Under the Slovak Commercial Code, all companies are required to create a legal reserve fund to cover losses. 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** | **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 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Loan commitments given | 147 509 | 274 617 |
| Financial guarantees given | 13 806 | 16 657 |
| **Total** | **161 315** | **291 274** |

*b) Assets involved in the services provided*

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Asset management | 872 580 | 960 554 |
| Custody assets | 132 769 | 104 068 |
| **Total** | **1 005 349** | **1 064 622** |

*c) Securities provided as collateral*

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

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

## 20. Net interest income

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

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Interest income** | | |
| Financial assets at fair value through other comprehensive income | 2 488 | 2 957 |
| Financial assets at amortised cost | 61 024 | 67 623 |
| *Debt securities* | *2 755* | *2 817* |
| *Loans and advances* | *58 269* | *64 806* |
| Derivatives - Hedge accounting, interest rate risk | (1 029) | (1 179) |
| Other assets | - | 5 |
| *Cash balances at central banks* | - | *1* |
| *Other* | - | *4* |
| Interest income on liabilities | 1 257 | - |
| **Total interest income** | **63 740** | **69 406** |
| | | |
| **Interest expenses** | | |
| Financial liabilities measured at amortised cost | (3 159) | (2 840) |
| *thereof: lease liabilities* | (275) | (271) |
| Other liabilities | (1) | 1 |
| Interest expense on assets | (59) | (61) |
| **Total interest expense** | **(3 219)** | **(2 900)** |
| | | |
| **Net interest income** | **60 521** | **66 506** |

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| Interest income calculated on an EIR | 63 720 | 69 406 |
| Other interest income | 20 | - |
| **Total interest income** | **63 740** | **69 406** |

## 21. Net fee and commission income

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Fee and commission income** | | |
| Securities | - | 34 |
| Clearing and settlement | 7 536 | 7 226 |
| Custody | 1 848 | 1 562 |
| Payment services | 14 731 | 14 429 |
| *Current accounts* | *11 907* | *12 024* |
| *Debit cards and other card payments* | *153* | *184* |
| *Transfers and other payment orders* | *1 043* | *868* |
| *Other fee and commission income in relation to payment services* | *1 628* | *1 353* |
| Loan servicing activities | 1 374 | 1 179 |
| Loan commitments given | 102 | 589 |
| Financial guarantees given | 125 | 148 |
| Other | 5 894 | 4 971 |
| **Total fee and commission income** | **31 610** | **30 138** |
| Of which: Revenue recognised under IFRS 15: Recognition of Revenue from Customers contracts | 31 383 | 29 401 |
| | | |
| **Fee and commission expenses** | | |
| Securities | (31) | - |
| Clearing and settlement | (11 015) | (10 570) |
| Custody | (194) | (207) |
| Loan servicing activities | (690) | (1 655) |
| Other | (1 129) | (1 235) |
| **Total fee and commission expenses** | **(13 059)** | **(13 667)** |
| | | |
| **Net fee and commission income** | **18 551** | **16 471** |

## 22. Dividend income

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| Non-trading financial assets mandatorily at fair value through profit or loss | 8 335 | 7 |
| Investments in subsidiaries, joint ventures and associates | 15 800 | 14 770 |
| **Total** | **24 135** | **14 777** |

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

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Gains/(losses) on derecognition of financial assets and liabilities not at FVPL** | **(91)** | **(2 126)** |
| Financial assets at fair value through other comprehensive income | (91) | - |
| *Debt securities* | *(91)* | - |
| *thereof: reclassified from other comprehensive income* | *(91)* | - |
| Other | - | (2 126) |
| **Gains/(losses) on financial assets and liabilities held for trading, net** | **(2 905)** | **(3 871)** |
| Derivatives | (2 905) | (3 871) |
| **Gains/(losses) on non-trading financial assets mandatorily at FVPL, net** | **3 257** | **9 229** |
| Revaluation gains/(losses) | 3 257 | 9 229 |
| Trading gains/(losses) | - | - |
| **Gains/(losses) from hedge accounting, net** | **(141)** | **(21)** |
| Fair value changes of the hedging instrument | 9 200 | 2 676 |
| Fair value changes of the hedged item attributable to the hedged risk | (9 341) | (2 697) |
| **Exchange differences, net** | **1 764** | **4 082** |
| **Total** | **1 884** | **7 293** |

## 24. Other operating income and expenses

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Other operating expenses** | **(2 437)** | **(2 196)** |
| Bank and insurance companies specific fees | (1 701) | (1 574) |
| *Resolution fund* | *(158)* | *(159)* |
| *Deposit protection fund* | *(1 543)* | *(1 415)* |
| Other | (736) | (622) |
| **Other operating income** | **739** | **1 699** |
| Other | 739 | 1 699 |
| **Gains/(losses) on derecognition of non-financial assets, net** | **(315)** | **(222)** |
| **Total** | **(2 013)** | **(719)** |

## 25. Administrative expenses

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Staff expenses** | **(23 485)** | **(20 857)** |
| Wages and salaries (including bonuses) | (16 852) | (14 971) |
| Social expenses | (6 633) | (5 886) |
| **Other administrative expenses** | **(18 100)** | **(17 647)** |
| Rental expenses | (453) | (849) |
| *Short-term lease contracts* | *(558)* | *(590)* |
| *Variable lease payments not included in the lease liabilities* | *164* | *(187)* |
| *Other* | *(59)* | *(72)* |
| Real estate expenses | (1 287) | (1 421) |
| IT expenses | (5 033) | (3 457) |
| Marketing and advertisement | (4 096) | (2 598) |
| Legal and consulting services | (720) | (1 218) |
| Post and telecommunication | (1 668) | (2 275) |
| Material consumption | (384) | (806) |
| Repair and maintenance | (1 358) | (1 771) |
| Other admininstrative expenses - Rest | (3 101) | (3 253) |
| **Total** | **(41 585)** | **(38 504)** |

| | 1-6/2022 | 1-6/2021 |
|---|---|---|
| Number of employees as of balance sheet date | 1 199 | 1 186 |
| Average number of employees for the period | 1 218 | 1 184 |
| thereof, key management | 20 | 22 |

## 26. Depreciation

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Property, plant and equipment** | **(2 334)** | **(2 619)** |
| Buildings | (763) | (831) |
| Hardware | (828) | (839) |
| Fittings and other equipment | (743) | (948) |
| Operating lease assets | - | (1) |
| **Right of use assets** | **(3 001)** | **(2 797)** |
| Buildings | (2 654) | (2 445) |
| Hardware | (26) | (26) |
| Fittings and other equipment | (321) | (326) |
| **Intangible assets** | **(6 898)** | **(4 985)** |
| Software | (6 896) | (4 983) |
| Other intangible assets | (2) | (2) |
| **Total** | **(12 233)** | **(10 401)** |

## 27. Impairment losses and provisions

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Net impairment of financial assets not valued at fair value through profit or loss** | **9 226** | **(8 797)** |
| Financial assets at fair value through other comprehensive income | 60 | (6 132) |
| *Debt securities* | *60* | *(6 132)* |
| Financial assets at amortised cost | 9 166 | (2 665) |
| *Debt securities* | *74* | *59* |
| *Loans and advances* | *9 055* | *(2 874)* |
| *Other financial assets* | *37* | *150* |
| **Net impairment of investments in subsidiaries, joint ventures and associates** | **-** | **2 142** |
| Subsidiaries | - | 2 142 |
| **Release/(creation) of provisions** | **332** | **388** |
| **Net impairment on non-financial assets** | **165** | **203** |
| **Total** | **9 723** | **(6 064)** |

## 28. Income tax

| EUR'000 | 1-6/2022 | 1-6/2021 |
|---|---|---|
| **Current income tax** | **(5 750)** | **(7 199)** |
| **Deferred tax** | **(2 858)** | **(980)** |
| **Total** | **(8 608)** | **(8 179)** |

## 29. Related party transactions

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

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

| 30.6.2022 | Shareholders | Members of J&T FINANCE GROUP SE | Subsidiaries | Joint ventures | Associates | Key management and related parties | Others |
|---|---|---|---|---|---|---|---|
| **Assets** | **-** | **153 801** | **82 896** | **582** | **-** | **2 518** | **99 825** |
| Other demand deposits | - | 290 | - | - | - | - | - |
| Financial assets held for trading | - | - | - | - | - | - | - |
| Non-trading financial assets mandatorily at FVPL | - | 145 072 | - | - | - | - | - |
| Financial assets designated at FVPL | - | - | - | - | - | - | - |
| Financial assets at FVOCI | - | 8 389 | - | - | - | - | - |
| Financial assets at amortised cost | - | 50 | 82 896 | 582 | - | 2 518 | 99 825 |
| *Debt securities* | *-* | *-* | *-* | *-* | *-* | *-* | *-* |
| *Loans and advances* | *-* | *-* | *80 663* | *-* | *-* | *2 518* | *99 825* |
| *Other financial assets* | *-* | *50* | *2 233* | *582* | *-* | *-* | *-* |
| **Liabilities** | **1** | **15 561** | **5 903** | **4 580** | **-** | **1 404** | **1 427** |
| Financial liabilities held for trading | - | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | 1 | 15 561 | 5 903 | 4 580 | - | 1 404 | 1 427 |
| *Deposits* | *1* | *15 557* | *5 519* | *4 580* | *-* | *1 404* | *1 135* |
| *Other financial liabilities* | *-* | *4* | *384* | *-* | *-* | *-* | *292* |
| Derivatives – Hedge accounting | - | - | - | - | - | - | - |
| **1-6/2022** | | | | | | | |
| **Income/expenses** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net interest income | 320 | (49) | 491 | - | - | 7 | 570 |
| Net fee and commission income | 42 | 161 | 1 969 | 3 725 | - | - | (1 356) |
| Net gains/(losses) from financial transactions | - | 5 203 | - | - | - | - | - |
| Net other operating expenses | - | 31 | (208) | 46 | - | - | - |
| Administrative expenses | - | (26) | (2 172) | - | - | - | (1 634) |

| 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* | *-* | *-* | *1887* | *142 027* |
| *Other financial assets* | *-* | *140* | *1 892* | *561* | *-* | *-* | *-* |
| **Liabilities** | **-** | **17 154** | **9 679** | **3 799** | **-** | **1 499** | **1 739** |
| Financial liabilities held for trading | - | - | - | - | - | - | - |
| Financial liabilities measured at amortised 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 | - | - | - | - | - | - | - |
| **1-6/2021** | | | | | | | |
| **Income/expenses** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net interest income | 381 | 191 | 642 | - | - | 4 | 1 798 |
| Net fee and commission income | 16 | 158 | 3 974 | 4 658 | - | 1 | 280 |
| Net gains/(losses) from financial transactions | - | 671 | - | - | - | - | - |
| Net other operating expenses | - | 31 | (39) | 46 | - | - | - |
| Administrative expenses | - | (32) | (2 559) | - | - | - | - |

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 6 months ending 30 June 2022 is in the amount of EUR 1,492 thousand (2021: EUR 2,178 thousand). Remuneration includes basic wages and salaries, remuneration and payments for health and social insurance.

## 30. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

| EUR'000 | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **ASSETS** | | | | | | | | |
| **Financial assets held for trading** | - | - | **884** | **2** | - | - | **884** | **2** |
| Derivatives | - | - | 884 | 2 | - | - | 884 | 2 |
| **Non-trading financial assets mandatorily at FVPL** | - | - | **331 669** | **298 231** | - | - | **331 669** | **298 231** |
| Equity instruments | - | - | 331 669 | 298 231 | - | - | 331 669 | 298 231 |
| **Financial assets at FVOCI** | **236 519** | **337 413** | **13 035** | - | **36 623** | **48 089** | **286 177** | **385 502** |
| Equity instruments | - | - | - | - | 65 | 65 | 65 | 65 |
| Debt securities | 236 519 | 337 413 | 13 035 | - | 36 558 | 48 024 | 286 112 | 385 437 |
| **Derivatives – Hedge accounting** | - | - | **5 164** | - | - | - | **5 164** | - |
| **Total assets** | **236 519** | **337 413** | **350 752** | **298 233** | **36 623** | **48 089** | **623 894** | **683 735** |

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

# 31. Segment reporting

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

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

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

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

| EUR'000 | Retail banking | | Corporate banking | | Other banking | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 |
| Interest income | 28 708 | 32 953 | 32 365 | 35 061 | 2 667 | 1 392 | 63 740 | 69 406 |
| Interest expenses | (1 417) | (2 361) | (21) | (144) | (1 781) | (395) | (3 219) | (2 900) |
| **Net interest income** | **27 291** | **30 592** | **32 344** | **34 917** | **886** | **997** | **60 521** | **66 506** |
| Fee and commission income | 24 361 | 21 548 | 7 050 | 8 363 | 199 | 227 | 31 610 | 30 138 |
| Fee and commission expenses | (9 756) | (9 505) | (2 925) | (3 708) | (378) | (454) | (13 059) | (13 667) |
| **Net fee and commission income** | **14 605** | **12 043** | **4 125** | **4 655** | **(179)** | **(227)** | **18 551** | **16 471** |
| **Net interest and fee margin** | **41 896** | **42 635** | **36 469** | **39 572** | **707** | **770** | **79 072** | **82 977** |
| Impairment losses and provisions | (2 928) | (2 154) | 12 635 | (3 914) | 16 | 4 | 9 723 | (6 064) |

| EUR'000 | Retail banking | | Corporate banking | | Other banking | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| Assets | 2 017 170 | 1 764 625 | 1 560 531 | 1 786 234 | 1 127 367 | 1 354 027 | 4 705 068 | 4 904 886 |
| Liabilities | 3 214 069 | 3 295 552 | 250 747 | 284 052 | 1 240 252 | 1 325 282 | 4 705 068 | 4 904 886 |

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 | |
|---|---|---|---|---|---|---|---|---|
| | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 | 1-6/2022 | 1-6/2021 |
| **Fee and commission income** | | | | | | | | |
| Securities | - | - | - | - | - | 34 | - | 34 |
| Clearing and settlement | 3 902 | 3 540 | 3 516 | 3 659 | 118 | 27 | 7 536 | 7 226 |
| Custody | - | - | 1 842 | 1 560 | 6 | 2 | 1 848 | 1 562 |
| Payment services | 13 461 | 12 167 | 1 254 | 2 202 | 16 | 60 | 14 731 | 14 429 |
| Loan servicing activities | 1 138 | 851 | 193 | 223 | 43 | 105 | 1 374 | 1 179 |
| Loan commitments given | - | - | 89 | 587 | 13 | 2 | 102 | 589 |
| Financial guarantees given | - | 28 | 125 | 119 | - | 1 | 125 | 148 |
| Other | 5 860 | 4 962 | 31 | 13 | 3 | (4) | 5 894 | 4 971 |
| **Total fee and commission income** | **24 361** | **21548** | **7 050** | **8 363** | **199** | **227** | **31 610** | **30 138** |

## 32. Risk management

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

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

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

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

The Bank has exposure to the following main risks:

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

**Settlement risk**

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

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

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

## 33. Credit risk

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

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

Credit risk management includes:

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

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

When analysing client deals the Bank uses:

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

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

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

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

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

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

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

| EUR'000 | Financial assets at amortised cost | | | | Financial assets at FVOCI | | OFF Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Debt securities | | Loans and advances | | Debt securities | | Loan commitments given | | Financial guarantees given | |
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Central banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **General governments** | **347 754** | **307 533** | **60 203** | **60 000** | **204 770** | **266 897** | **-** | **-** | **-** | **-** |
| **Credit institutions** | **10 985** | **30 990** | **2 770** | **23 270** | **27 517** | **28 346** | **-** | **-** | **-** | **-** |
| **Other financial corporations** | **1 365** | **1 424** | **527 606** | **553 697** | **25 657** | **29 180** | **1 180** | **9 346** | **-** | **-** |
| **Non-financial corporations** | **47 778** | **46 627** | **631 344** | **845 625** | **28 168** | **61 014** | **9 164** | **52 822** | **13 806** | **16 657** |
| A Agriculture, forestry and fishing | - | - | 15 225 | 17 887 | - | - | - | - | - | - |
| B Mining and quarrying | - | - | - | - | - | - | - | - | - | - |
| C Manufacturing | - | - | 40 190 | 59 798 | - | - | 525 | 438 | 152 | 76 |
| D Electricity, gas, steam and air conditioning supply | - | - | 34 477 | 67 609 | - | - | 14 | - | - | - |
| E Water supply | - | - | 258 | 305 | - | - | - | - | - | - |
| F Construction | - | - | 20 259 | 113 848 | - | - | 1 078 | 2 108 | 148 | 2 972 |
| G Wholesale and retail trade | - | - | 23 776 | 25 397 | - | - | 263 | 446 | 359 | 487 |
| H Transport and storage | - | - | 920 | 1 097 | - | - | 20 | 23 | 3 | 3 |
| I Accommodation and food service activities | - | - | 53 733 | 75 463 | - | - | 2 014 | 64 | - | - |
| J Information and communication | - | - | 9 871 | 10 104 | - | - | 3 504 | 3 979 | 150 | 150 |
| K Financial and insurance activities | - | - | 10 042 | 53 508 | - | - | 1 025 | 45 600 | 5 255 | 5 230 |
| L Real estate activities | 47 778 | 46 627 | 166 375 | 157 878 | - | - | 560 | 44 | - | - |
| M Professional, scientific and technical activities | - | - | 89 220 | 92 511 | - | - | 69 | 87 | 7 739 | 7 739 |
| N Administrative and support service activities | - | - | 80 451 | 78 890 | - | - | 72 | 29 | - | - |
| O Public administration and defence, compulsory social security | - | - | - | - | - | - | - | - | - | - |
| P Education | - | - | 3 | 13 | - | - | - | - | - | - |
| Q Human health services and social work activities | - | - | 18 656 | 19 246 | - | - | - | - | - | - |
| R Arts, entertainment and recreation | - | - | 65 646 | 69 187 | 28 168 | 61 014 | - | - | - | - |
| S Other services | - | - | 2 242 | 2 884 | - | - | 20 | 4 | - | - |
| **Households** | **-** | **-** | **2 131 958** | **1 890 972** | **-** | **-** | **137 165** | **212 449** | **-** | **-** |
| **Total** | **407 882** | **386 574** | **3 353 881** | **3 373 564** | **286 112** | **385 437** | **147 509** | **274 617** | **13 806** | **16 657** |

| EUR'000 | Financial assets at amortised cost | | | | Financial assets at FVOCI | | OFF Balance sheet | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Debt securities | | Loans and advances | | Debt securities | | Loan commitments given | | Financial guarantees given | |
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| Slovak Republic | 362 100 | 320 481 | 2 694 097 | 2 481 397 | 174 606 | 247 927 | 146 949 | 228 877 | 872 | 3 750 |
| Czech Republic | - | - | 246 950 | 348 281 | 7 040 | 29 462 | 473 | 30 547 | 259 | 257 |
| Cyprus | - | - | 200 450 | 298 390 | - | - | 75 | 14 977 | - | - |
| Luxemburg | 1 365 | 1 424 | 133 419 | 133 395 | 10 228 | 11 621 | - | - | - | - |
| Switzerland | - | - | 65 590 | 69 171 | - | - | 2 | 2 | - | - |
| France | - | - | 770 | 1 100 | 51 142 | 51 375 | 1 | 1 | - | - |
| Netherlands | - | 20 000 | 12 042 | 21 991 | - | - | - | - | 5 255 | 5 230 |
| Lithuania | 10 049 | 10 110 | - | - | 12 496 | 13 329 | - | - | - | - |
| Latvia | 2 157 | 2 181 | - | - | 17 329 | 17 663 | - | - | - | - |
| Germany | - | - | 178 | 19 537 | - | - | 1 | 1 | - | - |
| Other countries | 32 211 | 32 378 | 385 | 302 | 13 271 | 14 060 | 8 | 212 | 7 420 | 7 420 |
| **Total** | **407 882** | **386 574** | **3 353 881** | **3 373 564** | **286 112** | **385 437** | **147 509** | **274 617** | **13 806** | **16 657** |

***Rating system***

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

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

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

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

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

***Measurement of expected credit losses***

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

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

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

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

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

The Bank sets the level of significance at EUR 300 thousand (31 December 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 d oes 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 th eir suitability, at least once a year.

**Definition of default and credit impaired financial assets**

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

i. *Hard criteria:*

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

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

ii. *Soft criteria:*

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

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

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

**Forward-looking information**

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

*i. Individually assessed exposures*

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

*ii. Portfolio-based exposures*

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

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

As at 30 June 2022, the setting of FLI parameters in relation to retail client defaults in 2022 for portfolio assessed exposures is based upon favourable expectations of the 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.

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

| EUR'000 | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Financial assets at AC - Debt securities** | | | | | | | | | | |
| Low credit risk | 360 104 | 339 947 | - | - | - | - | - | - | 360 104 | 339 947 |
| Moderate credit risk | - | - | - | - | - | - | - | - | - | - |
| High credit risk | - | - | 47 778 | 46 627 | - | - | - | - | 47 778 | 46 627 |
| Default | - | - | - | - | - | - | - | - | - | - |
| Not rated | - | - | - | - | - | - | - | - | - | - |
| **Gross amount** | **360 104** | **339 947** | **47 778** | **46 627** | **-** | **-** | **-** | **-** | **407 882** | **386 574** |
| Impairment allowance | (105) | (98) | (7 433) | (7 514) | - | - | - | - | (7 538) | (7 612) |
| **Carrying amount** | **359 999** | **339 849** | **40 345** | **39 113** | **-** | **-** | **-** | **-** | **400 344** | **378 962** |

| EUR'000 | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Financial assets at AC - Loans and advances** | | | | | | | | | | |
| Low credit risk | 958 545 | 933 024 | 52 359 | 61 128 | - | - | - | - | 1 010 904 | 994 152 |
| Moderate credit risk | 1 541 098 | 1 493 070 | 65 941 | 74 907 | - | - | 3 | - | 1 607 042 | 1 567 977 |
| High credit risk | 310 231 | 308 649 | 245 067 | 285 596 | - | - | 4 609 | 4 649 | 559 907 | 598 894 |
| Default | - | - | - | - | 151 329 | 167 865 | 8 406 | 8 226 | 159 735 | 176 091 |
| Not rated | 2 973 | 23 270 | 10 094 | 9 438 | 3 226 | 3 737 | - | 5 | 16 293 | 36 450 |
| **Gross amount** | **2 812 847** | **2 758 013** | **373 461** | **431 069** | **154 555** | **171 602** | **13 018** | **12 880** | **3 353 881** | **3 373 564** |
| Impairment allowance | (18 009) | (21 004) | (28 634) | (33 075) | (126 865) | (147 085) | (9 045) | (8 946) | (182 553) | (210 110) |
| **Carrying amount** | **2 794 838** | **2 737 009** | **344 827** | **397 994** | **27 690** | **24 517** | **3 973** | **3 934** | **3 171 328** | **3 163 454** |

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

| EUR'000 | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Loan and other commitments given** | | | | | | | | | | |
| Low credit risk | 98 325 | 131 448 | - | - | - | - | - | - | 98 325 | 131 448 |
| Moderate credit risk | 37 470 | 132 050 | 66 | - | - | - | - | - | 37 536 | 132 050 |
| High credit risk | 1 768 | 1 733 | 2 809 | 1 939 | - | - | - | - | 4 577 | 3 672 |
| Default | - | - | - | - | 3 | 6 | - | - | 3 | 6 |
| Not rated | 3 000 | 3 000 | 4 068 | 4 441 | - | - | - | - | 7 068 | 7 441 |
| **Gross amount** | **140 563** | **268 231** | **6 943** | **6 380** | **3** | **6** | **-** | **-** | **147 509** | **274 617** |
| **Provision** | **135** | **299** | **280** | **273** | **1** | **1** | **-** | **-** | **416** | **573** |

| EUR'000 | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 | 30.6.2022 | 31.12.2021 |
| **Financial guarantees given** | | | | | | | | | | |
| Low credit risk | 152 | 76 | - | - | - | - | - | - | 152 | 76 |
| Moderate credit risk | 5 810 | 13 334 | - | - | - | - | - | - | 5 810 | 13 334 |
| High credit risk | 7 739 | 1 618 | 105 | 1 629 | - | - | - | - | 7 844 | 3 247 |
| Default | - | - | - | - | - | - | - | - | - | - |
| Not rated | - | - | - | - | - | - | - | - | - | - |
| **Gross amount** | **13 701** | **15 028** | **105** | **1 629** | **-** | **-** | **-** | **-** | **13 806** | **16 657** |
| **Provision** | **15** | **112** | **4** | **78** | **-** | **-** | **-** | **-** | **19** | **190** |

***Collateral***

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

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

Estimates of fair value are based on the value of collateral, which is assessed before executing the deal, and reassessed on a regular basis. Generally, collateral is not held on exposures against credit institutions, except when securities are held as part of reverse repurchase and securities lending activity.

An estimate of the fair value of received collateral is shown below (including received collateral from reverse repurchase agreements). Received collateral value is disclosed up to the gross carrying amount of the asset:

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Real-estates | 1 457 626 | 1 182 368 |
| Securities | 208 011 | 226 588 |
| Cash | 1 | 3 |
| Other | 67 528 | 139 218 |
| **Total** | **1 733 166** | **1 548 177** |

Collateral in default loans and advances at amortised cost:

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| Gross amount | 162 961 | 179 828 |
| Impairment allowance | (135 272) | (155 316) |
| **Carrying amount** | **27 689** | **24 512** |
| **Collateral** | **11 415** | **7 122** |

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

***Recovery of receivables***

The Bank takes the necessary steps in judicial and non-judicial processes to obtain the maximum recovery from defaulted receivables. In the case of defaulted receivables, the activities of taking possession of collateral, representing the Bank in bankruptcy, and restructuring proceedings are realised separately.

In the retail segment, the recovery process for overdue receivables is defined and centrally operated by a workflow system. The system provides complex evidence of problematic receivables, uses a segmented strategy of recovery, and it also processes numerous task flows, automated collection tasks, etc. The Bank also uses outsourced services of collection companies.

## 34. Liquidity risk

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

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

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

***Management of liquidity risk***

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

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

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

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

***Exposure to liquidity risk***

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

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

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

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

| | **30.6.2022** | **31.12.2021** |
|---|---|---|
| End of the period | 1.49 | 1.58 |
| Average for the period | 1.47 | 2.04 |
| Maximum for the period | 1.62 | 3.00 |
| Minimum for the period | 1.27 | 1.58 |

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

| | **30.6.2022** | **31.12.2021** |
|---|---|---|
| End of the period | 1.25 | 1.27 |

## 35. Market risk

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

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

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

**Management of market risks**

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

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

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

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

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

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

***Interest rate risk***

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

Other sources of interest rate risk are:

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

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

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

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

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

***Share price risk***

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

When investing in equity instruments, the Bank:

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

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

***Foreign exchange risk***

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

***IBOR reform***

*Risk Management*

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

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

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

*Non - derivative financial assets and liabilities*

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

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

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

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

*Derivatives*

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

*Hedge accounting*

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

## 36. Operational risk

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

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

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

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

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

***Legal risk***

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

***Compliance risk***

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

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

***Risks related to outsourcing***

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

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

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

## 37. Capital management

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

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

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

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

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

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Tier I Capital** | **714 122** | **670 036** |
| Share capital and share premium | 367 043 | 367 043 |
| Reserve funds and other funds created from profit | 69 827 | 63 997 |
| Selected components of accumulated other comprehensive income | (13 913) | 6 665 |
| Profit or loss of previous years | 302 115 | 249 646 |
| Intangible assets | (18 700) | (33 446) |
| Additional valuation adjustments | (696) | (761) |
| Other transitional adjustments to CET1 Capital | 8 446 | 16 892 |
| **Tier II Capital** | **8 000** | **8 000** |
| Subordinated debt | 8 000 | 8 000 |
| **Regulatory capital total** | **722 122** | **678 036** |

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Capital required to cover:** | | |
| Credit risk | 247 127 | 259 620 |
| Credit value adjustment risk | 186 | 202 |
| Risks from debt financial instruments, capital instruments, foreign exchange and commodities | - | - |
| Operational risk | 23 535 | 23 535 |
| **Total capital requirements** | **270 848** | **283 357** |

| **Capital ratios** | | |
|---|---|---|
| Total capital level as a percentage of total risk weighted assets | 21.33% | 19.14% |
| Tier I capital as a percentage of total risk weighted assets | 21.09% | 18.92% |
| Common Equity Tier I capital as a percentage of total risk weighted assets | 21.09% | 18.92% |

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

| EUR'000 | 30.6.2022 | 31.12.2021 |
|---|---|---|
| **Available capital (amounts)** | | |
| Common Equity Tier I (CET1) capital | 714 122 | 670 036 |
| Common Equity Tier I (CET1) capital as if IFRS 9 transitional arrangements were not applied | 705 676 | 653 144 |
| Tier I capital | 714 122 | 670 036 |
| Tier I capital as if IFRS 9 transitional arrangements were not applied | 705 676 | 653 144 |
| Total capital | 722 122 | 678 036 |
| Total capital as if IFRS 9 transitional arrangements were not applied | 713 676 | 661 144 |
| **Risk-weighted assets (amounts)** | | |
| Risk-weighted assets | 3 385 604 | 3 541 963 |
| Risk-weighted assets as if IFRS 9 transitional arrangements were not applied | 3 376 710 | 3 524 522 |

| Capital ratio | | |
|---|---|---|
| Common Equity Tier I capital (as a percentage of risk exposure amount) | 21.09% | 18.92% |
| Common Equity Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | 20.90% | 18.53% |
| Tier I capital (as a percentage of risk exposure amount) | 21.09% | 18.92% |
| Tier I capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | 20.90% | 18.53% |
| Total capital (as a percentage of risk exposure amount) | 21.33% | 19.14% |
| Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | 21.14% | 18.76% |

## 38. Post balance-sheet events

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